



紅日資本有限公司  
RED SUN CAPITAL LIMITED

13 October 2023

*To: The Independent Board Committee and the Independent Shareholders of  
Wison Engineering Services Co. Ltd.*

**CONTINUING CONNECTED TRANSACTIONS  
ENGINEERING DESIGN FRAMEWORK AGREEMENT  
WITH WISON HOLDING**

**I. INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Engineering Design Framework Agreement and the transactions contemplated thereunder (the “**Continuing Connected Transactions**”) and the proposed annual caps of the three years ending 31 December 2023, 2024 and 2025 (the “**Proposed Annual Caps**”). Details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the shareholders dated 13 October 2023, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the announcement of the Company dated 22 September 2023, on 22 September 2023, the Company (for itself and on behalf of its subsidiaries) and Wison Holding (a controlling shareholder of the Company) (for itself and on behalf of the Wison Holding Entities) entered into the Engineering Design Framework Agreement, pursuant to which the Group shall, following the principal terms of the Engineering Design Framework Agreement, from time to time, provide (i) engineering design services in oil, gas and petrochemical areas in relation to the current and proposed business operations of the Wison Holding Entities from time to time; and (ii) any other relevant advice and assistance as may be agreed upon by the parties.

As at the Latest Practicable Date, Wison Holding is a controlling shareholder of the Company which is indirectly interested in approximately 75.82% of the total issued share capital of the Company. Hence, Wison Holding is a connected person of the Company. As each of the Wison Holding Entities is an associate of Wison Holding, each of them is also a



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connected person of the Company. Accordingly, the transactions contemplated under the Engineering Design Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Reference is made to the announcement of the Company dated 16 November 2022, it was set out that Wison Engineering (an indirect wholly-owned subsidiary of the Company) and Shanghai Wison Marine (an indirect wholly-owned subsidiary of Wison Holding) entered into the Topside Engineering Design Contract, pursuant to which Wison Engineering was engaged by Shanghai Wison Marine to carry out the topside engineering design of the Marine XII Congo LNG Project. The total contract price payable by Shanghai Wison Marine to Wison Engineering under the Topside Engineering Design Contract is expected to be no more than RMB45,000,000.

Reference is also made to the announcement of the Company dated 18 May 2023, it was set out that Wison Engineering and Shanghai Wison Marine entered into the EPCIC Stage Topside Engineering Design Contract, pursuant to which Wison Engineering was engaged by Shanghai Wison Marine to carry out the topside engineering design for EPCIC stage of the Marine XII Offshore FLNG Project. The total amount payable by Shanghai Wison Marine to Wison Engineering under the EPCIC Stage Topside Engineering Design Contract is expected to be no more than RMB150,000,000.

The aggregate amounts payable by the Wison Holding Entities under the Engineering Design Framework Agreement are expected not to exceed RMB260,000,000, RMB260,000,000 and RMB260,000,000 for the three years ending 31 December 2023, 2024 and 2025, respectively. Accordingly, such amounts have been set as the respective annual caps for the aggregate amounts payable under the Engineering Design Framework Agreement for the three years ending 31 December 2023, 2024 and 2025.

As the Engineering Design Framework Agreement covers and governs the contractual relationship between the parties under all the Existing Agreements, as well as any future arrangements to be entered into between the relevant members of the Group (as service providers) and the relevant Wison Holding Entities (as service recipients) in relation to the provision of engineering design services during the term of the agreement, no aggregation of annual caps for the amounts payable by the Wison Holding Entities with those of the previous or existing continuing connected transactions under the Existing Agreements is required.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the highest annual cap for the aggregate amounts payable by the Wison Holding Entities under the Engineering Design Framework Agreement is expected to be above 5%, the transactions contemplated under the Engineering Design Framework Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.



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### II. THE INDEPENDENT BOARD COMMITTEE

The Board consists of six Directors, namely Mr. Zhou Hongliang (Chief Executive Officer) and Mr. Zheng Shifeng as executive Directors, Mr. Liu Hongjun (Chairman) as non-executive Director and Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua as independent non-executive Directors.

The Independent Board Committee comprising all three independent non-executive Directors, namely Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua, has been established to advise the Independent Shareholders as to (i) whether the terms of the Engineering Design Framework Agreement and the Proposed Annual Caps are fair and reasonable; (ii) whether the transactions contemplated under the Engineering Design Framework Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the transactions contemplated under the Engineering Design Framework Agreement and the Proposed Annual Caps are in the interests of the Company and its Shareholders as a whole; and (iv) the voting action that should be taken by the Independent Shareholders.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the Continuing Connected Transactions and the Proposed Annual Caps for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

### III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, Wison Holding and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Continuing Connected Transactions and the Proposed Annual Caps.

In the previous two years, save for this appointment and our appointment as the independent financial adviser in connection with the connected transactions in relation to the EPCIC Stage Topside Engineering Design Contract, details of which are set out in the circular of the Company dated 9 June 2023, we have not acted as an independent financial adviser to the independent board committee and the independent shareholders of the Company for any other transactions.

Apart from the normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.



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#### IV. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice to the Independent Board Committee and the Independent Shareholders, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management (the “**Management**”) and/or the Directors. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the date of the Circular. We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification nor have we conducted any independent investigation into information provided by the Directors and the Management, background, business or affairs or future prospects of the Group, Wison Holding and their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.



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### V. BACKGROUND INFORMATION OF THE CONTINUING CONNECTED TRANSACTIONS

In formulating our opinion on the Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

#### 1. Background information of the Group

The Company is an investment holding company. The principal activities of the Group are the provision of chemical engineering, procurement and construction management, or EPC services. The Group provides a broad range of integrated services spanning the project lifecycle from technical appraisal, early project planning, feasibility studies, consulting services, provision of proprietary technologies, design, engineering, raw materials and equipment procurement and construction management to maintenance and after-sale technical support. Wison Engineering is one of the principal operating subsidiaries of the Company.

Set out below is a summary of the Group's financial information as extracted from the Company's latest published (i) interim report for the six months ended 30 June 2023 (the "2023 Interim Report"); and (ii) annual report for the year ended 31 December 2022 (the "2022 Annual Report"):

#### *Summary of the Group's revenue breakdown by segment*

	For the six months ended		For the year ended	
	30 June		31 December	
	2023	2022	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	1,893,621	2,210,967	4,658,780	6,279,549
— Engineering, procurement and construction ("EPC")	1,748,402	2,130,128	4,463,620	6,035,818
— Engineering, consulting and technical services	145,219	80,839	195,160	243,731

As set out in the 2023 Interim Report, the Group recorded revenue of approximately RMB1,893.6 million and approximately RMB2,211.0 million for the six months ended 30 June 2023 and 2022, respectively, representing a decrease of approximately RMB317.4 million or 14.4%. The decrease in revenue was mainly attributable to the newly awarded projects that are still in the preliminary stage (i.e. engineering stage of the EPC projects), of which limited amount of revenue under EPC projects are recognised at the engineering stage as the majority portion of the revenue are normally recognised in the procurement and construction stage.



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As disclosed in the 2022 Annual Report, the Group recorded revenue of approximately RMB4,658.8 million and approximately RMB6,279.5 million for the years ended 31 December 2022 and 2021, respectively, representing a decrease of approximately RMB1,620.7 million or 25.8%. The decrease in revenue was mainly attributable to (i) the limited revenue contribution since new projects were awarded to the Group near the end of 2022 for the EPC segment; and (ii) lower contract amount compared with previous year for the engineering, consulting and technical services segment. As set out above, EPC accounted for approximately 95.8% and approximately 96.1% of the Group's total revenue for the years ended 31 December 2022 and 2021, respectively.

### 2. Background information on Wison Holding

As set out in the Letter from the Board, Wison Holding is the Company's holding company and is an investment holding company. It is directly wholly-owned by Mr. Hua Bangsong. The principal activity of Wison Group is the provision of engineering services, offshore and marine engineering and new chemical materials. The business of Wison Group covers storage and utilisation of resources such as coal, oil and natural gas, onshore energy engineering services, manufacture of marine engineering equipment and development of new downstream chemical materials.

## VI. PRINCIPAL FACTORS AND REASONS CONSIDERED

### 1. Reasons for and benefits of entering into the Engineering Design Framework Agreement

As set out in the Letter from the Board, the principal activity of the Group mainly include the provision of chemical engineering, procurement and construction management, or EPC, services. The Group provides a broad range of integrated services spanning the project life cycle from technical appraisal, early project planning, feasibility studies, consulting services, provision of proprietary technologies, design, engineering, raw materials and equipment procurement and construction management to maintenance and after-sale technical support. Wison Engineering is a principal operating subsidiary of the Company.

The principal activity of Wison Group is the provision of engineering services, offshore and marine engineering and new chemical materials. The business of Wison Group covers storage and utilization of resources such as coal, oil and natural gas, onshore energy engineering services, manufacture of marine engineering equipment and development of new downstream chemical materials.



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In view of the expertise of the Group in the provision of the services contemplated under the Engineering Design Framework Agreement, and that the service charges receivable by the Group thereunder are negotiated after arm's length discussions and reflects normal commercial terms, the Company considers it desirable to enter into the Engineering Design Framework Agreement in its ordinary course of business.

Having considered (i) the strategies of the Company as set out in the 2023 Interim Report, including that, the Group shall seize the development opportunities of the industry promote the technical reserve research of floating green ammonia and green alcohol productisation solutions, which the Company has embarked on several preliminary engineering projects; (ii) that the engineering, consulting and technical service segment is one of the two business segments of the Group, despite being the smaller of the two business segments in terms of revenue, this segment experienced notable growth of approximately 79.5% for the six months ended 30 June 2023 as compared to the corresponding period in the prior year; (iii) that the provision of the services pursuant to the Engineering Design Framework Agreement is a furtherance and continuance of the Group's principal businesses, namely the provision of engineering, consulting and technical services; and (iv) that the Proposed Annual Caps, if approved, would facilitate the Continuing Connected Transactions to be conducted in an effective and efficient manner without the need for the Company to seek Independent Shareholders' approval on a transaction-by-transaction basis, we concur with the Management that the entering into of the Engineering Design Framework Agreement, the transactions and the Proposed Annual Caps contemplated thereunder are in the interests of the Company and its Shareholders as a whole.

## 2. Principal terms of the Engineering Design Framework Agreement

The following information has been extracted from the Letter from the Board:

- Date : 22 September 2023
- Parties : (1) The Company (for itself and on behalf of its subsidiaries); and
- (2) Wison Holding (for itself and on behalf of the Wison Holding Entities)



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Term : Commencing from the date on which approval by the Independent Shareholders is obtained in respect of the Engineering Design Framework Agreement, the transactions contemplated thereunder and the Proposed Annual Caps and expiring on 31 December 2025. The parties may terminate the Engineering Design Framework Agreement before the expiry of its term in accordance with the terms of the Engineering Design Framework Agreement.

Any implementation agreement under the Engineering Design Framework Agreement shall expire on or before 31 December 2025.

Subject matter : Pursuant to the Engineering Design Framework Agreement, the Group shall, following the principal terms of the Engineering Design Framework Agreement, provide to the Wison Holding Entities with (i) engineering design services in oil, gas and petrochemical areas in relation to the business operations of the Wison Holding Entities from time to time; and (ii) any other relevant advice and assistance (including but not limited to advice and assistance to Wison Holding Entities at projects bidding stage for successful acquisition of projects) as may be agreed upon by the parties. The services provided to Wison Holding Entities under the Engineering Design Framework Agreement are in line with the services previously provided to Wison Holding Entities and independent third parties by the Company.

For each particular engineering design project, the relevant member of the Group and the relevant Wison Holding Entity shall, following the principal terms of the Engineering Design Framework Agreement, enter into separate implementation agreement(s) to set out the detailed work scope and specific terms and conditions of engineering design services to be provided by the relevant member of the Group. The relevant Wison Holding Entity may from time to time negotiate and agree with the relevant member of the Group to adjust the scope of work, specification of the engineering design, service charges, settlement arrangements and other payment-related terms and conditions under such implementation agreement(s).





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The Engineering Design Framework Agreement covers and governs the contractual relationship between the parties under all the Existing Agreements, as well as any future arrangements to be entered into between the relevant members of the Group (as service providers) and the relevant Wison Holding Entities (as service recipients) in relation to the provision of engineering design services during the term of the agreement.

**Service Charges and Pricing policy** : The service charges of each particular engineering design project under the Engineering Design Framework Agreement shall consist of (i) the service fees charged by the relevant member of the Group for providing engineering design services; and (ii) any out-of-pocket expenses actually incurred to accomplish the services. The service charges shall be determined in the ordinary and usual course of business on normal commercial terms and on an arm's length basis.

Based on the scale of and the scope of work under each particular engineering design project, the Group estimates the quantities of manpower required for the performance of work, as well as such other costs and expenses which it may have to incur during the performance of work (including but not limited to salaries and overtime pay of its personnel, domestic travel expenses, statutory benefits, insurance expenses, transportation and accommodation costs, management fee and various taxes). While the Group expects the profit margin of the transaction under each particular engineering design project to be ranging from 35% to 60%, which is in line with that of other comparable transactions of similar nature, complexity and requirements of projects previously entered into by the Group and independent third parties, it also wishes to maintain competitiveness in price. Accordingly, the service fees will be determined based on cost-plus basis (i.e. the expected costs with a profit margin on top) after arm's length negotiation with the relevant Wison Holding Entities.



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Before entering into any transactions, the Group observes the current market conditions and monitors the current prevailing market prices or market rates (including information on fees charged by the Group's competitors as obtained through (i) market research conducted by the market development division of the Group and their communication with other market participants and industry peers; and (ii) the Group's business network), as well as the pricing policies of similar services provided by the Group to independent third parties. In addition, before entering into any connected transactions, the Group also compares with other transactions of or quotations for at least three comparable projects of similar nature, complexity and requirements. Accordingly, the Company is able to ensure that the pricing terms under each particular engineering design project are on normal commercial terms or on terms no less favourable than those available to/from independent third parties.

In assessing whether the service fees charged by the relevant member of the Group is fair and reasonable and in the interest of the Company and its Shareholders, the Directors will review the basis of consideration as set out above.

Further details of the principal terms of the Engineering Design Framework Agreement are set out in the Letter from the Board.

### **3. Analysis on the principal terms of the Engineering Design Framework Agreement and work performed on the internal control procedures**

#### *Internal control procedures*

With a view to safeguard the interests of the Company and its Shareholders as a whole, the Group will adopt the following internal control measures to manage the Continuing Connected Transactions and the Proposed Annual Caps:

- (i) the finance department of the Company will closely monitor and record the actual transaction amounts of each transaction under the Engineering Design Framework Agreement to ensure that the annual cap will not be exceeded;



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- (ii) before entering into the transactions, the design department of the company will compare the prices and terms with market prices and terms of similar transactions to consider whether the prices and terms offered by the Group are fair and reasonable and in compliance with the pricing policy of the Company;
- (iii) the senior management team of the Company will conduct regular review of the transactions and ensure that the transactions are conducted in accordance with the principal terms of the Engineering Design Framework Agreement;
- (iv) the auditors of the Company will conduct review of the transactions on an annual basis and confirm, among others, whether the pricing policy of the Company has been adhered to and whether the relevant annual caps have been exceeded;
- (v) the independent non-executive Directors will conduct review of the transactions on an annual basis to assess and confirm whether such transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the principal terms of the Engineering Design Framework Agreement, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (vi) the Group will provide trainings and written materials for its newly recruited employees to increase their awareness and understanding of the rules for connected transactions and the relevant policies of the Group.

### *Our analysis and work performed on pricing policy and internal control procedures*

In accordance with the pricing policy under the Engineering Design Framework Agreement, the service charges of each particular engineering design project shall be determined in the ordinary and usual course of business on normal commercial terms and on an arm's length basis, with reference to the costs expected to be incurred by the Group and a reasonable profit margin estimated by the Management.

Pursuant to the Engineering Design Framework Agreement, the Group shall provide (i) engineering design services in oil, gas and petrochemical areas in relation to the business operations of the Wison Holding Entities from time to time; and (ii) any other relevant advice and/or assistance as may be agreed upon by the parties, to the Wison Holding Entities. We understand from the Management that the costs expected to be incurred in connection with the provision of the services as mentioned above are primarily time and relevant costs incurred, such as salaries and overtime pay of its personnel, domestic travel expenses, transportation and



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accommodation costs, attributable to the personnel assigned for the performance of work. While the Group expects the profit margin of the transaction under each particular engineering design project to be in line with that of other comparable transactions of similar nature, complexity and requirements of projects previously entered into by the Group and independent third parties, it would also take into consideration its price competitiveness.

In this connection, we have selected sampled transactions, including transactions between the Group and (i) independent third parties; and (ii) certain Wison Holding Entities, based on the following criteria, namely (a) the nature and work scope of the transactions are similar to those of the services to be provided under the Engineering Design Framework Agreement which falls within the Group's engineering, consulting and technical services segment; and (b) the subject engineering design contract of the project was entered into by the Group recently, i.e. in or after 2021 (together the "Criteria").

We have identified a total of six sampled transactions (the "Sampled Transactions"), which comprised of (i) two connected transactions with connected parties, namely, (a) the Marine XII offshore floating liquefied natural gas ("FLNG") project engineering, procurement, construction, installation and commissioning ("EPCIC") stage topside engineering design contract with Shanghai Wison Marine, the details of such connected transaction are set out in the announcement and the circular dated 18 May 2023 and 9 June 2023; and (b) the Marine XII Congo liquefied natural gas ("LNG") topside engineering design contract with Shanghai Wison Marine, the details of such connected transaction are set out in the announcement dated 16 November 2022, being the only two contracts entered into with connected parties by the Group which fulfilled the Criteria; and (ii) four transactions entered into with independent third parties by the Company which fulfilled the Criteria. Given that (i) all of the Sampled Transactions were selected based on the Criteria; (ii) the two Sampled Transactions which are connected transactions represents all of the connected transactions conducted by the Group which fulfilled the Criteria; and (iii) the four transactions entered into with independent third parties were comparable to the Sampled Transactions under (ii) above and were selected on a random basis, we consider the Sampled Transactions are sufficient, fair and representative for the purpose of our analysis.

Although it is noted that the work scope, complexities, deliverables and/or project scale may vary from contract to contract, thus no contracts are entirely identical. Nonetheless, given the nature of the engineering, consulting and technical services provided by the Group under such segment and the Criteria applied to select the Sampled Transactions, we considered that our analysis as set out above to be a useful reference to assess the effectiveness of the internal control procedures



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and pricing policies under the Engineering Design Framework Agreement as similar pricing policies and internal control procedures were adopted by the Group to govern the Sampled Transactions.

Based on the information provided by the Management and reviewed by us, the estimated profit margin recorded by the Group from the two connected transactions was approximately 44% and 58% respectively, which were within range and therefore no less favourable than the estimated profit margin recorded by the Group from the four transactions with the independent third parties which ranged from not less than 35% to not more than 60%.

Furthermore, the Management advised that the relevant business units and departments of the Group have and shall continue to monitor and review the applicable prices/rates and terms in respect of the Continuing Connected Transactions in order to ensure that the Continuing Connected Transactions are conducted on normal commercial terms.

In this connection, we also assessed the internal procedures of the Group prior to entering into individual contracts for the connected transactions. Based on our work done, we noted that the responsible departments and personnel including administrative department, design department and the project manager, where relevant, provided their input to a preliminary budget on the relevant costs with breakdown, required number of personnels, preliminary composition of the required personnel and the respective man hours of the different personnel at various grades expected to be involved in the each of the project teams, as well as an estimate on each of the projects associated domestic travel expenses, statutory benefits, insurance expenses, transportation and accommodation costs, management fee and estimated taxes in a costs schedule (the “**Project Costs Schedule**”). Based on the Project Costs Schedules obtained, we understand from the Management and noted that the composition of the personnel expected to be involved were determined by, where applicable (i) request of a particular number and positions by the project owner; (ii) the personnel with the required skill sets to complete the relevant work based on the Group’s experience from other projects; and (iii) preliminary meetings and discussions between the Group and Wison Holding Entities.

In addition, as the relevant documents shall be presented in an internal meeting for approval and documented by the meeting minutes. The execution of the subject contract would be after obtaining the relevant approval. On this basis, we have obtained and reviewed the minutes of the internal meeting for the previous contracts entered into with Wison Holding Entities and the Sampled Transactions. We also noted that the relevant approval procedures for the sampled contracts entered into with Wison Holding Entities previously (i.e. the two Sampled Transactions that are connected transactions) are in line with the four Sampled Transactions entered into with the Independent Third Parties.



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As set out under the pricing policy, prior to entering into any Continuing Connected Transactions, the Group shall also compare with other transactions or quotations for at least three other comparable projects of similar nature, complexity and requirements. In this connection, we have obtained and reviewed two samples of the connected transactions entered into in November 2022 and May 2023 as mentioned in this letter above. We noted that each of the responsible departments and personnel (including administrative department, design department and the project manager, where relevant) provided their input to a preliminary budget on the relevant costs with breakdown, required number of personnel and preliminary composition of the required personnel, design department stated the transactions or quotations made reference to with signatory besides the relevant content. We have also further obtained and reviewed the document templates which the Company has already prepared for the monitoring and recording of the actual transaction amounts of each transaction under the Engineering Design Framework Agreement.

Based on our analysis and work performed, we considered that the effective implementation of the pricing policies and the internal control procedures under the Engineering Design Framework Agreement shall be able to ensure the Continuing Connected Transactions to be conducted on terms that are fair and reasonable.

#### 4. Rationale for determining the Proposed Annual Caps under the Engineering Design Framework Agreement

The table below sets out the Proposed Annual Caps of the aggregate amount payable under the Engineering Design Framework Agreement in respect of each of the three years ending 31 December 2025:

	For the year ending 31 December		
	2023 (RMB)	2024 (RMB)	2025 (RMB)
Aggregate amount payable	260,000,000 (the “2023 Annual Cap”)	260,000,000 (the “2024 Annual Cap”)	260,000,000 (the “2025 Annual Cap”)

#### *Basis for determining the Proposed Annual Caps*

As set out in the Letter from the Board, the Proposed Annual Caps for the three years ending 31 December 2025 have been determined based on (i) the number of projects the Wison Holding Entities expect to bid for; (ii) the Group’s estimates of the sizes of such projects; (iii) the estimated engineering design services that would be outsourced to the Group by the Wison Holding Entities; (iv) the historical



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transaction amounts payable by the Wison Holding Entities to the Group for engineering design services provided in the previous projects; and (v) the Group's key performance indicators.

### *Our analysis on the Proposed Annual Caps*

#### *(i) 2023 Annual Cap*

As disclosed in the Letter from the Board, the historical transaction amounts payable by the Wison Holding Entities to the Group for engineering design services for the years ended 31 December 2021 and 2022 were approximately RMB316,540 and RMB440,000, respectively.

The historical transaction amount for the eight months ended 31 August 2023 of approximately RMB75,654,258 was primarily derived from (a) the Topside Engineering Design Contract for the topside engineering design of the Marine XII Congo LNG Project (the “Congo LNG Project”); and (b) the EPCIC Stage Topside Engineering Design Contract for the topside engineering design for EPCIC stage of the Marine XII Offshore FLNG Project (the “Offshore FLNG Project”, collectively, the “Projects On Hand”). For further details of (a) the Congo LNG Project, please refer to the announcement of the Company dated 16 November 2022; and (b) the Offshore FLNG Project, please refer to the announcement and the circular of the Company dated 18 May 2023 and 9 June 2023, respectively.

Based on information available as at the Latest Practicable Date, the Management estimated that most of the 2023 Annual Cap will be attributable to the transaction amount recognised/to be recognised from the Congo LNG Project and the Offshore FLNG Project.

The total contract sum of the Congo LNG Project is RMB45.0 million. Based on the works completed by the Group as at the Latest Practicable Date, the Group has recognised revenue of not exceeding RMB45.0 million during the year ending 31 December 2023.

The total contract sum of the Offshore FLNG Project is expected to be no more than RMB150.0 million, subject to the completion of the scheduled engineering design work by December 2023 and the progress and completion of the relevant works, the revenue to be recognised during the year ending 31 December 2023 has been estimated to be no more than RMB90.0 million with the remaining contract sum of RMB60.0 million, subject to the final contract sum and the amount previously recognised, to be recognised across the two years ending 31 December 2024 and 2025. In any event, the Management shall continue to monitor the utilisation of the Proposed Annual Caps and ensure that they are duly complied with.



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To further assess the reasonableness of the 2023 Annual Cap under the Engineering Design Framework Agreement, we have also obtained and reviewed a project schedule prepared by the Management (the “**Project Schedule**”) in relation to the potential projects, which may require engineering design and other related services to be provided by the Group. All potential projects are subject to negotiation and/or tender and if successful, to be awarded to the Group by the customer.

We noted that in addition to the Projects On Hand, there are also four potential projects included under the 2023 Annual Cap, the estimated contract sum of which ranged from RMB50 million to RMB200 million, three of them are related to Engineering Design Work (defined hereafter) and the other one is related to Industrial Design Work (defined hereafter). We understand that the work scope of Engineering Design Work will involve, among others, (a) the provision of detailed basic design and engineering package for the shell of the floating production storage unit on the deck of FLNG; (b) extending basic design of storage and/or other facilities on the deck of FLNG; and (c) line sizing, specifications, all instruments sizing and specifications. The work scope of Industrial Design Work will involve the engineering design of the polyethylene-based thermoplastic elastomer plant. The potential projects are expected to commence in or around the fourth quarter of 2023.

Based on the Projects On Hand and the Project Schedule as mentioned above, the aggregate contract sum expected to be recognised, based on the estimated project progress and barring unforeseen circumstances, should account for no less than 80.0% of the 2023 Annual Cap. It should also be noted that the project progress may change from time to time attributable to client demand, delivery schedule and other factors beyond the Management’s control, and that there may be unexpected increases or decreases to the estimated transaction amount. Furthermore, new projects not foreseen as at the date of the Engineering Design Framework Agreement may also arise.

### *(ii) 2024 Annual Cap and 2025 Annual Cap*

With a view to assess the reasonableness of the 2024 Annual Cap and the 2025 Annual Cap, we have obtained and reviewed the Project Schedule. We noted that there are ten potential projects in relation to the designing works of FLNG and one potential project in relation to the designing works of industrial equipment (the “**Industrial Design Work**”). Four of which are expected to commence during the year ending 31 December 2023 and have been analysed under the paragraph headed “(i) 2023 Annual Cap” above.

Typically, the design works of FLNG carried out by the Company are categorised into different stages of work, namely, (a) the conceptual study stage (the “**Conceptual Study**”); (b) preliminary front end engineering design stage (the “**Preliminary Engineering Design Work**”); and (c) the front-end engineering





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design stage (the “Engineering Design Work”). We understand from the Management that the sizes of FLNG related to the potential projects are expected to range from (a) 300m x 50m; to (b) 330m x 60m.

The estimated contract sum of the ten potential projects identified by the Management ranged from RMB8 million to RMB200 million, with an aggregate contract sum of not more than RMB570 million. Based on information obtained by us, including the Project Schedule, the details of the ten potential projects are set out below:

- (a) two of which are related to Conceptual Study, the work scope is expected to involve the provision of initial design and process design package, both projects are expected to commence in or around the first half of 2024. The aforesaid contract duration is expected to range from three months to four months;
- (b) another two potential projects are related to Preliminary Engineering Design Work, the work scope of which is expected to cover, among others, (aa) the provision of basic design and engineering package for the shell of the floating production storage unit on the deck of FLNG; and (bb) the provision of basic design and engineering package for the gasification and gas processing technologies to be used on the FLNG. The works for the aforesaid two potential projects are expected to commence in or around the second half of 2024. The aforesaid contract duration is expected to range from four months to six months;
- (c) the remaining six potential projects are related to Engineering Design Work and Industrial Design Work. The work scope of Engineering Design Work is expected to involve, among others, (aa) the provision of detailed basic design and engineering package for the shell of the floating production storage unit on the deck of FLNG; (bb) extending basic design of storage and/or other facilities on the deck of FLNG; and (cc) line sizing, specifications, all instruments sizing and specifications. The typical work scope of Industrial Design Work involves the engineering design of the industrial equipment in relation to the usage on polyethylene-based thermoplastic elastomer pilot testing. Based on the Project Schedule, four of the potential projects are expected to commence in or around the fourth quarter of 2023 and two of the potential projects are expected to commence in the first quarter of 2025. The aforesaid contract duration is expected to range from three months to twelve months; and
- (d) we have obtained and reviewed project proposals from the Management for certain sample projects, which set out the expected number of personnel and respective man hours of the different personnel at various grades expected to be involved in those projects mentioned above, as well



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as estimations on the associated domestic travel expenses, statutory benefits, insurance expenses, transportation and accommodation costs, management fee and estimated taxes with reference to previous transactions or quotations. We noted that over 75% of the estimated costs of project proposals were staff costs relating to personnel expected to be involved in the subject project. We further understand from the Management that the composition of the personnel expected to be involved in the Project team was determined by (i) request of a particular number and positions by the project owner; (ii) the personnel with the required skill sets to complete the relevant work based on the Group's experience from other projects; and (iii) preliminary meetings and discussions regarding the project requirements. We have further compared the staff cost estimates of the same grades/positions from different projects as illustrated in the project proposals and noted that the cost estimates of the same grades/positions are consistent across different projects and under the Sampled Transactions, therefore we consider the basis of the costs estimations under the project proposals, as well as the services fee basis to be fair and reasonable.

Based on the information provided by the Management and reviewed by us, barring unforeseen circumstances, the estimated profit margin of the potential projects ranged from not less than 25% to not more than 45%, the low estimated profit margin was attributable to the lower margin of Industrial Design Work as compared to Conceptual Study, Preliminary Engineering Design Work or Engineering Design Work. The estimated profit margin, barring unforeseen circumstances, would range from not less than 35% to not more than 45% if not considering the Industrial Design Work, which were within range of the profit margin of the Sampled Transactions. Therefore, we consider the estimated profit margin of the potential projects to be reasonable.

Based on the Offshore FLNG Project and the Project Schedule as mentioned above, subject to award of the subject contracts, the actual project progress and barring unforeseen circumstances, the revenue expected to be recognised by the Group from the potential projects during the three years ending 31 December 2023, 2024 and 2025 would be not less than RMB90 million (not including the two connected transactions with connected parties), not less than RMB210 million and not less than RMB210 million, respectively. The transaction amount of the potential projects to be recognised by the Group already accounted for no less than 80.0% of the 2024 Annual Cap and the 2025 Annual Cap, and such amount does not include transaction amount of any new projects of the Wison Holding Entities which require engineering design and related services and that the Group may bid for and be awarded with during the three years ending 31 December 2023, 2024 and 2025, which may become available subsequently and were not included in the above project schedule.



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Having considered (a) the estimated demand of engineering services to be provided by the Group under the Engineering Design Framework Agreement; (b) the historical transaction amounts and expected transaction amount for the year ending 31 December 2023 attributed to the Projects On Hand that involved the provision of engineering design services for Congo LNG Project and Offshore FLNG Project to Shanghai Wison Marine, being a Wison Holding Entity; (c) the potential projects as set out in the Project Schedule; and (d) that the Group has the right but not the obligation to provide the relevant services to the Wison Holding Entities under the Engineering Design Framework Agreement, we consider the basis for determining the Proposed Annual Caps under the Engineering Design Framework Agreement to be fair and reasonable.

*Summary of our analysis*

To summarise, (i) the work scope and services under the Engineering Design Framework Agreement falls within the principal business activities of the Group; (ii) we have discussed and confirmed with the Management that the internal control measures including the approval process of the Engineering Design Framework Agreement which are in line with the approval process for other similar design contracts entered into by the Company with independent third parties and in accordance with the internal control procedures of the Group; and (iii) the value of and the basis for determining the Proposed Annual Caps are fair and reasonable as discussed in this letter above.

**VII. RECOMMENDATION**

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the above principal factors and reasons, in particular, the following:

- (i) the reasons for and benefits of entering into the Engineering Design Framework Agreement;
- (ii) the provision of the services pursuant to the Engineering Design Framework Agreement is a furtherance and continuance of the Group's businesses and therefore in the ordinary and usual course of business of the Group;
- (iii) the entering into of the Engineering Design Framework Agreement and the transactions contemplated thereunder will enable the Group to broaden its revenue base and is in the interests of the Company and the Shareholders as a whole;



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- (iv) based on our analysis and work performed as set out under section headed “3. Analysis on the principal terms of the Engineering Design Framework Agreement and work performed on the internal control procedures”, the terms of the Engineering Design Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned; and
- (v) the value of, and the basis for determining, the Proposed Annual Caps are reasonable as discussed in this letter above,

we are of the opinion that the Engineering Design Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms or better, and the terms of the Engineering Design Framework Agreement and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to approve the Engineering Design Framework Agreement, the transactions contemplated thereunder and the Proposed Annual Caps at the Second EGM.

Yours faithfully  
For and on behalf of  
**Red Sun Capital Limited**

**Lewis Lai**  
Managing Director

*Mr. Lewis Lai is a licensed person registered with the Securities and Futures Commission and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 16 years of experience in the corporate finance industry.*