
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares STANDARD DEVELOPMENT GROUP LIMITED, you should at once hand this circular, together with the enclosed 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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Standard Development Group Limited 標準發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1867)

(1) DISCLOSEABLE AND CONNECTED TRANSACTION INVESTMENT AGREEMENT AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

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



A notice convening the extraordinary general meeting (the “EGM”) of STANDARD DEVELOPMENT GROUP LIMITED (the “Company”) to be held at 21/F, Grand Millennium Plaza, 181 Queen’s Road Central, Sheung Wan, Hong Kong on Monday, 13 February 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof (as the case may be) should you so desire.

PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing novel coronavirus (COVID-19) outbreak, mass gatherings would potentially impose a significant risk in terms of the spread of the virus. For the safety of our Shareholders, staff and stakeholders, **the Company encourages Shareholders to appoint the Chairman of the EGM as their proxy to vote on the relevant resolution at the EGM**, instead of attending the EGM in person, by completing and returning the form of proxy accompanying this circular in accordance with the instructions printed thereon.

Shareholders and other persons attending the EGM should note that, consistent with the government guidelines for the prevention and control of COVID-19, the Company will implement precautionary measures to reduce the risk of contracting and spreading of COVID-19 at the EGM, including:

- (a) Compulsory body temperature check will be conducted for every Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue;
- (b) Every Shareholder or proxy is required to wear surgical face mask throughout the meeting;
- (c) No corporate gifts will be distributed;
- (d) No refreshment will be served;
- (e) Hand sanitizer will be available at the venue; and
- (f) Other safe distancing measures as appropriate

The Company seeks the understanding and cooperation of all Shareholders to minimise the risk of spreading COVID-19.

20 January 2023

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DEFINITIONS

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

“associate(s)”	has the meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Standard Development Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1867)
“Completion”	the completion of the Investment in accordance with the terms and conditions of the Investment Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dongying Haibao”	Dongying Haibao Salt Industry Co., Ltd.* (東營海寶鹽業有限公司), a company established in the PRC with limited liability
“EGM”	the extraordinary general meeting of the Company to be convened and held at 21/F, Grand Millennium Plaza, 181 Queen’s Road Central, Sheung Wan, Hong Kong on Monday, 13 February 2023 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve the Investment Agreement and the transactions contemplated thereunder
“Fujincheng”	Fujincheng Investment Holdings Co., Ltd., a company incorporated in the British Virgin Islands with limited liability on 8 April 2021, which is wholly-owned by Mr. Liu Zhancheng and a controlling shareholder of the Company holding 1,118,460,000 Shares, representing approximately 74.86% of the issued share capital of the Company as at the Latest Practicable Date
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising Dr. Su Lixin, Mr. Liang Rongjin and Dr. Yan Bing, being all the independent non-executive Directors, which is formed to advise the Independent Shareholders on the Investment Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Pelican Financial Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders on the Investment Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Mr. Liu Zhancheng and his associates (including Fujincheng which holds 1,118,460,000 Shares, representing approximately 74.86% of the issued share capital of the Company) and all other parties (if any) who are interested in the Investment Agreement and the transactions contemplated thereunder
“Investment”	the contribution of RMB20.0 million into the Target Company as registered capital by Standard Development (Shandong) pursuant to the terms and conditions of the Investment Agreement
“Investment Agreement”	the investment agreement dated 20 December 2022 entered into between Standard Development (Shandong), the Target Company, Shandong Finance Energy and Dongying Haibao in relation to the Investment
“Latest Practicable Date”	17 January 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	the ordinary share(s) with nominal value of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shandong Finance Energy”	Shandong Province Financial Energy Co., Ltd.* (山東省財金能源有限公司), a company established in the PRC with limited liability
“Shandong Finance Group”	Shandong Province Finance Investment Group Co., Ltd.* (山東省財金投資集團有限公司), a company established in the PRC with limited liability, the equity interest in which is ultimately controlled by the Shandong Provincial Department of Finance
“Shandong Fujincheng”	Shandong Fujincheng Investment Co., Ltd.* (山東富金成投資有限公司), a company established in the PRC with limited liability
“Shandong Investment”	Shandong Province Finance Industry Investment Co., Ltd. (山東省財金產業投資有限公司), a company established in the PRC with limited liability
“Standard Development (Shandong)”	Standard Development (Shandong) Limited (標準發展(山東)有限公司), an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning as ascribed to it under the Listing Rules
“Target Company”	Standard Bio (Juancheng) Co., Ltd.* (標發生態(鄆城)有限公司), a limited liability company established under the laws of the PRC on 21 October 2021
“%”	per cent.

* For identification purposes only

LETTER FROM THE BOARD



Standard Development Group Limited
標準發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1867)

Executive Directors:

Mr. Liu Zhancheng (*Chairman and
Chief Executive Officer*)

Ms. Qin Mingyue

Mr. Xu Jing

Registered office:

Windward 3, Regatta Office Park
PO Box 1350,
Grand Cayman,
KY1-1108,
Cayman Islands

Independent Non-executive Directors:

Dr. Su Lixin

Mr. Liang Rongjin

Dr. Yan Bing

*Head office and principal place of business
in Hong Kong:*

Room 1409-10, 14/F
Cosco Tower
183 Queen's Road Central
Sheung Wan
Hong Kong

20 January 2023

To the Shareholders

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
INVESTMENT AGREEMENT
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 20 December 2022 in relation to the Investment Agreement.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the Investment Agreement; (ii) a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advices to the Independent Board Committee and the Independent Shareholders; (iv) the notice of the EGM; and (v) other information in relation to the Company as required under the Listing Rules.

INVESTMENT AGREEMENT

On 20 December 2022 (after trading hours), Standard Development (Shandong), an indirect wholly-owned subsidiary of the Company, has entered into the Investment Agreement with the Target Company, Shandong Finance Energy and Dongying Haibao. Pursuant to the Investment Agreement, Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao agreed to contribute a total amount of RMB20.0 million, RMB19.2 million and RMB800,000 into the Target Company in cash as registered capital of the Target Company, respectively.

Principal terms of the Investment Agreement are set out below:

Date

20 December 2022 (after trading hours)

Parties

- (i) Standard Development (Shandong);
- (ii) the Target Company;
- (iii) Shandong Finance Energy; and
- (iv) Dongying Haibao.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, as at the Latest Practicable Date, Dongying Haibao and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

Subject matter

Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao agreed to contribute a total amount of RMB20.0 million, RMB19.2 million and RMB800,000 into the Target Company in cash as registered capital of the Target Company, respectively.

LETTER FROM THE BOARD

Conditions precedent

Completion shall be subject to the passing of resolution(s) approving the Investment Agreement and the transactions contemplated thereunder by the Independent Shareholders at the EGM in accordance with the Listing Rules. If the above condition is not satisfied, the Investment Agreement will automatically lapse, except for any antecedent breaches.

Restriction on transfer

A shareholder may transfer its equity interests in the Target Company, but such transfer shall be subject to the right of first refusal of the other shareholders.

Matters requiring unanimous consent of the shareholders of the Target Company

The matters which require the unanimous consent of the shareholders of the Target Company are, among others, as follows:

- (1) any borrowing of the Target Company from any bank, financial institution or persons;
- (2) issuance of bonds or similar securities of the Target Company;
- (3) creating any encumbrances on any of the assets of the Target Company (except for normal business operations), provision of external guarantees and provision financial assistance to any third party;
- (4) changes in the operating policy and investment plan of the Target Company;
- (5) change of directors and the determination of the remuneration of directors;
- (6) appointment and dismissal of the financial controller and other key personnel of the Target Company;
- (7) reviewing and approving the report of the board of directors, the annual financial budget plan, the final account plan of the Target Company, the profit distribution plan and the loss recovery plan of the Target Company;
- (8) amendment, termination, and renegotiation of existing major agreements of the Target Company;
- (9) any changes in the capital structure of the Target Company, including but not limited to any increase or decrease in registered capital, issuance of any securities, capitalisation issue, and bonus shares;
- (10) any corporate reorganization of the Target Company, including all forms of acquisitions, mergers, divisions, dissolutions, liquidations, recapitalizations, establishment of subsidiaries or any similar transactions;

LETTER FROM THE BOARD

- (11) amendment of the articles of association of the Target Company;
- (12) any profit distribution of the Target Company, including bonuses, bonus shares, and dividends;
- (13) opening or closing bank accounts of the Target Company, or making any changes to the authorised signatories and operation procedures of any bank accounts; and
- (14) any material change in the nature or scope of the business of the Target Company.

Basis of determining the capital contribution amount

The capital contribution proposed to be made by the Group into the Target Company was determined after arm's length negotiations between the parties to the Investment Agreement, having taken into account of, among other things: (i) the respective shareholding proportion of all the shareholders in the Target Company; (ii) the funding needs of the Target Company for its future business; (iii) the development and growth potential of the Target Company; and (iv) the reasons for entering into the Investment Agreement as discussed in the section headed "Reasons for and Benefits of the Investment" in this circular.

The capital contribution proposed to be made by the Group into the Target Company will be satisfied by the internal resources of the Group.

Based on the current development plan of the Target Company, the Group is not expected to make further investment or capital contribution into nor provide guarantee for financing in favour of the Target Company. Depending on the future development plan and funding needs of the Target Company, in view of bank practices, the shareholders of the Target Company may provide pro rata guarantees in proportion to their respective shareholding for bank financings of the Target Company. The Company will comply with the relevant requirements under Chapters 14 and 14A of the Listing Rules should any further financial assistance be provided in favour of the Target Company.

LETTER FROM THE BOARD

Changes to shareholding structure of the Target Company

The table below sets out the registered capital of the Target Company and the shareholding of the shareholders of the Target Company (i) as at the Latest Practicable Date; and (ii) immediately upon Completion:

Name of shareholder	As at the Latest Practicable Date		Immediately upon Completion	
	Contribution to registered capital of the Target Company <i>RMB (million)</i>	Shareholding (%)	Contribution to registered capital of the Target Company <i>RMB (million)</i>	Shareholding (%)
Shandong Finance Energy	0.8	8	20	40
Dongying Haibao	9.2	92	10	20
Standard Development (Shandong)	—	—	20	40
Total	10	100	50	100

INFORMATION ON THE COMPANY AND THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability. The Group is principally engaged in construction and engineering related businesses in the PRC and Hong Kong, including interior fitting-out and renovation services, alteration and addition works for properties, and trading businesses.

INFORMATION ON STANDARD DEVELOPMENT (SHANDONG)

Standard Development (Shandong) is a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company and is principally engaged in construction and engineering related business and trading of petroleum products.

INFORMATION ON SHANDONG FINANCE ENERGY

Shandong Finance Energy is a company established under the laws of the PRC with limited liability and is principally engaged in petrochemical supply chain business and investment holdings. As at the Latest Practicable Date, each of Shandong Fujincheng and Shandong Investment holds 50% of the equity interest in Shandong Finance Energy. Shandong Finance Group (a company ultimately controlled by the Shandong Provincial Department of Finance) controls 75% of the equity interest in Shandong Investment and 25% of the equity interest in Shandong Investment is beneficially held by Shandong Fujincheng, which is wholly-owned by Mr. Liu Zhancheng. Mr. Liu Zhancheng is a director and general manager of Shandong Finance Energy.

LETTER FROM THE BOARD

INFORMATION ON DONGYING HAIBAO

Dongying Haibao is a company established under the laws of the PRC with limited liability and is principally engaged in production of bromine, production and sale of sodium chloride, aquaculture and trading of petroleum products. As at the Latest Practicable Date, the ultimate beneficial owner of Dongying Haibao is Ms. Zhang Xiaochuan. Dongying Haibao is a customer of the Group in the PRC.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established under the laws of the PRC on 21 October 2021 with limited liability. As at the Latest Practicable Date, the Target Company is held as to 92% of its equity interest by Dongying Haibao and 8% of its equity interest by Shandong Finance Energy. As at the Latest Practicable Date, the Target Company has been formulating business plans in preparation for commencement of operations.

Set out below are details of the major licenses or approvals required for the operation and construction of the wastage treatment facilities and the respective status of each application(s):

Major licenses or approvals required	Status
Approval for the report in relation to impact on the environment	Obtained in March 2022
Permit for urban planning in relation to construction on land	Obtained in February 2022
Opinion on the location of the integrated utilisation of rural bio-mass project	Obtained in October 2021
Project construction filing in Shandong Province	Completed in October 2021
Approval for safety evaluation report and inspection	In progress, application expected to be submitted within three months after the Chinese New Year holidays in 2023 and inspection expected to be approved in or around September 2023
Permit for occupational health evaluation and inspection	In progress, application expected to be submitted within three months after the Chinese New Year holidays in 2023 and inspection expected to be approved in or around September 2023

LETTER FROM THE BOARD

Major licenses or approvals required	Status
Fire safety filings and inspection	In progress, application expected to be submitted within three months after the Chinese New Year holidays in 2023 and inspection expected to be approved in or around September 2023
Permit for construction planning	In progress and application expected to be submitted within three months after the Chinese New Year holidays in 2023
Permit for operations of personnel	In progress and expected to be obtained in or around September 2023

Financial information of the Target Company

Set out below is a summary of the unaudited financial information of the Target Company for the financial year ended 31 December 2021 and for the eleven months ended 30 November 2022:

	For the year ended 31 December 2021 (RMB) (unaudited)	For the eleven months ended 30 November 2022 (RMB) (unaudited)
Revenue	–	–
Net profit/(loss) before tax	(138,489.07)	(1,542,812.23)
Net profit/(loss) after tax	(138,489.07)	(1,542,812.23)

According to the unaudited financial statements of Target Company, the net assets of the Target Company as at 30 November 2022 was approximately RMB7.52 million.

The Target Company has been formulating business plans in preparation for commencement of operations and therefore no revenue was recorded for the year ended 31 December 2021 and for the eleven months ended 30 November 2022.

LETTER FROM THE BOARD

The net losses recorded for the financial year ended 31 December 2021 and for the eleven months ended 30 November 2022 were mainly attributable to day-to-day expenses incurred by the Target Company in the preparation stage of its operations, including but not limited to labour costs, social security and insurance payments, travelling disbursements and other sundry expenses etc., in the sum of approximately RMB137,850 and RMB1,542,812 for the year ended 31 December 2021 and for the eleven months ended 30 November 2022, respectively. As the Target Company was established on 21 October 2021, the financial year ended 31 December 2021 only comprised around two months.

As Standard Development (Shandong) will hold 40% of the equity interest in the Target Company upon Completion, the Target Company will be accounted for as an associated company of the Company and hence, will not be consolidated in the Group's financial statements.

REASONS FOR AND BENEFITS OF THE INVESTMENT

In December 2019, ten Chinese national ministries and commissions, including the National Development and Reform Commission and the National Energy Administration, jointly promulgated the Guidelines on Promoting the Industrialised Development for Biogas, which proposed a programmatic document and a top-level design for achieving the sustainable development of the industrialisation and commercialisation for biogas. In 2021 and 2022, the central government successively issued the Opinions on Implementing Accelerating Rural Energy Transformation and Development to Promote Rural Revitalisation and the Opinions of the State Council on Carrying out the Key Work of Comprehensively Promoting Rural Revitalisation in 2022, emphasising that promoting rural revitalisation to safeguard national food security, and proposing the construction of a modern rural energy system with clean, low-carbon and multi-energy integration, in order to make green and low-carbon energy development an important foundation and driving force for rural revitalisation.

As described in the Company's interim report published on 12 December 2022, in the major livestock and poultry breeding areas of China, a large amount of organic wastages (including livestock and poultry manure and straw) has not been properly treated, causing a great impact on the local ecological environment. Biomass fermentation technology can effectively treat these wastages and generate green energy such as biogas, creating excellent economic and social benefits. Considering the tremendous market opportunities brought by the rural revitalisation, the Target Company is actively exploring the relevant technologies and market opportunities of integrated development and utilisation of rural biomass with a view to exploring the development potential business opportunities.

The Target Company intends to invest in the construction of an organic waste resource utilization demonstration project in Juancheng, Heze City, Shandong Province. By collecting local organic wastages (including livestock and poultry manure and straw), and transforming the waste into clean energy, it will achieve a sustainable, circular economy project that can effectively reduce carbon emissions.

LETTER FROM THE BOARD

The project falls under the category of resource conservation and efficient use of resources. The project is in compliance with the relevant requirements of the Guidance Catalogue for Industrial Structure Adjustment (2019), the “14th Five-Year” Plan for the Development of Circular Economy, Document No. 1 of the Central Government in 2022 and the Technical Guide for Prevention of Pollution and Resourceful Use of Manure from Livestock and Poultry Breeding below the Scale in Shandong Province (for trial), and falls within the economic and social fields supported by the government.

Business development plan of the Target Company

The Target Company intends to grasp attractive market opportunities brought by the rural revitalisation initiatives encouraged by the PRC government through the implementation of multiple national and regional policies. In pursuit of such business opportunities, the Target Company has been actively exploring the relevant technologies and market opportunities of integrated development and utilisation of rural bio-mass. The Target Company intends to invest in the construction of an organic waste resource utilization project in Juancheng, Heze City, Shandong Province. In the business model of the Target Company, organic wastes including local livestock and poultry manure and straw will be collected by the Target Company and further transformed into clean energy. The Target Company will develop organic wastage treatment facilities with a focus on livestock and poultry wastage on a piece of land to be acquired from the government through bidding. The target land parcel is located at Wanhua Industrial Park, Yinma Town, Juancheng, Heze City, Shandong Province (山東省荷澤市鄆城縣引馬鎮萬華產業園) (the “Land”).

Expected timeline of the development project

Before March 2023	Completion of the construction drawing design and all pre-construction preparatory work
April – August 2023	Construction of research and development centre, production facilities and the relevant infrastructure, subject to the successful bidding of the Land through public auction (which is currently expected to materialize in the first half of 2023)
	Installation of relevant equipment
September – November 2023	Completion of debugging and trial operation
December 2023	Completion of construction and commencement of production

LETTER FROM THE BOARD

Expected timeline in connection with the expected bidding process for the Land

Set out below is the expected timeline in connection with the expected bidding process for the Land:

In the first half of 2023	Preparation for sale of Land by government authority
	Preparation for bidding, including relevant bidding materials and documents, by the Target Company
	Land listed for bidding at a public auction, submission of bid (together with relevant materials) by the Target Company
	Completion of public auction, announcement of successful bidder, carrying out of procedures for transfer of Land and execution of relevant transfer documents

The Target Company is in close communication with the local government for the proposed development project (including the bidding of the Land). As the proposed development project is recognized as a Key Project of the Shandong Province in 2022, and is expected to benefit the local economy, promote environment protection and is consistent with regional and national policies, it is understood that the local government is supportive of the development project and is prepared to devise bidding conditions in facilitation of the development project.

It is the Company's understanding that the Target Company currently does not foresee any material impediments in acquiring the Land and developing the facilities on the Land. Should the bid made by the Target Company be unsuccessful, it is expected that the Target Company would re-negotiate with the local government with a view to implementing the development project by other means.

Funding needs

The total investment amount for the Target Company's operation is projected to be approximately RMB104.8 million (the "**Total Investment Amount**"), which is expected to be financed by (i) the capital contributions to be made by Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao into the Target Company in the sum of RMB40.0 million; and (ii) financing to be obtained by the Target Company from third parties other than the Group after Completion.

LETTER FROM THE BOARD

The Total Investment Amount is expected to be utilized in the following manner:

- approximately RMB15.0 million for acquisition of land parcel for the construction of organic wastage treatment facilities with a focus on livestock and poultry wastage;
- approximately RMB30.2 million as costs of construction;
- approximately RMB46.7 million for purchase of equipment; and
- approximately RMB12.9 million for installation, other expenses and working capital.

Operating and management plan

The Company intends to grasp the great opportunities in the organic wastage (including livestock and poultry manure and straw) treatment business in rural areas of Mainland China by satisfying the pressing demand for organic wastage (including livestock and poultry manure and straw) treatments facilities. It is expected that the Group may tap into the growing opportunities for environment and ecosystems protection as well as biogas in rural areas of Mainland China through the Investment.

The Group will participate in the day-to-day operation and management of the Target Company. It is the parties' intention that the shareholders will nominate such number of directors in the board of directors of the Target Company in proportion to their respective shareholding in the Target Company. The Group will be able to take an active role in supervising and monitoring the operations of the Target Company and participate in the decision-making process of the Target Company through its representative directors. It is expected that the Group will appoint two persons as directors of the Target Company, who are senior management personnel having more than 20 years of experience in environmental protection operations, including investment, development and management of biomass power projects across various provinces in the PRC. The directors or management personnel of the Target Company nominated or appointed by the Group will regularly report to the management of the Company as to the operations, financial performance and other key development of the Target Company.

The Investment Agreement provides sufficient protection to the Group in safeguarding its interests as a shareholder of the Target Company. Under the Investment Agreement, any transfer of equity interest in the Target Company is subject to a right of first refusal of other shareholders, which will be beneficial to maintaining a stable control and ownership of the Target Company. In addition, the Investment Agreement sets out certain reserved matters which require the unanimous consent of the shareholders of the Target Company. This would ensure that the Company will be able to participate and exercise its rights in key decisions of the Target Company's business and operations at a shareholder level.

LETTER FROM THE BOARD

The Company understands that the Target Company has sourced and recruited relevant management personnel, professional staff and skilled labour. The Target Company has a technical team led by engineers who have expertise in recycling, biomass fuel management and power plant safety and production management etc.. Depending on future needs, the Target Company will further expand its operation and management team along with the development and growth of its business.

It is expected that upon commencement of production, the Target Company will have processing capacity of approximately 350,000 tons of organic wastages (including livestock and poultry manure) per year, which will be transformed into approximately 8.4 million cubic meters of biogas per year. Based on such capacity and the prevailing market treatment fees and prices for biogas, the Target Company is expected to generate revenue of approximately RMB32 million per annum. Upon commencement of production after the end of 2023, the Group will be able to benefit from its investment in the Target Company by sharing the distributable profits of the Target Company which is currently estimated to be approximately RMB4.0 million to RMB5.2 million per annum (i.e. 40% of the total distributable profit of RMB10 million to RMB13 million per annum in proportion to the Group's shareholding in the Target Company).

The Group will continue to fulfil its social responsibilities as a responsible corporate citizen and actively monitor and manage its environmental risks. The Group is committed to take steps to actively respond to the national "double carbon" strategic objectives in the PRC by taking the initiatives to fulfil its carbon reduction responsibilities, improving its energy efficiency, and implementing double carbon works in an orderly manner. It is expected that upon commencement of production, the Target Company will contribute to a reduction of 12,300 tons of fossils fuel (coal) per year and attain reduction of emission of 42,000 tons of carbon dioxide.

The Investment Agreement was entered into after arm's length negotiations between the parties and reflects a consensus amongst the parties having regard to each party's commercial interest. There is no performance guarantee or other specific compensational mechanism in the Investment Agreement in favour of the Group in case of any delay/impediment to the development plan of the Target Company.

In assessing the merits and benefits of the Investment, the Company has taken into account, amongst others, the following principal factors:

- (i) upon Completion, Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao will hold 40%, 40% and 20% of the equity interest in the Target Company, respectively. As none of the shareholders will hold an absolute controlling stake in the Target Company, it is consistent with market practice and commercial reality that none of the shareholders of the Target Company will provide or be given performance guarantee and or other specific compensational covenants;

LETTER FROM THE BOARD

- (ii) the Target Company will be a jointly controlled entity in which the Group is one of the shareholders having the largest shareholding. The Group will be able to exert substantial control and influence over the affairs of the Target Company, including but not limited to its business strategy, development plan and management. The Group will through its representative directors (who are experienced personnel having expertise in the environmental protection fields) actively participate in the operations and decision-making process of the Target Company. The Group will also take an active role in managing the affairs of the Target Company through the exercise of its shareholder's veto rights, in key decisions such as financing arrangements, operating policy and investment plan, change of key personnel, distribution and major agreements. As the Group will take part in the day-to-day management and operations of the Target Company, the Group will be part of a collective decision making mechanism having management and information rights to timely identify, intervene and address relevant issues. The Company believes that such front-loaded approach would effectively protect the interest of the Company and its Shareholders against risks and prejudices associated with the development plan of the Target Company, as opposed to subsequent attempts to recover compensational remedies which are inherently more uncertain and costly; and
- (iii) the Company has conducted due diligence on the Target Company and its proposed operations, including, amongst others, (a) financial due diligence on the financial condition of the Target Company (including credit assessment) and operational due diligence on the progress of license application; and (b) obtaining and evaluating the development plan and investment proposal of the Target Company, including but not limited to expected timeline, breakdown of investment costs, earnings projection and the assumptions thereof.

The Company will also adopt the following internal control measures to safeguard the interest of the Company and its Shareholders:

- (i) the directors or management personnel of the Target Company nominated or appointed by the Group will regularly report to the management of the Company as to the operations, progress of development, financial performance and other key issues in relation to the development plan or the Target Company;
- (ii) the management of the Company will regularly review and assess the progress of development and performance of the Target Company, including but not limited to obtaining the financial results, progress report, operating data and other information;
- (iii) the progress of development and operational performance will be reported to the independent non-executive Directors at least on an annual basis; and
- (iv) the connected person(s) having a material interest in the Investment (including Mr. Liu Zhancheng and his associates) will abstain from voting on resolutions at Board meetings, and avoid conflict of interest, in relation to the Investment and subsequent affairs involving the Target Company.

LETTER FROM THE BOARD

Having considered the aforementioned, the Company considers that the Investment represents a good investment opportunity and the investment in the Target Company will enable the Group to participate in the integrated development and utilization of biomass and to venture into the biomass clean energy market with great opportunities through the Target Company, which is expected to create longer-term and more stable returns for the Shareholders while making positive contributions to the sustainable development of the society.

In light of the above, the Directors (including members of the Independent Board Committee whose views are set out in the Letter from Independent Board Committee after considering the advice from the Independent Financial Adviser) are of the view that while the Investment is not in the ordinary and usual course of business of the Group, the terms of the Investment Agreement are agreed after arms' length negotiations, on normal commercial terms, and the Investment is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mr. Liu Zhancheng is through Fujincheng interested in 1,118,460,000 Shares, representing approximately 74.86% of the issued share capital of the Company. Mr. Liu Zhancheng is therefore a controlling shareholder of the Company. Each of Shandong Fujincheng and Shandong Investment holds 50% of the equity interest in Shandong Finance Energy. Shandong Finance Group controls 75% of the equity interest in Shandong Investment and 25% of the equity interest in Shandong Investment is beneficially held by Shandong Fujincheng, which is wholly-owned by Mr. Liu Zhancheng. As such, Shandong Finance Energy is an associate of Mr. Liu Zhancheng and a connected person of the Company.

As one or more of the applicable percentage ratios in respect of the Investment exceed 5% but all are lower than 25%, the Investment constitutes a discloseable and connected transaction of the Company under the Listing Rules, and thus is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapters 14 and 14A the Listing Rules.

As Mr. Liu Zhancheng is interested in 50% of the equity interest in Shandong Finance Energy, he is deemed to have material interest in and has abstained from voting on the Board resolutions in relation to the Investment Agreement and the transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee (comprising all the independent non-executive Directors, namely Dr. Su Lixin, Mr. Liang Rongjin and Dr. Yan Bing) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Investment Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

INDEPENDENT FINANCIAL ADVISER

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder.

EGM

The EGM will be held for the Independent Shareholders to consider and, if thought fit, approve resolutions relating to the Investment Agreement and the transactions contemplated thereunder.

A notice convening the EGM to be held at 21/F, Grand Millennium Plaza, 181 Queen's Road Central, Sheung Wan, Hong Kong on Monday, 13 February 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use by Shareholders at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be).

Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the EGM or any adjournment thereof (as the case may be) should you so desire and in such event, the form of proxy shall be deemed to be revoked.

As at the Latest Practicable Date, Mr. Liu Zhancheng is interested in 50% of the equity interest in Shandong Finance Energy and is therefore deemed to have a material interest in the Investment Agreement and the transactions contemplated thereunder. As such, Mr. Liu Zhancheng and his associates (including Fujincheng which holds 1,118,460,000 Shares, representing approximately 74.86% of the issued share capital of the Company) are required to abstain from voting on the resolutions in relation to the Investment Agreement and the transactions contemplated thereunder at the EGM.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Investment and is therefore required to abstain from voting at the EGM on the relevant resolution(s).

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

The EGM is scheduled to be held on Monday, 13 February 2023. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from 8 February 2023 to 13 February 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on 7 February 2023.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions as set out in the notice convening the EGM will be voted by poll and, after being verified by the scrutineer, the results of the poll will be published in the manner prescribed under Rule 13.39(5) of the Listing Rules.

RECOMMENDATION

Your attention is drawn to the letter of recommendation from the Independent Board Committee set out on pages 21 to 22 of this circular and the letter from the Independent Financial Adviser set out on pages 23 to 44 of this circular, which contains, among other matters, its advice to the Independent Board Committee and the Independent Shareholders in connection with the Investment Agreement and the transactions contemplated thereunder.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the opinion that the terms of the Investment Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Investment is in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Investment Agreement and the transactions contemplated thereunder.

The Directors (including members of the Independent Board Committee whose views are set out in the Letter from Independent Board Committee after considering the advice from the Independent Financial Adviser) consider that while the Investment is not in the ordinary and usual course of business of the Group, the Investment Agreement and the transactions contemplated thereunder are on normal commercial terms, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including members of the Independent Board Committee whose views are set out in the Letter from Independent Board Committee after considering the advice from the Independent Financial Adviser) recommend all Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Investment Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

WARNING

Shareholders and potential investors of the Company should be aware that Completion is subject to the condition to be satisfied (i.e. the Independent Shareholders' approval at the EGM), and consequently the Investment Agreement and the transactions contemplated thereunder may or may not be proceed. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing or contemplating dealing in the securities of the Company.

By Order of the Board
Standard Development Group Limited
Liu Zhancheng
Chairman and Executive Director



Standard Development Group Limited

標準發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1867)

20 January 2023

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION INVESTMENT AGREEMENT

We refer to the circular despatched by the Company to the Shareholders on 20 January 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meaning as those defined in the Circular unless specified otherwise.

We have been authorised by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder, details of which are set out in the Letter from the Board contained in the Circular.

We wish to draw your attention to the letter from the Board set out on pages 21 to 22 of the Circular and the letter from the Independent Financial Adviser set out on pages 23 to 44 of the Circular, which contains, among other matters, its advice and recommendation to the Independent Board Committee and the Independent Shareholders in connection with the Investment Agreement and the transactions contemplated thereunder and the principal factors considered by it in arriving at its advice and recommendation.

Having considered, the terms of the Investment Agreement and the transactions contemplated and the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice and recommendation, we are of the opinion that while the Investment is not in the ordinary and usual course of business of the Group; the Investment is on normal commercial terms and the terms of the Investment Agreement are fair and reasonable and the Investment in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Investment Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the
Independent Board Committee of
Standard Development Group Limited

Dr. Su Lixin
*Independent non-executive
Director*

Mr. Liang Rongjin
*Independent non-executive
Director*

Dr. Yan Bing
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser, which has been prepared for the purpose of inclusion in this circular.



PELICAN FINANCIAL LIMITED

28/F, Lee Garden Two, 28 Yun Ping Road, Causeway Bay, Hong Kong

20 January 2023

*To the Independent Board Committee and the Independent Shareholders of
Standard Development Group Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION INVESTMENT AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 20 January 2023 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 20 December 2022 in relation to the Investment Agreement and the transactions contemplated thereunder (the “**Announcement**”).

On 20 December 2022 (after trading hours), Standard Development (Shandong), an indirect wholly-owned subsidiary of the Company, entered into the Investment Agreement with the Target Company, Shandong Finance Energy and Dongying Haibao. Pursuant to the Investment Agreement, Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao agreed to contribute a total amount of RMB20 million, RMB19.2 million and RMB800,000 into the Target Company in cash as registered capital, respectively.

As at the Latest Practicable Date, Mr. Liu Zhancheng was the controlling shareholder of the Company holding approximately 74.86% of the Company’s issued share capital through Fujincheng. Accordingly, Mr. Liu Zhancheng is a controlling shareholder and connected person of the Company under the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Shandong Fujincheng and Shandong Investment each held 50% of the equity interest in Shandong Finance Energy, which held 8% of the equity interest in the Target Company. Meanwhile, 75% of the equity interest in Shandong Investment was ultimately controlled by the Shandong Finance Group (a company ultimately controlled by the Shandong Provincial Department of Finance), while the remaining 25% of its equity interest was beneficially held by Shandong Fujincheng, a company wholly-owned by Mr. Liu Zhancheng. Accordingly, Shandong Finance Energy is an associate of Mr. Liu Zhancheng and a connected person of the Company.

As one or more of the applicable percentage ratios in respect of the Investment exceed 5% but all are lower than 25%, the Investment constitutes a discloseable and connected transaction of the Company under the Listing Rules, and thus is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapters 14 and 14A the Listing Rules.

Mr. Liu Zhancheng and his associates shall abstain from voting at the EGM to be convened by the Company to, among others, consider and approve the resolution(s) in relation to the Investment Agreement and the transactions contemplated thereunder. Save as disclosed above, to the best knowledge, information and belief of the Directors' knowledge, no other Shareholders or any of their respective associates have a material interest in the Investment, and accordingly are required to abstain from voting at the EGM.

The Board currently comprises three executive Directors and three independent non-executive Directors. The Independent Board Committee, which currently comprises all the independent non-executive Directors, namely Dr. Su Lixin, Mr. Liang Rongjin and Dr. Yan Bing, has been established to advise the Independent Shareholders regarding the Investment Agreement and the transactions contemplated thereunder. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

INDEPENDENCE DECLARATION

Pelican Financial Limited ("**Pelican Financial**") is not connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, we were not aware of any relationships or interest between Pelican Financial and the Company nor any other parties, or any circumstance as set out in Rule 13.84, that could be reasonably be regarded as a hindrance to Pelican Financial's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the last two years, other than our engagement by the Company to act as its independent financial advisor in respect of its (i) issue of new shares under a specific mandate; and (ii) connected transaction in relation to the subscription of new shares as disclosed in its circular dated 3 October 2022, there was no other engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as the Independent Financial Adviser, no arrangement exists whereby Pelican will receive any fees or benefits from the Company or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Investment Agreement and the transactions contemplated thereunder.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Investment Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group; (ii) whether the terms of the Investment Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) regarding the Investment Agreement and the transactions contemplated thereunder at the EGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Investment Agreement, the Announcement, the interim report of the Group for the six months ended 30 September 2022 (the “**2022 Interim Report**”), the annual report of the Group for the financial year ended 31 March 2022 (the “**2022 Annual Report**”), and the draft Circular. We have 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 management and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the prospects of the Group.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Investment Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons.

1. Information on the Group

The Company is an investment holding company incorporated in the Cayman Islands with limited liability. The Group is principally engaged in construction and engineering related businesses in Mainland China and Hong Kong, including interior fitting-out and renovation services, alteration and addition works for properties, and trading businesses.

Set out below is a summary of the financial information of the Group for the two years ended 31 March 2022 and the six months ended 30 September 2021 and 30 September 2022 as extracted from the 2022 Annual Report and the 2022 Interim Report, respectively.

Table 1: Financial performance of the Group

	For the six months ended 30 September		For the financial year ended 31 March	
	2022	2021	2022	2021
	(unaudited) HK\$'000	(unaudited) HK\$'000	(audited) HK\$'000	(audited) HK\$'000
Revenue by segment				
<i>Construction and engineering-related business</i>				
– Construction and engineering-related services	67,547	70,585	155,355	215,916
– Interior design services	393	3,233	4,793	5,978
<i>Trading business</i>				
– Consumables	1,032	–	13,582	–
– Petroleum	250,376	–	132,828	–
Total Revenue	319,348	73,818	306,558	221,894

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the six months ended 30 September		For the financial year ended 31 March	
	2022	2021	2022	2021
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Gross profit by segment</i>				
<i>Construction and engineering-related business</i>	(4,316)	1,787	(596)	13,902
<i>Trading business</i>	6,647	–	10,777	–
	<u>6,647</u>	<u>–</u>	<u>10,777</u>	<u>–</u>
Total gross profit	<u>2,331</u>	<u>1,787</u>	<u>10,181</u>	<u>13,902</u>
<i>Gross profit margin by segment</i>				
<i>Construction and engineering-related business</i>	(6.4%)	2.4%	(0.4)%	6.3%
<i>Trading business</i>	2.6%	–	7.4%	–
Total gross profit margin	0.7%	2.4%	3.3%	6.3%
<i>(Loss)/profit for the year by segment/ category</i>				
<i>Construction and engineering-related business</i>	(4,008)	(9,759)	(11,626)	1,006
<i>Trading business</i>	6,734	–	10,614	–
<i>Others (Note)</i>	(11,648)	–	(19,998)	–
	<u>(11,648)</u>	<u>–</u>	<u>(19,998)</u>	<u>–</u>
(Loss)/profit for the period/year	<u>(8,922)</u>	<u>(9,759)</u>	<u>(21,010)</u>	<u>1,006</u>

Note: Others include, among others, central administration costs, certain other income, gains and losses, and directors' emoluments.

For the six months ended 30 September 2022

According to the 2022 Interim Report, the Group recorded revenue of approximately HK\$319.3 million for the six months ended 30 September 2022, representing a growth of approximately HK\$245.5 million, or approximately 332.6%, from approximately HK\$73.8 million for the six months ended 30 September 2021. Such revenue growth was mainly driven by an increase in revenue from the Group's trading business for the six months ended 30 September 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Despite the significant increase in the Group's revenue between the six months ended 30 September 2021 and 30 September 2022, its gross profit increased by a lesser extent of approximately 30.4% between the two periods. The disproportionate increase in gross profit was mostly due to an increase in the Group's direct costs of approximately HK\$245.0 million, or approximately 340.1%, from approximately HK\$72.0 million for the six months ended 30 September 2021, to approximately HK\$317.0 million for the six months ended 30 September 2022, which was mainly due to an increase in the general and administrative costs of its operations in Hong Kong and Shandong.

In addition to the increase in its direct costs, during the six months ended 30 September 2022, as a result of the Group's adoption of a more competitive pricing strategy against the fierce market competition in Hong Kong, its gross profit margin decreased from approximately 2.4% for the six months ended 30 September 2021, to approximately 0.7% for the six months ended 30 September 2022.

Nonetheless, given the growth in its gross profit, the Group recorded a decrease in loss of approximately 8.6% between the six months ended 30 September 2021 and 30 September 2022, from a loss of approximately HK\$9.8 million for the six months ended 30 September 2021, to a loss of approximately HK\$8.9 million for the six months ended 30 September 2022.

For the year ended 31 March 2022

According to the 2022 Annual Report, the Group recorded revenue of approximately HK\$306.6 million for the year ended 31 March 2022, representing a growth of approximately HK\$84.7 million, or 38.2%, from approximately HK\$221.9 million for the year ended 31 March 2021. Such revenue growth was mainly driven by an increase in revenue from the Group's trading business in Mainland China, which involved the trading of petroleum products. On the other hand, the Group recorded a decrease in revenue from its construction and engineering-related business by approximately HK\$61.7 million, or 27.8%, between the two years ended 31 March 2022, which as we understand from the Company, came entirely from its operation in Hong Kong and was mainly caused by a decrease in the number of projects undertaken and the lower value of construction contracts awarded to the Group, as well as the delay in construction progress and the curtailment of new construction contracts due to the impact of COVID-19 pandemic.

Meanwhile, according to the 2022 Annual Report and the Company, the Group started its construction and engineering-related businesses in Mainland China in the second-half of 2021, and such business had contributed approximately HK\$7.8 million in revenue to the Group for the year ended 31 March 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Despite the increase in the Group's revenue, its gross profit had decreased by approximately HK\$3.7 million to approximately HK\$10.2 million for the year ended 31 March 2022. In particular, the Group's construction and engineering-related business recorded a gross loss of approximately HK\$0.6 million for the financial year ended 31 March 2022 compared with a gross profit of approximately HK\$13.9 million for the previous financial year. As a result of that, the relevant gross profit margin decreased from approximately 6.3% to approximately -0.4%. The change of a gross profit to a gross loss in the Group's construction and engineering-related business was mainly due to, as discussed above, the decrease in the number of projects undertaken by the Group and the Group's adoption of a more competitive pricing strategy against the fierce market competition in Hong Kong.

The Group recorded a loss of approximately HK\$21.0 million for the year ended 31 March 2022, as compared with a profit of approximately HK\$1.0 million for the previous financial year. The change from a profit to a loss position was mainly a result of (i) the drop in the Group's gross profit as discussed above; (ii) the impairment losses under the expected credit loss model of approximately HK\$8.8 million for the year ended 31 March 2022 as compared with a reversal of impairment losses of HK\$2.0 million for the previous financial year; and (iii) an increase in administrative and other operating expenses of the Group of approximately HK\$7.6 million, or 50.8%, from approximately HK\$15.0 million for the year ended 31 March 2021, to approximately HK\$22.5 million for the year ended 31 March 2022, as a result of an increase in the Group's staff costs and legal and professional fees during the year. Among the net loss for the year ended 31 March 2022, the net (loss)/profit of the Group's construction and engineering-related business and trading business accounted for approximately HK\$(11.6) million and approximately HK\$10.6 million respectively.

Meanwhile, the consolidated assets and liabilities of the Group as at 31 March 2022 and 30 September 2022, as extracted from the 2022 Annual Report and 2022 Interim Report respectively, are summarised as follows.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 2: Financial position of the Group

	As at 30 September 2022 <i>(unaudited)</i> HK\$'000	As at 31 March 2022 <i>(audited)</i> HK\$'000
Total assets		
– non-current assets	11,125	12,148
– current assets	153,810	241,606
Total liabilities		
– non-current liabilities	1,167	1,689
– current liabilities	31,750	106,741
Net current assets	122,060	134,865
Net assets	132,018	145,324

The Group recorded total assets of approximately HK\$164.9 million as at 30 September 2022, representing a decrease of approximately HK\$88.8 million, or 35.0%, from approximately HK\$253.8 million as at 31 March 2022. The decrease in the Group's total assets as at 30 September 2022 was mainly due to a decrease in (i) its bank balances and cash of approximately HK\$88.0 million, or 63.1%; and (ii) its contract assets of approximately HK\$9.0 million, or 20.8%, between 31 March 2022 and 30 September 2022.

On the other hand, the Group recorded total liabilities of approximately HK\$32.9 million as at 30 September 2022, representing a decrease of approximately HK\$75.5 million, or 69.6%, from approximately HK\$108.4 million as at 31 March 2022. The decrease was mainly driven by a decrease in the Group's trade and other payables of approximately HK\$73.3 million, or 81.7%, between 31 March 2022 and 30 September 2022.

Given that the Group's total assets decreased to a greater extent than its total liabilities, its net asset value decreased by approximately HK\$13.3 million, or 9.2%, between 31 March 2022 and 30 September 2022, from approximately HK\$145.3 million as at 31 March 2022, to approximately HK\$132.0 million as at 30 September 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Information on Standard Development (Shandong)

Standard Development (Shandong) is a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company and is principally engaged in construction and engineering related businesses, as well as trading of petroleum products.

3. Information on Shandong Finance Energy

Shandong Finance Energy is a company established under the laws of the PRC with limited liability and is principally engaged in petrochemical supply chain business and investment holdings.

As at the Latest Practicable Date, Shandong Fujincheng and Shandong Investment each held 50% of the equity interest in Shandong Finance Energy, which held 8% of the equity interest in the Target Company. Meanwhile, 75% of the equity interest in Shandong Investment was ultimately controlled by the Shandong Finance Group (a company ultimately controlled by the Shandong Provincial Department of Finance), while the remaining 25% of its equity interest was beneficially held by Shandong Fujincheng, a company wholly-owned by Mr. Liu Zhancheng, who is a director and general manager of Shandong Finance Energy.

4. Information on Dongying Haibao

Dongying Haibao is a company established under the laws of the PRC with limited liability and is principally engaged in the production of bromine, production and sale of sodium chloride, aquaculture and trading of petroleum products.

As at the Latest Practicable Date, the ultimate beneficial owner of Dongying Haibao was Ms. Zhang Xiaochuan. Dongying Haibao is a customer of the Group in Mainland China.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Information on the Target Company

The Target Company is a company established under the laws of the PRC on 21 October 2021 with limited liability. As at the Latest Practicable Date, the Target Company has been formulating business plans in preparation for commencement of operations.

Expected operational timeline

As discussed with the Company, the Target Company's operation is expected to follow the timeline below:

- | | |
|---------------------------|--|
| Before March 2023 | <ul style="list-style-type: none">• Completion of the construction drawing design and all pre-construction preparatory work |
| April – August 2023 | <ul style="list-style-type: none">• Construction of research and development centre, production facilities and the relevant infrastructure, subject to the successful bidding of the target land parcel located in Wanhua Industrial Park, Yinma Town, Juancheng, Heze City, Shandong Province (山東省荷澤市鄆城縣引馬鎮萬華產業園) (the “Land”) through public auction (which is currently expected to materialize in the first half of 2023)• Installation of relevant equipment |
| September – November 2023 | <ul style="list-style-type: none">• Completion of debugging and trial production |
| December 2023 | <ul style="list-style-type: none">• Completion of construction• Commencement of production |

Further, set out below is the expected timeline in connection with the expected bidding process for the Land:

- | | |
|-------------------|--|
| Before March 2023 | <ul style="list-style-type: none">• Preparation for sale of Land by government authority• Preparation for bidding, including relevant bidding materials and documents, by the Target Company• Land listed for bidding at a public auction, submission of bid (together with relevant materials) by the Target Company• Completion of public auction, announcement of successful bidder, carry out of procedures for transfer of Land and execution of relevant transfer documents |
|-------------------|--|

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Board Letter, the Target Company is in close communication with the local government for the proposed development project (including the bidding of the Land) and to the Company's understanding, the Target Company currently does not foresee any material impediments in acquiring the Land and developing the facilities on the Land. Should the bid made by the Target Company be unsuccessful, it is expected that the Target Company would re-negotiate with the local government with a view to implementing the development project by other means.

Financial information

Set out below is a summary of the unaudited financial information of the Target Company for the financial year ended 31 December 2021 and the eleven months ended 30 November 2022. As the Target Company was established on 21 October 2021, the financial year ended 31 December 2021 only comprises around two months.

Table 3: Financial information of the Target Company

	For the year ended 31 December 2021 (RMB) (unaudited)	For the eleven months ended 30 November 2022 (RMB) (unaudited)
Revenue	–	–
Net profit/(loss) before tax	(138,489.07)	(1,542,812.23)
Net profit/(loss) after tax	(138,489.07)	(1,542,812.23)

According to the unaudited financial statements of the Target Company, the net assets of the Target Company as at 30 November 2022 was approximately RMB7.52 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Target Company had been formulating business plans in preparation for the commencement of its operation for the year ended 31 December 2021 and the eleven months ended 30 November 2022 and therefore no revenue was recorded during such period.

The net losses recorded for the financial year ended 31 December 2021 and the eleven months ended 30 November 2022 were mainly attributable to day-to-day expenses incurred by the Target Company in preparation for its operation, including but not limited to, labour costs, social security and insurance payments, travelling disbursements and other sundry expenses etc., in the sum of approximately RMB137,850 and RMB1,542,812 for the year ended 31 December 2021 and the eleven months ended 30 November 2022, respectively.

Upon Completion, Standard Development (Shandong) will hold 40% of the equity interest in the Target Company and the Target Company will be accounted for as an associated company of the Company. Accordingly, the Target Company's financial results and financial position will not be consolidated in the Company's financial statements.

6. Review of the development of the organic waste resource conservation market in China

China has been placing a greater emphasis on biomass fuel recently in a bid to achieve carbon neutrality by 2060 as well as to improve its ecological environment. In order to promote the biomass clean energy industry, the PRC government has issued various favourable national-level regulations and policies over the years, such as (i) the Guidance Catalogue for Industrial Structure Adjustment (2019); (ii) the "14th Five-Year" Plan for the Development of Circular Economy; (iii) Document No. 1 of the Central Government in 2022; and (iv) the Technical Guide for Prevention of Pollution and Resourceful Use of Manure from Livestock and Poultry Breeding below the Scale in Shandong Province (for trial), which aligns with the Target Company's objectives to venture into the biomass clean energy market. According to a research report conducted by Qianzhan Industrial Research Institute, a Chinese-based research company, the market size of the organic waste resource conservation market reached approximately RMB150 billion in 2020 and is expected to reach RMB220.4 billion in 2026¹, representing a significant growth of approximately 46.9% in the industry.

7. Reasons for and benefits of the Investment

As discussed in the above section headed "Information on the Group" of this letter, despite the introduction of the trading business into the Group in the later part of the financial year ended 31 March 2022, the Group had yet been able to recover from this loss position for the six months ended 30 September 2022.

¹ Please refer to the website regarding the research report conducted by Qianzhan Industrial Research Institute, a CHINESE based research company, at <https://baijiahao.baidu.com/s?id=1698893282281095813&wfr=spider&for=pc>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Because of that, the Company has been searching for business opportunities to improve the financial performance of the Group in order to safeguard the interests of the Shareholders. As described in the 2022 Interim Report, in view of the tremendous market opportunities brought by the PRC government's initiative of rural revitalisation, the Company has been actively exploring relevant business opportunities in the development and utilisation of rural biomass. In this regard, the Company has identified the opportunity to invest in the Target Company, which is intended to invest in the construction of an organic waste resource utilization demonstration project in Juancheng County, Heze City, Shandong Province.

The Company understands that the Target Company has sourced and recruited relevant management personnel, professional staff and skilled labour. The Target Company has a technical team led by engineers who have expertise in recycling, biomass fuel management and power plant safety and production management etc..

In light of this and in view that the Target Company's objectives to venture into the biomass clean energy market aligns with the PRC government's favourable national-level regulations and policies as discussed above, the Company considers that the Investment would allow the Group to leverage these positive policies and supportive environment for sustainable growth and expansion.

As understood by the Directors, upon its incorporation on 21 October 2021, the Target Company has been preparing for its operation by obtaining the necessary licenses from the PRC government. In order to understand and assess the Target Company's development plan, we have discussed with the Company and reviewed (i) the enterprise credit information publicity report on the Target Company as extracted from the National Enterprise Credit Information Publicity System on 8 December 2022; (ii) the investment proposal for the Target Company; and (iii) the estimated breakdowns of the total investment cost of approximately RMB104.8 million (the "**Total Investment Amount**"). From our review, we confirmed that the Target Company has been registered in the biomass clean energy market since its incorporation since October 2021 and it is expected that the Target Company will complete all pre-construction preparatory work by March 2023, carry out the construction of the production facilities from April 2023, obtain all necessary licenses and approvals by September 2023 and commence operation in December 2023. Upon operation, the Target Company will collect local livestock and poultry manure as well as straw, and transform these wastes into clean energy and fertilizer that can be used for farming through fermentation and other treatment processes. It is expected that every year, the Target Company will process 350,000 tons of organic wastages (including livestock and poultry manure), producing 8.4 million cubic meters of renewable natural gas.

As discussed with the Company, it is observed that there is substantial demand for livestock and poultry wastage treatments in rural areas of Mainland China, as wastage treatment facilities and support in these areas remain to be at a beginning stage of development. It is expected that with the production capacity of the Target Company, the Group will be well-equipped to tap into the growing demand for animal waste services as well as bio-natural gas in rural areas of Mainland China.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, by investing in the Target Company as a minority shareholder and partnering with Shandong Finance Energy and Dongying Haibao, the Group would also be able to diversify its investment risk and tap into a promising industry that is expected to grow sustainably. More importantly, given that Shandong Finance Group is ultimately controlled by the Shandong Provincial Department of Finance, it is expected that the Target Company will be able to leverage its state-owned background to establish a strong presence in Shandong Province's rural communities, which will consequently benefit its business.

Finally, the Company considers that, by making the Investment and participating in the agricultural wastage treatment and bio-natural gas industry, it would be able to strengthen its corporate image as a contributor to clean energy, as well as a valuable member to an agricultural circular economy. An improved corporate image is expected to increase the confidence of financial institutions and investors in the Group, leading the Group to more diverse access to financing resources.

Based on the above, together with the industry review of the biomass clean energy market in China, we concur with the Company that the Investment represents a good investment opportunity. We are also of the view that, while the Investment Agreement and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms of the Investment Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

8. Principal terms of the Investment Agreement

The Investment Agreement was entered into after arm's length negotiations between the parties and reflects a consensus amongst the parties having regard to each party's commercial interest.

Principal terms of the Investment Agreement are set out below:

Date: 20 December 2022 (after trading hours)

Parties: (i) Standard Development (Shandong);
(ii) the Target Company;
(iii) Shandong Finance Energy; and
(iv) Dongying Haibao.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, as at the Latest Practicable Date, Dongying Haibao and its ultimate beneficial owner(s) were third parties independent of and not connected with the Company and its connected persons.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subject matter: Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao agreed to contribute RMB20.0 million, RMB19.2 million and RMB800,000 into the Target Company in cash as registered capital of the Target Company, respectively.

Conditions precedent: Completion shall be subject to the passing of resolution(s) approving the Investment Agreement and the transactions contemplated thereunder by the Independent Shareholders at the EGM in accordance with the Listing Rules.

If the above condition is not satisfied, the Investment Agreement will automatically lapse, except for any antecedent breaches.

Upon Completion, Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao will hold 40%, 40% and 20% of the equity interest in the Target Company, respectively. As none of the shareholders will hold an absolute controlling stake in the Target Company, none of them will provide or be given performance guarantee and/or other specific compensational covenants, which we consider as consistent with market practices. In other words, in case of any delay/impediment to the development plan of the Target Company, there would be no performance guarantee or other specific compensational mechanism in the Investment Agreement in favour of the Group.

For details on other principal terms of the Investment Agreement, please refer to the section headed “Investment Agreement” in the Board Letter.

9. Basis of determining the capital contribution amount

The capital contribution proposed to be made by the Group into the Target Company was determined after arm’s length negotiations between the parties to the Investment Agreement, having taken into account of, among other things:

- (i) the respective shareholding proportion of all the shareholders in the Target Company;
- (ii) the funding needs of the Target Company for its future business;
- (iii) the development and growth potential of the Target Company; and
- (iv) the reasons for entering into the Investment Agreement as discussed in the section headed “Reasons for and Benefits of the Investment” in the Board Letter and this letter.

The capital contribution proposed to be made by the Group into the Target Company will be satisfied by internal resources of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the current development plan of the Target Company, the Group is not expected to make further investment or capital contribution into nor provide guarantee for financing in favour of the Target Company. Depending on the future development plan and funding needs of the Target Company, in view of bank practices, the shareholders of the Target Company may provide pro rata guarantees in proportion to their respective shareholding for bank financings of the Target Company. The Company will comply with the relevant requirements under Chapters 14 and 14A of the Listing Rules should any further financial assistance be provided in favour of the Target Company.

10. Changes to shareholding structure of the Target Company

The table below sets out the registered capital of the Target Company and the shareholdings held by its shareholders (i) as at the Latest Practicable Date; and (ii) immediately upon Completion:

Name of shareholder	As at the Latest Practicable Date		Immediately upon Completion	
	Contribution to registered capital of the Target Company <i>RMB (million)</i>	Shareholding (%)	Contribution to registered capital of the Target Company <i>RMB (million)</i>	Shareholding (%)
Shandong Finance Energy	0.8	8	20	40
Dongying Haibao	9.2	92	10	20
Standard Development (Shandong)	—	—	20	40
Total	10	100	50	100

11. Our assessment of the Investment

Capital contribution

Pursuant to the Investment Agreement, Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao shall contribute RMB20.0 million, RMB19.2 million and RMB800,000 into the Target Company in cash as registered capital of the Target Company, respectively. The amount of capital contribution to be made by each party was determined based on, among others, their respective shareholding proportion in the Target Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the basis that each of Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao will make registered capital contribution in cash to the Target Company in an amount pro rata to their equity interest in the Target Company, we are of the view that the terms on the registered capital contribution are fair and reasonable and on normal commercial terms.

Total Investment Amount

The Total Investment Amount is projected to be approximately RMB104.8 million, which is expected to be financed by (i) the capital contribution to be made by Standard Development (Shandong), Shandong Finance Energy and Dongying Haibao into the Target Company in the sum of RMB40.0 million; and (ii) financing to be obtained by the Target Company after Completion.

To assess the reasonableness of the Total Investment Amount, we have reviewed the breakdown thereof and noted that it is expected to be utilized in the following manner:

- Approximately RMB15.0 million for acquisition of land parcel for the construction of organic wastage treatment facilities with a focus on livestock and poultry wastage;
- approximately RMB30.2 million as costs of construction;
- approximately RMB46.7 million for purchase of equipment; and
- approximately RMB12.9 million for installation, other expenses and working capital.

We have reviewed the investment proposal for the Target Company which details the list of land, facilities and equipment to be purchased. In this regard, we understood that the above breakdown of the Total Investment Amount was arrived at based on (i) the land acquisition cost of RMB100,000 per mou (Chinese unit of land measurement) for a piece of land of about 150 mou in Juancheng County, Heze City, Shandong Province, as estimated based on the Target Company's discussion with the PRC government on an arm's length basis; and (ii) the estimated construction and equipment fee based on the list of facilities and equipment needed.

We also independently researched on the investment cost for similar projects carried out in recent years in China and noted that the cost for such projects ranged between RMB260–600 per tons per a project's annual processing capacity. While a project's investment cost is often affected by the complexity of the construction required for its operation, the aforementioned range of reference cost of RMB260–600 nonetheless serves as a reference for our assessment of the Total Investment Amount. As discussed above, it is expected that every year, the Target Company will process 350,000 tons of organic wastages (including livestock and poultry manure). Multiplying such annual processing capacity of

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350,000 tons with the aforementioned range of RMB260–600, the total investment amount for the Target Company’s operation is calculated to be between RMB91 million and RMB210.0 million. Accordingly, the Total Investment Amount falls within such range of reference cost and further suggests that the Total Investment Amount is fairly estimated.

Pursuant to the Investment Agreement, other than the Investment, the Group is not required to contribute any additional funds for Target Company’s operations. Given that such arrangement would limit the Group’s risk exposure, we consider it as fair and reasonable and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

Expected return timeline

As discussed above, it is expected that the Target Company will complete all pre-construction preparatory work by March 2023, carry out construction of the production facilities from April 2023, obtain all necessary licenses and approvals by September 2023 and commence operation in December 2023.

Upon commencement of production, the Target Company will have a processing capacity of approximately 350,000 tons of organic wastages (including livestock and poultry manure) per year, which will be transformed into approximately 8.4 million cubic meters of renewable natural gas per year. Based on such production capacity and the prevailing market treatment fees and prices for renewable natural gas, the Target Company is expected to generate revenue of approximately RMB32 million per annum starting from 2024, and the Group will be able to benefit from its investment in the Target Company by sharing its total distributable profit which is currently estimated to be approximately RMB10 million to 13 million per annum (with the Group receiving RMB4.0 million to 5.2 million per annum therefrom with its 40% shareholding). In other words, the Company will be able to share such profit with the Shareholders in about a year’s time after making the Investment. Having also considered the reasons for and benefits of the Investment as discussed in the above section, which include the opportunity for the Group to diversify its investment risk and tap into a promising industry that is expected to grow sustainably, we consider that such expected return of the Investment is the interests of the Company and the Shareholders as a whole.

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We also conducted independent research on the prevailing prices for natural gas in China and noted that it was about RMB4.0 per cubic meter in November 2022². Accordingly, the expected selling price of the Target Company's renewable natural gas of RMB3.8 per cubic meter (calculated by dividing the Target Company's estimated annual revenue of approximately RMB32 million with its annual production capacity of 8.4 million cubic meters of renewable natural gas), is a more conservative estimate than the prevailing market price for natural gas in China. Hence, we consider the expected return of the Investment is fair and reasonable.

Operating and management plan

Under the Investment Agreement, the Target Company will be a jointly controlled entity with the Group being one of the shareholders having the largest shareholding. The Group will be able to exert substantial control and influence over the affairs of the Target Company, including but not limited to its business strategy, development plan and day-to-day operation and management.

It is also the parties' intention that the shareholders will nominate such number of directors in the board of directors of the Target Company in proportion to their respective shareholding in the Target Company. It is expected that the Group will appoint two persons as directors of the Target Company, who will be senior management personnel with more than 20 years of experience in environmental protection operations and having executed investment, development and management of biomass power projects across various provinces in the PRC. The directors or management personnel of the Target Company nominated or appointed by the Group will regularly report to the management of the Company as to the operations, financial performance and other key development of the Target Company, so to enable the Group to actively participate in the operations and decision-making process of the Target Company.

The Investment Agreement also provides sufficient protection to the Group in safeguarding its interests as a shareholder of the Target Company. Under the Investment Agreement, any transfer of equity interest in the Target Company is subject to a right of first refusal of other shareholders, which will be beneficial to maintaining a stable control and ownership of the Target Company. In addition, the Investment Agreement sets out certain reserved matters which require the unanimous consent of the shareholders of the Target Company. This would allow the Group to take an active role in managing the affairs of the Target Company through the exercise of its shareholder's veto rights, in key decisions such as financing arrangements, operating policy and investment plan, change of key personnel, distribution and major agreements.

² Please refer to the website regarding the prices on natural gas in China provided by the Shanghai Oil and Gas Trading Center (上海石油天然氣交易中心), a national-level energy trading platform approved by the Shanghai Municipal People's Government under the direct guidance of the National Development and Reform Commission and the National Energy Administration, at <https://www.shpgx.com/html/gdtrqsj.html>

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Given that despite its minority shareholding of 40%, the Group will still be able to take an active role in supervising and monitoring the operations of the Target Company and participate in the key decision-making process thereof, we consider that the partnership under the Investment Agreement is in the interests of the Company and the Shareholders as a whole.

Internal control

As stated in the Board Letter, the Company will adopt the following internal control measures:

- (i) the directors or management personnel of the Target Company nominated or appointed by the Group will regularly report to the management of the Company as to the operations, progress of development, financial performance and other key issues in relation to the development plan or the Target Company;
- (ii) the management of the Company will regularly review and assess the progress of development and performance of the Target Company, including but not limited to obtaining the financial results, progress report, operating data and other information;
- (iii) the progress of development and operational performance will be reported to the independent non-executive Directors at least on an annual basis; and
- (iv) the connected person(s) having a material interest in the Investment (including Mr. Liu Zhancheng and his associates) will abstain from voting on resolutions at Board meetings, and avoid conflict of interest, in relation to the Investment and subsequent affairs involving the Target Company.

We consider above internal control measures as in the interests of the Company and the Shareholders as a whole as they would enable the Group to proactively manage the Target Company to ensure that it remains on course with its development plan.

Distribution

With reference to the Target Company's articles of association, the profits of the Target Company shall be distributed among its shareholders, namely Shandong Finance Energy, Dongying Haibao, and Standard Development (Shandong), in proportion to their equity interest in the Target Company.

We are of the view that such arrangement is fair and reasonable and on normal commercial terms as losses and risks of the Target Company shall be shared among the parties in proportion to their equity interest in the Target Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our view

Having considered the above analysis and that the Investment is in line with the Company's business goal to improve its financial performance and achieve sustainable growth, we are of the view that while the Investment Agreement and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms of the Investment Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

12. Financial impact on the Company

(a) Net assets and earnings

Upon Completion, 40% of the equity interest in the Target Company will be held by the Company and the Target Company will be accounted for as an associated company of the Company. Accordingly, the Target Company's financial results and financial position will not be consolidated in the Company's financial statements. Therefore, the Investment is not expected to have a material financial impact on the net assets and earnings of the Group upon Completion.

On the other hand, the financial impact of the Investment on the future earnings of the Group will depend on the return to be generated by the Target Company. As advised by the management of the Company, the Investment is not expected to have an immediate material financial effect on the net assets and earnings of the Group.

(b) Working capital

As stated in the 2022 Interim Report, the Group had bank balances and cash of approximately HK\$51.6 million as at 30 September 2022.

Pursuant to the Investment Agreement, Standard Development (Shandong) will make the Investment, or the registered capital cash contribution of RMB20 million (equivalently to approximately HK\$22.3 million), into the Target Company. Such cash contribution represents approximately 43.2% of the Group's bank balances and cash as at 30 September 2022. Accordingly, upon Completion, the Group's bank balances and cash are expected to be reduced by the amount of the Investment, or RMB20 million (equivalently to approximately HK\$22.3 million).

It should be noted that the above analysis is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that, while the Investment Agreement and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms of the Investment Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolution(s) approving the Investment Agreement and the transactions contemplated thereunder at the EGM. We also recommend the Independent Shareholders to vote in favor of the resolution(s) relating to the Investment Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Pelican Financial Limited
Charles Li*
Managing Director

* *Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and chief executives of the Company in the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; and (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares and underlying Shares

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate % of issued Shares ⁽¹⁾
Mr. Liu Zhancheng ⁽²⁾	Interest in a controlled corporation	1,118,460,000	74.86%

Notes:

- (1) The percentage is calculated on the basis of 1,494,000,000 Shares in issue as at the Latest Practicable Date.
- (2) The 1,118,460,000 Shares were held by Fujincheng, which is a company wholly-owned by Mr. Liu Zhancheng. Mr. Liu Zhancheng is the sole director of Fujincheng. Accordingly, Mr. Liu Zhancheng was deemed to be interested in the 1,118,460,000 Shares held by Fujincheng by virtue of Part XV of the SFO.

Save as disclosed above, to the best knowledge of the Directors as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; and (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders' and other persons' interests in the shares and underlying shares of the Company

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, other than the interests of the Directors, proposed Directors and chief executives of the Company as disclosed above, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which need to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Long positions in Shares and underlying Shares

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Approximate % of issued Shares ⁽¹⁾
Fujincheng ⁽²⁾	Beneficial owner	1,118,460,000	74.86%
Ms. Qin Hui ⁽³⁾	Interest of spouse	1,118,460,000	74.86%

Notes:

- (1) The percentage is calculated on the basis of 1,494,000,000 Shares in issue as at the Latest Practicable Date.
- (2) Mr. Liu Zhancheng is the sole director and sole beneficial owner of Fujincheng. Accordingly, Mr. Liu Zhancheng was deemed to be interested in the 1,118,460,000 Shares held by Fujincheng by virtue of Part XV of the SFO.
- (3) Ms. Qin Hui is the spouse of Mr. Liu Zhancheng. Therefore, Ms. Qin Hui is deemed, or taken to be interested in all the 1,118,460,000 Shares in which Mr. Liu Zhancheng is interested by virtue of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons or companies who had any interest or short position in the Shares or underlying Shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service agreement between any Director and any member of the Group (excluding agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, proposed directors or any of their respective close associates had any interests in any business that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group.

5. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date:

- (a) save for Mr. Liu Zhancheng's interest in the Investment Agreement and the transaction contemplated thereunder, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting, which was significant in relation to the business of the Group; and
- (a) none of the Directors, proposed directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 March 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. EXPERT'S QUALIFICATIONS AND CONSENTS

The following are the qualifications of the expert who has given its opinions and advices which are included in this circular:

Name	Qualifications
Pelican Financial Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Investment agreement and the transactions contemplated thereunder

The above expert had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report or opinion dated 20 January 2023 in the form and context in which it is included and the references to its name included herein in the form and context in which it appear.

As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since 31 March 2022, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL ADVERSE CHANGE

As disclosed in the profit warning announcement dated 2 June 2022 (the “**Profit Warning**”), the Group was expected to record a net loss of not less than HK\$18.0 million for the year ended 31 March 2022 as compared to a net profit of approximately HK\$1.0 million for the corresponding period in 2021. The Board considered that the net loss was mainly attributable to (i) the provisions made on expected credit loss regarding to the legal dispute as disclosed in the Company’s announcement dated 15 October 2021; and (ii) the increase in administrative and other operating expenses due to the increase in staff costs including directors’ emoluments.

The Directors confirm that, save as disclosed in the Profit Warning and the interim report of the Company published on 12 December 2022, there had been no material adverse change in the financial or trading position of the Group since 31 March 2022, being the date to which the latest audited consolidated financial statements of the Group were made up.

8. DOCUMENTS ON DISPLAY

Copies of the following documents will be displayed on the website of the Stock Exchange (<https://www.hkexnews.hk>) and the website of the Company (www.bzg.cn) for the period of 14 days commencing from the date of this circular:

1. the Investment Agreement.

NOTICE OF EGM



Standard Development Group Limited 標準發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1867)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Standard Development Group Limited (the “Company”) will be held at 21/F, Grand Millennium Plaza, 181 Queen’s Road Central, Sheung Wan, Hong Kong on Monday, 13 February 2023 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution.

Words and expressions that are not expressly defined in this notice of EGM shall bear the same meaning as that defined in the circular to the shareholders of the Company dated 20 January 2023 (the “Circular”).

ORDINARY RESOLUTION

“**THAT:**

- (a) the Investment Agreement dated 20 December 2022 entered into between Standard Development (Shandong), the Target Company, Shandong Finance Energy and Dongying Haibao in relation to the Investment and all the transactions contemplated thereunder as more particularly described in the Circular and on the terms and conditions set out in the Investment Agreement be hereby approved, ratified and confirmed; and
- (b) authorisation be granted to any one Director to complete and do all such acts or things (including executing all such documents, instruments and agreements as may be required) as the Company, such Director or, as the case may be, the Board may consider necessary, desirable or expedient or in the interest of the Company to give effect to the terms of the matters contemplated under the Investment Agreement and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith.”

By order of the Board
Standard Development Group Limited
Liu Zhancheng
Chairman and Executive Director

Hong Kong, 20 January 2023

NOTICE OF EGM

Notes:

1. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint another person(s) as his proxy(ies) to attend and vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed
2. A form of proxy for use at the EGM is enclosed herewith. The form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be under seal or the hand of an officer, attorney or other person duly authorised.
3. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time appointed for the holding of the EGM (i.e. at or before 10:00 a.m. on 11 February 2023 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the EGM and, in such event, the term of proxy shall be deemed to be revoked.
4. The register of members of the Company will be closed from 8 February 2023 to 13 February 2023 both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the EGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on 7 February 2023.
5. To safeguard the health and safety of the Shareholders and to prevent the spreading of the novel coronavirus (COVID-19) pandemic, the following precautionary measures will be implemented at the EGM: (i) limiting the number of the attendees to avoid over-crowding; (ii) compulsory body temperature screening/checks; (iii) compulsory wearing of face mask; (iv) maintaining an appropriate social distancing between seats; and (v) no provision of food or beverages and no distribution of gifts.
6. Any vote of members (attending in person or by proxy) at the EGM shall be taken by poll.