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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Jutal Offshore Oil Services Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**JUTAL**

**JUTAL OFFSHORE OIL SERVICES LIMITED**

**巨濤海洋石油服務有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 03303)**

**CONTINUING CONNECTED TRANSACTIONS**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**

**Nuada Limited**

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A letter from the Board is set out on pages 5 to 24 of this circular. A letter from the Independent Board Committee is set out on pages 25 to 26 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the CCT and Sanju CCT is set out on pages 27 to 44 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 10th Floor, Chiwan Petroleum Building, Shekou, Shenzhen, the People's Republic of China at 11:00 a.m. on Friday, 18 January 2019 is set out on pages EGM-1 to EGM-3 of this circular. The extraordinary general meeting is to be held to approve matters referred to in this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy enclosed with this circular in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting. Completion and delivery of a form of proxy will not preclude you from attending and voting at the meeting in person.

31 December 2018

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## DEFINITIONS

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

“Annual Caps”	the proposed maximum aggregate annual value for the CCT contemplated under the Master Agreement
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“CCT”	the transactions to be entered into between the Group and Sanju on an ongoing basis in respect of the provision of Company Services by the Group to Sanju pursuant to the Master Agreement
“Company”	Jutal Offshore Oil Services Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Company Services”	services to be provided by the Company pursuant to the Master Agreement which include the followings: <ul style="list-style-type: none"><li>(i) purifying and refining device project contracting* (淨化及煉化相關的工程承包);</li><li>(ii) special equipment/facilities manufacturing* (專用設備或裝置製造); and</li><li>(iii) project management and labour outsourcing services* (項目管理或提供勞務派遣等服務)</li></ul>
“connected person”	has the same meaning as ascribed to it under the Listing Rules
“Controlling company(ies)”	company(ies) which Sanju holding more than 30% interest
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting (or any adjournment thereof) of the Company to be convened for the purpose of considering and, if thought fit, approving the Master Agreement, the transaction contemplated thereunder, the Annual Caps and the Sanju Annual Caps

## DEFINITIONS

“Existing Master Agreement”	the master agreement dated 19 September 2017 (as amended and supplemented by supplemental agreement dated 3 November 2017) between the Company and Sanju, pursuant to which Sanju, for itself and also as agent of its wholly-owned Subsidiaries and Controlling companies, agrees to engage the Group to provide the Company Services for a term of 13 months from 1 December 2017 to 31 December 2018 (both days inclusive), and the Company agrees to engage Sanju to provide the Sanju Services for a term of 12 months from 1 January 2018 to 31 December 2018 (both days inclusive)
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company which has been formed by the Company, comprising all the independent non-executive Directors, namely Mr. Su Yang, Mr. Zheng Yimin and Mr. Qi Daqing, to advise the Independent Shareholders as to whether the Master Agreement, the Annual Caps and the Sanju Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole
“Independent Financial Adviser” or “Nuada”	Nuada Limited, a licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the Independent financial adviser to the Independent Board Committee and Independent Shareholders
“Independent Shareholders”	Shareholders other than Sanju and its associate(s), who are not involved in or interested in the Master Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	the independent third party(ies) who is/are, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, independent of and not connected with the Company and the connected person(s) of the Company

## DEFINITIONS

“Latest Practical Date”	24 December 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular
“Listing Rules”	the Rules governing the Listing of Securities on The Stock Exchange
“Master Agreement”	the agreement dated 14 November 2018 between the Company and Sanju, pursuant to which Sanju, for itself and also as agent of its wholly-owned Subsidiaries and Controlling companies, agrees to engage the Group to provide the Company Services for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive), and the Company agrees to engage Sanju to provide the Sanju Services also for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive)
“PRC”	the People’s Republic of China, and for the purpose of this circular excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Sanju”	Beijing Sanju Environmental Protection & New Materials Co., Ltd.* (北京三聚環保新材料股份有限公司), a company established in the PRC with limited liability and listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code 300072), which wholly owns Sanju HK, and hence is deemed as a substantial shareholder and a connected person of the Company
“Sanju Annual Caps”	the proposed maximum aggregate annual value for the Sanju CCT contemplated under the Master Agreement
“Sanju CCT”	the transactions to be entered into between the Group and Sanju in respect of the provision of Sanju Services by Sanju to the Group on an ongoing basis pursuant to the Master Agreement
“Sanju HK”	Sanju Environmental Protection (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, which is a substantial shareholder and a connected person of the Company

## DEFINITIONS

“Sanju Services”	provision of products such as catalyst* (催化劑等物品的供貨)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	subsidiary(ies) of the Company
“substantial shareholder”	has the same meaning as ascribed to it under the Listing Rules
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

\* The English translation of Chinese names or words in this circular, where indicated, are included for information purposes only, and should not be regarded as the official English translation of such Chinese names or words.

*For the purposes of illustration only, any amount denominated in RMB in this circular was translated into HK\$ at the rate of RMB1=HK\$1.13. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.*

*If there is any discrepancy between the Chinese version and English version of this circular, the English version shall prevail.*

**JUTAL**

**JUTAL OFFSHORE OIL SERVICES LIMITED**

**巨濤海洋石油服務有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 03303)**

*Executive Directors:*

Mr. Liu Lei (*Chairman*)

Mr. Wang Lishan

Mr. Lin Ke

Mr. Cao Yunsheng

Mr. Liu Yunian

Mr. Tang Hui

*Registered office:*

Cricket Square,

Hutchins Drive,

P.O. Box 2681,

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KY1-1111,

Cayman Islands

*Independent Non-executive Directors:*

Mr. Su Yang

Mr. Zheng Yimin

Mr. Qi Daqing

*Principal place of business*

*in Hong Kong:*

1102-1103,

11th Floor,

No. 9 Queen's Road Central,

Hong Kong

31 December 2018

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**I. INTRODUCTION**

The Board refers to the circular of the Company dated 20 November 2017 in respect of the Existing Master Service Agreement which was approved by the Independent Shareholders in the extraordinary general meeting of the Company held on 5 December 2017 and the Existing Master Service Agreement will be expired on 31 December 2018, and the announcement of the Company dated 14 November 2018. On 14 November 2018, the Company entered into the Master Agreement with Sanju, pursuant to which Sanju, for itself and also as agent of its wholly-owned subsidiaries and Controlling companies, agrees to engage the Group to provide the Company Services for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive), and the Company agrees to engage Sanju to provide the Sanju Service also for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive).

## LETTER FROM THE BOARD

The purpose of this circular is to provide you with information regarding resolutions to be proposed at the EGM including, among other things, (i) details of the CCT and Sanju CCT; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the CCT and the Sanju CCT; (iii) the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the CCT and the Sanju CCT; (iv) a notice of the EGM; and (v) other information as required by the Listing Rules.

### II. THE MASTER AGREEMENT

The principal terms of the Master Agreement are as follows:

Date : 14 November 2018 (after trading hours)

Parties : (i) the Company; and  
(ii) Sanju, a company established in the PRC, which wholly owns Sanju HK, which is a substantial Shareholder of the Company. Therefore, Sanju is deemed as a substantial Shareholder and a connected person of the Company under the Listing Rules.

#### 1. Provision of the Company Services

Pursuant to the Master Agreement, the Company Services include the following services:

- (i) purifying and refining device project contracting\* (淨化及煉化相關的工程承包);
- (ii) special equipment/facilities manufacturing\* (專用設備或裝置製造); and
- (iii) project management and labor outsourcing services\* (項目管理或提供勞務派遣等服務).

Sanju normally act as a general contractor in large-scale projects and may sub-contract certain services to, and purchase certain products from, the Company including:

- (a) constructions works such as construction of the factories and fabrication yard and installation of production facilities are examples of the item (i) of Company Services stated above;
- (b) manufacturing of special equipment such as hydro-refining device (加氫精制裝置), hydrogen production unit (制氫裝置), sulfur recycling unit (硫回收裝置), gas desulfurization equipment (天然氣脫硫設備), carbon-based fertilizer production equipment (炭基肥生產設備) are examples of the item (ii) of Company Services stated above; and



## LETTER FROM THE BOARD

- (c) outsourcing services of personnel for special project construction, project management, technical support and labor outsourcing services with the Company's experts, technicians and workers are examples of the item (iii) of Company Services stated above.

Although the Company provides the Company Services to Sanju under the Master Agreement, Sanju is merely a general contractor of projects. The Company Services will be ultimately enjoyed by the customers of Sanju.

### *Term*

Pursuant to the Master Agreement and subject to the approval by the Independent Shareholders, Sanju agrees to engage the Group to provide the Company Services for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive).

Pursuant to the Master Agreement, for each particular service or project required by Sanju during the term as set out in the paragraph above, the Group and Sanju shall enter into a specific contract, which shall set out the details (including the quality) of service to be provided, the service fee and the payment terms. Detailed terms and conditions for providing such particular Company Services to Sanju shall be governed by the specific contract to be entered into between the Group and Sanju pursuant to the Master Agreement.

### *Pricing and payment*

The transaction amount for the Company Services under the Master Agreement will be on project based. The charging amount of each project for the Company Services under the Master Agreement will be determined by arm's length negotiations based on normal commercial terms and with reference to:

- (i) usual pricing standard of the Group;
- (ii) not less than the fee offered by the Group to the Independent Third Parties for the same services;
- (iii) in the event that the service is confirmed by way of tender, the fee will be the final fee determined by the tender procedure fairly conducted in the market; and
- (iv) in the event that the service is not confirmed by way of tender, the fee will be determined by the principle of "cost-plus profit", which is based on the estimated cost plus a gross profit margin at around a 25% ordinary level with reference to the use of resource and complexity of the relevant service or project.

## LETTER FROM THE BOARD

In order to ensure that (i) the service fees and the other terms of the specific contracts are on the normal commercial terms; and (ii) the service fees received from Sanju are in accordance with the prevailing market prices and not less than that charged to the Independent Third Parties to the Company, the Company has adopted an internal control procedure pursuant to that costs and transaction records relating to the provision of similar service to the Independent Third Parties are required for internal assessment and evaluation of the profit margins earned from the provision of the Company Services under the specific contracts to Sanju as compared with the profit margins earned from similar services to the Independent Third Parties on the market.

The payment method of each project for the Company Services will be determined and governed by the relevant specific contract entered into by the parties pursuant to the Master Agreement.

### *Company Services*

The Company Services of (i) purifying and refining device project contracting\* (淨化及煉化相關的工程承包); and (ii) special equipment/facilities manufacturing\* (專用設備或裝置製造) will be normally confirmed by way of tender because such services normally would have quite a number of service providers in the market and the amount of service fee to be paid by Sanju is comparatively substantial. As informed by Sanju, Sanju is of the view that it would be fairer to choose its service providers through tender process. In respect of the Company Services of project management and labor outsourcing services\* (項目管理或提供勞務派遣等服務), as (a) the service fee to be paid by Sanju is comparatively small; and (b) the Group has rich experience of in this specific area, as such, as informed by Sanju, Sanju is of the view that directly engaging the Group to provide such specific service would be more cost effective for Sanju.

#### (i) Services to be confirmed by way of tender

In the event that the Company Services to be requested by Sanju will be confirmed by way of tender, Sanju would request the Group and other independent contractors of Sanju to submit tender in respect of providing the Company Services.

To the best knowledge of the Company, Sanju would determine its selection of contractors by taking into account of various factors, such as price quotations, qualities of services, abilities of the contractors in meeting technical specifications and delivery schedules, and the contractors' qualification and experiences in the specific service. The contract would be awarded to the Group or other independent contractor, whichever offers the best commercial terms to Sanju. Accordingly, the Group might or might not be awarded the relevant contracts.

## LETTER FROM THE BOARD

As informed by Sanju, in the future, it intends to confirm the Company Services contracts by way of tender and the tender would be conducted in accordance to the procedures determined by Sanju.

In order to ensure that, when the tender submitted by the Group is accepted by Sanju, (i) the service fee and the other terms of the specific contracts are on the normal commercial terms; and (ii) the service fees received from Sanju are in accordance with the prevailing market prices and not be less favorable to that charged to the Independent Third Parties, the Group has adopted the procedures as follows:

- (a) In preparing for each tender submission, the sales and marketing department of the Group will conduct an analysis base on the required specification of service stated in the tender invitation by Sanju.

Such analysis will take into account of (i) the types of products, the workload and the complexity of technology in relation to projects; (ii) the latest information on the prevailing market rate and market practice obtained by the marketing department through market research at the time; and (iii) the prices for terms of service contracts of comparable nature that have entered into between the Group and Independent Third Parties.

- (b) In pricing a tender, the sales and marketing department of the Group will consider the prevailing market prices of services of comparable nature with references to the scope of services, technical specifications and delivery schedule required by Sanju. The sales and marketing department will then propose a tender price, which will not be less than any price of arm's length with normal commercial terms for service contracts for the other Independent Third Parties, and pass it together with the details of the tender invitation to senior management for final review and approval.

As informed by Sanju, it would determine its selection of contractors by taking into account of various factors, such as price quotations, qualities of services provided in the past, abilities of the contractors in meeting technical specifications and delivery schedules, and the contractors' qualification and experiences in the relevant service. Accordingly, the Group may or may not be awarded the relevant contracts. The procedure above can ensure that the tender prices to be offered by the Group are fair and reasonable and not less favorable than the price and terms offered by the Group to the Independent Third Parties.

## LETTER FROM THE BOARD

In order to further ensure that (i) the service fee and the other terms of the specific contracts are on the normal commercial terms; and (ii) the service fees received from Sanju are in accordance with the prevailing market prices and not be less favorable to that charged to the independent third parties, the Group has adopted an internal control procedure (for reviewing the terms and prices of service contracts entered with Sanju for later reference) as follows:

- (a) the sales and marketing department of the Group will periodically, and at least once every six months, review the costs and transactions relating to the provision of similar service to the Independent Third Parties for the purpose of internal assessment and ensure the terms and conditions of the contracts with Sanju are in line with normal market practices and standard terms and not less favorable than the same with the Independent Third Parties; and
- (b) the finance department will evaluate the profit margins earned from the provision of the services under the specific contracts to Sanju as compared to the profit margins earned from similar services to the Independent Third Parties on the market from time to time and at least once every six months.

The payment method of each project will be determined and governed by the relevant specific contract entered into by the parties pursuant to the Master Agreement.

- (ii) Services to be not confirmed by way of tender

For pricing of Company Services that does not require to be confirmed by way of tender, a "cost-plus-profit" principle will be adopted. Prior to entering such specific contract with Sanju, the sales and marketing departments of the Group will first assess the final cost of the Company Service based on the required specifications, such as the costs for raw materials and labor that will be incurred by the Group for supplying such Company Service. The sales and marketing department of the Group will ensure the price will not be less than any price of arm's length with normal commercial terms for service contract for the other Independent Third Party. The said assessment will then be passed to the business department of the Group for consideration and determining a contract price by adding in a target margin. Upon reaching an agreement on the price with Sanju after arm's length negotiations and on normal commercial terms for each service contract, the business department will then pass the final price and other major terms of the relevant contract to the senior management for final review and approval. In any event, the final price and other major terms will not fall below the price range with the target margin and less favorable to the Group compared with the price and terms if entered with other Independent Third Parties for service of comparable nature.

## LETTER FROM THE BOARD

In view of the above, the Directors consider that the methods and procedures will be conducted on normal commercial terms and not prejudicial to the interest of the Company and its minority Shareholders.

### *Proposed Annual Caps*

The Annual Caps for the Company Services for year ending 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 are set out as follows:

	For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
Annual Caps (approximately)	RMB500 million (HK\$565 million)	RMB500 million (HK\$565 million)	RMB500 million (HK\$565 million)

### *Basis for the Annual Caps*

The 2018 annual cap for the Company Services was RMB2,100 million. The Annual Caps for the Company Services for the respective years are determined based on the followings:

- (i) the previous transaction amounts between the Group and Sanju for the Company Services as at Latest Practical Date, which are stated as below:

	For the period commencing from 1 December 2017 to 31 December 2017	For the year ending 31 December 2018
Company Services	RMB17,413,000	RMB313,257,300

## LETTER FROM THE BOARD

- (ii) the estimated number and service fees of the projects to be undertaken for the Company Services under the Master Agreement

Estimated number of projects is based on the numbers of the contracts to be signed and the contracts under negotiation and discussion between Sanju and the Company.

- (a) According to the annual report of Sanju for the year ended 31 December 2017, part of the outstanding amount of the key contracts of Sanju was approximately RMB22,875 million as at 31 December 2017, In addition, as stated in the section headed “未來發展規劃” (Future Development and Planning\*) of the 2018 interim report of Sanju that Sanju shall continue to enhance promotion of core technology and construct large-scale refining facilities. It is also stated that in respect of ecological agricultural business, Sanju continuously promoted the national layout and construction of straw biomass comprehensive utilization projects to form a 500-tonne production capacity of carbon-based fertilizers. Therefore, orders in Sanju’s hands and its future development plans shall continuously provide future potential business opportunities to the Company Services offered by the Group.

- (iii) the estimated business growth of the Group and Sanju

The Company expects a growth of its business because of the following reasons:

- (a) Reference is made to “能源發展“十三五”規劃” (The Thirteenth Five-Year Plan of Energy Development\*) (the “Plan”) published by National Energy Administration of the PRC in December 2016. It laid out the energy development plans of the PRC Government from 2016 to 2020. As stated in the Plan, among other matters, instead of coal, oil and gas will become the PRC’s main energy source. To expand the natural gas consumption market, in several key cities, the PRC Government will promote the utilization of natural gas, implement relevant price and cost control mechanism, as well as accelerate the construction of natural gas related infrastructure projects and power stations. The Company also noted from the Plan that financial support for, among other matters, oil and gas reserve base construction will increase.

## LETTER FROM THE BOARD

After taking into account of the Plan, the industrial policy of the nation, environmental protection policies and related industry information, combined with the Company's technological advantages and project management advantages, the Company is actively seeking opportunity to expand its business in the areas of energy-saving environmental protection and the clean and efficient use of energy.

- (b) After the completion of the acquisition of Penglai Jutal Offshore Engineering Heavy Industries Co., Ltd.\* (“**Penglai Jutal**”) (蓬萊巨濤海洋工程重工有限公司) in 2017, and with employees who have strong experience in market, technical and project management, the Company will be capable to undertake new projects, which is normally in a larger scale.

The Company also expects a growth of Sanju's business because of the following reasons:

- (a) In accordance with the disclosure of its public information, Sanju has access to considerable orders in hand.
- (b) At present, as the government of the PRC is promoting governance and investment in the area of environmental system, Sanju, like many other companies in the same industry, benefits from the various governmental measures implemented by the governmental authorities in the PRC.
- (c) As informed by Sanju, its devotion for the businesses in clean and efficient use of energy, the development of ecological agriculture and green energy, is in line with the national and global trend.

Taking into consideration of the above, the Board is of the view that the Annual Caps are fair and reasonable.

In order to ensure the actual annual contract amount does not exceed the Annual Caps, the finance department of the Company will closely monitor the actual amount for the Company Services under the specific contracts that have been entered pursuant to the Master Agreement, by making reports monthly. If the actual amount is about to exceed the Annual Caps, the finance department will alert the sales and marketing department, which in turn will report to the senior management of the Company. The senior management of the Company will then escalate the issue to the Board to decide whether to (a) cease to enter any more specific contracts with Sanju immediately prior to the Annual Caps is reached; or (b) revise the Annual Caps. Should the Board decides to choose the latter option, the Company will revise the Annual Caps in accordance with the relevant requirements under Chapter 14A of the Listing Rules.

## LETTER FROM THE BOARD

Although the proposed largest annual cap for the Company Services equals to approximately 69% of the turnover, being 724,469,000 for the year ended 31 December 2017, the Company believes that it will not give rise to any reliance concern of the Company on Sanju based on the following reasons:

- (1) The result of the said calculation with reference to the revenue was based on historical figures of RMB724,469,000 for the year ended 31 December 2017.

The proposed largest annual cap, being RMB500 million, for the Company Services actually only represent approximately 22.63% of revenue of the Company as enlarged by consolidation of the results of Penglai Jutal, being RMB2,208,973,000, to the completion of the acquisition (the “**Acquisition**”) of 70% equity interest in Penglai Jutal. For details of the Acquisition, please refer to the circular dated 8 December 2017 of the Company.

- (2) The Group is currently engaged into four business segments, namely (i) fabrication of facilities and provision of integrated for oil and gas industry; (ii) fabrication of facilities and provision of integrated services for other energy and refining and chemical industries; (iii) provision of technical support services for shipbuilding industry; and (iv) others. In light of the continue diversification of the Company’s business segments, the level of reliance on Sanju being a customer is likely to be limited.
- (3) To the best knowledge of the Company, the Company Services is mainly for the enhancement of the existing products and/or services produced and/or offered by the Group. In light of the Group’s experience in the oil and gas industry, knowledgeable management team and capability of the project management, the Group provides the supports to Sanju in term of its development and promotion of large-scale projects in the PRC. The Group has production bases in Zhuhai and Penglai with approximately 480,000 square meters and 725,000 square meters respectively.



## LETTER FROM THE BOARD

The Group's manufacturing of oil and gas equipment has also reached the international standard, which can provide Sanju with great support in term of engineering. Sanju, being a customer of Company Services, may rely on the Group to ensure the quality and production can meet the standard and timeline as agreed between Sanju and its own customers. Due to the size and nature of the Sanju's own projects ("**Sanju Projects**"), Sanju would need to contract out certain part of its duties under the Sanju Projects to third parties, including the Company Services, which Sanju lack of resources and/or personnel with the required technical skills to perform. Therefore, the overall reliance of Sanju and the Group is mutual and complementary.

- (4) The Master Agreement with Sanju is not exclusive, and hence the Group will have the flexibility to enter into agreements with other customers and suppliers, which was in line with the Group's industrial practice.

The Company would also like to emphasize that the Company believes the performance of the Company will be in a growth trend as shown by the several contracts entered into by Penglai Jutal. As disclosed in the announcement of the Company dated 1 June 2018, Penglai Jutal had entered into a large construction contract with a famous Japanese global engineering general contractor to provide natural gas petrochemical modules of nearly total 100,000 tons with a contractual amount over RMB2 billion (equivalent to approximately HK\$2.44 billion), and the final delivery is expected to be in the first quarter of year 2021.

The outstanding orders of the Group that are yet to be completed for the year ending 31 December 2018 together with further rewarded contracts amounted to approximately RMB3 billion.

In view of the above, the Board is confident that even without the continuing connected transactions with Sanju pursuant to the Master Agreement, the Group can carry on its business independently of Sanju.

In the event that there is any reliance on Sanju and/or any of its associates in the future, the Company may consider taking the following measures to:

- (i) enter into long term binding contract with other customers or suppliers;
- (ii) expand its sale network;

## LETTER FROM THE BOARD

- (iii) promote its existing business; and
- (iv) explore and expand into other feasible business, if appropriate.

In view of the above, the Company is of the view that the entering into the Master Agreement would not give rise to any reliance concern of the Company on Sanju which might render the Company not suitable for listing.

### 2. Provision of Sanju Services

Pursuant to the Master Agreement, the Sanju Service is provision of products such as catalyst\* (催化劑等物品的供貨).

The catalyst for the usage in refinery plants has always been a dominant product of Sanju. During the pitching and/or negotiation process between the Group and potential customers, the Group discovered that some of these potential customers would like to engage one single contractor to provide both installations and provisions of catalyst services. If the Group wins the tender awarded by such customers, the Group will require the catalyst from Sanju.

Sanju Services are mainly for the enhancement of the existing products and/or services to be produced and/or offered by the Group. The Group is hence not the ultimate customer of the Sanju Services. The role of the Group is similar to a contractor, while Sanju is a sub-contractor.

#### *Term*

Pursuant to the Master Agreement and subject to the approval by the Independent Shareholders, the Company agrees to engage Sanju to provide the Sanju Services for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive).

Pursuant to the Master Agreement, for each particular service or project required by the Group to be provided by Sanju during the term as set out in the paragraph above, the Group and Sanju shall enter into a specific contract, which shall set out details (including the quality) of service to be provided, the fee and the payment terms. Detailed terms and conditions for providing such particular Sanju Services or relevant projects shall be governed by the specific contract to be entered into between the Group and Sanju pursuant to the Master Agreement.

## LETTER FROM THE BOARD

### *Pricing and Payment*

The transaction amount under the Master Agreement will be on project based. The service fee of each project under the Master Agreement will be determined by arm's length negotiations based on normal commercial terms and shall not higher than the service fee payable by the Group for the same services provided by Independent Third Parties to the Group.

### *Sanju Service*

Sanju Service will be normally confirmed by way of tender.

In general, the Group shall adopt the tender procedures to invite services providers, including Sanju and the providers which are Independent Third Parties (the "**Other Service Providers**"), to submit tenders for provision of specific services to the Group. If Sanju wins the tender, the Group will then enter into specific contracts with Sanju to confirm the terms in respect of such service.

Depending on the specifications of each project entered or to be entered by the Group, the project management team and the procurements team of the Group will specify in the tender documents of the requirements of materials, scope of services and technologies, which Sanju and the Other Service Providers shall submit their tenders accordingly.

After the project management team and the procurements team of the Group receive the tenders, they will consider the tenders together with the finance department based on various aspects as required under the project entered or to be entered by the Group, including but not limited to the material, technologies, service standard and completion timeframe. Provided that Sanju's and/or Other Service Providers' tenders have satisfied the said requirements, after confirming the service fee offered by them, such tenders will be passed to the senior management of the Group for their consideration and approval. The service contract will be awarded to the service provider which offers the most favorable terms to the Company from the perspective of business and technology (including service fee). Therefore, Sanju may or may not be awarded with the service contracts by the Group.

In the event that Sanju wins any tender and gets awarded by the Group with any service contract, the service fees and other terms of such service contract shall be in accordance with the general commercial terms and shall not be higher than the service fee payable by the Company for the same service provided by Independent Third Parties to the Company, as mentioned above.

## LETTER FROM THE BOARD

### *Proposed Sanju Annual Caps*

The 2018 annual cap for the Sanju Services was RMB100 million. For the year of 2018, no transaction amounts between the Group and Sanju happened.

The Sanju Annual Caps for the Sanju Services for the year ending 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 are set out as follows:

	For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
Sanju Annual Caps (approximately)	RMB100 million (HK\$113 million)	RMB100 million (HK\$113 million)	RMB100 million (HK\$113 million)

### *Basis for the Sanju Annual Caps*

The Sanju Annual Caps for the Sanju Services for the respective years are determined based on the followings:

- (i) the estimated number and service fees of the projects to be undertaken for the Sanju Services under the Master Agreement.

In accordance with the information available to the Company as at Latest Practical Date and to the best knowledge of the Company, the Company is in negotiation with potential clients regarding projects that require the provision of catalyst from Sanju. Based on the latest negotiation between the Company and such clients, the Sanju Services with estimated annual contract amounts of approximately RMB100 million will be required from Sanju.

- (ii) the estimated business growth of the Group and Sanju.

Please refer to the sub-section headed “Basis for the Annual Cap — estimated business growth of the Group and Sanju” in this letter.

Taking into consideration of the above, the Board is of the view that the Sanju Annual Caps are fair and reasonable.

## LETTER FROM THE BOARD

In order to ensure the actual annual purchase amount does not exceed the Sanju Annual Caps, the finance department of the Company will closely monitor the actual amount for the Sanju Services under the specific contracts that have been entered pursuant to the Master Agreement, by making reports monthly. If the actual amount is about to exceed the Sanju Annual Caps, the finance department will alert the procurement team of the Company, which in turn will report to the senior management of the Company. The senior management of the Company will then escalate the issue to the Board to decide whether to (a) cease to enter into any more specific contracts with Sanju immediately prior to the Sanju Annual Caps are reached; or (b) revise the Sanju Annual Caps. Should the Board decide to choose the latter option, the Company will revise the Sanju Annual Caps in accordance with the relevant requirements under Chapter 14A of the Listing Rules.

### **3. Condition precedent**

The Master Agreement is conditional upon the approval by the Independent Shareholders at the EGM in accordance with the requirements of the Listing Rules. Before the approval by the Independent Shareholders, the Group and Sanju shall not enter into any transactions or specific contracts under the Master Agreement.

### **III. REASONS FOR AND THE BENEFITS OF ENTERING INTO THE MASTER AGREEMENT**

The Company is an investment holding company. The Group is principally engaged in (i) the fabrication of facilities and provision of integrated services for oil and gas industries; (ii) fabrication of facilities and provision of integrated services for other energy and refining and chemical industries; and (iii) the provision of technical support services to the shipbuilding industry.

As advised by Sanju, it is a company founded in 1997 established in Beijing, PRC and listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code 300072) and is principally engaged in manufacturing, sales and distribution of energy and environmental protection materials and products in petroleum refining, petrochemical, natural gas chemical, and coal chemical industries, as well as provision of integrated services to energy industry, ecological agriculture and green energy industry, integrated utilization of biomaterials.

In view of the different services and technologies provided by the Company and Sanju to overlapping customers while focusing on serving and distributing to these customers in their respective and different geographical and application market segment, the Group and Sanju will use their combined strengths, explore cross selling and collaboration activities as well as jointly develop new markets and new customers. The entering into of the Master Agreement between the Company and Sanju will strengthen such collaboration.

## LETTER FROM THE BOARD

### **Reasons for Sanju engaging the Company for the provision of the Company Services**

Due to the size and nature of Sanju Projects, Sanju would need to sub-contract certain parts of its duties under the Sanju Projects, specifically those Sanju is lack of resources and/or personnel with the required technical skills to perform, to its contractors.

The Company understood from Sanju that at present, the fabrication of certain oil and gas treatment equipment has been subcontracted to the Group or other sub-contractors. The Company understands from Sanju that to the best knowledge of Sanju, it considers in order expanding its business, supports from project management and additional supplies of sub-contractors are essential. With the growth of the business of Sanju and perspective to diversify its sub-contractors, it is the Sanju's continuous need to expand its list of sub-contractors. Therefore, Sanju has to engage the Group for the provision of the Company Services.

The Group is able to provide Sanju all kinds of engineering, procurement, installation and construction supporting services with its rich experiences in the industry.

The Group's support to Sanju enables Sanju to further undertake large scale engineering projects domestically or oversea. The Group has production bases in Zhuhai and Penglai of 480,000 square meters and 725,000 square meters. Furthermore, (a) the oil and gas equipment manufacturing services of the Company at the international advanced level; and (b) the strong engineering construction of the Group will also provide Sanju a strong engineering support. Sanju currently has the core technology and design capabilities in refinery industry, which enable it to undertake projects for constructing an entire refinery plant as a main contractor. If the core equipment or construction projects of Sanju are completed by the Group, it will not only ensure the quality and progress of the projects, but also reduce Sanju's risk of the leakage of the core technology. Furthermore, Sanju and its subsidiaries do not have the experience and personnel to carry out the engineering installation and project management of construction. Therefore, Sanju needs to divide the project for entire refinery plant into several smaller projects for tender.

With the leading core technology and related technique accumulated by Sanju, since 2016, Sanju has undertaken a number of heavy oil chemical plant\* (重油化工装置) projects. Such projects include the following installations: desulfurization and sulfur recycling, purification equipment, device of adsorption of hydrogen, non-standard pressure vessels, heat exchangers and other equipment. With the technology, experience, project management and manufacturing capabilities in the oil and gas equipment industry in past years, the Group is equipped to complete the installations similar to above at the same time. Moreover, Sanju is also lack of project construction and management capacity, which brings the opportunity to the Group to undertake such installation projects.

## LETTER FROM THE BOARD

The Company can offer its equipment manufacturing service to the industries of (a) mining, processing and refining of oil and gas; and (b) coal deepened processing. In the past, the Group had provided relevant service or device to a number of renowned clients including CNOOC Limited, China National Petroleum Corporation and Sinopec. In the said industry, such large-scale international oil and gas companies have very high standards on the installation service in respect of quality, safety and environmental protection, which the Company is one of the few international market contractors in the industry in China to offer such service at such standard.

Taking into account of the trend of energy saving and environmental protection and the increasing demand for the construction of such instalments, in addition to providing services to existing customers contracting business to the Group, the Company expects that there will be a growth in potential business opportunities and new customers in a long run.

### **Reasons for engaging Sanju for the provision of Sanju Services**

The catalyst for the usage in refinery plants has always been a dominant product of Sanju. During the pitching and/or negotiation process between the Group and potential customers, some potential customers of the Group indicated that they would like to engage one single contractor to provide both installations and provisions of catalyst services. If the Group wins the tender awarded by such customers, the Group will require the catalyst from Sanju.

In the future, if any of the existing or potential customers seeks for such catalyst offered by Sanju, the Group can level the Group's overall competitiveness by complementing the manufacturing capabilities of the Group with the Sanju Service, particularly those customers which are specifically interested to top-up the existing services provided by the Group with the Sanju Service.

Although both Sanju and the Company are in the similar industry sector, Sanju and the Company provide different services and technologies in their respective but different geographical markets. Sanju is principally engaged in manufacturing, sales and distribution of energy and environmental protection materials and products in petroleum refining, petrochemical, natural gas chemical, and coal chemical industries, as well as provision of integrated services to energy industry, ecological agriculture and green energy industry, integrated utilization of biomaterials. On the other hand, the Group is principally engaged in (i) the fabrication of facilities and provision of integrated services for oil and gas industries; (ii) fabrication of facilities and provision of integrated services for other energy and refining and chemical industries; and (iii) the provision of technical support services to the shipbuilding industry. Overall, Sanju generally acts as the main contractor of a project, while the Group is normally responsible for parts of the installment or acts as a sub-contractor of a project. As such, the entering into of the Master Agreement is a continuous basis for the collaboration between the Company and Sanju, which is in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE BOARD

The Master Agreement between the Company and Sanju was entered into by the Company in the ordinary and usual course of business of the Group. The provision of the Company Services will strengthen the existing business of the Group and increase the revenue of the Group. The provision of the Sanju Service will enhance the Group's ability to procure reliable technical support and stable raw materials for projects.

The Directors (excluding the independent non-executive Directors whose opinion, after considering the advice of the Independent Financial Adviser, are contained in this circular) consider that the Annual Caps and the Sanju Annual Caps have been determined on an arm's length basis and the Master Agreement was entered into on normal commercial terms, in the ordinary and usual course of business of the Company after arm's length negotiation, and the terms are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

#### IV. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Sanju wholly owns Sanju HK, which is a substantial shareholder and a connected person of the Company holding 641,566,556 Shares, representing approximately 39.26% of the issued share capital of the Company. Therefore, Sanju is deemed as a substantial shareholder and connected person of the Company. Accordingly, the transactions contemplated under Master Agreement, namely (i) provision of Company Services by the Company and (ii) obtaining of Sanju Services from Sanju will constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules.

As the applicable percentage ratio exceeds 5% and the transactions amount under the Master Agreement exceeds HK\$10,000,000, the CCT and Sanju CCT constitute non-exempt continuing connected transactions for the Company and are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. Sanju HK and its associate(s) are required to abstain from voting on the resolution(s) in respect of the CCT and Sanju CCT at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as Sanju HK and its associate(s), no other Shareholder has any material interest in the Master Agreement. Accordingly, apart from Sanju HK and its associate(s), no other Shareholder is required to abstain from voting at the EGM in respect of the resolutions relating to the Master Agreement. Mr. Liu Lei and Mr. Lin Ke are regarded as having a material interest and have abstained from voting for the Board resolutions for approving the Master Agreement (including the Annual Cap and the Sanju Annual Caps) and the transactions contemplated thereunder.

#### V. EGM

A notice convening the EGM to be held at 11:00 a.m. on Friday, 18 January 2019 at the meeting room of the Company on 10th Floor, Chiwan Petroleum Building, Shekou, Shenzhen, PRC is set out on EGM-1 to EGM-3 of this circular.



## LETTER FROM THE BOARD

A form of proxy for the EGM is enclosed with this circular. If you do not intend to be present at the EGM, you are requested to complete the form of proxy and return it to the Company's Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

Sanju, Sanju HK and its associate(s) shall abstain from voting at the EGM in respect of the resolutions approving the CCT, the Sanju CCT, the Annual Caps and the Sanju Annual Caps due to their interests. As at the Latest Practicable Date, Sanju HK, a wholly-owned subsidiary of Sanju, held 641,566,556 Shares, representing approximately 39.26% of the issued share capital of the Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as Sanju HK and its associate(s), no other Shareholder has a material interest in the Master Agreement. Accordingly, apart from Sanju HK and its associate(s), no other Shareholder is required to abstain from voting at the EGM in respect of the resolutions relating to the Master Agreement.

### VI. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the EGM in accordance with the articles of association of the Company. The results of the poll shall be deemed to be the resolution of the general meeting in which the poll was demanded or required and the poll results will be published on the websites of the Stock Exchange and the Company after the EGM.

### VII. RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that (i) the Master Agreement was in the ordinary business and usual course of business of the Company and was entered into on normal commercial terms after arm's length negotiation; and (ii) the Annual Caps, Sanju Annual Caps and the terms of the Master Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Master Agreement and transactions contemplated thereunder at the EGM.

In the light of the above, the Directors believe that the proposal at the EGM is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favor of all of the resolutions to be proposed at the EGM to approve the CCT, the Sanju CCT, the Annual Caps and the Sanju Annual Caps.

**LETTER FROM THE BOARD**

**VIII. ADDITIONAL INFORMATION**

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,  
By order of the Board  
**Jutal Offshore Oil Services Limited**  
**Liu Lei**  
*Chairman*

**JUTAL**

**JUTAL OFFSHORE OIL SERVICES LIMITED**

**巨濤海洋石油服務有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 03303)**

31 December 2018

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular issued by the Company to the Shareholders of the company dated 31 December 2018 (the “**Circular**”) of which this letter forms part. Capitalized terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

We, being the independent non-executive Directors, have been appointed by the Board as members of the Independent Board Committee to consider the terms of the Master Agreement and to advise the Independent Shareholders as to whether, in our opinion, (i) the terms of the Master Agreement; and (ii) the Annual Caps and the Sanju Annual Caps, so far as the Independent Shareholders are concerned. Nuada Limited has been appointed as the Independent Financial Adviser to advise us in this respect.

We wish to draw your attention to the letter from the Independent Financial Adviser to the Independent Board Committee set out in the Circular, which contains its advice to the Independent Board Committee and the Independent Shareholders on the terms of the Master Agreement. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser, we are of the view that the terms and conditions of the Master Agreement and the Annual Caps and the Sanju Annual Caps were negotiated on an arm’s length basis, on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolutions to approve the Company's entering into the Master Agreement and transactions contemplated thereunder, the Annual Caps and the Sanju Annual Caps.

Yours faithfully,  
For and on behalf of the Independent Board Committee  
**Jutal Offshore Oil Services Limited**

**Mr. Su Yang**  
*Independent*  
*non-executive Directors*

**Mr. Zheng Yimin**  
*Independent*  
*non-executive Directors*

**Mr. Qi Daqing**  
*Independent*  
*non-executive Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Set out below is the text of a letter received from Nuada Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the CCT and the Sanju CCT contemplated under the Master Agreement, the Annual Caps and Sanju Annual Caps prepared for the purpose of inclusion in this circular.*

# Nuada Limited

Unit 1805-08, 18/F  
OfficePlus @Sheung Wan  
93-103 Wing Lok Street  
Sheung Wan, Hong Kong  
香港上環永樂街 93-103 號  
協成行上環中心 18 樓 1805-08 室

31 December 2018

*To the Independent Board Committee and  
the Independent Shareholders of  
Jutal Offshore Oil Services Limited*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the CCT and the Sanju CCT, the details of which are set out in the Letter from the Board (the “**Board’s Letter**”) in the circular issued by the Company to the Shareholders dated 31 December 2018 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Existing Master Agreement between the Company and Sanju would expire on 31 December 2018. On 14 November 2018, the Company entered into the Master Agreement with Sanju, pursuant to which Sanju, for itself and also as agent of its wholly-owned subsidiaries and Controlling companies, agreed to engage the Group to provide the Company Services for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive), and the Company agreed to engage Sanju to provide the Sanju Service also for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive).

As at the Latest Practicable Date, Sanju wholly owned Sanju HK, which was a substantial shareholder and a connected person of the Company holding 641,566,556 Shares, representing approximately 39.26% of the issued share capital of the Company. Therefore, Sanju was deemed as a substantial shareholder and a connected person of the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company. Accordingly, the transactions contemplated under the Master Agreement, namely (i) provision of Company Services by the Company and (ii) obtaining of Sanju Services from Sanju will constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules.

The Independent Board Committee (comprising of all the independent non-executive Directors) has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the CCT and the Sanju CCT. We, with the approval of the Independent Board Committee, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Save for this appointment and the appointments as the independent financial adviser to the then independent board committees and independent shareholders of the Company regarding (i) a subscription of new shares under specific mandate and application for whitewash waiver on 27 March 2017, details of which are disclosed in the circular of the Company dated 11 May 2017; and (ii) continuing connected transactions of the Company on 19 September 2017, details of which are disclosed in the circular of the Company dated 20 November 2017, we, Nuada Limited, did not act as independent financial adviser to the Company's other transactions in the last two years. We are independent from, and are not associated with the Company, Sanju, or their respective associates, close associates or core connected persons. Apart from normal professional fees payable to us in connection with our engagements, no arrangement exists whereby we will receive any fees or benefits from the abovementioned parties or any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. Accordingly, we are considered eligible to give independent advice in respect of the CCT and the Sanju CCT contemplated under the Master Agreement, the Annual Caps and Sanju Annual Caps to the Independent Board Committee and the Independent Shareholders in accordance with Rule 13.84 of the Listing Rules.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Directors and the management of the Company. We have assumed that all statements, information, opinions and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and will remain so up to the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in the 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 therein or the Circular misleading.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Independent Shareholders as a result of the CCT and the Sanju CCT contemplated under the Master Agreement, the Annual Caps and Sanju Annual Caps. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the CCT and Sanju CCT contemplated under the Master Agreement, the Annual Caps and Sanju Annual Caps, we have considered the following principal factors and reasons:

#### **1. Background information and potential business growth of the Group**

The Company is an investment holding company. The Group is principally engaged in (i) the fabrication of facilities and provision of integrated services for oil and gas industries; (ii) fabrication of facilities and provision of integrated services for other energy and refining and chemical industries; and (iii) the provision of technical support services to the shipbuilding industry.

As stated in the Board's Letter and advised by the management of the Company, the Company is actively seeking opportunity to expand its business in the areas of energy-saving environmental protection and the clean and efficient use of energy. As disclosed in the Board's Letter, Sanju is also principally engaged in the abovesaid business areas, details of which are discussed in section headed "2. Background information and potential business growth of Sanju" below.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With respect to the business prospects of the Group and Sanju, we note from “能源發展“十三五”規劃” (The Thirteenth Five-Year Plan of Energy Development\*) (the “**Plan**”) published by National Energy Administration of the PRC in December 2016 regarding the energy development plans of the PRC Government from 2016 to 2020 that, the PRC Government is going to reduce the proportion of coal consumption gradually and to increase the consumption of natural gas and non-fossil energy. In several main cities, the PRC Government will promote the utilization of natural gas, implementation relevant price and cost control mechanism, as well as accelerating the construction of natural gas related infrastructure projects and power stations. The Plan also laid out that financial support for, among other matters, oil and gas reserve base construction will increase.

Reference is made to the circular of the Company dated 8 December 2017 in relation to the acquisition of 70% equity interest in Penglai Jutal Offshore Engineering Heavy Industries Company Limited\* (“**Penglai Jutal**”) (蓬萊巨濤海洋工程重工有限公司). The acquisition of Penglai Jutal will enable the Company to carry on the business which Penglai Jutal is skilled at, particularly large-scale modules and construction of large-scale mining and offshore oil and gas platform, and allow the Company to provide a wider spectrum of services to its customers. We further understand from the Director that after the completion of the said acquisition of in 2017, following which the Penglai Jutal has become a wholly-owned subsidiary of the Company, the Company might have higher capacity in undertaking new projects.

### **2. Background information and potential business growth of Sanju**

As advised by the management of the Company, Sanju is a company founded in 1997 established in Beijing, PRC and listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code 300072) and is principally engaged in manufacturing, sales and distribution of energy and environmental protection materials and products in petroleum refining, petrochemical, natural gas chemical, and coal chemical industries, as well as provision of integrated services to energy industry, ecological agriculture and green energy industry, integrated utilization of biomaterials.

With reference to the summary of the annual report 2017 of Sanju, Sanju group recorded revenue of approximately RMB5,698.1 million, RMB17,531.1 million and RMB22,477.7 million for the year ended 31 December 2015, 2016 and 2017 respectively, representing a compound annual growth of approximately 98.6%. Based on the above, Sanju’s financial performance has been consistently growing positively in the past years.



As the government of the PRC is promoting governance and investment in the area of environmental protection system, Sanju, like many other companies in the same industry, benefits from the various governmental measures implemented by the governmental authorities in the PRC. We noted from “The Thirteenth Five-Year Plan” announced by the PRC Government in 2015 that overall improvement of ecological environment quality will be one of the target achievements of the PRC from 2016 to 2020. We are advised by the management of the Company that as informed by Sanju, its devotion for the businesses in clean and efficient use of energy, the development of ecological agriculture and green energy is in line with the national and global trend.

### **3. Reasons for and benefits of entering into the Master Agreement**

As stated in the Board’s Letter, in view of the different services and technologies provided by the Company and Sanju to overlapping customers while focusing on serving and distributing to these customers in their respective and different geographical and application market segment, the Group and Sanju will use their combined strengths, explore cross selling and collaboration activities as well as jointly develop new markets and new customers. The entering into of the Master Agreement between the Company and Sanju will strengthen such collaboration.

#### *Reasons for Sanju engaging the Company for the provision of the Company Services*

We have discussed with the management of the Company regarding the reasons for Sanju to engage the Company for the provision of the Company Services, set out below are the key factors we have noticed:

- (i) Due to the size and nature of the projects to be undertaken by Sanju (the “**Sanju Own Projects**”), Sanju would need to sub-contract certain parts of its duties under the Sanju Own Projects, specifically those Sanju is lack of resources and/or personnel with the required technical skills to perform, to its contractors. The Company understood from Sanju that at present, the fabrication of certain oil and gas treatment equipment has been subcontracted to the Group or other sub-contractors. In addition, Sanju currently has the core technology and design capabilities in refinery industry, which enable it to undertake projects for constructing an entire refinery plant as a main contractor. Furthermore, Sanju and its subsidiaries do not have the experience and personnel to carry out the engineering installation and project management of construction. Therefore, Sanju needs to divide the project for entire refinery plant into several smaller projects for tender.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) The Group's support to Sanju enables Sanju to further undertake large scale engineering projects given the Company's (a) production bases in Zhuhai and Penglai of 480,000 square meters and 725,000 square meters respectively; (b) level of oil and gas processing equipment manufacturing services; and (c) engineering construction. The Group can offer its process equipment manufacturing service to the industries of mining, processing and refining of oil and gas, and coal deepened processing. The Group had provided relevant service or device to a number of renowned clients including CNOOC Limited, China National Petroleum Corporation and Sinopec. With the technology, experience, project management and manufacturing capabilities as discussed above, the Group is equipped to complete the Company Services.
  
- (iii) If the core equipment or construction projects of Sanju are completed by the Group, it will not only ensure the quality and progress of the projects, but also reduce Sanju's risk of the leakage of the core technology.

To sum up, Sanju normally act as general contractor of a project that requires sub-contractors' support in certain part of the projects due to its lack of manufacturing capacity and/or relevant technician. With the technology, experience, project management and manufacturing capabilities in the oil and gas equipment industry in past years, the Group is able to provide support to Sanju for completing its own projects. If the core equipment or construction projects of Sanju are completed by the Group, it will not only ensure the quality and progress of the projects, but also reduce Sanju's risk of the leakage of the core technology.

### *Reasons for engaging Sanju for the provision of Sanju Service*

We are given to understand from the management of the Company that the catalyst for the usage in refinery plants has always been a dominant product of Sanju. As advised by the management of the Company, the Group has not engaged in installations and provisions of catalyst services business before. However, the Group has relevant technology and technicians and is competent to perform such business. During the pitching and/or negotiation process between the Group and potential customers, some potential customers of the Group indicated that they would like to engage one single contractor to provide both installations and provisions of catalyst services. As such, the Group prepares the proposals for potential customers based on the catalyst technology of Sanju. If the Company wins the tender awarded by such customers, the Group will require the catalyst from Sanju.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the future, if any of the existing or potential customers seeks for such catalyst offered by Sanju, the Company can level the Group's overall competitiveness by complementing the manufacturing capabilities of the Group with the Sanju Service, particularly those customers which are specifically interested to top-up the existing services provided by the Company with the Sanju Service.

Based on the above, we noted that engaging Sanju for the provision of Sanju Service may enhance the Group's overall competitiveness in pitching and/or negotiating with potential customers.

Having regard the above, we concur with the view of the Directors that (i) the Master Agreement between the Company and Sanju was entered into by the Company in the ordinary and usual course of business of the Group; (ii) the provision of the Company Services will strengthen the existing business of the Group and increase the revenue of the Group; and (iii) the provision of the Sanju Service will enhance the Group's ability to procure stable raw materials and qualified services for project to increase its bargaining power with potential customers.

#### **4. Principal terms of the Master Agreement**

##### **4.1 Provision of the Company Services**

###### *The Company Services*

Pursuant to the Master Agreement, the Company Services include the following services:

- (i) purifying and refining device project contracting\* (淨化及煉化相關的工程承包);
- (ii) special equipment/facilities manufacturing\* (專用設備或裝置製造); and
- (iii) project management and labour outsourcing services\* (項目管理或提供勞務派遣等服務).

As advised by the management of the Company and disclosed in the Circular, Sanju normally act as a general contractor in large-scale projects, which is generally with amount of more than RMB1,000 million, and may sub-contract certain services to, and purchase certain products from, the Company including:

- (a) constructions works such as construction of the factories and fabrication yard and installation of production facilities are examples of the item (i) of Company Services stated above;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) manufacturing of special equipment such as hydro-refining device (加氫精制裝置), hydrogen production unit (制氫裝置), sulphur recycling unit (硫回收裝置), gas desulfurization equipment (天然氣脫硫設備), carbon-based fertilizer production equipment (炭基肥生產設備) are examples of the item (ii) of Company Services stated above; and
- (c) outsourcing services of personnel for special project construction, project management, technical support and labour outsourcing services with the Group's experts, technicians and workers are examples of the item (iii) of Company Services stated above.

We are given to understand from the management of the Company that although the Group provides the Company Services to Sanju under the Master Agreement, Sanju is merely a general contractor of projects. The Company Services will be ultimately provided to the customers of Sanju.

### *Term*

Pursuant to the Master Agreement and subject to the approval by the Independent Shareholders, Sanju agrees to engage the Group to provide the Company Services for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive).

Pursuant to the Master Agreement, for each particular services or projects required by Sanju during the term as set out in the paragraph above, the Group and Sanju shall enter into a specific contract, which shall set out the details (including the quality) of service to be provided, the service fee and the payment terms. Detailed terms and conditions for providing such particular Company Services to Sanju shall be governed by the specific contract to be entered into between the Group and Sanju pursuant to the Master Agreement.

### *Pricing and payment*

The transaction amount for the Company Services under the Master Agreement will be on project based. The charging amount of each project for the Company Services under the Master Agreement will be determined by arm's length negotiations based on normal commercial terms and with reference to:

- (i) usual pricing standard of the Group;
- (ii) not less than the fee offered by the Group to the Independent Third Parties for the same services;

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) in the event that the service is confirmed by way of tender, the fee will be the final fee determined by the tender procedure fairly conducted in the market; and
- (iv) in the event that the service is not confirmed by way of tender, the fee will be determined by the principle of “cost-plus profit”, which is based on the estimated cost plus a gross profit margin at around a 25% ordinary level with reference to the use of resource and complexity of the relevant service or project.

In order to ensure that (i) the service fees and the other terms of the specific contracts are on the normal commercial terms; and (ii) the service fees received from Sanju are in accordance with the prevailing market prices and not less than that charged to the Independent Third Parties to the Company, the Company has adopted an internal control procedure pursuant to that costs and transaction records relating to the provision of similar service to the Independent Third Parties are required for internal assessment and evaluation of the profit margins earned from the provision of the Company Services under the specific contracts to Sanju as compared with the profit margins earned from similar services to the Independent Third Parties on the market.

The payment method of each project for the Company Services will be determined and governed by the relevant specific contract entered into by the parties pursuant to the Master Agreement.

### *Procedures for confirming the Company Services*

The Company Services of (i) purifying and refining device project contracting\* (淨化及煉化相關的工程承包); and (ii) special equipment/facilities manufacturing\* (專用設備或裝置製造); will be normally confirmed by way of tender as such services normally would have quite a number of service providers in the market. It is a common practice that it would be fairer to choose its service providers through tender process as different potential contractors would be taken into consideration. In respect of the Company Services of project management and labour outsourcing services\* (項目管理或提供勞務派遣等服務), as (a) the service fee to be paid by Sanju is comparatively small, which is usually settled based on man-hour rate and actual service time provided by the Company and (b) the Group has rich experience of in this specific area, as such, as informed by Sanju, Sanju is of the view that directly engaging the Group to provide such specific service would be more cost effective for Sanju.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (i) Company Services to be confirmed by way of tender

In the event that the Company Services requested by Sanju will be confirmed by way of tender, Sanju would request the Group and other independent contractors of Sanju to submit tender in respect of providing the Company Services.

To the best knowledge of the Company, Sanju would determine its selection of contractors by taking into account various factors, such as price quotations, qualities of services, abilities of the contractors in meeting technical specifications and delivery schedules, and the contractors' qualification and experiences in the specific service. The contract would be awarded to the Group or other independent contractor, whichever offers the best commercial terms to Sanju. Accordingly, the Group might or might not be awarded the relevant contracts.

We have discussed with the management of the Company regarding the procedures adopted by it to ensure the pricing of the Company Services is in accordance with the criteria as set out above. As discussed in the Board's Letter and as we noted, the Group will take several internal control procedures for determining the price for a tender to ensure it is not less favourable than the fee offered by the Group to the Independent Third Parties for the same services. In particular, the sales and marketing department, in setting the preliminary quotation in respect of a tender held by Sanju, will take into account (i) the types of products, the workload and the complexity of technology in relation to projects; (ii) the latest information on the prevailing market rate and market practice obtained by the marketing department through market research at the time; and (iii) the prices for terms of service contracts of comparable nature that have entered into between the Group and Independent Third Parties. The tender proposal prepared by the sales and marketing department will then be reviewed and approved by senior management before submission.

As advised by the management of the Company, the Group has also adopted several internal control procedures by reviewing the services contracts that shall have been entered into between the Group and Sanju at least once every six months. We noted that (i) the sales and marketing department will review the costs and transactions relating to the provision of similar service to the Independent Third Parties for the purpose of internal assessment and ensure the terms and conditions of the contracts with Sanju are in line with normal market practices and standard terms and not less favourable than the same with the Independent Third Parties; and (ii) the finance department will evaluate

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the profit margins of the specific contracts to Sanju as compared to the profit margins earned from similar services to the Independent Third Parties.

The payment method of each project will be determined and governed by the relevant specific contract entered into by the parties pursuant to the Master Agreement.

(ii) Company Services not to be confirmed by way of tender

As advised by the management of the Company and disclosed in the Board's Letter, for pricing of the Company Services that does not require to be confirmed by way of tender, a "cost-plus-profit" principle will be adopted. Prior to entering such specific contract with Sanju, the sales and marketing department of the Group will first assess the final cost of the Company Services based on the required specifications, such as the costs for raw materials and labour that will be incurred by the Group for the provision of such Company Service. The sales and marketing department of the Group will ensure the price will not be less than any price of the service contracts with Independent Third Party. The said assessment will then be passed to the business department of the Group for consideration and determining a contract price by adding in a target margin to ensure the profitability of the Group. Upon reaching an agreement on the price with Sanju after arm's length negotiations and on normal commercial terms for each service contract, the business department will then pass the final price and other major terms of the relevant contract to the senior management for final review and approval. In any event, the Group will ensure the final price and other major terms of the service contracts not being less favourable to the Group compared with the price and terms of the contracts of comparable nature entered into between the Group and the Independent Third Parties.

Having taken into consideration the above, we are of the view that the abovementioned pricing procedures and internal control measures shall ensure the tender prices to be offered by the Group are fair and reasonable and in accordance with the pricing criteria as set out above, in particular, not less favorable than the price and terms offered by the Group to the Independent Third Parties.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Proposed Annual Caps*

The Annual Caps for the Company Services for year ending 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 are set out as follows:

	For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
Annual Caps (approximately)	RMB500 million (HK\$565 million)	RMB500 million (HK\$565 million)	RMB500 million (HK\$565 million)

### *Basis for the Annual Caps*

The 2018 annual cap for the Company Services was RMB2,100 million. The Annual Caps for the Company Services for the respective years are determined based on the followings:

- (i) the previous transaction amounts between the Group and Sanju for the Company Services;
- (ii) the estimated number and service fees of the projects to be undertaken for the Company Services under the Master Agreement; and
- (iii) the estimated business growth of the Group and Sanju.

We have obtained the previous transaction amounts between the Group and Sanju for the Company Services and noted the followings:

	For the period commencing from 1 December 2017 to 31 December 2017	For the year ending 31 December 2018
Company Services	RMB17,413,000	RMB313,257,300



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the expected project list (the “**Company Services Project List**”) provided by the Company regarding the Company Services in 2019 for assessing the basis in determining the Annual Caps. The Company Services Project List is summarised as below:

Project	Description	Expected contract amount (RMB' million)	Expected month(s) for execution in 2019
A	Fix bed desulfurization equipment* (乾法脫硫設備)	140	To be executed in stages from March to September
B	Slurry desulfurization equipment* (漿液法脫硫設備)	70	To be executed in stages from May to October
C	Non-standard mixed cracking treatment equipment and engineering services* (懸浮床非標設備和工程服務)	100	To be tendered in stages from April to August
D	Project management and labour outsourcing services* (項目管理或提供勞務派遣等 服務)	10	To be executed in stages from March to December
E	Non-standard synthetic ammonia equipment and engineering services* (合成氨非標設備和工程服務)	80	To be executed in May
F	Biomass utilization, green energy and other businesses equipment and relevant construction projects and services* (生物質綜合利用， 綠色能源及其他業務的專用設備和 裝置建造以及建設工程和服務)	250	To be executed in stages from March to November
Total		650	

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As noted from the above table, the Company expects to have contract amount of approximately RMB650 million in 2019. As discussed with the management of the Company, having considered (i) the track record of the Company Services that some of the projects of Sanju was delayed; (ii) that the potential projects are subject to tender or selection by Sanju amongst the proposals prepared by the Company and other rivals, which means that the Company may or may not be engaged by Sanju; and (iii) that the Company Services Project List is based on estimation of the management of the Company from the information available from Sanju, the Annual Cap for 2019 is therefore proposed to be RMB500 million. In case that the potential projects are delayed and the Company is engaged by Sanju, the contracts would be postponed to the following year. In addition, internal control procedures (details of which are discussed in this section below) will be established to allow the Board to decide whether to (a) cease to enter any more specific contracts with Sanju immediately prior to the Annual Caps is reached; or (b) revise the Annual Caps. Should the Board decide to choose the latter option, the Company will revise the Annual Caps in accordance with the relevant requirements under Chapter 14A of the Listing Rules.

We are also given to understand from the management of the Company that the Company expects that project amount in 2019 shall remain the same in 2020 and 2021.

We have discussed with the management of the Company regarding the basis for determining the expected contract amount for each project and noted that the management of the Company estimated the expected contract sum by making reference to the historical transactions between the Group and Sanju for the Company Services. In estimating the expected contract amount for each project, the management of the Company has taken into account the costs of raw materials, engineering, management, design as well as transportation and packaging.

Based on the foregoing, in particular, (i) the previous transaction amounts between the Group and Sanju for the Company Services; (ii) the method and basis adopted by the Company in preparing the Company Services Project List as discussed in this section above; and (iii) the expected growth of business of the Group and Sanju as discussed in the sections headed "1. Background information and potential business growth of the Group" and "2. Background information and potential business growth of Sanju" respectively, we consider the Annual Caps for the Company Services are fair and reasonable so far as the Independent Shareholders are concerned.

In order to ensure the actual annual contract amount does not exceed the Annual Caps, the finance department of the Company will closely monitor the actual amount for the Company Services under the specific contracts that have been entered pursuant to the Master Agreement, by making reports monthly. If the actual amount is about to exceed the Annual Caps, the finance department will alert the sales and marketing department, which in turn will

report to the senior management of the Company. The senior management of the Company will then escalate the issue to the Board to decide whether to (a) cease to enter any more specific contracts with Sanju immediately prior to the Annual Caps is reached; or (b) revise the Annual Caps. Should the Board decide to choose the latter option, the Company will revise the Annual Caps in accordance with the relevant requirements under Chapter 14A of the Listing Rules.

#### **4.2 *Provision of Sanju Service***

##### *The Sanju Service*

Pursuant to the Master Agreement, the Sanju Service is provision of products such as catalyst\* (催化劑等物品的供貨).

The catalyst for the usage in refinery plants has always been a dominant product of Sanju. During the pitching and/or negotiation process between the Company and potential customers, the Company discovered that some of these potential customers would like to engage one single contractor to provide both installations and provisions of catalyst services. If the Company wins the tender awarded by such customers, the Company will require the catalyst from Sanju.

Sanju Service are mainly for the enhancement of the existing products and/or services to be produced and/or offered by the Group. The Company is hence not the ultimate customer of the Sanju Service. The role of the Company is similar to a contractor, while Sanju is a sub-contractor.

##### *Term*

Pursuant to the Master Agreement and subject to the approval by the Independent Shareholders, the Company agrees to engage Sanju to provide the Sanju Service for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive).

Pursuant to the Master Agreement, for each particular service or project required by the Company to be provided by Sanju during the term as set out in the paragraph above, the Group and Sanju shall enter into a specific contract, which shall set out details (including the quality) of service to be provided, the fee and the payment terms. Detailed terms and conditions for providing such particular Sanju Service or relevant projects shall be governed by the specific contract to be entered into between the Group and Sanju pursuant to the Master Agreement.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Pricing and payment*

The transaction amount under the Master Agreement will be on project based. The service fee of each project under the Master Agreement will be determined by arm's length negotiations based on normal commercial terms and shall not higher than the service fee payable by the Company for the same services provided by Independent Third Parties to the Company.

### *Procedures for confirming the Sanju Service*

As advised by the management of the Company, Sanju Service will be normally confirmed by way of tender.

In general, the Company shall adopt the tender procedures to invite services providers, including Sanju and the providers which are Independent Third Parties (the "**Other Service Providers**"), to submit tenders for provision of specific services to the Group. If Sanju wins the tender, the Company will then enter into specific contracts with Sanju to confirm the terms in respect of such service. Depending on the specifications of each project entered or to be entered by the Group, the project management team and the procurements team of the Company will specify in the tender documents of the requirements of materials, scope of services and technologies, which Sanju and the Other Service Providers shall submit their tenders accordingly.

After the project management team and the procurements team of the Company receiving the tenders, they will consider the tenders together with the finance department based on various aspects as required under the project entered or to be entered by the Group, including but not limited to the material, technologies, service standard and completion timeframe. Provided that Sanju's and/or Other Service Providers' tenders have satisfied the said requirements, after confirming the service fee offered by them, such tenders will be passed to senior management of the Company for their consideration and approval. The service contract will be awarded to the service provider which can offer the most favourable terms to the Company from the perspective of business and technology (including service fee). Therefore, Sanju may or may not be awarded with the service contracts by the Company.

In the event that Sanju wins any tender and gets awarded by the Company with any service contract, the service fees and other terms of such service contract shall be in accordance with the general commercial terms and shall not be higher than the service fee payable by the Group for the same service provided by Independent Third Parties to the Group, as mentioned above.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above, we noted that in entering Sanju Service, it is normally confirmed by way of tender, and different departments of the Group will assess the applications from their technical aspects to ensure the service provider can offer the most favourable terms to the Company from the perspective of business and technology. As such, we consider the above measures can ensure the terms of the service agreement to be entered into between the Group and Sanju are based on normal commercial terms and not higher than the service fee payable by the Company for the same services provided by Independent Third Parties to the Company.

### *Proposed Sanju Annual Caps*

The 2018 annual cap for the Sanju Services was RMB100 million. For the year of 2018, no transaction amounts between the Group and Sanju happened. The Sanju Annual Caps for the Sanju Service for the year ending 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 are set out as follows:

	For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
Sanju Annual Caps (approximately)	RMB100 million (HK\$113 million)	RMB100 million (HK\$113 million)	RMB100 million (HK\$113 million)

### *Basis for the Sanju Annual Caps*

The Sanju Annual Caps for the Sanju Service for the respective years are determined based on the followings:

- (i) the estimated number and service fees of the projects to be undertaken for the Sanju Service under the Master Agreement; and
- (ii) the estimated business growth of the Group and Sanju, details of which is discussed in section headed "2. Background information and potential business growth of Sanju" above.

In accordance with the information available to the Company as at Latest Practicable Date and to the best knowledge of the Company, the Company is in negotiation with potential clients regarding projects that require the provision of catalyst from Sanju. Based on the latest negotiation between the Company and such clients, the Sanju Service with estimated annual contract amounts of approximately RMB100 million will be required from Sanju. We have obtained the list of the abovementioned clients provided by the Company and noted that there are 22 potential clients regarding projects that require the provision of catalyst from Sanju. We understand from the management of the Company that the project amount is mainly calculated

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based on the estimated annual desulfurization amount which requires catalyst from Sanju. As noted from the management of the Company, in negotiation process, the Company usually prepares proposals for potential clients in order to introduce the services, technology, design and plans of the Company for delivering the products and/or services to such potential clients. We have obtained several proposals prepared by the Group for approaching and negotiating with potential clients.

Based on the above, we consider the Sanju Annual Caps for the Company Services are fair and reasonable so far as the Independent Shareholders are concerned.

In order to ensure the actual annual purchase amount does not exceed the Sanju Annual Caps, the finance department of the Company will closely monitor the actual amount for the Sanju Service under the specific contracts that have been entered pursuant to the Master Agreement, by making reports monthly. If the actual amount is about to exceed the Sanju Annual Caps, the finance department will alert the procurement team of the Company, which in turn will report to the senior management of the Company. The senior management of the Company will then escalate the issue to the Board to decide whether to (a) cease to enter into any more specific contracts with Sanju immediately prior to the Sanju Annual Caps are reached; or (b) revise the Sanju Annual Caps. Should the Board decide to choose the latter option, the Company will revise the Sanju Annual Caps in accordance with the relevant requirements under Chapter 14A of the Listing Rules.

### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the entering into the Master Agreement is in the ordinary and usual course of business of the Group; (ii) the terms of the Master Agreement (including the Annual Caps and the Sanju Annual Caps) are on normal commercial terms and are fair and reasonable. Therefore, the entering into the Master Agreement is in the interests of the Company and Independent Shareholders as a whole. Accordingly, we advise (i) the Independent Board Committee to recommend the Independent Shareholders and (ii) the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Master Agreement and transactions contemplated thereunder at the EGM.

Yours faithfully,  
For and on behalf of  
**Nuada Limited**  
**Kim Chan**  
*Executive Director*

*Mr. Kim Chan is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 16 years of experience in corporate finance industry.*

\* for identification purposes only

## 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 Group. The Directors, having made all reasonable enquires, 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

### Directors' and chief executive's interests

As at the Latest Practicable Date, the interests of the Directors and their associates in the shares, underlying shares or debenture of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO), to be entered in the register maintained by the Company pursuant to section 352 of the SFO referred to therein, or to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" in the Listing Rules, were as follows:

Name of Director	Capacity	Number of shares (Note 1)	Approximate percentage of shareholding
Wang Lishan	Interest of a controlled corporation (Note 2)	396,911,278(L)	24.29%
	Beneficial owner	18,300,000(L)	1.12%
Cao Yunsheng	Interest of a controlled corporation (Note 3)	8,000,000(L)	0.49%
	Beneficial owner	28,000,000(L)	1.72%

Name of Director	Capacity	Number of shares (Note 1)	Approximate percentage of shareholding
Tang Hui	Beneficial owner	1,866,000(L)	0.11%
Liu Yunian	Beneficial owner	1,500,000(L)	0.09%
Qi Daqing	Beneficial owner	3,050,000(L)	0.19%
Su Yang	Beneficial owner	1,500,000(L)	0.09%
Zheng Yimin	Beneficial owner	1,500,000(L)	0.09%

*Notes:*

1. The letter "L" denotes a long position in the Shares respectively.
2. These Shares are held by Cheung Hing Investments Limited ("**Cheung Hing**") as to 396,911,278 Shares. Cheung Hing is wholly and beneficially owned by Mr. Wang Lishan. By virtue of the SFO, Mr. Wang Lishan is deemed to be interested in the Shares held by Cheung Hing.
3. These Shares are held by Sino Joint International Limited ("**Sino**") as to 8,000,000 Shares respectively. Sino is wholly and beneficially owned by Mr. Cao Yunsheng. By virtue of the SFO, Mr. Cao Yunsheng is deemed to be interested in the Shares held by Sino.

Save as disclosed above, none of the Directors or chief executive of the Company aware of any other Director or chief executive of the Company who has any interests or short positions in any Shares and underlying shares in, and debentures of, the Company or any associated corporation as at the Latest Practicable Date. Save and except as disclosed, none of the Director or proposed Director is a director or employee of a company which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.



**Substantial shareholders' interests**

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group:

Name of Shareholder	Capacity	Number of Shares (Note 1)	Percentage of shareholding
Sanju HK	Beneficial owner (Note 2)	641,566,556(L)	39.26%
Sanju	Interest of a controlled corporation (Note 2)	641,566,556(L)	39.26%
Cheung Hing Investments Limited	Beneficial owner (Note 3)	396,911,278(L)	24.29%
Wang Lishan	Interest of a controlled corporation (Note 3)	396,911,278(L)	24.29%
	Beneficial owner	18,300,000(L)	1.12%
Dongxing Securities Co., Ltd (東興證券股份有限公司)	Interest of a controlled corporation (Note 4)	161,995,555(L)	9.91%
Dongxing Securities (Hong Kong) Financial Holdings Limited (東興證券(香港)金融控股有限公司)	Person having a security interest in shares	161,995,555(L)	9.91%
Hong Man Chu	Interest of spouse (Note 5)	161,995,555(L)	9.91%
Lo Chun Yim	Interest of a controlled corporation (Note 6)	161,995,555(L)	9.91%
Golden Talent (HK) Technology Co., Limited (金華信(香港)科技有限公司)	Beneficial Owner (Note 6)	161,995,555(L)	9.91%

*Notes:*

1. The letters "L" denote a long position in the Shares respectively.
2. The 641,566,556 Shares are held by Sanju HK, which is wholly-owned by Sanju.
3. The 396,911,278 Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Mr. Wang Lishan.
4. These Shares are held by Dongxing Securities (Hong Kong) Financial Holdings Limited as to 161,995,555 Shares.
5. The spouse of Hong Man Chu is Lo Chun Yim.
6. These Shares are held by Golden Talent (HK) Technology Co., Limited, which is beneficially and wholly-owned by Lo Chun Yim.

Save for disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which will have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

### **3. COMPETING INTEREST OF DIRECTORS AND ASSOCIATES**

As at the Latest Practicable Date, none of the Directors or their close associates had interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosed under the Listing Rules.

### **4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation).

### **5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2017, the date of which the latest published audited consolidated financial statements of the Group were made up.

Save and except the Master Agreement, no contract or arrangement in which a Director of the Company is materially interested and which is significant in relation to the business of the Group subsisted as at the Latest Practicable Date.

## 6. MATERIAL CONTRACT

The following contract, not being the contract entered into the ordinary course of business, was entered into by the Group within two years immediately preceding the date of this circular which is or may be material:

- (i) the subscription agreement dated 15 March 2017 entered into among the Company, Sanju HK and Golden Talent (HK) Technology Co., Limited in relation to the subscription of an aggregate of 803,562,111 Shares at the subscription price of HK\$1.20 per Share;
- (ii) the equity transfer agreement dated 27 November 2017 entered into between Zhuhai Jutal Offshore Oil Services Company Limited\* (“**Zhuhai Jutal**”), an indirect wholly-owned subsidiary of the Company and Shenzhen Chiwan Sembawang Engineering Co., Ltd.\* (深圳赤灣勝寶旺工程有限公司), in relation to the acquisition of the 70% equity interest in Penglai Jutal Offshore Engineering Heavy Industries Company Limited\* (蓬萊巨濤海洋工程重工有限公司) by Zhuhai Jutal at the total consideration of RMB571,868,400.

Save as disclosed above, no other material contract had been entered into by the Group within the two years immediately preceding the date of this circular.

## 7. LITIGATION AND POSSIBLE LEGAL ACTION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of the Group.

## 8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, the date to which the latest published audited consolidated financial statements of the Group were made up.

## 9. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinions or advices which are contained or referred to in this circular:

Name	Qualification
Nuada Limited	a licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, Nuada had given and had not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinions or reports or letters, as the case may be, and references to its names in the form and context in which they are included.

As at the Latest Practicable Date, Nuada did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Nuada did not have any interests, either direct or indirect, in any assets which had been or were proposed to be acquired, disposed of by or leased to any member of the Group since 31 December 2017, the date to which the latest published audited financial statements of the Company were made up.

## 10. MISCELLANEOUS

- (a) The company secretary of the Company is Ms. Leung Fung Yee Alice, who is a practicing solicitor in Hong Kong, an associate member of The Institute of the Chartered Secretaries and Administrators in the United Kingdom, and an associate member of The Hong Kong Institute of Chartered Secretaries.
- (b) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, the principal place of business of the Company in Hong Kong is situated at 1102-1103, 11th Floor, No. 9 Queen's Road, Central, Hong Kong and the headquarters of the Company in the PRC is situated at 10th Floor, Chiwan Petroleum Building, Shekou, Nanshan District, Shenzhen, the PRC 518068.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, which is situated at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection at the office of the Company at 1102-1103, 11th Floor, No. 9 Queen's Road, Central, Hong Kong during normal business hours on any Business Day for a period of 14 days from the date of this circular:

- (a) this circular;
- (b) the Master Agreement;
- (c) the memorandum of association and articles of association of the Company;
- (d) the letter from the Independent Board Committee set out in pages 25 to 26 of this circular;
- (e) the letter from the Independent Financial Adviser set out in pages 27 to 44 of this circular;
- (f) the written consent from the Independent Financial Advisor as referred to in the paragraph headed "Expert and Consent" in this appendix; and
- (g) the material contract referred to in the above paragraph headed "Material Contracts" in this appendix.

## NOTICE OF EGM

# JUTAL

## JUTAL OFFSHORE OIL SERVICES LIMITED

巨濤海洋石油服務有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 03303)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “EGM”) of Jutal Offshore Oil Services Limited (the “Company”) will be held at the meeting room of the Company on 10th Floor, Chiwan Petroleum Building, Shekou, Shenzhen, PRC on Friday, 18 January 2019 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company:

### ORDINARY RESOLUTION

1. “**THAT:**

- (a) the master agreement dated 14 November 2018 (the “**Master Agreement**”) entered into between the Company, and Beijing Sanju Environmental Protection & New Materials Co., Ltd.\* (北京三聚環保新材料股份有限公司) (“**Sanju**”), pursuant to which (i) Sanju, for itself and also as agent of its wholly-owned subsidiaries and Controlling companies, agrees to engage the Group to provide the services of (i) purifying and refining device project contracting\* (淨化及煉化相關的工程承包); (ii) special equipment/facilities manufacturing\* (專用設備或裝置製造); and (iii) project management and labor outsourcing services\* (項目管理或提供勞務派遣等服務) (collectively referred to as the “**Company Services**”) for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive) (the “**CCT**”); and (ii) the Company agrees to engage Sanju to provide services of provision of products such as catalyst\* (催化劑等物品的供貨), (the “**Sanju Service**”) for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive) (the “**Sanju CCT**”) (a copy of which has been produced to the meeting marked “A” and initiated by the chairman of the meeting for identification purpose), and all transactions namely (i) provision of Company Services by the Company; and (ii) obtaining of Sanju Service from Sanju contemplated thereunder and in connection therewith and any other ancillary documents, be and are hereby approved, confirmed and ratified;

## NOTICE OF EGM

- (b) the annual caps of the CCT for the year ending 31 December 2019, the year ending 31 December 2020, and the year ending 31 December 2021 be and are hereby approved;
- (c) the annual cap of the Sanju CCT for the year ending 31 December 2019, the year ending 31 December 2020, and the year ending 31 December 2021 be and are hereby approved; and
- (d) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such documents, deeds, agreements and instruments, to agree to such amendments, variations or extension to the Master Agreement and do all such acts, matters and things and take all such steps as they may in their discretion consider necessary, expedient or desirable to implement and/or to give effect to the Master Agreement (and the transactions contemplated thereunder) as they may in their discretion consider to be desirable and in the interests of the Company.”

By order of the Board  
**Jutal Offshore Oil Services Limited**  
**Liu Lei**  
*Chairman*

Hong Kong, 31 December 2018

\* *The English translation of Chinese names or words in this circular, where indicated, are included for information purposes only, and should not be regarded as the official English translation of such Chinese names or words.*

*Notes:*

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. All proxies must be deposited with the Company's share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the meeting.
2. Where a Shareholder appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or by his/her attorney duly authorised in writing. If a Shareholder is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.
4. The Register of Members will be closed from 15 January 2019 to 18 January 2019 (both days inclusive). In order to be qualified to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 14 January 2019.

## NOTICE OF EGM

5. Completion and return of the proxy form will not preclude members from attending and voting in person at the meeting or at any adjournment thereof (as the case may be) should they so wish, and in such event, such proxy form shall be deemed to be revoked.
6. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

*As at the date of this notice, the executive Directors are Mr. Liu Lei (Chairman), Mr. Wang Lishan, Mr. Lin Ke, Mr. Cao Yunsheng, Mr. Liu Yunian and Mr. Tang Hui; and the independent non-executive Directors are Mr. Su Yang, Mr. Zheng Yimin and Mr. Qi Daqing.*