Application Proof of

Migao Group Holdings Limited
米高集團控股有限公司

(a company incorporated in the Cayman Islands with limited liability)

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Migao Group Holdings Limited
米高集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED]	**:**	**[REDACTED] Shares (subject to the [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to [REDACTED])**
Number of International [REDACTED]	**:**	**[REDACTED] Shares (subject to [REDACTED] and the [REDACTED])**
[REDACTED]	**:**	**HK$[REDACTED] per [REDACTED] plus brokerage of 1.0%, SFC transaction levy of 0.0027%, AFRC transaction levy of 0.00015% and Hong Kong Stock Exchange trading fee of 0.00565% (payable in full on application in Hong Kong dollars, subject to refund)**
Nominal value	**:**	**US$[0.01] per Share**
[REDACTED]	**:**	**[●]**

Sole Sponsor

廣發融資(香港)
GF CAPITAL (HONG KONG)

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IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE[1]

[**REDACTED**]

EXPECTED TIMETABLE[1]

[**REDACTED**]

EXPECTED TIMETABLE[1]

[**REDACTED**]

EXPECTED TIMETABLE[(1)]

[**REDACTED**]

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CONTENTS

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [**REDACTED**].

There are risks associated with any investment. Some of the particular risks in investing in the [**REDACTED**] *are set out in the section headed "Risk Factors" in this document. You should read that section carefully before you decide to invest in the* [**REDACTED**].

OVERVIEW

We are one of the largest potash fertiliser companies, in terms of sales volume of potash fertilisers in China in 2022, with comprehensive sourcing, manufacturing, processing and selling capabilities offering various potash fertiliser products, including KCL, SOP, NOP and compound fertilisers. According to the Frost & Sullivan Report, we ranked the third among potash fertiliser companies in China in terms of sales volume of potash fertilisers in 2022 and we ranked the second among non reserve-based potash fertiliser companies in China in 2022 by the same measure. We accounted for approximately 6.0% of the total sales revenue of potash fertilisers in China for the same year. In terms of sales volume of KCL, SOP and NOP in 2022, we ranked the third, the fourth and the fifth among potash fertiliser companies in China, respectively, and accounted for approximately 7.0%, 4.0% and 0.3% of the total sales revenue of KCL, SOP and NOP, respectively, in China for the same year. Among the top five potash fertiliser companies in China, we are the only fertiliser supplier that offers comprehensive product lines, namely KCL, SOP, NOP and compound fertilisers. In 2020, we were granted the "Meritorious Enterprise of the Potash Salt and Potash Fertiliser Industry of China" by the potash salt and potash fertilisers branch of the China National Inorganic Salts Industry Association. We have been appraised as the "Top Ten Potash Fertilisers of China" and the "Top 100 Chemical Fertiliser Enterprises of China" of the year consecutively since 2016 by China National Chemical Information Center and China Chemical Industry Information Association.

As at the Latest Practicable Date, we had five key production facilities in Heilongjiang Province, Jilin Province, Guizhou Province and Guangdong Province in the PRC, among which, Baoqing Production Facility and Anda Production Facility in Heilongjiang Province are owned by Baoqing Migao and Anda Migao respectively, which have become our subsidiaries since 31 March 2022. We also had our Chengdu Production Facility located in Sichuan Province, which is subject to relocation due to change of zoning policy by the local government. All of our production facilities are well situated at main plantation zones in China. The strategic site selection of our physical presence and well-developed transportation networks enjoyed by these production facilities enable us to provide potash fertiliser products to our customers in a timely and cost-effective manner and to promptly provide after-sales services.

As at the Latest Practicable Date, we had three KCL granulating lines, 40 SOP production lines, and three compound fertilisers production lines. Our total estimated production capacity of our KCL, SOP and compound fertiliser products were 390,000 tonnes, 400,000 tonnes, and 172,000 tonnes, respectively. We also manufactured NOP products at our Chengdu Production Facility prior to cessation of production in January 2019 due to change of zoning policy by the local government for the area where our Chengdu Production Facility is located. We are currently planning to build our New Sichuan Production Facility in Mianyang City, Sichuan Province, which is expected to commence construction around the first half of 2024, to enable us to resume the production of NOP.

During the Track Record Period, benefited from the steady growth in demand for potash fertilisers in the PRC market, we achieved a steady growth. Our total revenue increased from RMB2,081.6 million in FY2021 to RMB3,841.4 million in FY2022 and further to RMB4,722.7 million in FY2023 and our profit for the year increased from RMB206.5 million in FY2021 to RMB396.6 million in FY2022 and further to RMB421.5 million in FY2023.

COMPETITIVE STRENGTHS

We believe the following competitive strengths enable us to maintain a leading position in the industry:

- we are one of the largest potash fertiliser companies, in terms of sales volume of potash fertilisers in China in 2022, offering quality and diversified potash fertiliser products;
- we have established a long-term and stable relationship with large-scale enterprise customers and deployed our customer service network strategically;
- we have multiple channels for comprehensive procurement of raw materials for potash fertilisers to secure steady supply;
- we have a well-established research and development team to provide technological supports for the continuous development of our Group; and
- our management team possess profound experience and most of them have been working with us for over ten years.

Please refer to the section headed "Business – Competitive Strengths" in this document for more information.

BUSINESS STRATEGIES

We intend to continue to strengthen and develop our existing market and industry position by adopting the following strategies while striving to enhance shareholder value and pursue growth strategies:

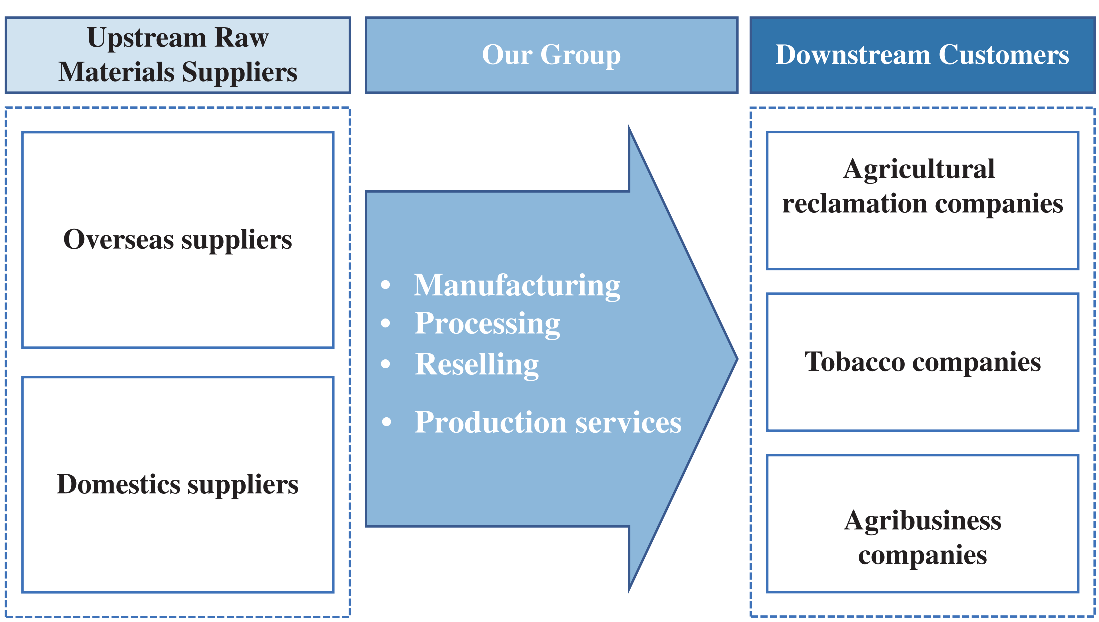
- strengthening our cooperation with major customers and expansion of our customer base;
- expansion of procurement scale and diversification of procurement channels;
- continuous investment in research and development to maintain industrial position, and enhancing product competitiveness; and
- establishment of sales network in Southeast Asia for further expansion of overseas markets.

Please refer to the section headed "Business – Business Strategies" in this document for more information.

BUSINESS MODEL

During the Track Record Period, our major products were KCL and SOP. The aggregate sales of KCL and SOP contributed to approximately 85.2%, 96.7% and 95.3% of our total revenue for FY2021, FY2022 and FY2023, respectively, while the remaining were primarily generated from the sales of NOP, compound fertilisers, and by-products and other products, which primarily consist of HCL, as a by-product from the manufacturing process of SOP, and fertiliser additive.

The following diagram illustrates our business model in the context of the potash fertiliser manufacturing industry:



Our SOP and compound fertiliser products are manufactured and our KCL are granulated at our own production facilities in accordance with PRC national standard and/or our customers' specifications. In addition, we also sell processed KCL products to our customers. We generally engage third parties to process our purchased KCL by adding certain additives and repackage the processed KCL products for sale to our customers. We also source and resell KCL, SOP, NOP and compound fertiliser products to our customers without further manufacturing or processing.

Since the fourth quarter of 2021, we started to provide fertiliser production services to one of our customers where it would provide us with the principal raw materials and we would manufacture them into compound fertiliser products in accordance with the stipulated product specifications. We charge a production fee for such services.

PRODUCTION FACILITIES AND UTILISATION

As at the Latest Practicable Date, we had five key production facilities. We also had our Chengdu Production Facility located in Sichuan Province, which is subject to relocation. As at the Latest Practicable Date, we had three KCL granulating lines, 40 SOP production lines, and three compound fertilisers production lines. Our total estimated production capacity of our KCL, SOP and compound fertiliser products were 390,000 tonnes, 400,000 tonnes, and 172,000 tonnes, respectively.

The utilisation rates of our production lines are generally subject to seasonality impact. As our fertiliser products are primarily for agricultural use, our production is subject to seasonal fluctuations as the demand of fertilisers is affected by the seasonal nature of fertiliser applications. Our KCL utilisation rate was 132.0%, 129.8% and 102.7% for FY2021, FY2022 and FY2023, respectively. Our KCL utilisation rate exceeded 100% for FY2021, FY2022 and FY2023 mainly because we occasionally utilised the granulating equipment of our SOP production lines at our Changchun Production Facility and Anda Production Facility for KCL granulation.

Our SOP utilisation rate was 78.7%, 53.0% and 29.7% for FY2021, FY2022 and FY2023, respectively. We had a low SOP utilisation rate of approximately 53.0% for SOP products for FY2022 primarily due to the general lower demand of SOP products by our customers as a result of high selling prices of SOP products. It led to some of our customers to choose to use KCL products as alternative to SOP products as KCL products can in general be used to replace, to some extent, SOP products, and thereby resulting in lower demand of SOP products for FY2022. We had a low SOP utilisation rate of approximately 29.7% for SOP products for FY2023 primarily due to a decrease in demand of SOP products by our customers as a result of a higher average selling price of SOP products during FY2023 as compared to that of FY2022.

Our compound fertiliser utilisation rate was 44.0%, 36.1% and 44.9% for FY2021, FY2022 and FY2023, respectively. Although all our fertiliser products are subject to seasonality impact, our compound fertiliser products are especially affected by seasonality impact. Given that compound fertiliser products generally need to be tailor made, we are not able to manufacture our compound fertiliser products during our non-peak season until we have confirmed the specific formulae with the customers which are generally provided to us close to the plantation season.

CUSTOMERS AND PRICING

During the Track Record Period and up to the Latest Practicable Date, we sold substantially all of our products in the PRC. We primarily sell our fertiliser products to agricultural reclamation companies, tobacco companies and agribusiness companies and primarily sell our by-products to industrial companies.

For FY2021, FY2022 and FY2023, sales to our largest customer accounted for approximately 27.9%, 22.4% and 20.0% of our total revenue, respectively, and sales to our top five customers accounted for approximately 58.1%, 59.4% and 52.4% of our total revenue, respectively.

We generally adopt a cost-plus approach to determine the prices of our products, under which we add a premium to the products' unit costs, which are calculated based on the raw material costs and their estimated manufacturing, administrative and sales costs, with reference to the prevailing market prices of similar products. For FY2021, FY2022 and FY2023, our average selling prices per tonne of our KCL, SOP, NOP and compound fertiliser products (excluding production fees) ranged from approximately RMB1,723.9 to RMB3,771.6, RMB2,328.4 to RMB3,850.3, RMB3,726.6 to RMB6,097.7 and RMB2,275.7 to RMB2,501.8, respectively. In general, SOP and NOP products which require chemical and more complicated manufacturing processes and have higher raw material costs are sold for higher prices than KCL products and compound fertiliser products.

We have developed strategic relationships and cooperations with our major customers. In 2018, (i) EuroChem Migao, our joint venture, sold 30% equity interests of Yunnan EuroChem to one of our key tobacco company customers; and (ii) we established two joint ventures, Baoqing Migao and Anda Migao, with an important agricultural reclamation customer, Customer A, and we further consolidated the two joint venture as our subsidiaries on 31 March 2022. In 2016, we acquired 51% of Daxing Migao, with the remaining 49% owned by Guizhou Tobacco Investment, another key tobacco company customer of us. We believe that such strategic relationships and cooperations would benefit our customers and us mutually, as our customers are able to secure stable supply of quality fertiliser products while we are able to secure solid and stable demand for our fertiliser products.

RAW MATERIALS AND SUPPLIERS

Our primary raw materials used for the production of our fertiliser products are KCL, SOP, NOP and sulphuric acid, among which KCL is our main raw material. During the Track Record Period, we procured KCL from overseas and domestic suppliers. For overseas suppliers, we procured our KCL either directly from them or through our designated agent. We also purchase KCL from domestic KCL suppliers who mostly source KCL overseas due to China's geologically lack of quality potash reserves and reliance on import of KCL from overseas countries. For FY2021, FY2022 and FY2023, our purchase of KCL accounted for approximately 77.7%, 86.6% and 90.4% of our total purchases, respectively.

According to the Frost & Sullivan Report, the price of KCL imported by sea in China is determined by the market selling price in China with reference to the sea import master contract price (the "**Sea Import Master Contract Price**") negotiated by a consortium of PRC state-owned enterprises with overseas KCL producers and suppliers usually each year in an annual master contract which specifies the price term. Further, according to the Frost & Sullivan Report, the import price of KCL in China by ground transportation (the "**Land Import Price**") is negotiated by a group of licenced cross-border trading companies. The Land Import Price is generally determined with reference to the Sea Import Master Contract Price and international market price for KCL.

For domestic suppliers, the price of KCL is commercially negotiated between us and these domestic KCL suppliers. For FY2021, FY2022 and FY2023, our average purchase price per tonne of KCL from overseas suppliers was approximately RMB1,539.8, RMB2,657.4, and RMB2,297.9, respectively, while our average purchase price per tonne of KCL from domestic suppliers for FY2021, FY2022 and FY2023 was approximately RMB1,818.4, RMB2,366.6 and RMB3,047.1, respectively. Our purchase price of KCL is determined by market conditions and prevailing market price with reference to the Sea Import Master Contract Price and the Land Import Price depending on the mode of purchase. The fluctuation of our average purchase price of KCL from overseas suppliers and domestic suppliers generally follows the general trend of fluctuation of the Sea Import Master Contract Price, save for our purchase of KCL from overseas suppliers in FY2023 as majority of such purchases were made in January 2023 to March 2023 where the market price of KCL had significantly declined.

For FY2021, FY2022 and FY2023, our unit cost of goods sold of KCL was RMB1,546.0 per tonne, RMB2,438.9 per tonne and RMB3,126.2 per tonne, respectively. Assuming all other variables remain constant, the following sensitivity analysis illustrates the impact of hypothetical fluctuations in the unit cost of goods sold of our KCL per tonne on our profit before tax for the years indicated. Based on the historical fluctuation of the unit cost of goods sold of our KCL and the Sea Import Master Contract Price during the Track Record Period up to the Latest Practicable Date, fluctuations are assumed to be 10%, 20% and 100% for the relevant indicated years:

	For the year ended 31 March		
	2021	**2022**	**2023**
		RMB'000	
Change in profit before tax if unit cost of goods sold KCL increases/(decreases) by 10%	(112,147)/ 112,147	(270,493)/ 270,493	(333,555)/ 333,555
Change in profit before tax if unit cost of goods sold KCL increases/(decreases) by 20%	(224,294)/ 224,294	(540,986)/ 540,986	(667,109)/ 667,109
Change in profit before tax if unit cost of goods sold KCL increases/(decreases) by 100%	(1,121,468)/ 1,121,468	(2,704,932)/ 2,704,932	(3,335,547)/ 3,335,547

The other major raw materials used in our production, namely, SOP, NOP and sulphuric acid, are procured in the PRC. We generally purchase SOP and NOP from local suppliers; we also purchase SOP and NOP from Guizhou Tobacco Investment, our tobacco company customer, for the manufacturing of compound fertiliser products for it. For sulphuric acid, we purchase from local suppliers in local areas close to our production facilities. Our total aggregate purchases of SOP, NOP and sulphuric acid for FY2021, FY2022 and FY2023, amounted to approximately RMB263.2 million, RMB236.8 million and RMB62.2 million, respectively, representing approximately 13.0%, 6.4% and 1.9% of our total purchases for the respective year.

For FY2021, FY2022 and FY2023, purchases from our largest supplier amounted to approximately RMB451.4 million, RMB706.8 million and RMB976.9 million, respectively, which accounted for approximately 22.4%, 19.1% and 29.2% of our total purchases, respectively. For the same years, purchases from our five largest suppliers amounted to approximately RMB1,531.7 million, RMB2,484.5 million and RMB2,491.4 million, respectively, which accounted for approximately 75.9%, 67.0% and 74.4% of our total purchases, respectively.

COMPETITION

We face intense competition in the potash fertiliser industry in the PRC. According to the Frost & Sullivan Report, there were over 200 potash fertiliser producers in the PRC in 2022, which included SOEs, private-owned enterprises and foreign-invested enterprises. For FY2023, our sales volume of KCL and SOP products was approximately 1,067,000 tonnes and 124,000 tonnes, respectively. Our Directors and Frost & Sullivan consider that we are in direct competition with large-scale potash fertiliser producers in the PRC.

RISK FACTORS

There are risks associated with your investment in the [**REDACTED**], among which, the relatively material risks are: (i) we are exposed to global KCL supply uncertainty, as well as challenges in logistics and delivery; if we fail to effectively deal with these issues, our business and financial conditions could be adversely affected; (ii) we are exposed to fluctuation of purchase price and procurement costs of KCL, which could materially and adversely affect our business, financial performance and prospects; (iii) our purchase of KCL concentrates on our top five suppliers and any failure or delay in the supply may have a material adverse impact on us; (iv) we are exposed to market risks from fluctuating selling price of our fertiliser products in China; (v) we could be adversely affected as a result of any transactions we have with countries that are, or become subject to, sanctions administered by the Relevant Sanctions Authorities and other relevant authorities administering sanctions measures; (vi) we rely on our major customers and our customer concentration may expose us to risks relating to fluctuation or decline in our revenue; (vii) decline in market demand for our major fertiliser products may have a material and adverse impact on us; and (viii) various permits and licences are required for our production and any loss of or failure to renew any of the necessary permits and licences may have a material and adverse impact on us.

SUMMARY OF FINANCIAL INFORMATION

The following tables summarise certain items of the historical consolidated financial information of our Group during the Track Record Period and are extracted from, and should be read in conjunction with, the Accountants' Report in Appendix I to this document.

Summary of Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the year ended 31 March					
	2021		**2022**		**2023**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Revenue	2,081,579	100.0	3,841,400	100.0	4,722,749	100.0
Cost of goods sold	(1,830,838)	(88.0)	(3,207,977)	(83.5)	(3,955,216)	(83.7)
Gross profit	250,741	12.0	633,423	16.5	767,533	16.3
PROFIT BEFORE TAX	264,926	12.7	471,044	12.3	533,414	11.3
Income tax expense	(58,401)	(2.8)	(74,464)	(1.9)	(111,900)	(2.4)
PROFIT FOR THE YEAR	206,525	9.9	396,580	10.3	421,514	8.9
Profit for the year attributable to:						
Owners of our Company	202,294	9.7	396,337	10.3	405,089	8.6
Non-controlling interests	4,231	0.2	243	0.0	16,425	0.3
	206,525	9.9	396,580	10.3	421,514	8.9

Revenue

The following table sets forth the breakdown of our revenue by sales of each type of products and each item as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue from sales of products						
– KCL	1,250,489	60.1	3,180,575	82.8	4,024,088	85.2
– SOP	522,039	25.1	533,569	13.9	476,058	10.1
– NOP	49,068	2.4	8,933	0.2	15,366	0.3
– Compound fertilisers	193,629	9.3	24,992	0.7	47,747	1.0
– By-Products and Others	66,354	3.2	72,527	1.9	129,449	2.7
Total	2,081,579	100.0	3,820,596	99.5	4,692,708	99.4

Our revenue was in increasing trend during the Track Record Period primarily due to the increase in sales volume of our KCL products from FY2021 to FY2022 and increase in our average selling price of KCL in each financial year of the Track Record Period. Please refer to the section headed "Financial Information – Key Components of Our Consolidated Statements of Comprehensive Income – Revenue" in this document for further information.

The following table sets forth the breakdown of our revenue by each type of customers and each item as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue by each type of customer						
– Agribusiness companies	818,978	39.3	2,425,590	63.1	3,220,948	68.2
– Agricultural reclamation companies	844,200	40.6	1,202,222	31.3	1,275,895	27.0
– Tobacco companies	233,364	11.2	71,020	1.8	81,055	1.7
– Others	185,038	8.9	142,568	3.7	144,851	3.1
Total	2,081,579	100.0	3,841,400	100.0	4,722,749	100.0

The major source of our revenue during the Track Record Period was from agribusiness companies, and secondly from agricultural reclamation companies.

Agribusiness Companies

The revenue from agribusiness companies increased from RMB819.0 million for FY2021 to RMB2,425.6 million for FY2022, primarily due to the increase in volume of our fertiliser products sold to agribusiness companies from approximately 426,506 tonnes for FY2021 to approximately 781,997 tonnes for FY2022 mainly as result of the increase in sales volume of KCL products to agribusiness companies from approximately 294,886 tonnes in FY2021 to approximately 699,563 tonnes in FY2022, and the increase in average selling price of our KCL products and SOP products in FY2022 due to the global supply uncertainty of KCL.

The revenue from agribusiness companies increased from RMB2,425.6 million for FY2022 to RMB3,220.9 million for FY2023, primarily due to the increase in sales volume of KCL products to agribusiness companies from approximately 699,563 tonnes in FY2022 to approximately 748,204 tonnes in FY2023 and the increase in the average selling price of our KCL products in FY2023 compared to FY2022 due to the global supply uncertainty of KCL.

Agricultural Reclamation Companies

The revenue from agricultural reclamation companies increased from RMB844.2 million for FY2021 to RMB1,202.2 million for FY2022, primarily due to the increase in average selling price of our KCL products and SOP products due to the global supply uncertainty of KCL.

The revenue from agricultural reclamation companies increased slightly from RMB1,202.2 million for FY2022 to RMB1,275.9 million for FY2023, primarily due to the increase in average selling price of our KCL products due to the global supply uncertainty of KCL.

Gross Profit and Gross Profit Margin

The following table sets forth the gross profit/(loss) and gross profit/(loss) margin by each type of products for the years indicated:

	For the year ended 31 March					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Gross profit/(loss) and gross profit/(loss) margin from sales of products						
– KCL	129,021	10.3	475,643	15.0	688,541	17.1
– SOP	81,552	15.6	125,576	23.5	49,848	10.5
– NOP	1,399	2.9	(102)	(1.1)	1,311	8.5
– Compound fertilisers	22,814	11.8	423	1.7	7,278	15.2
– By-Products and Others	15,955	24.0	25,899	35.7	10,634	8.2
Overall	250,741	12.0	627,439	16.4	757,611	16.1

Our gross profit and gross profit margin increased from FY2021 to FY2022 primarily due to the increase in gross profit and gross profit margin of our KCL products and SOP products from FY2021 to FY2022. Our gross profit increased from FY2022 to FY2023 primarily due to the increased in gross profit of our KCL products and our gross profit margin remained relatively stable for FY2022 and FY2023.

KCL: The increase in gross profit margin for sales of KCL products from approximately 10.3% for FY2021 to approximately 15.0% for FY2022 was primarily due to the significant increase in selling price of our KCL products of approximately 66.3%, which outpaced the increase in unit cost of goods sold of KCL products of approximately 57.8%. The increase in gross profit margin for sales of KCL products from approximately 15.0% for FY2022 to approximately 17.1% for FY2023 was primarily due to the increase in average selling price of our KCL products of approximately 31.5%, which outpaced the increase in unit cost of goods sold of our KCL products of approximately 28.2%.

SOP: The increase in gross profit margin for sales of SOP products from approximately 15.6% for FY2021 to approximately 23.5% for FY2022 was primarily due to the higher increase in the average selling price of our SOP products by approximately 40.9% than the increase in the unit cost of goods sold for SOP of approximately 27.7% as a result of the increase in average purchase price of KCL, despite the decrease in sales volume of SOP products in the same period. The decrease in gross profit margin for sales of SOP products from approximately 23.5% for FY2022 to approximately 10.5% for FY2023 was primarily due to the higher increase in the unit cost of goods sold of our SOP products by approximately 37.4% as a result of the increase in average purchase price of KCL in the same year than the increase in the average selling price of our SOP products of approximately 17.3%.

Please refer to the section headed "Financial Information – Key Components of Our Consolidated Statements of Comprehensive Income – Gross Profit and Gross Profit Margin" in this document for further information.

The following table sets forth the breakdown of our gross profit and gross profit margin by each type of customers for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Gross profit and gross profit margin by each type of customers						
– Agribusiness companies	105,094	12.8	519,174	21.4	610,537	19.0
– Agricultural reclamation companies	86,272	10.2	68,334	5.7	139,252	10.9
– Tobacco companies	36,480	15.6	15,874	22.4	11,691	14.4
– Other	22,895	12.4	30,040	21.1	6,052	4.2
Overall	250,741	12.0	633,423	16.5	767,533	16.3

During the Track Record Period, our gross profit was principally derived from the sale of KCL products and SOP products to agribusiness companies and agricultural reclamation companies.

Agribusiness Companies

We recorded an increase in gross profit and gross profit margin of agribusiness companies from FY2021 to FY2022, which is generally in line with the general increasing trend of the overall gross profit and gross profit margin of our KCL products and SOP products for the same years as discussed above.

The increase in gross profit of agribusiness companies from FY2022 to FY2023 was mainly due to the increase in gross profit contributed by the sales of our KCL products to agribusiness companies from RMB460.5 million for FY2022 to RMB556.0 million for FY2023 as a result of the increase in sales volume and average selling price of our KCL products to agribusiness companies. The decrease in gross profit margin of agribusiness companies from FY2022 to FY2023 was mainly due to the decrease in gross profit margin for the sales of our SOP products to agribusiness companies, which is generally in line with the general decreasing trend of the overall gross profit margin of our SOP products for the same year.

Agricultural Reclamation Companies

The decrease in gross profit and gross profit margin of agricultural reclamation companies from FY2021 to FY2022 was primarily due to the decrease in gross profit and gross profit margin for the sales of KCL products to agricultural reclamation companies in FY2022 as a result of the relatively higher unit cost of goods sold for KCL for the sale orders of KCL products to agricultural reclamation companies (mainly placed during the peak season in FY2022) due to global supply uncertainty of KCL.

The increase in gross profit of agricultural reclamation companies from FY2022 to FY2023 was primarily due to the increase in gross profit and gross profit margin for the sales of KCL products to agricultural reclamation companies in FY2023.

Profit for the year

Our profit for the year increased from RMB206.5 million for FY2021 to RMB396.6 million for FY2022, mainly due to (i) the increase in revenue from sales of our KCL products from RMB1,250.5 million for FY2021 to RMB3,180.6 million for FY2022; and (ii) the increase in revenue from sales of our SOP products from RMB522.0 million for FY2021 to RMB533.6 million in FY2022.

Our profit for the year increased from RMB396.6 million for FY2022 to RMB421.5 million for FY2023 mainly due to the increase in revenue from the sales of our KCL products from RMB3,180.6 million for FY2022 to RMB4,024.1 million for FY2023.

Summary of Consolidated Statements of Financial Position

The following table sets forth our current assets, current liabilities, net current assets, non-current assets, non-current liabilities, net assets and non-controlling interests as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Current assets	1,846,450	2,983,993	2,450,552
Current liabilities	1,695,572	2,488,710	1,574,373
Net current assets	150,878	495,283	876,179
Non-current assets	559,590	727,764	788,263
Non-current liabilities	54,711	48,129	88,549
Net assets	655,757	1,174,918	1,575,893
Non-controlling interests	29,067	147,633	155,081

Our net current assets amounted to RMB150.9 million, RMB495.3 million and RMB876.2 million at 31 March 2021, 2022 and 2023, respectively. We improved our net current assets of RMB150.9 million as at 31 March 2021 to RMB495.3 million as at 31 March 2022 and further to RMB876.2 million, primarily attributable to the profit for the year of RMB396.6 million and RMB421.5 million for FY2022 and FY2023, respectively. For detailed information, please refer to the section headed "Financial Information – Selected Balance Sheet Items" in this document.

Our net assets increased from RMB655.8 million as at 31 March 2021 to RMB1,174.9 million as at 31 March 2022, mainly due to the profit for the year for FY2022 of RMB396.6 million, the increase in equity arising on acquisition of subsidiaries of RMB120.5 million and other comprehensive income for the year for FY2022 of RMB4.3 million, partially offset by the dividend paid to non-controlling interests of RMB2.2 million in FY2022. Our net assets increased from RMB1,174.9 million as at 31 March 2022 to RMB1,575.9 million as at 31 March 2023, mainly due to the profit for the year for FY2023 of RMB421.5 million, partially offset by other comprehensive expense for the year of RMB10.1 million, the dividend paid to non-controlling interests of RMB9.0 million in FY2023 and the deemed distribution to Mr. Liu of RMB1.5 million in FY2023 representing the difference between the consideration for the acquisition of Tongjiang Migao and the net liabilities of Tongjiang Migao at the date of acquisition.

Summary of Consolidated Cash Flow

The following table sets forth selected cash flow data from our consolidated cash flow statements for the years indicated. For their analysis, please refer to the section headed "Financial Information – Liquidity and Capital Resources – Cash Flow" in this document.

	For the year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Net cash from (used in) operating activities	261,236	(332)	134,055
Net cash (used in) investing activities	(79,655)	(6,243)	(91,270)
Net cash (used in) from financing activities	(132,118)	232,393	37,548
Net increase in cash and cash equivalents	49,463	225,818	80,333
Cash and cash equivalents at the beginning of the year	6,049	54,707	283,456
Effect of foreign exchange rate changes	(805)	2,931	1,942
Cash and cash equivalents at the end of the year represented by bank balances and cash	54,707	283,456	365,731

During the Track Record Period, net operating cash outflow of RMB0.3 million was recorded in FY2022. The net operating cash outflow recorded in FY2022 was primarily attributable to the increase in trade and bills receivables and inventories prepayment which is in line with our sales growth and our strategy to maintain higher inventory reserve, partially offset by the increase in trade payable derived from the increase in domestic raw material purchases to satisfy additional demands of our products and to maintain higher inventory reserve, the increase in amounts due to joint ventures mainly due to increase in outstanding amount payable to Guizhou Tobacco Investment for our purchases of raw materials and finished goods from them and the increase in deposits received from Guizhou Tobacco Investment for our sales of raw materials and finished goods to them, the increase in contract liabilities due to the increase in deposits made by our customers for sales orders in late FY2022, and the payment for additional EIT and surcharges resulted from the re-filings of revised EIT annual settlement returns for 2019 and 2020 by Guangdong Migao and Sichuan Migao. For details, please refer to the section headed "Financial Information – Key Components of Our Consolidated Statements of Comprehensive Income – Income Tax Expense – PRC Tax Re-filings" in this document.

For details, please refer to the section headed "Financial Information – Liquidity and Capital Resources – Cash Flow – Net cash from/(used in) operating activities" in this document.

Key Financial Ratios

The following table sets forth certain key financial ratios as at or for the years indicated. For their analysis, please refer to the section headed "Financial Information – Key Financial Ratios" in this document.

	As at or for the year ended 31 March		
	2021	**2022**	**2023**
Return on equity[(1)]	32.3%	38.6%	28.5%
Return on total assets[(2)]	8.4%	10.7%	12.5%
Current ratio (times)[(3)]	1.1	1.2	1.6
Gearing ratio[(4)]	22.2%	29.4%	19.8%
Interest coverage ratio (times)[(5)]	26.3	49.8	31.2
Net profit margin[(6)]	9.9%	10.3%	8.9%

Notes:

(1) For the years ended 31 March 2021, 2022 and 2023, return on equity ratio is calculated by dividing profit for the year attributable to the owners of our Company by total equity attributable to the owners of our Company as at each relevant year end and multiplying 100%.

(2) For 31 March 2021, 2022 and 2023, return on total assets ratio is calculated by dividing profit for the year attributable to the owners of our Company by total assets as at each relevant year end and multiplying 100%.

(3) Current ratio is total current assets as at each relevant year end as a percentage of total current liabilities as at each relevant year end.

(4) Gearing ratio is total debt divided by the sum of total capital plus total debt and multiplied by 100%. Total debt is calculated as the sum of bank borrowings and loans from related companies. Capital includes equity attributable to owners of our Company.

(5) Interest coverage ratio is profit before finance costs and income tax expense for the relevant year divided by finance costs for the relevant year.

(6) Net profit margin is profit for the year divided by revenue for the year and multiplied by 100%.

SHAREHOLDER INFORMATION

Our Controlling Shareholders

Immediately following the completion of the [**REDACTED**], assuming the [**REDACTED**] is not exercised, Mr. Liu, Migao Barbados and Migao BVI will directly and indirectly hold [**REDACTED**] of our issued share capital, and hence will remain as our Controlling Shareholders. Each of our Directors and Controlling Shareholders has confirmed that, as at the date of this document, none of them had any interest in any business, other than our business, which compete, or is likely to compete, either directly or indirectly, with our business and would require disclosure under Rule 8.10 of the Listing Rules.

OUR MILESTONES

Our Group was founded in June 2003 by Mr. Liu, our founder, chairman, chief executive officer, executive Director and our Controlling Shareholder with his personal funds, where he established Sichuan Migao, the first operating PRC subsidiary of our Group and commenced the business in the production of NOP. Since then, our Group has expanded to the production of other products, such as KCL, SOP and compound fertiliser products and we are now one of the largest potash fertiliser companies in terms of sales volume of potash fertilisers in China in 2022, with integrated sourcing, manufacturing, processing and selling capabilities. For further details and our milestones, please refer to the sections headed "History, Reorganisation and Corporate Structure – Overview" and "History, Reorganisation and Corporate Structure – History and Development – Key Business Milestones" in this document.

[**REDACTED**] STATISTICS

Expected market [**REDACTED**][1]:	HK$[**REDACTED**] million to HK$[**REDACTED**] million
[**REDACTED**]:	[**REDACTED**] Shares (subject to the [**REDACTED**])
[**REDACTED**]:	Not more than HK$[**REDACTED**] per [**REDACTED**] and is expected to be not less than HK$[**REDACTED**] per [**REDACTED**] (excluding brokerage, SFC transaction levy, Hong Kong Stock Exchange trading fee and the AFRC transaction levy)
Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2023 per Share[2]:	HK$[**REDACTED**] (based on the [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**]) HK$[**REDACTED**] (based on the [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**])

Notes:

(1) The calculation of market [**REDACTED**] is based on [**REDACTED**] Shares expected to be in issue immediately upon completion of the [**REDACTED**] and the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised at all).

(2) Please refer to Appendix II to this document for the bases and assumptions in calculating this figure.

USE OF [REDACTED]

We estimate that we will receive net [**REDACTED**] of approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million from the [**REDACTED**]), assuming that the [**REDACTED**] is not exercised, after deducting the [**REDACTED**] commissions and other estimated [**REDACTED**] expenses payable by us and assuming the initial [**REDACTED**] of HK$[**REDACTED**] per Share, being the mid-point of the indicative [**REDACTED**] range. We intend to use (i) approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] for the investment and construction of the Heilongjiang Logistics and Production Centre; (ii) approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] for the investment and construction of our New Sichuan Production Facility; (iii) approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] to purchase new equipment and machinery; (iv) approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] to fund the construction of a research and development centre; and (v) approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] for additional working capital and other general corporate purposes.

Please refer to the section headed "Future Plans and Use of [**REDACTED**]" in this document for details.

DIVIDENDS

No dividend was paid or declared by our Company since its incorporation. However, the group entities comprising our Group has paid or declared dividends during the Track Record Period, which included (i) a final dividend in an aggregate amount of RMB4.0 million, RMB4.5 million and RMB4.0 million has been declared by Daxing Migao during the years ended 31 March 2021, 2022 and 2023, respectively, each of which has been paid by Daxing Migao during the years ended 31 March 2021, 2022 and 2023, respectively; (ii) a final dividend in an aggregate amount of RMB6.4 million has been declared and paid by Baoqing Migao during FY2023; and (iii) a final dividend of RMB15.9 million has been declared and paid by Anda Migao during FY2023.

We currently do not have any pre-determined dividend pay-out ratio. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. For details, please refer to the section headed "Financial Information – Dividend Policy" in this document.

[REDACTED] EXPENSES

Our [**REDACTED**] expenses primarily consist of [**REDACTED**] commissions and professional fees paid to the professional advisers for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. The total estimated [**REDACTED**] expenses (based on the midpoint of our indicative price range for the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised, including [**REDACTED**] commissions and excluding any discretionary incentive fee which may be payable by us) in relation to the [**REDACTED**] are RMB[**REDACTED**] million (equivalent to approximately HK$[**REDACTED**] million), representing approximately [**REDACTED**]% of the gross [**REDACTED**] from the [**REDACTED**], of which (i) RMB[**REDACTED**] million, RMB[**REDACTED**] million, RMB[**REDACTED**] million and RMB[**REDACTED**] million has been charged to our consolidated statements of profit or loss for the period before the Track Record Period, FY2021, FY2022 and FY2023, respectively; (ii) RMB[**REDACTED**] million is expected to be charged to our consolidated statements of profit or loss for FY2024; and (iii) RMB[**REDACTED**] million is expected to be accounted for as a deduction from equity upon the [**REDACTED**]. The aforementioned estimated [**REDACTED**] expenses of approximately HK$[**REDACTED**] million include (i) [**REDACTED**] related expenses of approximately HK$[**REDACTED**] million; (ii) non-[**REDACTED**] related fees and expenses paid and payable to legal advisers and reporting accountants, of approximately HK$[**REDACTED**] million; and (iii) other non-[**REDACTED**] related fees and expenses of HK$[**REDACTED**] million.

BUSINESS DEALINGS WITH THIRD PARTIES SUBJECT TO INTERNATIONAL SANCTIONS

Belarus

During the Track Record Period, we purchased a large amount of KCL, directly and indirectly, from Supplier D (which is purportedly the trading arm of the Belarus Producer). The Belarus Producer and Supplier D were designated by OFAC as SDNs on 9 August 2021 and 2 December 2021, respectively, accompanied with a general license issued by OFAC to each of them, allowing certain wind down transactions, which in the case of the Belarus Producer expired on 8 December 2021 (the "**Belarus General License 4**") and in the case of Supplier D expired on 1 April 2022 (the "**Belarus General License 5**").

Since Supplier D was designated by OFAC as an SDN, we have ceased entering into new purchase contracts with it. The final shipments of our direct purchase of KCL from Supplier D pursuant to the pre-existing contracts were shipped on 27 December 2021 and were received in China in February 2022; in addition, we had the following dealings with Supplier D as set out in details below.

Rebates from Supplier D and related set off arrangement

Under our purchase agreements with some of our suppliers, we are entitled to rebates on our purchases when we achieved the specified level of purchase volume. During the Track Record Period, we were entitled to rebates on our purchases from Supplier D pursuant to our contracts with Supplier D. As at 31 March 2022, the outstanding rebate receivable by Guangdong Migao from Supplier D amounted to approximately RMB39.2 million (equivalent to US$5.9 million). Such rebate receivable, together with the other excess prepayments by Guangdong Migao to Supplier D arising from previous purchases, was set off against the outstanding trade payable by Guangdong Migao to Supplier D under the 2021 Contract as further described below. Such set off was agreed with Supplier D and as a result of this set off, our remaining outstanding payable to Supplier D amounted to approximately RMB302.6 million (equivalent to US$47.9 million) as at 30 June 2022 (the "**Outstanding Supplier D Payable**"). The Outstanding Supplier D Payable was subsequently and substantially settled by way of a tripartite settlement arrangement as set out below.

The tripartite settlement arrangement in respect of the Outstanding Supplier D Payable involved Guangdong Migao, Supplier D and three fertiliser trading companies and the amount due to/from between them.

Between our Group and Supplier D: Guangdong Migao entered into a contract with Supplier D in March 2021 (as re-affirmed in November 2021) (the "**2021 Contract**") for purchase of potash. Guangdong Migao had made certain prepayments for the purchases under this contract in RMB in December 2021 but had not paid for the remaining accounts payable to Supplier D, being the Outstanding Supplier D Payable, prior to the expiry date of Belarus General License 5 on 1 April 2022. Guangdong Migao obtained confirmation from Supplier D that it had received all potash from the Belarus Producer prior to 8 December 2021 (i.e. the expiry date of Belarus General License 4). In addition, all potash under the 2021 Contract was shipped by Supplier D to us by 27 December 2021 (i.e., prior to 1 April 2022, the expiry date of Belarus General License 5).

Between our Group and the Fertiliser Traders: Separately, on 18 March 2021, Guangdong Migao entered into three contracts with Supplier A and two other fertiliser trading companies (collectively, the "**Fertiliser Traders**"), respectively. Guangdong Migao made various US$ and RMB prepayments to these Fertiliser Traders after 1 April 2022, but they had not fulfilled Guangdong Migao's purchases. While certain of these prepayments were in US$, we confirm that the prepayments were specifically for KCL sourced from Russia, and the Fertiliser Traders also confirmed that the prepayments did not result in any payments made to Supplier D or goods being delivered from Supplier D after 1 April 2022.

Between the Fertiliser Traders and Supplier D: The Fertiliser Traders informed Guangdong Migao that they also engaged in fertiliser trading with Supplier D and have made certain purchases for potash from Supplier D for which they prepaid in RMB prior to October or November 2021 (as the case may be). However, Supplier D could not satisfy their purchases and thus owed the Fertiliser Traders certain prepayments.

The Settlements: Supplier D proposed and the parties agreed to set off these debts (among Guangdong Migao, Supplier D and the Fertiliser Traders) in their respective accounting records. This tripartite set off arrangement was documented in three settlement confirmations signed on 31 July 2022 (the "**Settlements**"). As a result of these Settlements, the Outstanding Supplier D Payable was reduced to approximately RMB2.5 million (equivalent to US$0.4 million). Our Group does not intend to make any payment to Supplier D nor any further set off arrangement with Supplier D until and unless all applicable sanctions on Supplier D are lifted.

Indirect purchase transaction with Supplier D

For FY2023, we had domestic purchases of KCL from Company B (a Chinese SOE supplier). One of such purchases amounting to RMB9.2 million was originated from Belarus and it is part of the purchases made pursuant to a purchase and sale contract Guangdong Migao entered into with it in April 2021. The KCL supplied by Company B under that purchase and sale contract was sourced from Supplier D and was shipped to us in multiple shipments, all of which were received by us by October 2021 (before Supplier D was designated as an SDN in December 2021), except for the last shipment which was received by us in April 2022 (the "**April 2022 Shipment**") due to the logistic arrangement of Company B. Based on the confirmation from Company B, the April 2022 Shipment was fully paid for and delivered by Supplier D to Company B in China in July 2021, which was well before the introduction of sanctions on Supplier D. Thus the April 2022 Shipment was not subject to the Belarus sanctions and there was no violation of the sanctions law by us to receive delivery of this shipment in April 2022. Upon receiving the April 2022 Shipment, we have not engaged in any further direct or indirect supply transactions with Supplier D or indirect purchases from the Belarus Producer.

Save for the transactions and dealings disclosed herein, since the imposition of sanctions targeting the Belarus Producer and as at the Latest Practicable Date, there are no other purchases of KCL by us (whether directly or indirectly) whose origins were from Belarus or sourced from the Belarus Producer or Supplier D, and our Group has completely ceased all commercial transactions or dealings of any sort with the Belarus Producer and Supplier D; additionally, we have instituted a compliance system to ensure that no KCL will be sourced (directly or indirectly) from Belarus and any sanctioned parties.

Based on the above facts and confirmations, we are advised by our International Sanctions Legal Advisers that, with respect to U.S. sanctions:

1. in respect of our purchases from Supplier D prior to 9 August 2021, being the date on which the Belarus Producer was designated as an SDN, such purchases were not subject to U.S. primary or secondary sanctions;

2. in respect of our direct purchases from Supplier D after 9 August 2021 pursuant to (a) a contract dated December 2020 and (b) the 2021 Contract for potash sourced from the Belarus Producer, given that (i) the transactions were conducted pursuant to the terms of contracts initially entered into prior to the introduction of sanctions on the Belarus Producer and Supplier D which set out the quantity and quality of the specified potash and (ii) the shipments thereunder were made by Supplier D to us in September 2021 and December 2021, respectively, and (iii) all potash was received by Supplier D from the Belarus Producer before 8 December 2021 (i.e. the expiry of Belarus General License 4), such transactions would be deemed "wind down" transactions within the scope of the Belarus general licenses, and accordingly, such transactions would not be the subject of secondary sanctions enforcement pursuant to published OFAC guidance;

3. in respect of the set off between Supplier D and us using the rebates owed by Supplier D to us, even though they took place after 1 April 2022 (the expiry of Belarus General License 5), on the basis that such rebates set off (i) was not accompanied by any actual payments between us and Supplier D and (ii) merely represented a settlement through bookkeeping/accounting entries, they would not give rise to either U.S. primary or secondary sanctions risks;

4. in respect of the prepayments Guangdong Migao made to the Fertiliser Traders after 1 April 2022, while certain of these prepayments were in US$, on the basis of our confirmations and the Fertiliser Traders' confirmations stated above, these prepayments did not give rise to either U.S. primary or secondary sanctions risks;

5. in respect of the Settlements, they did not give rise to any U.S. primary sanctions risks due to lack of U.S. nexus; in terms of secondary sanctions risks, on the basis that (i) there were no actual payments made between the three parties under the Settlements and that the Settlements represented a tripartite set off of outstanding obligations, and (ii) the U.S. government's policy is to reduce the impact on global food supplies and prices and to ensure world food security, these Settlements are not subject to material risk under U.S. secondary sanctions;

6. in respect of the April 2022 Shipment, on the basis that it was received and fully paid for (by Company B to Supplier D) prior to Supplier D being designated as an SDN, the April 2022 shipment was not subject to the Belarus sanctions and there was no violation of the sanctions law by us to receive delivery of this shipment in April 2022;

7. our procurement of potash sourced from Belarus would not constitute "operating in, or having operated in" the potassium chloride (potash) sector of Belarus. While OFAC has not issued any guidance in respect of the definition of "operating in", such term is commonly interpreted to be limited to investment in, or establishing a legal presence in, the targeted sector and our Group has not undertaken such activities; and

8. our cessation of entering into new purchase contract with Supplier D since its SDN designation, together with our efforts and compliance measures taken to prevent procurement of potash from Belarus after expiry of Belarus General License 5, would help to mitigate any material sanctions risk.

Our International Sanctions Legal Advisers further advised us that, with respect to UN, EU, UK and Canada sanctions, since our business dealings with Supplier D and the Belarus Producer are carried out by our subsidiaries, none of which are incorporated in the EU, UK or Canada and thus EU, UK and Canada sanctions would not apply.

Accordingly, our business dealings with Belarus are not subject to material risk in respect of U.S. primary or secondary sanctions, nor subject to material risk in respect of the relevant UN, EU, UK and Canada sanctions.

We do not intend to engage in further transactions with Supplier D or otherwise purchase KCL originated from Belarus, either directly or indirectly, for so long as Supplier D and/or the potash sector of Belarus remains subject to international sanctions.

Russia

We have also purchased KCL from Russia, which has been subject to various sanctions measures, including further sanctions measures since its military aggressions in Ukraine in February 2022. However, to ensure global food security, the U.S. Department of Treasury has clarified on 14 July 2022 that agricultural commodities (including fertilisers) are not targets of the sanctions imposed by the U.S. on Russia and the U.S. has not imposed sanctions on the exportation of fertiliser from, to, transiting, or involving Russia. On the same day, the OFAC issued a broad general license to authorise, among other activities, certain transactions related to the production, manufacturing, sale, or transport of agricultural commodities (including fertilisers) relating to Russia. The term "fertilizer" is used in a broad sense as defined in the U.S. Agricultural Trade Act of 1978 and therefore should include potash/KCL products. On 17 January 2023, the OFAC issued General License No. 6C, which replaced General License No. 6B by expanding the applicable scope to include the "provision" of agricultural commodities. Similarly, the EU stated on 21 July 2022 that it is committed to avoiding all measures which might lead to food insecurity around the globe, and it had not adopted any measures targeting the trade in agricultural and food products (including fertilisers) between third countries and Russia. On 9 November 2022, the EU stated that it has essentially exempted the agri-food sector and fertilisers from its restrictive measures against Russia.

Since the U.S. and EU have clarified that the Russia's fertiliser sector is not the target of their sanctions measures targeting Russia and they have not imposed sanctions on Russian fertilisers (including potash), our International Sanctions Legal Advisers are of the view that our business dealings in respect of Russia are not subject to material risk in respect of U.S. primary or secondary sanctions, nor subject to material risk in respect of the relevant UN, EU, UK and Canada. In addition, on the basis that (i) with respect to U.S. sanctions, our products are produced from (x) raw materials received from non-sanctioned parties, and (y) raw materials from Russia (directly or indirectly) that were purchased by our PRC subsidiaries or our suppliers from Russian counterparties which are not subject to U.S. sanctions (including by virtue of applicable general licenses), and (ii) with respect to EU sanctions, none of our Group's subsidiaries are established in the EU and thus EU economic sanctions do not have jurisdiction over our subsidiaries and their products, it is the view of our International Sanctions Legal Advisers that our products produced from raw materials origin from Russia (either directly or indirectly) during the Track Record Period are not subject to economic sanctions measures imposed by the U.S. and EU. We intend to continue our business dealings in respect of Russia, subject to our strict adherence to our sanction compliance measures, which were designed to minimise our risk exposure to international sanctions in our future dealings with third parties subject to international sanctions of any kind.

For details of our business dealings with third parties subject to international sanctions, our sanctions compliance measures and the relevant sanctions laws and regimes, please refer to the section headed "Business – Business Dealings with Third Parties Subject to International Sanctions", the section headed "Risk Factors – Risks Relating to Our Business – We could be adversely affected as a result of any transactions we have with countries that are, or become subject to, sanctions administered by the Relevant Sanctions Authorities and other relevant authorities administering sanctions measures" and the section headed "Regulatory Overview – Sanctions Laws and Regulations" in this document.

MEASURES TAKEN BY US TO ADDRESS KCL SUPPLY UNCERTAINTY

Alternative Sourcing of KCL

The global supply of KCL has been disturbed since 2021 as a result of the COVID-19 pandemic outbreak, the international sanctions targeting the Belarus Producer, the conflict between Russia and Ukraine and the resulting sweeping sanctions against Russia by the Western countries, the rising costs in logistics and transportation, and many other factors, which have brought uncertainty to the global supply of KCL.

To address the supply uncertainty and the sanctions of Supplier D of Belarus, and to ensure stable supply of KCL for our operations, we have strengthened cooperation with our existing potash suppliers to increase purchase of KCL from them, for example:

1. we entered into a memorandum of understanding with Supplier A (an international fertiliser trading company), our existing supplier, in January 2022 (further supplemented by an additional agreement to memorandum of understanding in May 2022), and pursuant to which Supplier A agreed to supply 500,000 tonnes of potash originated from Russia or, where unavailable, from non-CIS countries through designated cross-border suppliers to us in 2022. We further extended the term of the memorandum of understanding to 25 January 2024 with Supplier A; and

2. we also entered into a memorandum of understanding with CNCCC, a large Chinese SOE, principally engaged in the sales of chemical products, for the supply of 500,000 tonnes of potash with origin from Russia from March 2022 to February 2023. We further extended the term of the memorandum of understanding to 31 December 2023 with CNCCC.

As our total aggregate purchase volume of KCL from Supplier D and domestic purchase of KCL with origin from Belarus was approximately 257,000 tonnes and 408,000 tonnes for FY2021 and FY2022, respectively, we believe the supply of KCL pursuant to the above memoranda of understanding can fully replace our historical purchase volume of KCL from Supplier D and KCL origin from Belarus. We purchased in aggregate, approximately 206,000 tonnes of KCL with origin from Russia from Supplier A and CNCCC in 2022 and up to 31 March 2023.

In addition, while it is unequivocally confirmed by the U.S. and EU that Russia's potash sector is not a target of their sanctions measures targeting Russia, out of abundance of caution, we decided to explore alternative sources of KCL purchases, with origins from places other than Russia and Belarus, for example, KCL originated from China and Germany.

We have negotiated with Southwest Salt Lake, an associate company of the largest domestic potash producer group in the PRC and have signed a memorandum of understanding with it for the supply of 300,000 tonnes of premium grade potash to us from September 2022 to August 2023. As advised by our PRC Legal Advisers, pursuant to the terms of the memorandum of understanding, we may continue to purchase potash from Southwest Salt Lake until the 300,000 tonnes of potash under the memorandum of understanding have been purchased. The terms of our purchases of KCL with Southwest Salt Lake are similar to the terms of our purchases of KCL with other domestic suppliers of KCL. We purchased a total of approximately 2,000 tonnes of KCL from Southwest Salt Lake in 2022 and up to 31 March 2023.

We have also discussed with Supplier A to engage in price inquiry with it on the supply of KCL with origins from non-CIS countries as part of the memorandum of understanding we signed with it in January 2022 as described above. In October 2022, we entered into purchase contract for the purchase of approximately 3,000 tonnes of KCL with origin from a non-CIS country, Germany, from Supplier A.

We plan to continue to develop other alternative sources of KCL. For example, we have historically purchased KCL from a Canadian supplier. We believe we have the capability to continue to purchase from them in the future should the need arises.

For further information on our alternative sourcing, please refer to the section headed "Business – Development in Global Potash Supply and Prices – Measures Taken by us to Address Supply Uncertainty" in this document. Our Directors believe that these alternative sourcing and new business relationships with domestic producer and other overseas suppliers will diversify our source of supplies, and reduce the risk of concentration on a number of existing suppliers.

Price of KCL

The global prices of potash have reportedly risen significantly in early 2022 to a record high of US$875 per tonne from the 2021 price level of US$481 per tonne. The price of fertiliser peaked in May 2022 and since that point, prices have slowly declined. In China, the Sea Import Master Contract Price has increased to US$590 per tonne in February 2022 from US$247 per tonne in February 2021 and later decreased to US$307 in June 2023. Similar to the global price trend, the price of imported KCL in China has increased significantly in the first half of 2022, peaked in May and June 2022 at approximately US$770 per tonne, and has since recorded gradual decline, according to the Frost & Sullivan Report.

Financial Impact

Despite the global KCL supply uncertainty and the sanctions of Supplier D, our revenue, gross profit and profit for the year continued to grow in FY2023 compared to FY2022. Our revenue increased from RMB3,841.4 million for FY2022 to RMB4,722.7 million for FY2023, our gross profit increased from RMB633.4 million for FY2022 to RMB767.5 million for FY2023 and our profit for the year increased from RMB396.6 million for FY2022 to RMB421.5 million for FY2023.

Although during the Track Record Period our average purchase price of KCL from domestic purchase was generally higher than our average purchase price of KCL from overseas suppliers save for FY2022, our gross profit margin for FY2023 remained relatively stable where we purchased 93.2% of KCL by volume from domestic suppliers. We have recorded a similar gross profit margin for FY2022 and FY2023. Our gross profit margin was approximately 12.0%, 16.5% and 16.3% for FY2021, FY2022 and FY2023, respectively.

During the Track Record Period, we were generally able to pass on most of the impact from the change in our purchase price of KCL to our customers. Our average purchase price per tonne of KCL increased by approximately RMB756.7 from FY2021 to FY2022 and increased by approximately RMB547.6 from FY2022 to FY2023; while our average selling price per tonne of KCL increased by approximately RMB1,143.9 from FY2021 to FY2022 and increased by approximately RMB903.9 from FY2022 to FY2023. We, therefore, witnessed a greater increase in our average selling price per tonne of KCL than our average purchase price per tonne of KCL during the Track Record Period. As such, we have been generally able to pass on the increase in the cost of KCL to our customers during the Track Record Period when the global KCL price has experienced the most significant increase and we believe we will be able to continue to do so, taking into account of the fact that the global KCL price has stabilised since May 2022 and recorded gradual decline.

Operational Impact

The global supply of potash fertilisers and raw materials of potash fertilisers have been disturbed by a number of factors, such as the COVID-19 pandemic outbreak in 2020, the international sanctions targeting the Belarus Producer since August 2021, the conflict between Russia and Ukraine starting in February 2022 and the resulting sweeping sanctions against Russia by the Western countries, the rising costs in logistics and transportation as a result of high energy price and global inflation. To ensure our operation would not be materially impacted by the supply chain interruption, it is our strategy to attempt to, if necessary, stock up inventory of KCL to support the uninterrupted production at our factories. During FY2023, we purchased less than 10% of KCL by volume from overseas suppliers. Instead, we relied on third parties, domestic suppliers, to procure supply of KCL with origin from overseas. As such, there is minimal impact on our business operation in view of the temporary change of our procurement channel from a mix of overseas and domestic purchase of KCL to primarily domestic purchase of KCL during FY2023.

COVID-19

Since the beginning of 2022, the Omicron variant of COVID-19 has rebounded in China, which have impacted our normal business operations including disruption in logistics services leading to prolonged and delayed delivery in the supply of raw materials by our suppliers and sales of our products to our customers. Further, our Changchun Production Facility was temporarily suspended from mid-March 2022 to end of April 2022 following the guidance from the local government on COVID-19 protection measures. In addition, COVID-19 has also delayed our construction plan of our New Sichuan Production Facility and the Heilongjiang Logistics and Production Centre and the completion of the construction of phase II of our Baoqing Production Facility and phase II of our Anda Production Facility. Another round of COVID-19 outbreaks throughout October and November 2022 resulted in multiple cities across China under lock-down. Since late 2022 and early 2023, China has experienced a surge in COVID-19 confirmed cases. Some of our operations was temporarily affected. For example, we experienced a temporary shortage of employees at our Anda Production Facility and there were also disruptions in the transport of raw materials and products to and from our Anda Production Facility during such period.

Although some parts of our operations have been affected by the COVID-19 pandemic, the COVID-19 pandemic outbreak has not materially adversely affected our overall results of operations or financial conditions. Please refer to the section headed "Business – Impact of the COVID-19 Outbreak on our Business" in this document for further information. Given that the PRC government has substantially lifted its COVID-19 prevention and control policies, our Directors are of the view that the COVID-19 pandemic is not expected to have a material adverse impact on our business in the long run. Nevertheless, if there are further waves of large-scale outbreaks of the pandemic in the PRC, the operations of our production facilities or the services provided by our logistics service providers may be adversely affected. The pandemic may also continue to affect the overall economy and demand for our products. In such circumstances, our operations and financial performance maybe adversely affected. Please also refer to the section headed "Risk factors – Risks Relating to Our Business – We face risks related to force majeur events such as health epidemics, infectious diseases and other outbreak, including the COVID-19 outbreak" in this document.

RECENT DEVELOPMENTS

Recent Financial and Operational Developments

Based on our unaudited management accounts for 4MFY2024, our revenue for 4MFY2024 decreased when compared with 4MFY2023 primarily due to the decrease in the selling price and sales volume of our KCL products as the market price of KCL was lower in April to July 2023 as compared to April to July 2022 and our customers did not have to increase their KCL reserve in view of the stabilised market price of KCL. Our gross profit and gross profit margin also decreased for 4MFY2024 compared to 4MFY2023 primarily due to the decrease in gross profit and gross profit margin of our KCL products.

Our sales volume of our KCL products, SOP products, NOP products and compound fertiliser products were approximately 286,800 tonnes, 28,000 tonnes, 100 tonnes and 1,300 tonnes, respectively, for 4MFY2023 and approximately 233,300 tonnes, 34,000 tonnes, 400 tonnes and 800 tonnes, respectively, for 4MFY2024. Our sales volume of our KCL products decreased by approximately 53,500 tonnes from 4MFY2023 to 4MFY2024 primarily due to the increase in potash fertiliser reserves of some of our customers during 4MFY2023 in view of the potential risk of adverse market price fluctuation of KCL as a result of global supply uncertainty, which led to increase in sales of KCL during the low season in 4MFY2023. Our sales volume of our SOP products increased by approximately 6,000 tonnes from 4MFY2023 to 4MFY2024 primarily due to our lower average selling price of our SOP products as a result of the decline in the market price of KCL.

In 2023, with the increase of domestic and foreign supply of potash fertiliser, the price of potash fertiliser continued its downward trend. On 6 June 2023, the Chinese negotiation team reached an agreement on the new Sea Import Master Contract Price of KCL with a Canadian potash company. The new Sea Import Master Contract Price is US$307 per tonne, which represents a significant decrease in price from US$590 per tonne in February 2022. According to the Frost & Sullivan Report, the decline in the Sea Import Master Contract Price is beneficial to Chinese farmers in reducing fertiliser costs, and is expected to stimulate the demand for potash fertilisers in China.

For FY2024, we anticipate that our revenue will decrease compared to FY2023 primarily due to the anticipated decrease in the average selling price of our KCL and SOP products in view of the significant decrease in the Sea Import Master Contract Price from US$590 per tonne in February 2022 to US$307 per tonne in June 2023, but partially offset by an increase in sales volume of our KCL and SOP products due to the expected increase in demand for potash fertilisers in China. Further, we also expect a decline in our gross profit margin for FY2024 compared to FY2023 primarily due to the decrease in selling price of our KCL products, but partially offset by (i) the decrease in unit cost of goods sold of our potash fertiliser products; and (ii) an increase in sales volume of our SOP products which generally has a higher profit margin. We also expect the profit for the year for FY2024 will decrease as compared to FY2023 primarily as a result of the expected decrease in gross profit, but partially offset by (i) decrease in other gains and losses due to decrease in net foreign exchange losses as a result of decrease in the settlements of monetary liabilities denominated in US$; (ii) decrease in distribution and selling expenses in line with the decrease in revenue; and (iii) decrease in income tax expenses in line with the decrease in profit before tax.

Recent Regulatory Developments

On 17 February 2023, the CSRC promulgated the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "**Overseas Listing Trial Measures**") and five relevant guidelines, which became effective on 31 March 2023. The Overseas Listing Trial Measures comprehensively improved and reformed the regulatory regime for overseas offering and listing of PRC domestic companies' securities and regulated both direct and indirect overseas offering and listing of PRC domestic companies' securities by adopting a filing-based regulatory regime.

Pursuant to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfil the filing procedure with the CSRC and report relevant information. The Overseas Listing Trial Measures provides that if the issuer meets both the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as indirect overseas offering by PRC domestic companies: (i) 50% or more of any of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; and (ii) the main parts of the issuer's business activities are conducted in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have their usual place(s) of residence located in mainland China. Where an issuer submits an application for initial public offering to competent overseas regulators, such issuer must file with the CSRC within three business days after such application is submitted.

On the same day, the CSRC also held a press conference for the release of the Trial Measures and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies (《關於境內企業境外發行上市備案管理安排的通知》), which, among others, clarifies that (i) on or prior to the effective date of the Overseas Listing Trial Measures, domestic companies that have already submitted valid applications for overseas securities offering and listing but have not obtained approval from overseas regulatory authorities or stock exchanges may reasonably arrange the timing for submitting their filing applications with the CSRC, and must complete the filing before the completion of their overseas securities offering and listing; (ii) a six-month transition period will be granted to domestic companies which, prior to the effective date of the Overseas Listing Trial Measures, have already obtained the approval from overseas regulatory authorities or stock exchanges (such as the completion of hearing in the market of Hong Kong or the completion of registration in the market of the United States), but have not completed the indirect overseas listing; if domestic companies fail to complete the overseas listing within such six-month transition period, they shall file with the CSRC according to the requirements. Please refer to the section headed "Regulatory Overview – Laws and Regulations Relating to Overseas Listing" in this document for further information.

[**REDACTED**]

NO MATERIAL ADVERSE CHANGE

Our Directors confirmed that since 31 March 2023 (being the date on which the latest audited consolidated financial statements of our Group were prepared) and up to the date of this document, (i) there had been no material adverse changes in the market conditions or the industry and environment in which we operate that materially and adversely affect our financial or operating position; (ii) there was no material adverse change in the trading and financial position or prospects of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants' Report set out in Appendix I to this document.

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Accountants' Report"	the report of the Reporting Accountants dated [●] 2023, the text of which is set out in Appendix I to this document
"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"AFRC"	the Accounting and Financial Reporting Council
"Anda Migao"	Anda Beidahuang Migao Agricultural Technology Co., Ltd.* (安達北大荒米高農業科技有限公司), a company established under the laws of the PRC with limited liability on 19 June 2018 and is owned as to 35% by Heilongjiang Beidahuang, and 65% by us through Changchun Migao (as to 34%) and Guangdong Migao (as to 31%). Anda Migao was our joint venture from its establishment to 30 March 2022 and was consolidated and accounted for as our subsidiary from 31 March 2022
"Anda Production Facility"	our production facilities located in Anda City, Heilongjiang Province, the PRC which is owned by Anda Migao, details of which are set out in the sections headed "Business – Production Facilities and Capacities" of this document
"APPH"	Asia Pacific Potash Holdings Limited (亞太鉀肥控股有限公司), a company incorporated in Hong Kong with limited liability on 13 May 2016 and is wholly-owned by Elegant Castle
"Articles" or "Articles of Association"	the articles of association of our Company (as amended from time to time), conditionally adopted on [●] 2023, a summary of which is set out in Appendix III to this document
"associate(s)"	has the meaning ascribed to it under the Listing Rules

"Baoqing Migao"	Baoqing Migao Agricultural Technology Co., Ltd.* (寶清米高農業科技有限公司), a company established under the laws of the PRC with limited liability on 14 May 2018 and is owned as to 23% by Heilongjiang Beidahuang, and 77% by us through Guangdong Migao (as to 40%) and Changchun Migao (as to 37%). Baoqing Migao was our joint venture from its establishment to 30 March 2022 and was consolidated and accounted for as our subsidiary from 31 March 2022
"Baoqing Production Facility"	our production facilities located in Baoqing County, Heilongjiang Province, the PRC which is owned by Baoqing Migao, details of which are set out in the section headed "Business – Production Facilities and Capacities" in this document
"Belarus Producer"	a state-owned potash fertiliser producer in Belarus, which is one of the largest producers of potash fertilisers in the world
"Board" or "Board of Directors"	the board of directors of our Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business to the public
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Canadian dollars" or "CAD" or "C$"	Canadian dollars, the lawful currency of Canada

[**REDACTED**]

"Cayman Companies Act"	the Companies Act (2022 Revision) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time

[**REDACTED**]

"Changchun Migao"	Migao Chemical (Changchun) Co., Ltd.* (米高化工(長春)有限公司), a company established under the laws of the PRC with limited liability on 5 December 2006 and our wholly-owned subsidiary
"Changchun Production Facility"	our production facilities located in Changchun City, Jilin Province, the PRC which is owned by Changchun Migao, details of which are set out in the section headed "Business – Production Facilities and Capacities" in this document
"Chengdu Production Facility"	our production facilities located in Chengdu City, Sichuan Province, the PRC which is owned by Sichuan Migao, details of which are set out in the section headed "Business – Production Facilities and Capacities" in this document
"China" or "the PRC"	the People's Republic of China excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan

"Circular 13"	Circular of SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies* (關於進一步簡化和改進直接投資外匯管理政策的通知), promulgated by SAFE in February 2015
"Circular 37"	Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investment Conducted by Domestic Residents through Overseas Special Purpose Vehicle* (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by SAFE in July 2014
"Circular 75"	Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) promulgated by SAFE in October 2005 and annulled in July 2014
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company" or "our Company" or "the Company"	Migao Group Holdings Limited 米高集團控股有限公司, an exempted company incorporated under the laws of the Cayman Islands with limited liability on 21 November 2017
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and in the context of this document, refers to the controlling shareholders of our Company, being Mr. Liu, Migao Barbados and Migao BVI

"Corporate Governance Code"	the corporate governance code set forth in Appendix 14 of the Listing Rules as amended from time to time
"COVID-19"	coronavirus disease 2019
"CSRC"	China Securities Regulatory Commission
"Daxing Migao"	Zunyi Daxing Compound Fertiliser Co., Ltd.* (遵義大興複肥有限責任公司), a company established under the laws of the PRC with limited liability on 5 November 1996 and is owned as to 51% by Sichuan Migao and 49% by Guizhou Tobacco Investment and is our subsidiary
"Daxing Production Facility"	our production facilities located in Zunyi City, Guizhou Province, the PRC which is owned by Daxing Migao, details of which are set out in the section headed "Business – Production Facilities and Capacities" in this document
"Deed of Indemnity"	the deed of indemnity dated [●] 2023 executed by our Controlling Shareholders in favour of our Company (for itself and on behalf of our subsidiaries) to provide certain indemnities, particulars of which are set out in the section headed "Appendix IV – Statutory and General Information – D. Other Information – 1. Tax and other indemnities"
"Director(s)"	director(s) of our Company
"EIT"	enterprise income tax in the PRC
"Elegant Castle"	Elegant Castle International Limited, a BVI business company incorporated under the laws of the BVI with limited liability on 19 September 2011 and is wholly-owned by Migao Barbados
"EU"	the European Union
"EuroChem Group"	EuroChem Group AG, a company incorporated under the laws of Switzerland and is an international fertiliser producer

"EuroChem International"	EuroChem International Holding B.V., a company incorporated under the laws of the Netherlands with limited liability on 12 December 2008, which is wholly-owned by EuroChem Group
"EuroChem Migao"	EuroChem Migao Limited, a limited liability company incorporated in Hong Kong on 14 February 2014 and is owned as to 50% by HK Migao and 50% by EuroChem International and is our joint venture
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the independent industry consultant commissioned by our Company to prepare the Frost & Sullivan Report
"Frost & Sullivan Report"	the independent research report commissioned by our Company and prepared by Frost & Sullivan
"FY2020"	the Company's financial year ended 31 March 2020
"FY2021"	the Company's financial year ended 31 March 2021
"FY2022"	the Company's financial year ended 31 March 2022
"FY2023"	the Company's financial year ended 31 March 2023
"FY2024"	the Company's financial year ending 31 March 2024

[**REDACTED**]

"Group", "our Group", "the Group", "we", "us", or "our"	our Company and our subsidiaries, or, where the context so requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

"Guizhou Tobacco Investment"	Guizhou Tobacco Investment Management Co., Ltd.* (貴州煙草投資管理有限公司), an Independent Third Party (other than being a substantial shareholder of Daxing Migao)
"Guizhou Tobacco Zunyi"	Zunyi Branch of Guizhou Tobacco Company* (貴州省煙草公司遵義分公司), now known as Zunyi City Branch of Guizhou Tobacco Company* (貴州省煙草公司遵義市公司)
"Guangdong Migao"	Guangdong Migao Chemical Co., Ltd.* (廣東米高化工有限公司), a company established under the laws of the PRC with limited liability on 30 April 2004 and is our wholly-owned subsidiary
"Guangdong Production Facility"	our production facilities located in Foshan City, Guangdong Province, the PRC which is owned by Guangdong Migao, details of which are set out in the section headed "Business – Production Facilities and Capacities" of this document
"Heilongjiang Beidahuang"	Heilongjiang Beidahuang Modern Agricultural Services Group Agricultural Materials Co., Ltd.* (黑龍江北大荒現代農業服務集團農資有限公司) (formerly known as Heilongjiang Beidahuang Seed Industry Group Agricultural Production Materials Co., Ltd.* (黑龍江北大荒種業集團農業生產資料有限公司)), a state-owned company established under the laws of the PRC with limited liability on 25 August 2008 and is a substantial shareholder of our subsidiaries, Anda Migao and Baoqing Migao, and is therefore a connected person of our Company
"Heilongjiang Logistics and Production Centre"	a logistics, warehousing and production centre we intend to construct in Tongjiang City, Heilongjiang Province, the PRC, details of which are set out in the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**] – Heilongjiang Logistics and Production Centre" in this document

[**REDACTED**]

[**REDACTED**]

"HK Migao"	H.K. Migao Industry Limited (香港米高實業有限公司), a limited liability company incorporated in Hong Kong on 24 August 2005 and is our wholly-owned subsidiary
"HKFRSs"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants

[**REDACTED**]

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong

[**REDACTED**]

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

[**REDACTED**]

[**REDACTED**]

"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of us, our subsidiaries or any of their respective associates

[**REDACTED**]

"International Sanctions Legal Advisers"	Ashurst Hong Kong, our legal advisers as to international sanctions laws in connection with the [**REDACTED**]

[**REDACTED**]

[**REDACTED**]

"Latest Practicable Date"	12 September 2023, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
"Liaoning Migao"	Liaoning Migao Chemical Co., Ltd.* (遼寧米高化工有限公司), a company established under the laws of the PRC on 18 January 2005 and was disposed of by our Group to APPH on 1 January 2017. Liaoning Migao was indirectly wholly-owned by Mr. Liu (and therefore was a related party of our Company) from 1 January 2017 to 15 June 2022, and it became an Independent Third Party following its disposal by APPH on 15 June 2022

[**REDACTED**]

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"M&A Rules"	the Regulations on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) jointly issued by the MOFCOM, the SASAC, the SAT, the CSRC, the SAIC and the SAFE on 8 August 2006, effective as of 8 September 2006 and amended on 22 June 2009
"Main Board"	the stock market (excluding the options market) operated by the Hong Kong Stock Exchange and which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange

"Malaysia Migao"	Migao Holding (Malaysia) Sdn. Bhd., a company incorporated under the laws of Malaysia with limited liability on 24 November 2017 and is our wholly-owned subsidiary
"Malaysia Migao International"	Migao International (Malaysia) Sdn. Bhd., a company incorporated under the laws of Malaysia with limited liability on 10 July 2017 and is our wholly-owned subsidiary
"Malaysian ringgit" or "RM"	Malaysian ringgit, the lawful currency of Malaysia
"Memorandum" or "Memorandum of Association"	the memorandum of association of our Company, conditionally adopted on [●] 2023 with effect from the [**REDACTED**], as amended from time to time
"Migao Barbados" or "Migao International"	Migao International Holding Limited, a company incorporated under the laws of the BVI with limited liability on 19 August 2005 and was discontinued as a company under the laws of the BVI and continuing as a company under the laws of Barbados on 25 January 2010 and is wholly-owned by Mr. Liu and one of our Controlling Shareholders
"Migao BVI"	Migao Holding Limited 米高控股有限公司, a BVI business company incorporated under the laws of the BVI with limited liability on 17 November 2017 and one of our Controlling Shareholders
"Migao Century (Chengdu)"	Migao Century Engineering Technology (Chengdu) Co., Ltd.* (米高世紀工程技術(成都)有限公司), a company established under the laws of the PRC with limited liability on 11 August 2022 and is our wholly-owned subsidiary
"Migao Corporation (AmalCo)"	Migao Corporation, being the entity formed under the laws of Ontario, Canada on 21 December 2016 as a result of the corporate amalgamation of Migao Corporation (TSX) and Migao Corporation (Purchaser). Migao Corporation (AmalCo) is indirectly wholly-owned by Mr. Liu

"Migao Corporation (Purchaser)"	Migao Corporation, being the entity incorporated as 2521416 Ontario Inc. under the laws of Ontario, Canada on 3 June 2016, the purchaser of Migao Corporation (TSX) which was wholly-owned by Mr. Liu
"Migao Corporation (TSX)"	Migao Corporation, being the entity incorporated as 1273561 Ontario Inc. under the laws of Ontario, Canada on 29 December 1997, which subsequently changed its name to Fox Mountain Explorations Ltd. on 5 June 1998 and further renamed as "Migao Corporation" after the reverse take-over by HK Migao on 18 May 2006
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外經濟貿易部)
"Mr. Liu"	Mr. Liu Guocai (劉國才), an executive Director, our chairman, chief executive officer, and one of our Controlling Shareholders
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"New Sichuan Production Facility"	our new production facility to be constructed in Mianyang City, Sichuan Province, details of which are set out in the section headed "Business – Expansion Plan – New Sichuan Production Facility Plan" in this document
"non-CIS countries"	countries which are not one of the Commonwealth of Independent States
"OFAC"	The United States Treasury Department's Office of Foreign Assets Control, the principal U.S. regulator implementing and enforcing U.S. international sanctions programmes and policies

[**REDACTED**]

"PBOC"	People's Bank of China (中國人民銀行)
"PRC GAAP"	Generally Accepted Accounting Principles of the PRC
"PRC government" or "State"	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
"PRC Legal Advisers"	Jingtian & Gongcheng, the PRC legal advisers to our Company

[**REDACTED**]

"Primary Sanctioned Activity"	has the meaning ascribed to it under the 2019 Guidance Letter, means any activity in a Sanctioned Country or (i) with; or (ii) directly or indirectly benefiting, or involving the property or interests in property of, a Sanctioned Target by a [**REDACTED**] applicant incorporated or located in a Relevant Jurisdiction or which otherwise has a nexus with such jurisdiction with respect to the relevant activity, such that it is subject to the relevant sanctions law or regulation
"Privatisation"	the privatisation and delisting of Migao Corporation (TSX) from the TSX
"Regulation S"	Regulation S under the U.S. Securities Act
"Relevant Jurisdiction(s)"	has the meaning ascribed to it under the 2019 Guidance Letter, means any jurisdiction that is relevant to the [**REDACTED**] applicant and has sanctions related law or regulation restricting, among other things, its nationals and/or entities which are incorporated or located in that jurisdiction from directly or indirectly making assets or services available to or otherwise dealing in assets of certain countries, governments, persons or entities targeted by such law or regulation. For the purposes of this document, Relevant Jurisdictions include the U.S., the EU, the UK, the UN and Canada
"Relevant Person(s)"	has the meaning ascribed to it under the 2019 Guidance Letter, means the Group, its investors and shareholders and persons who might, directly or indirectly, be involved in permitting the [**REDACTED**], trading, clearing and settlement of its shares, including the Hong Kong Stock Exchange and related group companies
"Relevant Sanctions Authorities"	means the relevant governmental authorities in the Relevant Jurisdictions that administer their respective sanctions related law or regulation, such as OFAC
"Reorganisation"	the reorganisation of the group of companies now comprising our Group conducted in preparation for the [**REDACTED**], details of which are set out in the section headed "History, Reorganisation and Corporate Structure" in this document

"Reporting Accountants"	Deloitte Touche Tohmatsu
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"Russian Producer"	a company incorporated in the Russian Federation and is listed on the Moscow Exchange, one of the largest potash producers and exporters in the world
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
"SAIC"	the State Administration for Industry & Commerce of the PRC (中華人民共和國工商行政管理總局) or its delegated authority at the provincial, municipal or other local level
"SAMR"	the State Administration for Market Regulation of the PRC* (中華人民共和國國家市場監督管理總局) or its delegated authority at the provincial, municipal or other local level and its predecessor, SAIC
"Sanctioned Country"	has the meaning ascribed to it under the 2019 Guidance Letter, means any country or territory subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of the Relevant Jurisdiction
"Sanctioned Person(s)"	means certain person(s) and identity(ies) listed on the SDN List or other restricted parties lists maintained by the Relevant Sanctions Authorities
"Sanctioned Target"	has the meaning ascribed to it under the 2019 Guidance Letter, means any person or entity (i) designated on SDN List or any list of targeted persons or entities issued under the sanctions-related law or regulation of a Relevant Jurisdiction; (ii) that is, or is owned or controlled by, a government of a Sanctioned Country; or (iii) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (i) or (ii)

"SDN List"	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with U.S. persons
"SDN"	specially designated nationals and blocked persons
"Secondary Sanctionable Activity"	has the meaning ascribed to it under the 2019 Guidance Letter, means certain activity by a [**REDACTED**] applicant that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the [**REDACTED**] applicant is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shanghai Migao"	Huantaiyang Chemical Industry (Shanghai) Co., Ltd.* (寰太洋化工(上海)有限公司) (formerly known as Migao Chemical Industry (Shanghai) Co., Ltd.* (米高化工(上海)有限公司)), a company established under the laws of the PRC with limited liability on 26 September 2006 and was disposed of by our Group on 1 January 2017. Shanghai Migao is indirectly wholly-owned by Mr. Liu
"Share(s)"	ordinary share(s) in the capital of our Company with nominal value of US$[0.01] each
"Shareholder(s)"	holder(s) of the Shares
"Sichuan Migao"	Sichuan Migao Chemical Fertiliser Co., Ltd.* (四川米高化肥有限公司), a company established under the laws of the PRC with limited liability on 6 June 2003 and is our wholly-owned subsidiary
"Singapore dollars" or "SGD" or "S$"	Singapore dollars, the lawful currency of the Republic of Singapore

"Singapore Migao"	Migao International (Singapore) Pte. Ltd., a company established under the laws of Singapore with limited liability on 31 March 2010 and is our wholly-owned subsidiary
"SOE"	State-owned entity(ies)

[**REDACTED**]

"State Council"	the State Council of the PRC (中華人民共和國國務院)

[**REDACTED**]

"subsidiaries"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"SWIFT"	The Society for Worldwide Interbank Financial Telecommunication, a global provider of secure financial messaging services
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs

"Tianjin Migao"	Huantaiyang Chemical (Tianjin) Co., Ltd.* (寰太洋化工(天津)有限公司) (formerly know as Migao Chemical (Tianjin) Co., Ltd.* (米高化工(天津)有限公司)), a company established under the laws of the PRC with limited liability on 12 December 2007 and was disposed of by our Group on 30 September 2017. Tianjin Migao is indirectly wholly-owned by Mr. Liu
"Tongjiang Migao"	Migao Agricultural Technology (Tongjiang) Co. Ltd.* (米高農業科技(同江)有限公司), a company established under the laws of the PRC with limited liability on 27 May 2021 and is wholly owned by Changchun Migao and is our subsidiary
"Track Record Period"	the three financial years of our Company ended 31 March 2021, 2022 and 2023
"TSX"	the Toronto Stock Exchange
"TSX Venture Exchange"	the TSX Venture Exchange, a public venture capital market place for emerging companies
"UK"	the United Kingdom
"UK Person(s)"	means: (i) any individual who is a UK citizen of the UK (including overseas territories), including dual citizens, regardless of his or her current location in the world; (ii) any individual, regardless of his or her nationality, while physically located in the UK; and (iii) any corporation, partnership, association, or other organisation (and their branches) organised under the laws of the UK or of any territory or possession of the UK
"UN"	the United Nations

[**REDACTED**]

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"U.S." or "United States"	the United States of America
"U.S. dollars" or "US$"	U.S. dollars, the lawful currency of the United States of America
"U.S. Person(s)"	means: (i) any individual who is a U.S. citizen or legal permanent resident of the U.S., including dual citizens, regardless of his or her current location in the world; (ii) any individual, regardless of his or her nationality, while physically located in the U.S.; (iii) any corporation, partnership, association, or other organisation organised under the laws of the U.S. or of any state, territory, possession, or district of the U.S.; and (iv) the foreign branches of any U.S. corporation, partnership, association or other organisation organised under the laws of the U.S. or of any state, territory, possession or district of the U.S.
"U.S. Securities Act"	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
"VAT"	value-added tax
"Yunnan EuroChem"	Yunnan EuroChem Fertiliser Technology Co., Ltd.* (雲南歐羅漢姆肥業科技有限公司), a company established under the laws of the PRC with limited liability on 12 July 2013 and is owned as to 70% by EuroChem Migao and 30% by Yunnan Huaye, an indirect joint venture of our Company

"Yunnan Huaye"	Yunnan Huaye Investment Co., Ltd.* (雲南華葉投資有限責任公司), a company established under the laws of the PRC with limited liability on 12 September 2013 and is wholly-owned by Yunnan Tobacco and is an Independent Third Party
"Yunnan Production Facility"	the production facilities located in Qujing City, Yunnan Province, the PRC which is owned by Yunnan EuroChem
"Yunnan Tobacco"	China National Tobacco Corporation Yunnan Company* (中國煙草總公司雲南省公司)
"Zunyi Migao"	Huantaiyang (Zunyi) Real Estate Leasing Co., Ltd.* (寰太洋(遵義)房地產租貸有限公司) (formerly known as Migao (Zunyi) Real Estate Leasing Co., Ltd.* (米高(遵義)房地產租賃有限公司) and Migao (Zunyi) Technology Fertiliser Co., Ltd.* (米高(遵義)科技肥業有限公司)), a company established under the laws of the PRC with limited liability on 21 February 2011 which was disposed of by our Group on 1 January 2017. Zunyi Migao is indirectly wholly-owned by Mr. Liu
"2019 Guidance Letter"	HKEX-GL101-19 Guidance on Sanctions Risks issued by the Hong Kong Stock Exchange in March 2019
"4MFY2023"	four months ended 31 July 2022
"4MFY2024"	four months ended 31 July 2023
"%"	per cent

Unless otherwise expressly stated or the context otherwise requires, all data in this document is as at the date of this document.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English names of PRC entities, PRC laws or regulations, and PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese marked with "*" is for identification purposes only.

This glossary of technical terms contains explanations of certain technical terms used in this document. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

"compound fertiliser"	a kind of fertiliser with three-components, providing nitrogen, phosphorus and potassium. Compound fertiliser can be used for balanced fertilisation and can increase the utilisation rate of fertilisers
"HCL"	hydrochloric acid, an aqueous solution of hydrogen chloride, belonging to one-component inorganic strong acid, which is an important part of the chlor-alkali industry and is widely used in industrial fields
"KCL" or "MOP"	potassium chloride, a compound with the chemical formula KCl and contain around 60% potassium oxide equivalent
"Mannheim Process"	a mature and reliable production technology in SOP production, which consists of a thermal decomposition reaction between sulphuric acid and KCL to produce SOP and by-products
"m^3"	cubic metre
"mu"	unit of area corresponding to approximately 666.7 sqm per mu
"NHCL"	ammonium chloride, a compound with the chemical formula NH_4Cl and a by-product produced during the production of NOP
"NOP"	potassium nitrate, a compound with the chemical formula KNO_3. It contains potassium, oxygen, and nitrogen
"potash"	potassium
"SOP"	potassium sulphate, a compound with the chemical formula K_2SO_4 and contain around 50% potassium oxide equivalent
"sqf"	square foot
"sqm"	square metre

This document contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words "aim," "anticipate," "believe," "could," "expect," "going forward," "intend," "may," "ought to," "plan," "project," "seek," "should," "will," "would" and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business strategies and plans to achieve these strategies;
- our capital expenditure plans;
- our operation and business prospects;
- projects under construction or planning;
- our financial condition;
- availability of bank loans and other forms of financing;
- our ability to control or reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- future developments, trends and conditions in the industries and markets in which we operate or intend to have business operations;
- changes to the regulatory environment, policies, economic conditions, operating conditions and general outlook in the industries and markets in which we operate or intend to have business operations;
- general economic, political and business conditions in the PRC; and
- certain statements included in the section headed "Business" and "Financial Information" in this document with respect to operations, margins, overall market trends, risk management and exchange rates.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks materialise or should underlying assumptions prove to be incorrect, our financial condition and actual results of operations may be materially and adversely affected and may vary significantly from those estimated, anticipated or projected, as well as from historical results.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect or at all. Accordingly, the forward-looking statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised. All forward-looking statements in this document are qualified by reference to the cautionary statements in this section.

In this document, statements of or references to our intentions or those of our Directors are made as of the date of this document. Any such information may change in light of future developments.

You should carefully consider all of the information set out in this document, including the risks and uncertainties described below before making any investment in the [**REDACTED**]. *The Group's business, financial condition or results of operations could be affected materially and adversely by any of these risks and uncertainties. The market price of the* [**REDACTED**] *could decline significantly due to any of these risks and uncertainties, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial could also harm the business, financial condition or results of operations of the Group.*

RISKS RELATING TO OUR BUSINESS

We are exposed to global KCL supply uncertainty, as well as challenges in logistics and delivery; if we fail to effectively deal with these issues, our business and financial conditions could be adversely affected.

KCL is our major raw material required for the manufacturing and processing of our potash fertiliser products. The global potash reserve is concentrated in Canada, Belarus and Russia, which together account for more than 60% of the global potash reserves in 2022, according to the USGS (US Geological Survey). Accordingly, the global potash mine production is very concentrated, with Canada, Russia and Belarus representing about 60% of global production in 2022, according to the statistics of the USGS. Due to China's geologically lack of quality potash reserves, it relies on import of KCL from overseas countries, in particular Russia, Belarus and Canada.

The global supply of potash fertilisers and raw materials of potash fertilisers have been disturbed since 2021, which resulted from various factors. The sanctions targeting Belarus's potash sector since mid-2021 have put a halt on the global supply of KCL from Belarus. The Russia-Ukraine conflict starting in February 2022 and the resulting sweeping sanctions measures imposed against Russia by the Western countries have further contributed to the uncertainty of global supply of KCL. Other factors, such as repeated COVID-19 outbreaks, the supply chain interruptions, the rising costs in logistics and transportation, the high prices of oil, natural gas, coal and other energy, and global inflation, have also impacted the global supply of KCL. Supply uncertainty of KCL in turn has impacted the global food supplies and prices, threatening food security around the world.

To ensure world food security, various countries and world organisations have taken actions. For example, each of the U.S. and EU has confirmed on 14 July 2022 and 21 July 2022 respectively that Russian fertilisers (which include potash/KCL products) are not the targets of their respective sanctions measures against Russia and it specifically authorised transactions involving Russian fertilisers. Insurance services related to Russian fertilisers are permitted and banks are authorised to process transactions related to Russian fertiliser trades. As such, Russian fertilisers (including KCL products) are not targeted by nor subject to sanctions measures imposed by the U.S. and EU against Russia. In addition, on 22 July 2022, the UN has also signed a memorandum of understanding with Russia on the full access of Russian food and fertiliser products to global markets, reiterating that the right to adequate food is a human right.

However, it may take time to completely remove the effect of sanctions measures on fertiliser trades, for example, problems with cargo insurance and payment settlement may persist. These, together with the global supply chain interruptions brought by COVID-19, continuous war between Russia and Ukraine, rising transportation cost, high energy price, global inflation, unwillingness of certain market players to engage in any transactions related to Russia due to ethical or other considerations, and many other factors may continue to bring uncertainty to the global supply of KCL.

In addressing the supply uncertainty, we have taken several measures ranging from early advanced purchase, strengthening strategic cooperation with existing potash suppliers and alternative sourcing from new potash suppliers or new places of origin. Please refer to the sections headed "Regulatory Overview – Sanctions Laws and Regulations" and "Business – Development in Global Potash Supply and Prices – Measures Taken by Us to Address the Supply Uncertainty" in this document for further information. However, there is no assurance that the measures taken by us to tackle the issues of global supply of KCL would be effective and that we would be able to secure sufficient supply of KCL and other raw materials for our operations should the factors impacting the global supply prolong. Even if we are able to secure adequate source of KCL and other raw materials, there is no guarantee their shipment and transportation will not be impacted by supply chain interruptions, causing delivery in delay. Further, in anticipation of potential delays, we had to increase our inventory to maintain sufficient supply of KCL for our production and operation. If we fail to effectively deal with these issues and challenges, they may have a material adverse impact on our business, financial performance and prospects.

The sweeping sanctions imposed against Russia in March 2022 as a result of Russia's military operations against Ukraine would further reduce the supply in the market. Due to these new sanctions measures, it is reported that Russia faces delivery issues with foreign logistics companies since various countries in Europe and the United States have taken actions to suspend air/sea freight from Russia. For example, various companies are holding back vessels en route to Russia in search of restricted commodities prohibited by sanctions against Russia, container terminals are blocking Russian cargo, Russian airlines are not allowed to call at European airports; the world's three largest container shipping lines have all temporarily suspended non-essential bookings to and from Russia; and Russian ships are banned from docking in Britain.

In addition, the removal of numerous Russian banks from the SWIFT messaging system have also resulted in interruptions in transactions and settlements with Russian counterparties even though such counterparties are not on the Sanctioned Persons list, and would increase the costs of transactions with Russian counterparties.

Some countries may adopt further sanctions against Russia if it continues its military operations in Ukraine and may include potash in their sanctions on Russia. Russia may use potash as a countermeasure and withdraw its willingness to trade. For example, to retaliate against the economic sanctions imposed by Western countries, Russia announced on 10 March 2022 that it has decided to temporarily suspend the export of fertilisers to certain Western countries. On 12 March 2022, Ukraine also announced that it has decided to temporarily ban the export of all types of fertilisers to maintain supply to the domestic market. All of these will further aggravate the global KCL supply shortage. As a result, we cannot guarantee the supply of our KCL fertiliser, SOP fertiliser, NOP fertiliser and compound fertiliser, which may have a material adverse impact on our business, financial performance and prospects.

Further, if the market supply of potash originated from Russia is interrupted, we will need to source our potash from other countries which may negatively affect our gross profit margin. According to the data from the General Administration of Customs of the PRC, the average import price per tonne of KCL (CIF) from Canada (the largest exporter of KCL to China in 2022 according to the Frost & Sullivan Report) was approximately 13.3% higher than that of Russia for FY2023. In the hypothetical scenario that if we had purchased all our KCL in FY2023 from Canada, it is estimated that our cost of raw materials would have increased by approximately 12.4% and our gross profit margin would have decreased from 16.3% to 5.9%, assuming no corresponding changes in selling price. Therefore, if the market supply of potash originated from Russia is interrupted, we may need to look for alternative sourcing location and our business, financial performance and prospects may be adversely affected.

We are exposed to fluctuation of purchase price and procurement costs of KCL, which could materially and adversely affect our business, financial performance and prospects.

KCL is our major raw material and our purchase of KCL accounted for more than 75.0% of our total purchases for each year of the Track Record Period. KCL is a commodity and its price is subject to volatile fluctuation resulting from a variety of factors including without limitation international economic trends, trade sanctions, global and regional supply and demand, uninterrupted supply chain, and global and regional consumption patterns. Due to the international sanctions targeting the Belarus Producer starting in August 2021 and Russia's military operations against Ukraine in February 2022 which casted uncertainty on the global supply of potash, the global prices of potash have reportedly risen significantly in early 2022 to a record high of US$875 per tonne from the 2021 price level of US$481 per tonne. The price of fertiliser peaked in May 2022 and since that point, prices have slowly declined.

According to the Frost & Sullivan Report, the price of KCL imported by sea in China is determined by the market selling price in China with reference to the sea import master contract price (the "**Sea Import Master Contract Price**") negotiated by a consortium of PRC state-owned enterprises with overseas KCL producers and suppliers usually each year in an annual master contract and the import price of KCL in China by ground transportation (the "**Land Import Price**") is negotiated by a group of licensed cross-border trading companies, which is generally determined with reference to the Sea Import Master Contract Price and international market price for KCL. Due to the large volume of KCL import demand by China, the Sea Import Master Contract Price historically has been generally lower than the prevailing global price at the relevant time, while the price trend in China is consistent with the trend of global price in general. Please refer to the section headed "Business – Raw Materials Procurement – KCL" in this document for further details.

If the Sea Import Master Contract Price or the Land Import Price changes due to changes in negotiation mechanism, global supply shortage or any other reasons, our import price of KCL by sea and/or by ground transportation may be affected as it is determined by reference to the Sea Import Master Contract Price or the Land Import Price respectively. This may have a material adverse impact on our business, prospects, financial condition and results of operations. The Sea Import Master Contract Price per tonne of KCL increased from US$220 in April 2020 to US$247 in February 2021 and further increased significantly to US$590 in February 2022 and subsequently decreased to US$307 in June 2023. Similarly in China, the price of imported KCL has increased significantly in the first half of 2022 due to global supply uncertainty. It peaked in May and June 2022 at approximately US$770 per tonne, and has since recorded gradual decline, according to Frost & Sullivan. There are, therefore, material fluctuations with the Sea Import Master Contract Price due to many factors which are outside of our control, and accordingly, we are exposed to purchase price fluctuation and rising costs of procurement of KCL.

In addition, we may need to adjust our procurement model or purchase arrangement due to various commercial reasons; as a result, we may incur additional costs such as transportation, agent handling fees and the like. For example, we have increased our proportion of purchase of KCL from domestic suppliers in FY2023 and we have also started to source domestically-origin KCL in China starting in October 2022. In general, our domestic purchase price is higher than the direct purchase price from overseas suppliers, which was the case in FY2021 and FY2023, but it was vice versa in FY2022. As a result, our cost could fluctuate due to the change of purchase model or arrangement. Please refer to the section headed "Business – Raw Materials Procurement – KCL" in this document for further details. If the prices of KCL increase significantly again in the future, and we are not able to pass on such increase to our customers; or if we are not able to purchase KCL with the same quality and quantity from alternative suppliers at competitive prices, our profit margin may be reduced and our financial performance may be materially and adversely affected.

Our purchase of KCL concentrates on our top five suppliers and any failure or delay in the supply may have a material adverse impact on us.

We rely on our top five suppliers for the supply of KCL. For FY2021, FY2022 and FY2023, purchases from our five largest suppliers amounted to approximately RMB1,531.7 million, RMB2,484.5 million and RMB2,491.4 million, respectively, which accounted for approximately 75.9%, 67.0% and 74.4% of our total purchases, respectively. During the Track Record Period, majority of our purchases from our top five suppliers were for the purchase of KCL. For the same years, purchases from our largest supplier accounted for approximately

22.4%, 19.1% and 29.2% of our total purchases, respectively. Therefore, we rely on a limited number of suppliers for the supply of KCL and have certain degree of supplier concentration. Please refer to the section headed "Business – Suppliers – Top Five Suppliers" in this document for further information.

We have not entered into long-term supply contracts with all of our top five suppliers. While we may from time to time enter into long-term framework agreements with some of our suppliers, the framework agreements generally may be terminated by either party with prior written notice. We cannot guarantee that any of our top five suppliers will renew their framework agreements, if applicable, with us or continue to supply KCL to us in the amount we required. If any of our top five suppliers refuses to continue to supply KCL to us, we cannot guarantee that we can find alternative suppliers for the supply of KCL in a timely manner at acceptable price or on reasonable commercial terms, or at all. Any failure by our top five suppliers to supply KCL at the quantity required by us and at price acceptable to us may have a material adverse impact on our business, prospects and financial conditions.

We are exposed to market risks from fluctuating selling price of our fertiliser products in China.

Our major fertiliser products are KCL and SOP. Prices of fertiliser products have been volatile. During 2020 to 2022, according to the Frost & Sullivan Report, average selling prices of KCL and SOP fluctuated in China, with average selling price of KCL ranged from RMB1,954.2 per tonne to RMB4,468.0 per tonne and average selling price of SOP ranged from RMB2,606.5 per tonne to RMB4,626.1 per tonne.

The price at which we sell our fertiliser products could fall or fluctuate unpredictably in the event of changes in industry supply and demand conditions. There are various factors affecting the prices of our fertiliser products, including but not limited to general economic conditions, cyclical trends in end-user markets, supply and demand imbalances, pricing strategy by our competitors, weather conditions, and seasonal nature of fertiliser application, and therefore the selling prices of our fertiliser products will fluctuate accordingly. Average selling prices of our major fertiliser products fluctuated during the Track Record Period. Our average selling price per tonne of KCL increased from RMB1,723.9 for FY2021 to RMB2,867.7 for FY2022 and further increased to RMB3,771.6 for FY2023. Our average selling price per tonne of SOP increased from RMB2,328.4 for FY2021 to RMB3,281.5 for FY2022 and further increased to RMB3,850.3 for FY2023.

There is no guarantee that the selling prices of our fertiliser products will not fluctuate in the future. In fact, for FY2024, we anticipate that our revenue will decrease compared to FY2023 primarily due to the anticipated decrease in the average selling price of our KCL and SOP products in view of the significant decrease in the Sea Import Master Contract Price from US$590 per tonne in February 2022 to US$307 per tonne in June 2023. In the event the selling prices of our fertiliser products fluctuate in the future and we fail to manage the price fluctuation effectively, our business, prospects, financial condition and/or results of operations may be materially and adversely affected.

We could be adversely affected as a result of any transactions we have with countries that are, or become subject to, sanctions administered by the Relevant Sanctions Authorities and other relevant authorities administering sanctions measures.

The United States and other jurisdictions or organisations, including the EU, the UK, the UN and Canada, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we primarily relied on KCL producers from Russia and Belarus for the supply of KCL. For FY2021, FY2022 and FY2023, our aggregate overseas purchases of KCL from Supplier D in Belarus and our domestic purchases of KCL originated from Belarus accounted for approximately 26.2%, 29.7% and 0.3% of our total purchases of KCL, respectively; our aggregate overseas and domestic purchases of KCL originated from Russia accounted for approximately 17.1%, 23.3% and 99.5% of our total purchases of KCL for the same years, respectively. The remaining purchases for FY2021 and FY2022 were purchased from domestic suppliers, for which while the contracts did not specify the place of origin, the majority of such purchases were from Russia based on our understanding of the potash industry in China. The remaining purchases for FY2023 were purchased from domestic suppliers where the KCL was originated from PRC.

Belarus and Russia are subject to various forms of international sanctions imposed by the U.S and other Western countries. In August 2021, the U.S. started to impose sanctions targeting the Belarus Producer and designated the Belarus Producer as an SDN. On 2 December 2021, the OFAC further designated Supplier D as an SDN. Since such designation, we have ceased entering into purchase contracts with Supplier D. The final shipment of our direct purchase of KCL from Supplier D was shipped on 27 December 2021 and was received in China in February 2022.

Following Russia's military aggression against Ukraine in February 2022, the Western countries have implemented sweeping sanctions targeting Russia ranging from asset freeze measures targeting Russian companies, elites and high ranking senior official to various sectoral restrictions including sweeping financial restrictions (such as the unprecedented restrictions on the Russian Central Bank and its ability to use its currency reserves on Western markets, and the removal of numerous Russian banks from the SWIFT messaging system which would disconnect those banks from the international financial system). As the war rages on, the international sanctions continue to escalate. However, out of the concern of world food security, the U.S. and EU have subsequently clarified that Russia's fertiliser sector is not the target of their sanctions and have authorised transactions relating to the production, manufacturing, sale, or transport of Russian fertilisers (which include potash/KCL products). Please refer to the section headed "Regulatory Overview – Sanctions Laws and Regulations" in this document for further details.

Therefore, we can, and will, continue to purchase and source KCL from Russia. To ensure adequate compliance, we have adopted a series of enhanced sanctions compliance measures. Please refer to the section headed "Business – Business Dealings with Third Parties Subject to International Sanctions – Sanctions Compliance Measures" in this document for further information. However, sanctions laws and regulations are constantly evolving, and new persons and entities are added to the list of Sanctioned Persons from time to time. In addition, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. If any of our future activities with other countries from which we source KCL or other materials are determined by the Relevant Sanctions Authorities or other relevant authorities administering sanctions measures in any other jurisdictions to constitutes a violation of the sanctions imposed by these authorities or provides a basis for a sanctions designation of us, our business and reputation could be adversely affected and our ability to source KCL and other raw materials from certain countries may be impacted.

Further, we have made certain undertakings to the Hong Kong Stock Exchange, including not to use the [**REDACTED**] of the [**REDACTED**], in any manner that could violate any international sanctions. If we were to breach our undertakings to the Hong Kong Stock Exchange, we would be subject to the risk of possible [**REDACTED**] of our Shares on the Hong Kong Stock Exchange. For details of our business dealings with third parties subject to international sanctions and our undertaking to the Hong Kong Stock Exchange, please refer to the section headed "Business – Business Dealings with Third Parties Subject to International Sanctions" in this document.

We rely on our major customers and our customer concentration may expose us to risks relating to fluctuations or decline in our revenue.

Our sales to our top five customers amounted to approximately RMB1,209.7 million, RMB2,282.5 million and RMB2,475.2 million, respectively, which accounted for approximately 58.1%, 59.4% and 52.4% of our total revenue for FY2021, FY2022 and FY2023, respectively. Our top five customers during the Track Record Period included tobacco companies, agricultural reclamation companies and agribusiness companies. Sales to our largest customer for FY2021, FY2022 and FY2023 amounted to approximately, RMB580.1 million, RMB861.0 million and RMB945.4 million, respectively, which accounted for approximately 27.9%, 22.4% and 20.0% of our total revenue, respectively.

There can be no assurance that we will be able to retain our relationships with our major customers and there can be no assurance that such customers will continue to purchase products or procure the same level of orders from us in the future. Further, although we intend to expand our customer base as part of our business strategies, we may not be successful in doing so. If there is any loss of our major customers or any negative change involving any of our major customers, including but not limited to any such customer's financial condition or desire to continue purchasing our products and if we are unable to find new customers to replace them, our business, prospects, financial condition and/or results of operations may be materially and adversely affected.

Decline in market demand for our major fertiliser products may have a material and adverse impact on us.

During the Track Record Period, most of our revenue was derived from our sales of fertiliser products in the PRC. The demand for our fertiliser products is dependent, among other things, on the conditions of the global and, in particular, the PRC economy. For instance, the demand for our fertiliser products in the PRC is significantly affected by the demand from our customers in the fertiliser and agricultural industries in the PRC.

In the PRC, general economic conditions and interest rate levels, inflation and unemployment rates, demographic trends, gross domestic product growth and consumer confidence, among other things, influence the growth of industries where our products are widely used or applied. As a result, a downturn in the relevant industries in the PRC or in the markets where our fertiliser products are used or a downturn in general economic conditions may impact our sales, resulting in pressure on the prices, volumes and margins achieved or achievable in the future. A decline in market demand for our major fertiliser products may materially and adversely affect our business, prospects, financial condition and/or results of operations.

Various permits and licences are required for our production and any loss of or failure to renew any of the necessary permits and licences may have a material and adverse impact on us.

PRC laws and regulations require us to obtain and maintain various licences and permits to operate our business and to manufacture our fertiliser products. For example, such permits include, among others, safety production permit, pollutant discharge permit, national production licence for industrial products, registration certificates of hazardous chemicals and safety production licence for hazardous chemicals. Please refer to the sections headed "Regulatory Overview" and "Business – Licences and Approvals" in this document for details of the various licences and permits. No assurance can be given that we will be successful in obtaining or maintaining any or all of the various permits, licences and approvals required to operate and/or develop our businesses without modification or revocation.

In addition, we hold various permits, licences and approvals authorising our operations and activities which are subject to periodic review and re-assessment by Chinese regulatory authorities. If renewals of new permits, licences, or approvals required in connection with our existing or new facilities or activities are not granted or are delayed, or if existing permits, licences or approvals are revoked or substantially modified, we may be adversely affected. If new standards are applied to renewals or new applications, it could prove costly for us tocomply with these new standards. The failure to renew or obtain permits, licences or approvals or the imposition of conditions upon any of such permits, licences or approvals may have a material adverse effect on our business, prospects, financial condition and/or results of operations.

We may not be able to obtain new KCL automatic import licences.

In the PRC, the imports and exports of KCL are subject to control by the PRC government. The MOFCOM has implemented an automatic licensing system for imports and exports of KCL, under which the MOFCOM or its authorised agencies shall grant a licence to the consignee or consignor who applies for automatic licensing prior to completing customs clearance formalities for imports and exports subject to automatic licensing. This import method enables us to establish direct contact with overseas KCL suppliers and secure relatively stable KCL supply. During the Track Record Period and up to the Latest Practicable Date, we had obtained the relevant KCL automatic import licences for overseas directly imported KCL for each lot of shipment. Therefore, our business relies to a significant extent on our ability to continuously obtain new KCL automatic import licence. Please refer to the section headed "Business – Licences and Approvals" in this document for further information on the KCL automatic import licence.

There may be new requirements for applying for the licence and we cannot guarantee we will be able to meet those new requirements. If we fail to obtain new KCL automatic import licence, we may have to procure KCL exclusively through designated agents or domestic purchase which they may or may not be able to supply all the KCL required by us or at a competitive price. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to effectively plan our production schedules and/or successfully construct new production facilities and/or utilise new production facilities as planned.

We plan and set our production schedules in order to manage and meet the market and seasonal demands for our fertiliser products. Our production planning is subject to a number of contingencies, such as correctly anticipating the demand for our fertiliser products, our labour supply, the skill set of our labour force, breakdown and maintenance of our production equipment or the occurrence of natural disasters. There is no assurance that we will be able to maintain an optimal production schedule at our production facilities in the future. If we fail to implement our production planning and effectively plan our corresponding production, our production capacity and utilisation rate may be adversely affected.

To capture the anticipated growing demands for our fertiliser products, we plan to expand our production capacity through construction of new production facilities. For further details, please refer to the sections headed "Business – Expansion Plan" and "Future Plans and Use of [**REDACTED**]" in this document. In the event we fail to increase our production capacity as planned, we may not be able to capture the expected growth in demand for our fertiliser products.

Further, we may not be able to utilise the new production facilities to the extent we planned. For example, our SOP fertiliser products utilisation rate was only approximately 29.7% for FY2023. For the New Sichuan Production Facility, in order to reach the breakeven point within two years and the payback period in approximately 5.8 years from the commencement date of its construction, we will need to, among others, reach utilisation rate of 60% for the first year of operation, 70% for the second year of operation and 80% for the third to seventh year of operation for our SOP production lines at the New Sichuan Production Facility. For further information, please refer to the section headed "Business – Expansion Plan – Construction Plan and Investment Costs" in this document. We cannot guarantee that we will be able to reach our target utilisation rates for our new production facilities as planned. If we are unable to do so, our business, prospects, financial condition and/or results of operations may be materially and adversely affected.

Any operational disruption in our production facilities may result in a reduction of production and sales volumes and may have a material and adverse impact on us.

As at the Latest Practicable Date, we had five key production facilities (namely, Changchun Production Facility, Guangdong Production Facility, Daxing Production Facility, Baoqing Production Facility and Anda Production Facility) and we also had our Chengdu Production Facility which is subject to relocation. Our ability to meet the demand of our customers and grow our business depends on the efficient, proper and uninterrupted operation of our facilities. Our manufacturing operations may be subject to significant interruption if we experience closure of, interruption in, or prolonged suspension of, any of our production facilities, or any damage to or destruction of our production facilities arising from unexpected or catastrophic events (such as earthquakes, fires or floods) or other similar events. Such risks of operational breakdowns cannot be excluded even if high technical and safety standards for the construction, operation and maintenance of such production facilities are met. Further, our machineries and equipment may need to be repaired from time to time and this may lead totemporary suspension of certain production lines. If we are unable to repair the damage to our production facilities or repair our machineries and equipment and resume our production on a timely basis, our business, operation and our financial performance may be materially and adversely affected.

If deliveries to our customers are delayed or we are not otherwise able to fulfil our obligations to our customers, we may need to purchase fertiliser products from our suppliers for resale to our customers, which would adversely affect our profitability. Our failure to meet our customers' demand may also adversely affect our ongoing relationships with them and their decision to purchase products from us in the future. Since we do not currently carry business interruption insurance, we would have to bear any resulting losses ourselves, which may have a material adverse effect on our business, prospects, financial condition and/or results of operations.

The land where our production facilities are located may be subject to local government zoning policy and we may be required to relocate our production facilities if there is a change of zoning policy of the land where our production facilities are located.

Due to change of zoning policy by local government to re-zone the area where our Chengdu Production Facility is located and our discussion with the local government since October 2018, we decided to relocate our Chengdu Production Facility to our New Sichuan Production Facility in Mianyang City, Sichuan Province upon completion of its construction.

We will incur cost in the relocation of our Chengdu Production Facility which may or may not be fully covered by the proceeds from the sale of the machineries and equipment at our Chengdu Production Facility. Further, we intend to sell the land where our Chengdu Production Facility is located upon the relocation of our Chengdu Production Facility. There is no guarantee that we can sell the land at our expected price or at all and this may have a material adverse impact on our financial condition. Please refer to the section headed "Business – Production Facilities and Capacities – Our Group's Production Facilities – Production Facility Subject to Relocation – Impact of Chengdu Production Facility on our Group" in this document for further details on the impact of the relocation of the Chengdu Production Facility on our Group.

If we are required to close down and relocate our production facilities due to local governments change of zoning policy, our production and sales of fertiliser products may be adversely affected. Further, we may incur additional costs in the closing and/or relocation of those production facilities and our results of operation and our financial results may be adversely affected from the closing and/or relocation.

Our expansion plan and construction-in-progress may affect our Group's cost structure and other associated costs and may not achieve the results we expected.

Due to the planned relocation of our Chengdu Production Facility, we intend to construct our New Sichuan Production Facility in Mianyang City, Sichuan Province, which upon its construction shall be able to replace the NOP and compound fertilisers production lines in our Chengdu Production Facility. In January 2021, we have entered into a cooperation agreement with the local authorities in Mianyang City, Sichuan Province in respect of our investment in our New Sichuan Production Facility. Our New Sichuan Production Facility is expected to commence construction in the first half of 2024 and complete construction in the first half of 2025. Please refer to the section headed "Business – Expansion Plan – New Sichuan Production Facility Plan" in this document for further information on our relocation and expansion plan to our New Sichuan Production Facility.

We also intend to commence construction of a research and development centre in Chengdu City, Sichuan Province in the second half of 2024 to centralise our research and development team to enhance its efficiency. Please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**] – Research and Development Centre" in this document for further information. In addition, we intend to construct warehouse and buildings on a parcel of land we acquired in Anda City, Heilongjiang Province. Please refer to the section headed "Business – Land and Properties – Land" in this document for further information.

We had two sites under construction-in-progress as at the Latest Practicable Date including the construction of phase II of our Anda Production Facility and the construction of the Heilongjiang Logistics and Production Centre in the Heilongjiang Province. For phase II of our Anda Production Facility, the construction of phase II of our Anda Production Facility was commenced around June 2021. We commenced trial production in December 2022 and expect to receive the construction completion approval from the relevant authorities in the second half of 2023. For the Heilongjiang Logistics and Production Centre, site formation and infrastructure works have been commenced and we expect to complete construction of the Heilongjiang Logistics and Production Centre in the second half of 2025. For further details of phase II of our Anda Production Facility, please refer to the section headed "Business – Land and Properties – Construction In-progress" in this document and for further details of the Heilongjiang Logistics and Production Centre, please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**] – Heilongjiang Logistics and Production Centre" in this document for further information.

Such expansion plan and construction-in-progress will or have included, among other things, acquisition of land, purchase of machinery and equipment, building construction and/or installation and miscellaneous costs. We therefore expect a change in our Group's cost structure after the Track Record Period, as both of our fixed and variable costs will increase as a result of our expansion plan and construction-in-progress. The expected increase in depreciation charges and labour costs as a result of the completion of construction of, among others, our New Sichuan Production Facility, the new Sichuan research and development centre, the new warehouse in Anda City, Heilongjiang Province, phase II of our Anda Production Facility and the Heilongjiang Logistics and Production Centre may adversely affect our results of operation and our financial results. Further, we cannot guarantee that the expansion plan will achieve the results we expected. If it did not achieve the results we initially expected, our results of operation and our financial results may be adversely and materially affected.

We may not be able to sustain the gross profit margins at the levels recorded during the Track Record Period.

We have experienced fluctuations in gross profit margins during the Track Record Period. Our gross profit margin increased from approximately 12.0% for FY2021 to approximately 16.5% for FY2022 and slightly decreased to approximately 16.3% for FY2023. The increase in gross profit margin from FY2021 to FY2022 was primarily due to the increase in our gross profit margins of our KCL products and SOP products and the decrease in gross profit margin from FY2022 to FY2023 was primarily due to the decrease in our gross profit margin of our SOP products.

There can be no assurance that we will be able to maintain and secure the gross profit margins at the levels recorded during the Track Record Period. For example, we recorded a significantly lower gross profit margin for FY2020 compared to our gross profit margins during the Track Record Period. Further, we also expect a decline in our gross profit margin for FY2024 compared to FY2023 primarily due to the expected decrease in selling price of our KCL products, but partially offset by (i) the expected decrease in unit cost of goods sold of our potash fertiliser products; and (ii) an expected increase in sales volume of our SOP products which generally has a higher profit margin. In the future, our gross profit margin may decline if the increase in our unit cost of goods sold outpaced the increase in our average selling prices or if the decrease in our average selling prices outpaced the decrease in our unit cost of goods sold. If there is any decline in our gross profit margin in the future or if we fail to sustain the gross profit margins recorded during the Track Record Period, our profitability and financial condition may be adversely affected.

We may not be able to generate positive net cash flow from operating activities and obtain sufficient external financing to meet our financial needs and obligations.

We have also historically recorded negative net cash flow from operating activities, which for example included significant net cash outflow from operating activities for FY2020. During the Track Record Period, our cash flow from operating activities significantly improved, though for FY2022 we recorded negative net cash flow from operating activities of approximately RMB0.3 million. For further information on our cash flow position during the Track Record Period, please refer to the section headed "Financial Information – Liquidity and Capital Resources – Cash Flow" in this document. We cannot assure you that we will not experience negative net operating cash flow in the future. Negative net operating cash flow could impair our ability to make necessary capital expenditures, constrain our operational flexibility, adversely affect our ability to meet our liquidity requirements, and require us to obtain sufficient external financing to meet our financial needs and obligations. If we are unable to do so, we may be in default of our payment obligations and may not be able to implement our business strategies as planned. As a result, our business, financial condition and/or results of operations may be materially and adversely affected.

We may not be able to fulfil our obligation in respect of contract liabilities which may have a material adverse impact on our financial conditions and liquidity.

As at 31 March 2021, 2022 and 2023, we recorded contract liabilities of RMB408.8 million, RMB612.0 million and RMB336.0 million, respectively. Our contract liabilities primarily represent deposits received from customers as we typically receive a deposit of 30% to 100% of total consideration of the goods from certain customers when they enter into contracts with us. In the event that we are not able to fulfil our performance obligations for the sales of our products for any reasons, we would not be able to recognise the contract liabilities as revenue or we may even need to return the deposits received to the customers, which in turn, may materially and adversely affect our financial conditions and liquidity.

Our goodwill and intangible assets are subject to potential impairment, which may materially and adversely affect our financial position and results of operations.

As at 31 March 2021, 2022 and 2023, we recorded goodwill of RMB2.6 million, RMB12.1 million and RMB12.1 million, respectively. The goodwill arose from our acquisition of Daxing Migao during the year ended 31 March 2017 and the acquisition of Baoqing Migao on 31 March 2022. Goodwill is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is allocated to each of our Group's cash-generating units that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. During the Track Record Period, we did not record any impairment losses on our goodwill. However, there is no guarantee that we will not incur impairment losses in the future.

Further, as at 31 March 2021, 2022 and 2023, we recorded intangible assets of RMB8.7 million, RMB7.1 million and RMB5.5 million, respectively. Our intangible assets comprise of the customer relationships acquired in the acquisition of Daxing Migao, which are initially recognised at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. The aggregate amount of customer relationships is amortised over the period of the useful lives of the customer relationships, which is assessed as being 10 years. Any significant impairment losses to our goodwill and intangible assets may reduce our asset and materially and adversely affect our financial position and results of operation.

We may be exposed to impairment loss risks associated with our other receivables and prepayments.

As at 31 March 2021, 31 March 2022 and 31 March 2023, we recorded other receivables and prepayments of RMB659.3 million, RMB1,145.6 million and RMB1,406.8 million, respectively. Our other receivables and prepayments primarily consisted of supplier rebate receivables, inventories prepayment, deferred issue costs, value-added tax receivables and prepayments for transportation costs and other miscellaneous expenses. For further information, please refer to the section headed "Financial Information – Selected Balance Sheet Items – Trade and Other Receivables and Prepayments" in this document. If we incur any material impairment losses on our other receivables and prepayments, our financial position and results of operation may be materially and adversely affected.

Our investment in joint ventures may subject us to risks associated with conducting on operations through joint ventures.

For FY2021, FY2022 and FY2023, our share of results of joint ventures amounted to a loss of RMB2.0 million, a gain of RMB28.3 million and a gain of RMB11.3 million, respectively. Our share of results of joint ventures relates to our share of profit or loss from our joint ventures during the Track Record Period, namely, EuroChem Migao, Baoqing Migao and Anda Migao. Baoqing Migao and Anda Migao had become our subsidiaries on 31 March 2022. The carrying amount of our interest in EuroChem Migao was RMB108.0 million, RMB111.0 million and RMB122.3 million as at 31 March 2021, 2022 and 2023, respectively.

Our cash flow position might be affected by the results of any joint venture we invest in, as typically there is no cash flow to us until dividends are received. In addition, investment in a joint venture is not as liquid as compared with other types of investments. Furthermore, our joint venture partners, as well as any future partners, may have interests that are different from ours which may result in conflicting views as to the conduct of the business of the joint venture. In the event that we have a disagreement with a joint venture partner as to the resolution of a particular issue of the joint venture, or as to the management or operations of the business of the joint venture in general, we may not be able to resolve such disagreement in our favour and such disagreement may have a material adverse effect on our interest in the joint venture or the business of the joint venture in general.

We are subject to credit risk arising from amounts due from our joint ventures.

Our amounts due from joint ventures of trade nature represent the amount receivable from Yunnan EuroChem, a joint venture invested by EuroChem Migao, for the sales of raw materials and/or finished goods. We had amounts due from joint ventures of trade nature of nil, RMB15.2 million and RMB14.3 million as at 31 March 2021, 31 March 2022 and 31 March 2023, respectively.

Our amount due from joint ventures of non-trade nature as at 31 March 2021, 2022 and 2023 were RMB29.8 million, RMB15.2 million and RMB13.2 million, respectively. Such amount represents the general and administrative expenses that our Group paid on behalf of EuroChem Migao.

However, the risk of recoverability is inherent in our outstanding balances from such amounts, as the ability of the joint ventures to repay us depends on a number of factors which may be outside of our control. As a result, we may not be able to recover the amounts due from our joint ventures, which may have a material adverse impact on our business, financial condition and results of operations.

We have historically recorded net loss if other income was excluded.

We recorded significant other income for FY2020 which primarily included imputed interest income derived from the non-trade interest-free receivables due from certain related companies. As such receivables were settled in FY2020, we did not recognise any imputed interest income during the Track Record Period. If excluding the other income, we would have recorded net loss for the year for FY2020.

We cannot guarantee we will not record net loss in the future as the success of our operations and financial performance depends on various factors, many of which are beyond our control. Additionally, we may encounter unforeseen expenses, operating delays, or other unknown factors that may result in losses in the future. If we sustain net loss in the future, our business, prospects, financial condition and/or results of operations will be materially and adversely affected.

Gain on disposal of a leasehold land is non-recurring in nature. Accordingly, we are unlikely to record such gain in the future.

We recorded a one off gain on disposal of right-of-use asset in the amount of RMB94.4 million for FY2021 due to the sum received from the local PRC government for its resumption of the leasehold land held by Sichuan Migao. For details, please see Note 8 and Note 16 to the Accountants' Report included in Appendix I to this document. Such disposal of leasehold land was non-recurring in nature. Therefore, we are unlikely to record such gains in the future and our financial statements for FY2021 may not be indicative of our financial performance and our profitability.

Our business is subject to seasonality impact.

Our business operation is subject to seasonal fluctuation as the demand of fertilisers could be affected by the seasonal nature of fertiliser applications which may cause our operating results to fluctuate from period to period. Different crops are grown in different regions in the PRC at a particular season and different regions would exhibit various seasonal demands for fertiliser products. The demands for our fertiliser products as well as our revenue and results of operations are also influenced by the above sales pattern. As our business is subject to seasonality, we need to plan our production to satisfy the demand of our customers during peak season which is generally from October to March. If we fail to plan our production schedule accordingly, we may not be able to satisfy our customers' demand or we may need to purchase fertiliser products from our suppliers for resale to our customers, which would adversely affect our profitability.

In addition, during the Track Record Period, we made prepayment to some of our suppliers for the purchase of raw materials and our inventories prepayment as at 31 March 2021, 2022 and 2023 were RMB589.3 million, RMB1,042.6 million and RMB1,308.6 million, respectively. Given the seasonality nature of our business, there may be significant time gap between the time we made prepayment to suppliers for the purchase of raw materials and the time we received payments from our customers for the purchase of our fertiliser products. This may have a negative impact on our cashflow which in turn may have a material adverse impact on our business, results of operation and financial conditions.

We historically generated certain portion of our gross profit from our customers in the tobacco industry and any decrease in our gross profit generated from these customers may have a material and adverse impact on us.

For FY2021, FY2022 and FY2023, our gross profit generated from customers in the tobacco industry amounted to approximately RMB36.5 million, RMB15.9 million and RMB11.7 million, which accounted for approximately 14.6%, 2.5% and 1.5% of our total gross profit, respectively.

According to the Frost & Sullivan Report, due to the pressure under stricter tobacco taxation policy, the volume of tobacco leaf production in China represented a declining trend from around 2.24 million tonnes in 2018 to approximately 2.19 million tonnes in 2022 with a CAGR -0.6%. It is expected that the tobacco production in China will continue to decrease given that the improvement of people's health awareness and drastic policy environment.

Given that we historically generated certain portion of our gross profit from our customers in the tobacco industry, any adverse changes or downturn in the tobacco industry in the PRC may materially and adversely affect our business, prospects, financial condition and/or results of operations.

We face risks related to force majeur events such as health epidemics, infectious diseases and other outbreak, including the COVID-19 outbreak.

An outbreak of respiratory illness caused by a strain of coronavirus started in December 2019. The COVID-19 pandemic spread globally and caused severe disease and death, and therefore has significant impact on economy across the globe. Government authorities in the PRC imposed a series of restrictions and controls to better detect the COVID-19 infections and manage the COVID-19. As a result, the economic activities in the PRC have been slowed down. Other governments have also implemented strict policies around the border crossing movement of people, goods, and services.

Our Changchun Production Facility was temporarily suspended from mid-March 2022 to end of April 2022 in accordance with the local government's guidance on COVID-19 protection measures. The operational impact of COVID-19 restrictions may lead to higher operational cost, which may have an adverse impact on our financial condition.

Since late 2022 and early 2023, China experienced a surge in COVID-19 confirmed cases. Some of our operations were temporarily affected. For example, we experienced a temporary shortage of employees at our Anda Production Facility and there were also disruptions in the transport of raw materials and products to and from our Anda Production Facility during such period. Further, the COVID-19 outbreak has led to disruption in logistics services leading to prolonged and delayed delivery in the supply of raw materials by our suppliers and sales of our products to our customers. Please refer to the section headed "Business – Impact of the COVID-19 Outbreak on our Business" in this document for further information.

Although given that the PRC government has substantially lifted its COVID-19 prevention policies as at the Latest Practicable Date, we cannot assure you that the COVID-19 situation will not worsen in the future. If so, our business, operation and financial condition may be materially and adversely affected.

On top of the COVID-19 pandemic, any potential force majeure events such as pandemics and epidemics, infectious diseases, actual or threatened war or terrorist activities, political unrest, civil strike or other geopolitical uncertainties that we cannot foresee and beyond our control may have significant adverse impact on the economy and disrupt our business operations, reduce our supply or services, incur costs to protect our employees and facilities, and would ultimately affect our business and financial condition.

We may be unable to manage our growth effectively.

Our Group, when it was first established in 2003, had only one production facility. After more than 15 years of operation, as at the Latest Practicable Date, we had five key production facilities and became one of the top five potash companies in China by sales volume in 2022 according to the Frost & Sullivan Report. Our revenue grew from approximately RMB2,081.6 million for FY2021 to approximately RMB4,722.7 million for FY2023, representing a CAGR of approximately 50.6%.

However, there is no assurance that we will be able to manage our growth effectively as we had been historically. In the event we are unable to maintain or manage our business growth, or otherwise experience pricing pressure or loss of market presence, we may experience stagnant or negative growth, thereby materially and adversely affecting our business, prospects, financial condition and/or results of operations.

We may not be successful in the research and development of production processes.

We rely on our research and development team to develop and improve our existing production processes through incorporation of new equipment and techniques into the processes to optimise our operation efficiency and effectiveness, enhance automation level of processes, enhance safety and environmental standards and increase product offerings.

However, development of new production processes can be time consuming and costly. We cannot assure you that any of our research projects will be completed within the anticipated time frame, or lead to any breakthroughs. If we are not successful in researching and developing new production processes as per our expectation, we might not be able to recover the research and development costs incurred and our results of operation and financial condition may be adversely affected.

Unexpected adverse weather conditions may have a material and adverse impact on us.

As our business is closely related to the agricultural industry, any natural disasters on a significant scale or adverse weather conditions for any prolonged period of time in the PRC may affect the demands for our fertiliser products. For example, natural disasters or weather conditions such as floods, droughts, earthquakes or frost can cause crop failures that in turn affect the demand for fertilisers. As such, the occurrence of natural disasters or adverse weather condition may materially and adversely affect our business, prospects, financial condition and/or results of operations.

Our business is required to comply with environmental protection laws and regulations and changes in social trend and political policies relating to ESG may have a material adverse impact on us.

Our operations are subject to various environmental protection laws and regulations promulgated by the PRC government in relation to pollution, treatment of waste, transportation, storage and handling of hazardous substances. Failure to comply with applicable laws, regulations, and licencing requirements may result in enforcement actions thereunder. Penalties could include suspension or revocation of necessary licences or permits, civil liability or criminal liability.

Our operations are also subject to the ongoing inspections of the environmental protection department of the local governments. In the event our business operations result in environmental pollution leading to non-compliance of the applicable PRC environmental protection laws and regulations, we may be required to rectify such non-compliance and to compensate the entities or individuals who suffered from losses caused by such non-compliance. The cost of compliance, remediation or liability may materially affect our business, prospects, financial condition and/or results of operations.

Further, with the increasing public awareness on eco-friendliness, customers may shift their preferences for products that are more environmentally friendly. If we are unable to adopt our production processes to produce environmentally friendly products to meet the evolving requirements of our customers, our customers may cease to purchase potash fertiliser products from us and we may result in a loss of sales and our business, results of operations and financial conditions may be materially and adversely affected.

In addition, if we fail to comply with the relevant applicable environmental policies and laws and regulations, not only we may be involved in costly litigation or subject to penalties or other sanctions imposed by the relevant PRC judicial or governmental authorities, our reputation may also be adversely affected, resulting in a loss of business as our customers may be less inclined to purchase from an environmentally non-compliant potash fertiliser company.

Our production and operation are subject to various safety laws and personal injury may result in personal injury claims which may have a negative impact to our business reputation or result in civil and criminal penalties.

We are required to comply with the applicable production safety standards in relation to our production. Our production facilities are subject to regular inspections by the regulatory authorities for compliance with the Production Safety Law of the PRC (《中華人民共和國安全生產法》). Furthermore, under the PRC Labour Law (《中華人民共和國勞動法》) and the PRC law on the Prevention and Treatment of Occupational Diseases (《中華人民共和國職業病防治法》), we must ensure that our facilities comply with PRC standards and requirements on occupational safety and health conditions for employees. Failure to meet the relevant legal requirements on production safety and labour safety could subject us to warnings from relevant governmental authorities, governmental orders to rectify such non-compliance within a specified time frame and fines. We may also be required to suspend our production temporarily or cease our operations permanently for significant non-compliance, which may have a material adverse effect on our reputation, business, financial condition and results of operations.

Further, where there is a safety incident occurred in a manufacturing facility in the city where our production facilities are located, we may need to suspend the operation of our relevant production facility to perform safety inspection. If we are required to suspend our production facility for inspection, our business operations and results of operation may be materially adversely affected.

In addition to complying with the necessary safety requirements and standards, we bear the related risks associated with such production processes, including explosions or fires, work injury accidents and geological hazards. Such dangers may result in personal injuries and damage to property and equipment. The production and occupational safety measures we adopted in our production processes may not be sufficient. There can be no assurance that we will be able to eliminate the risks to personal injury or death of personnel during our operations. For example, Guangdong Migao historically incurred a fine of RMB10,000 for failing to ensure special safety operation training provided to and relevant qualifications obtained by one of our employees.

Further, from time to time, we may engage third party contractors to provide construction or maintenance services to our production facilities. If any of the employees of our contractors fail to implement proper safety measures at our production facilities, property damage, personal injuries or fatal accidents may occur. For example, Guangdong Migao historically incurred a fine of RMB5,000 for failing to coordinate and manage the work safety of our contractor. Although we require our contractors to implement proper safety measures and procedures, there can be no assurance that we or our contractors will not violate applicable safety laws, regulations or rules in the future. Further, if our contractors violate applicable safety laws, regulation or rules, we may also be subject to fines and may have to pay out compensations.

In the event of a workplace injury, it may result in personal injury claims, interruption to our business operation, cessation of our business, negative impact to our business reputation or civil and criminal penalties. If we fail to protect ourselves from such potential liabilities, we may incur significant costs or damage, which may have a material and adverse effect on our business, financial condition and/or results of operations.

Failure in our information and technology systems could result in deficiencies in our business operations.

A substantial portion of our operations are controlled and managed by software and hardware systems. For example, some of our fertiliser production processes are operated under the automatic production control system. These systems are intended to enable us to maximise efficiencies and monitor and control all aspects of our operations and are fundamental to ensure that we maintain our competitiveness in our industry. We use information and technology systems that link our computers and communication control systems to control our production. There can be no assurance that there will not be any failure or breakdown of these systems in the future. Any failure or breakdown in these systems could interrupt our normal business operations and result in a significant slowdown in operational and management efficiencyduring such failure or breakdown. Any prolonged failure or breakdown may materially affect our ability to produce products and offer services to our customers, which may have a material adverse effect on our business, prospects, financial condition and/or results of operations.

We may not be able to protect our intellectual property rights or proprietary rights successfully which may have a material and adverse effect on our business, prospects, financial condition and/or results of operations.

Intellectual property rights, such as patents, are important in our production processes and are important to our business and competitive position. As at the Latest Practicable Date, we had registered 122 and three trademarks in the PRC and Hong Kong, respectively, ten patents and ten software copyrights in the PRC and we had 19 pending patent applications in the PRC, which are material in relation to our business. We rely on registration and contractual arrangements to protect our intellectual property rights and proprietary rights. Our competitors or other third parties may have intellectual property rights and interests which could potentially come into conflict with ours. For details regarding our material intellectual property, please refer to the sections headed "Business – Intellectual Properties" and "Appendix IV – Statutory and General Information – B. Further Information about our Business – 2. Intellectual property rights of our Group" in this document.

Our contractual arrangements to protect intellectual property rights and proprietary rights may not be effective. In addition, policing unauthorised use of intellectual property may be difficult and potentially expensive, and we may need to resort to litigation to enforce or defend our intellectual property rights and to determine the enforceability, scope and validity of our proprietary rights. Such litigation and an adverse determination in any such litigation could result in substantial costs and diversion of resources and management attention, which may materially and adversely affect our business, prospects, financial condition and/or results of operations.

Third parties may claim that we infringe their intellectual property rights or proprietary rights, which could cause us to incur significant legal expense and prevent us from continuing using our existing production processes.

If any third party makes any intellectual property infringement claims against us and is successful we may be required to expend significant resources to redevelop our production processes so that they do not infringe third parties' intellectual rights, or we may be required to obtain relevant licences to avoid further infringements. Intellectual property litigations against us could significantly disrupt our business, divert our management's attention, or consume much of our financial resources. As a result, such intellectual property disputes may materially and adversely affect our business, prospects, financial condition and/or results of operations.

Our production facilities may be materially and adversely affected by increase in price of energy or energy shortages.

The operation of our production facilities relies heavily on energy consumption including electricity and natural gas. As we purchase energy from external power suppliers, the increase in the price of energy may also increase our production costs.

Further, in the summer of 2021, a number of provinces in the PRC imposed electricity restrictions on manufacturers due to energy shortages, for example, in Guangdong, Yunnan, Hunan, Jiangsu, and Zhejiang. Following the mid-autumn festival of 2021, three provinces in Northeastern China imposed electricity restrictions on local residents. Also, we may experience occasional and temporary energy shortages due to poor weather conditions or natural disasters, which are out of our control. These factors may lead to an adverse effect on the operation of our production facilities.

The income tax benefits currently enjoyed by us may be reduced or cancelled in the future, which may materially and adversely affect our future financial performance.

The rate of income tax chargeable on companies in the PRC varies depending on the availability of preferential tax treatment or subsidies based on the company's industry or location.

Under the current Enterprise Income Tax Law (the "**EIT Law**"), companies and joint ventures in the PRC are generally subject to 25% enterprise income tax rate. However, Guangdong Migao and Baoqing Migao had been able to enjoy a preferential tax rate of 15% due to PRC's favourable policies towards high-tech companies and Daxing Migao had been able to enjoy a preferential tax rate of 15% due to PRC's favourable policies towards companies choosing to expand in the western region of the PRC. Guangdong Migao and Baoqing Migao obtained the high-tech company certificate on 23 December 2022 and 25 November 2021, respectively, and started to enjoy the 15% enterprise income tax rate which will expire three years thereafter. During the Track Record Period, Daxing Migao was enjoying the 15% corporate income tax rate under the development of the western region in China scheme which will expire on 31 December 2030. Further, Daxing Migao also enjoyed a waiver on certain value added tax under the preferential tax regime in relation to organic fertilisers and organic-inorganic compound fertilisers.

As a result of the above tax benefits, our income tax expenses were approximately RMB58.4 million, RMB74.5 million and RMB111.9 million for FY2021, FY2022 and FY2023, respectively. There is no guarantee that we can continue to benefit from the existing reduced tax rate or that we will be able to renew our status under the relevant tax schemes without modification, free of restriction or at all. Any increase in the tax rate to which we are subject will reduce our net profitability. Such reduction could be material and thus our historical financial results may not be indicative of our future results.

Tax authorities could challenge our allocation of taxable income or adoption of different accounting principles which could increase our overall tax liability or penalty.

During the Track Record Period, we carried out certain intra-group transactions among our subsidiaries in the PRC and overseas and certain transactions with related parties. We have adopted transfer pricing arrangements to regulate these transactions. We have determined transfer prices that our Directors believe are comparable prices that would be charged by unrelated third parties dealing with each other on an arm's length basis. Please refer to the section headed "Business – Transfer Pricing Arrangement" in this document for further details.

However, these transactions and cross border business arrangements during the ordinary course of business may introduce inherent uncertainty over our Group's profit allocation and its respective tax position across different jurisdictions or different provinces within the PRC. The tax treatments of these transactions or arrangements may be subject to the interpretation by respective tax authorities in different countries, regions or different provinces in the PRC.

Our Group's tax position may be subject to review and possible challenge by the relevant tax authorities or there may be a change in the tax policy and relevant tax laws in these countries, regions or provinces in the PRC. During the Track Record Period, we have not been challenged by any tax authority in respect of the transfer pricing arrangements of our intra-group transactions and transactions with related parties. However, there can be no assurance that tax authorities reviewing such arrangements would agree that we are in compliance with transfer pricing regulations and guidance, or that such regulations and guidance will not be modified, which, as a result, may require changes to our Group's transfer pricing practices or operating procedures. The relevant tax authorities may make adjustment to the tax payable by our Group in respect of such transactions. This could result in a higher overall tax liability for us.

In addition, two of our PRC subsidiaries have made tax re-filings with PRC tax authorities with respect to sales rebates from suppliers and consignment sales. Please refer to the section headed "Financial Information – Key Components of Our Consolidated Statements of Comprehensive Income – Income Tax Expense – PRC Tax Re-filings" in this document for further details. With respect to the PRC tax re-filings, we cannot assure you that the relevant competent PRC tax authorities would not impose penalties on us.

Any occurrence of these events may result in reputation risks to us. In addition, we may also need to incur additional expenses and direct management resources to deal with the relevant tax authorities. This may adversely affect our business, financial conditions and/or results of operations.

We may be subject to labour shortages, increased labour costs or other factors affecting labour force.

Labour shortage, increased labour costs or other factors affecting our labour force at our production facilities may significantly disrupt our business operations or delay our expansion plans. We may have difficulties in hiring or retaining employees or may be subject to additional labour costs in the future. Any failure to attract qualified employees at reasonable cost level and in a timely manner, or any increase in our labour costs or any future disputes with our employees may materially and adversely affect our business, financial condition and/or results of operations.

Our operations could be materially and adversely affected by departure of key personnel and failure to recruit and retain competent employees.

Our success is attributable to the leadership and contributions of our management team comprising our executive Directors and senior management, who are responsible for our overall corporate and business strategies as well as implementing our business plans and driving our growth, and our research and development personnel who are responsible for furthering our development processes. As such, the experience and contributions of our management team and research and development employees are crucial to our success. Competition for such personnel is intense. Any departure of the members of our management team or key members of our research and development team could materially and adversely interrupt our business if we are unable to recruit the replacement personnel with similar qualifications in a timely manner. There is no assurance that we will be able to recruit and/or retain suitable employees in the future. If we fail to recruit and/or retain suitable employees, our profitability, financial condition and/or results of operations may be adversely affected.

In addition, to retain experienced staff for our business operations, we may need to provide additional incentives to hire and retain them and such incentives could decrease our profitability, and affect our financial condition and/or results of operations.

We may have insufficient insurance coverage in certain situations.

We have obtained insurance coverage for certain of our assets including our production facilities, machinery and equipment. However, not all risks are covered by insurance and no assurance can be given that insurance will be consistently available on an economically feasible basis or at all. Our Group may also elect not to be insured against certain liabilities due to high premium costs or for other reasons. Furthermore, there can be no assurance that our insurance policies will be sufficient to cover each and every claim or loss. In the event that we were to suffer an uninsured loss or a loss which cannot be fully covered by our insurance, our business, prospects, financial condition and/or results of operations may be materially and adversely affected.

In addition, we currently do not obtain any insurance coverage against loss of key personnel, product liability claims and business interruption. If any of such events occurs, our business, financial condition and/or results of operations may also be materially and adversely affected.

Our rights to use the properties on our production facilities may be interfered.

During the Track Record Period, we had not obtained building ownership certificates with respect to certain of the properties of our Changchun Production Facility, Guangdong Production Facility and Daxing Production Facility, primarily due to lack of construction work planning permits (建設工程規劃許可證), construction work commencement permits (建築工程施工許可證) and/or the housing completion and acceptance documents (房屋竣工驗收文件). Please refer to the section headed "Business – Land and Properties – Properties – Owned Properties – Properties with defective titles" in this document for further details.

We may be subject to penalties including fine, rectification, dismantlement, confiscation of physical objects and/or illegal income. As a result, our ability to use those properties for our operations and/or financing could be adversely and materially affected, which could have a material adverse impact on our business, financial conditions and/or results of operations.

We may face fines in relation to leased properties or may not be able to continue to use certain buildings on the leased properties or use the land we leased.

Under PRC laws and regulations, property lease agreements must be filed with the local housing authorities. As at the Latest Practicable Date, we had not filed 10 lease agreements for the properties we leased in the PRC and we might be ordered to rectify this non-compliance by the competent authorities. If we fail to rectify within the prescribed period, a penalty of RMB1,000 to RMB10,000 per lease agreement may be imposed on us as a result of such non-filing.

As at the Latest Practicable Date, with respect to three of the buildings on our leased properties in the PRC, the lessors had not provided us with valid building ownership certificates and could not prove their ownership of those buildings or their right to lease those buildings. If the lessors of the leased buildings do not have the requisite rights to lease the buildings, our lease agreements may be deemed invalid, and we may be forced to vacate those buildings and relocate. We may incur additional expenses during the process, and our business, financial condition and results of operations may be adversely affected.

Further, we have signed (i) a special designated railway connecting line agreement ("**Railway Cooperation Agreement**") with a local state-owned enterprise (the "**Railway SOE**") to connect our Heilongjiang Logistics and Production Centre to the railway track field of the Tongjiang North Station with designated railway lines; and (ii) a lease agreement (the "**Railway Lease Agreement**") with the Railway SOE for lease of the land (the "**Railway Land**") through which the designated railway lines will pass to connect to the railway track field of the Tongjiang North Station. The designated railway lines will be used primarily for the transport of potash products.

According to our PRC Legal Advisers, the Railway Land is an allocated land (劃撥用地). Allocated land can only be leased upon obtaining the approval by the relevant land administrative authorities. Our PRC Legal Adviser has advised us that the Railway Lease Agreement may be deemed invalid if the allocated land is leased out without complying with the relevant requirements. Please refer to the section headed "Business – Land and Properties – Land" in this document for further details. Further, pursuant to the Railway Lease Agreement, the lease term for the Railway Land is only 36 months. We cannot guarantee that the Railway SOE will continue to lease out the Railway Land to us or on terms acceptable to us after the expiry of the lease.

Therefore, if we are unable to continue to use the Railway Land, it may materially and adversely affect the operations of the Heilongjiang Logistics and Production Centre and our business and results of operations and financial conditions may in turn be materially and adversely affected.

We are subject to the Pricing Law of the PRC and we may be limited in the pricing of our fertiliser products.

According to the Pricing Law of the PRC (《中華人民共和國價格法》), the price of most commodities and services (including fertiliser products) is determined by the market. However, market participants must not carry out certain improper pricing acts, including but not limited to, (i) colluding with others to manipulate the market price, thus harming the lawful rights and interests of others; (ii) besides disposing of perishable, seasonal and overstocked commodities at reduced prices according to law, disposing commodities at prices lower than production cost in order to drive out rivals or monopolise the market, thus disrupting normal production and operational order and impairing the interests of the state or the lawful rights and interests of others; and (iii) fabricating and spreading information about price hikes and forcing up prices, thus stimulating excessive commodity price hikes. Please refer to the section headed "Regulatory Overview – Law Supervision Over the Chemical Fertiliser Industry – Regulations on the Pricing" in this document for further information.

Therefore, the pricing of our fertiliser products may be subject to the limitations stipulated in the Pricing Law of the PRC (《中華人民共和國價格法》) and if we have conducted any improper pricing acts, we may be subject to penalties. Our results of operation and our financial results may in turn be adversely affected.

We are exposed to credit risks with respect to the settlement by our customers.

We are subject to credit risks of our customers and our profitability and cash flow are dependent on the timely settlement of payments by our customers for the products we provide to them. Our average trade and bills receivables turnover days were approximately 104.4 days, 48.6 days and 35.4 days for FY2021, FY2022 and FY2023, respectively. As at 31 March 2021, 2022 and 2023, our trade and bills receivables (less allowance for credit losses) were approximately RMB431.6 million, RMB592.0 million and RMB323.9 million, respectively. We cannot, however, assure you that we will be able to collect all or any of our trade and bills receivables within the credit period that we granted to our customers. If any of our customers face unexpected situations such as financial difficulties caused by general economic downturn or fiscal constraints, we may not be able to receive payment of uncollected debts in full, or at all from such customers and we may need to make provisions for trade and bills receivables. Further, if our customers delay in payment to us, this may have a negative impact on our cashflow and we may in turn not be able to make prepayment to our suppliers which may have an adverse impact on our business operations and financial conditions.

We are exposed to inventory risks.

We recorded an increase in our inventories from RMB164.4 million as at 31 March 2021 to RMB740.5 million as at 31 March 2022 and recorded a decrease in our inventories to RMB151.6 million as at 31 March 2023. Our average inventory turnover days for FY2021, FY2022 and FY2023 were approximately 24.5 days, 51.5 days and 41.2 days, respectively. The higher average inventory turnover days for FY2022 was primarily due to higher inventories balance maintained by us as at 31 March 2022 in view of the potential risk for adverse changes in purchase price of KCL under the global supply uncertainty. For details of our average inventory turnover days, please refer to the section headed "Financial Information – Selected Balance Sheet Items – Inventories" in this document. We cannot guarantee that we will be able to fully utilise our inventories due to, among others, decrease in market demand for our products and we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins or a loss. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. As such, our results of operations, financial performance and business could be materially and adversely affected.

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of RMB against US$ and other currencies is subject to changes and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. In July 2005, the PRC government adopted a more flexible floating exchange rate system to allow the value of RMB to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies.

With an increased floating range of RMB value against foreign currencies, RMB may further appreciate or depreciate significantly in value against the US$ or other foreign currencies in the long-term. Further, with the recent volatility in the international markets, the value of RMB against US$ has fluctuated. For example, the value of RMB against US$ has depreciated over 7% in about 12 months from 1 April 2022 to 31 March 2023 according to the exchange rates quoted by the the State Administration of Foreign Exchange. It is difficult to predict how market force or PRC or U.S. government policy may impact the exchange rate between RMB and U.S. dollar in the future.

Most of our revenue is denominated in RMB whereas a significant portion of our purchases is denominated in US$. As a result, any depreciation of RMB against US$ may result in the increase in our cost of goods sold. For FY2021, FY2022 and FY2023, we recorded net foreign exchange gain of RMB11.6 million, net foreign exchange loss of RMB0.5 million and net foreign exchange loss of RMB16.4 million, respectively. During the Track Record Period, we did not adpot any hedging instruments to manage risks associated with foreign exchage loss. We cannot assure you that we will be able to reduce our foreign currency risk exposure relating to our foreign currency-dominated purchases. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Accordingly, we cannot assure you that future exchange rate fluctuation between RMB and US$ will not adversely affect our business, financial condition and/or results of operations.

RISKS RELATING TO OUR INDUSTRY

Changes in the taxation policies of chemical fertilisers may materially and adversely affect our financial performance.

Historically, in 2015, the VAT for companies selling and importing chemical fertiliser products was 13%. The VAT was then gradually reduced and on 20 March 2019, the Announcement on Policies Concerning Deepening the Value-Added Tax Reform (關於深化增值稅改革有關政策的公告) promulgated by the MOF, the State Administration of Taxation and the General Administration of Customs further reduced the VAT rate to 9%. In addition, on 29 April 2008, the MOF and the State Administration of Taxation issued the Notice on the Exemption of Value-Added Tax on Organic Fertiliser Products (關於有機肥產品免徵增值稅的通知), which exempts organic fertilisers and organic-inorganic compound fertilisers from value-added tax.

In the future, the PRC government may further change the VAT policies applicable to the fertiliser industry in respect of any chemical fertiliser products to control their import and export. If such changes to policies occur, our business and/or result of operations may be materially and adversely affected.

The fierce competition in the fertiliser business may materially and adversely affect our financial performance.

We operate in a competitive industry and frequently encounter competition from existing competitors in the industry. We face intense competition in the potash fertiliser industry in the PRC. According to the Frost & Sullivan Report, there were over 200 potash fertiliser producers in the PRC in 2022, which included state-owned enterprises, private-owned enterprises and foreign-invested enterprises. For further information, please refer to the section headed "Business – Competition" in this document. Some of our competitors possess greater financial, technical, personnel, and other resources than us and there can be no assurance that we will have the ability to compete successfully in the future. Any failure by us to maintain our competitiveness could materially and adversely affect our financial performance. Where such competition intensifies and causes the market supply of fertilisers to exceed the respective market demand, our business performance, including our profitability, may be materially and adversely affected.

Competitors may introduce technological innovation in any of our businesses, resulting in increased competitive pressures. Our financial resources may be relatively limited when contrasted with those of some of our competitors. Although our projections assume that the industry will generate competition, there can be no assurances on how any level of competition may impact our future revenue. A small price or quality difference between our products and our competitors' may make an enormous difference to the consumers. If our price or quality of our products are not as competitive as our competitors', it may materially and adversely affect our competitiveness and our business and financial performance.

The popularity of potash fertilisers may reduce due to increased usage of other types of fertilisers or the demand for high-end potash fertiliser products may decrease due to pricing, resulting in a material and adverse impact on us.

Increase in prices of potash fertilisers, such as KCL, SOP and NOP, may have a negative impact on the sales of our fertiliser products. If potash fertilisers face substantial competition from other types of fertilisers, the demand of potash fertilisers may decrease and thus our business, prospects, financial condition and/or results of operations may be materially and adversely affected.

RISKS RELATING TO OUR OPERATIONS IN THE PRC

We may be subject to adverse impact if we fail to contribute to social insurance and housing provident fund.

We are required to make contributions to social insurance funds, including pension, medical, unemployment, maternity and occupational injury insurance, and housing provident funds for our employees in accordance with applicable PRC laws and regulations.

According to the Regulation on the Administration of Housing Provident Funds (《住房公積金管理條例》), which was promulgated by the State Council and became effective on 3 April 1999 and amended on 24 March 2019, we are required to set up housing provident fund accounts (住房公積金賬戶) and pay the housing provident fund on time and in full for our employees. According to the PRC Social Insurance Law (《中華人民共和國社會保險法》), which was promulgated by the Standing Committee of the National People's Congress on 28 October 2010 and became effective on 1 July 2011, and amended on 29 December 2018, a PRC enterprise is required to obtain social insurance certificates (社會保險登記證) for its employees and to pay the social insurance contributions on time and in full. There is no assurance that our historical, current and future practice with respect to the contribution of social insurance plans will be deemed in full compliance with relevant PRC laws and regulations by PRC government authorities.

In the event of any non-compliance with housing provident fund contribution, the relevant competent authorities may order us to pay the outstanding amount within a certain period of time; failing to comply with which the relevant competent authorities may apply for people's court for enforcement. In the event of any non-compliance with social insurance contribution, the relevant competent authorities may order us to pay the outstanding amount within a certain period of time and impose an overdue fee amounting to 0.05% of the outstanding amount per day, failing to comply with which the relevant competent authorities may further impose a fine amounting to no less than one time but less than three times the outstanding amount.

It may be difficult to effect service of legal process or to enforce any judgements obtained from non-PRC courts against us or our Directors or officers who live in the PRC.

Substantially all of our major assets are located within the PRC. In addition, most of our Directors and senior management reside within the PRC. As a result, investors may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and officers, including matters arising under applicable securities laws. Moreover, a judgement of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements.

On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned* (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**2006 Arrangement**"), which was adopted in Hong Kong by the enactment of the Mainland Judgments (Reciprocal Enforcement) Ordinance (Cap. 597) on 1 August 2008, pursuant to which where any people's court of the PRC or any court of Hong Kong has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing, any party concerned may apply under the 2006 Arrangement to a people's court of the PRC or a court of Hong Kong for recognition and enforcement of the judgement. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Although the 2006 Arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the 2006 Arrangement may still be uncertain.

On 18 January 2019, the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**2019 Arrangement**") was signed between the Supreme People's Court of the PRC and the government of Hong Kong. The 2019 Arrangement establishes a bilateral legal mechanism with greater clarity and certainty for reciprocal recognition and enforcement of judgments between Hong Kong and the PRC in civil and commercial matters under both Hong Kong and PRC law. The 2019 Arrangement sets forth, among others, the scope, specific types of matters to be covered or excluded, jurisdictional grounds for the purpose of recognition and enforcement as well as grounds for refusal of recognition and enforcement. The 2019 Arrangement will only take effect on a date to be announced by Hong Kong and the PRC, after both places have completed the necessary procedures to enable implementation and will apply to judgments made by the courts of Hong Kong and the PRC on or after the commencement date of the 2019 Arrangement. Upon effective date of the 2019 Arrangement, the 2006 Arrangement will be superseded. However, the 2006 Arrangement will remain applicable to a "choice of court agreement in writing" within the meaning of 2006 Arrangement which is made before the effective date of 2019 Arrangement.

Although the 2019 Arrangement has been signed, it remains unclear as to its effective date and uncertain as to the outcome and effectiveness of any action brought under the 2019 Arrangement.

The foreign currency conversion imposed by the PRC government is subject to PRC laws and regulations relating to foreign exchange, including dividend payments on our Shares.

Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advanced approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the licences to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be filed with or approved in advance by the SAFE.

Under the existing foreign exchange regulations, following the completion of the [**REDACTED**], we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedures. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert RMB into any foreign exchange for any of the above purposes, our business, financial condition and/or results of operation may be materially and adversely affected.

We rely on dividends and other distributions from our PRC subsidiaries to fund our cash and financing requirements, and any limitation on the ability of our subsidiaries to make payments to us could materially and adversely affect our ability to conduct our business.

As an offshore holding company, we rely in part on dividends from our PRC subsidiaries for our cash requirements, dividends payments and other distributions to our Shareholders, and to service any debt that we may incur and pay our operating expenses. The payment of dividends by entities organised in the PRC is subject to limitations. In particular, PRC regulations permit our subsidiaries to pay dividends only out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside at least 10% of its annual after-tax profits (as determined under PRC accounting standards) into its statutory reserve fund upon distribution of their post-tax profits of the current year. Our PRC subsidiaries may discontinue the contribution when the aggregate sum of the statutory reserve fund is more than 50% of its registered capital. These reserves are not distributable as cash dividends.

If our PRC subsidiaries incur any debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. In addition, restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future, if any, may also restrict the ability of our PRC subsidiaries to make distributions to us. Any limitation on the ability of our subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions, pay dividends and otherwise fund and conduct our business.

Dividend payable by us to our foreign investors and gains on the sale of our Shares may become subject to income tax under the PRC tax laws.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, a PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Similarly, any gain realised on the transfer of shares by such investors is also subject to PRC income tax, usually at a rate of 10% if such gain is regarded as income derived from sources within the PRC unless otherwise reduced or exempted by relevant tax treaties or similar arrangements. Under the Individual Income Tax Law* (個人所得稅法) and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realised by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

As substantially all of our operations are in the PRC, the dividends we pay to our shareholders may be regarded as income derived from sources within the PRC, and we may be required to withhold a 10% PRC withholding tax for the dividends we pay to our investors who are non-PRC enterprise shareholders, or a 20% withholding tax for the dividends we pay to our investors who are non-PRC individual shareholders, including the holders of our Shares. In addition, our non-PRC Shareholders may be subject to PRC tax on gains realised on the sale or other disposition of our Shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC Shareholders would be able to claim the benefits of any tax treaties between their tax residence and the PRC. If PRC income tax is imposed on gains realised through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with the PRC may not qualify for benefits under such tax treaties or arrangements.

We may be deemed to be a PRC tax resident under the EIT Law, and as a result, our global income could be subject to PRC taxation.

Our Company was incorporated under the laws of the Cayman Islands and indirectly hold interests in a Hong Kong incorporated subsidiary, which in turn directly or indirectly hold interests in our PRC subsidiaries. Pursuant to the EIT Law and its implementation rules, dividends payable by a foreign invested enterprise to its foreign corporate investors who are not deemed a PRC resident enterprise are subject to a 10% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Under an arrangement between the PRC and Hong Kong, effective in January 2007, such dividend withholding tax rate is reduced to 5.0% for dividends paid by a PRC company to a Hong Kong-resident enterprise if such Hong Kong entity is a "beneficial owner" and such entity directly owns at least 25% of the equity interest of the PRC company. According to the fourth protocol of the aforementioned treaty, effective from December 2015, the reduction will not apply if the main purpose of the production or distribution of the proceeds involved is to obtain the aforementioned (reduction) interest. The Announcement on Issues Concerning "Beneficial Owner" in Tax Treaties* (國家稅務總局關於稅收協定中"受益所有人"有關問題的公告), which became effective in April 2018, stipulates certain conditions under which a company may not be defined as a "beneficial owner" under the relevant tax treaty, and further requires non-resident taxpayers who wish to enjoy the treatment of "beneficial owners" under such tax treaties to submit certain report forms and materials when filing tax returns. If our Hong Kong subsidiary fails to submit required documents for enjoying such treatment, and if our corporate and shareholding structure is viewed as deliberately arranged for acquiring the reduction interest, we may not be able to enjoy a preferential withholding tax rate of 5% and as a result dividend payable by our PRC subsidiaries to our Hong Kong subsidiary will be subject to withholding tax at the rate of 10%.

The EIT Law and EIT implementation rules also provide that if an enterprise incorporated outside the PRC has its "de facto management bodies" within the PRC, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25% on its global incomes. "De facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the SAT promulgated a circular, Circular 82, and partially amended by Circular 9 promulgated in January 2014, to clarify the certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises or PRC enterprise groups. Under Circular 82, a foreign enterprise is considered a PRC resident enterprise if all of the following apply: (1) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (2) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in the PRC; (3) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC; and (4) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. Further to Circular 82, the SAT issued a bulletin, known as Bulletin 45, effective in September 2011 and amended on 1 June 2015, 1 October 2016 and 15 June 2018 to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such "Chinese-controlled offshore incorporated resident enterprises." Bulletin 45 provides for, among other matters, procedures for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises that are registered outside the PRC and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT's criteria for determining the tax residence of foreign enterprises in general.

However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a case such as ours. However, if the PRC authorities were to subsequently determine, or any future regulation provides, that we should be treated as a PRC resident enterprise, we will be subject to the uniform 25% enterprise income tax on our global incomes. In addition, although the EIT Law provides that dividend payments between qualified PRC-resident enterprises are exempt from enterprise income tax, as the interpretation and implementation of the EIT Law are still evolving, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC subsidiaries to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your investment in our shares may be materially affected.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

The SAT released the Announcement on Several Issues concerning the Corporate Income Tax on the Indirect Transfers of Properties by Non-resident Enterprises (關於非居民企業間接轉讓財產企業所得税若干問題的公告) (the "**SAT Notice 7**"), which became effective on 3 February 2015. The SAT Notice 7 provided comprehensive guidelines relating to, and also heightened the Chinese tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise. Under the SAT Notice 7, if a non-resident enterprise indirectly transfer its property like shares in a resident enterprise without a reasonable commercial purpose in order to avoid its income tax obligations, this indirect transfer shall be redefined and be regarded as direct transfer of the aforementioned property. "Indirect transfer of Chinese taxable assets" means the transaction which produces a result identical or substantially similar to the direct transfer of Chinese taxable assets by a non-resident enterprise through transfer of equities and other similar rights and interests of an overseas enterprise that directly or indirectly holds Chinese taxable assets (excluding Chinese resident enterprises registered outside the PRC), including the circumstances under which the overseas enterprise's shareholders change due to the restructuring of the non-resident enterprise (thereafter refers as "**indirect transaction**"). Accordingly, the transferee of indirect transaction shall be deemed as a withholding agent with the obligation to withhold and remit the enterprise income tax to the competent PRC tax authorities. Factors that may be taken into consideration when determining whether there is a "reasonable commercial purpose" include, among other factors, the economic essence of the transferred shares, the economic essence of the assets held by the overseas holding company, the taxability of the transaction in offshore jurisdictions, and economic essence and duration of the offshore structure, the relevant tax treaties or arrangements. The SAT Notice 7 also sets out safe harbours for the "reasonable commercial purpose" test.

There is little guidance and practical experience regarding the application of the related SAT Notices. For example, while the term "indirectly transfer" is not defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with the PRC. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions.

In addition, since we may conduct acquisitions involving complex corporate structures, it is unclear whether the PRC tax authorities will apply SAT Notice 7 to such transaction. The PRC tax authorities may, at their discretion, adjust the capital gains or request that we submit additional documentation for their review in connection with any potential acquisitions, which may cause us to incur additional acquisition costs or delay our acquisition timetable and may impose us additional PRC tax reporting obligations or tax liabilities.

PRC regulations over loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by registration with relevant governmental authorities in the PRC. According to the relevant PRC regulations on foreign invested enterprises, capital contributions made by an offshore holding company to its wholly-owned subsidiary, being a foreign-invested enterprise in the PRC, require to submit investment information to the commerce administrative authorities through the Enterprise Registration System and the National Enterprise Credit Information Publicity System (企業登記系統以及國家企業信用信息公示系統) and register with the competent local counterpart of SAMR. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE or its local branches, and our PRC subsidiaries may not procure loans exceeding the difference between its registered capital and its total investment amount as approved by or registered with the MOFCOM or its local branches. We may not be able to obtain these government approvals or complete such registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to receive such approvals or complete such registration, our ability to use the [**REDACTED**] of the [**REDACTED**] to fund our operations in the PRC may be negatively affected, which in turn could adversely affect our ability to finance and expand our business.

Any failure by the Shareholders or beneficial owners of our Shares who are PRC residents to comply with certain PRC foreign exchange regulations relating to offshore investment activities by such PRC residents could restrict our ability to distribute profits, restrict our overseas and cross border investment activities and subject us to liability under PRC laws.

According to the Circular 75, which was promulgated on 21 October 2005 and amended on 29 May 2007, PRC residents must register with the SAFE before establishing or controlling any company outside of China, referred to as an offshore special purpose company, for the purpose of raising funds from overseas to acquire or exchange the assets of, or acquiring equity interests in, PRC entities held by such PRC residents and to update such registration in the event of any significant changes with respect to that offshore special purpose company. The SAFE promulgated the Notice on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investment Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or the SAFE Circular 37, which replaced the SAFE Circular 75.

As confirmed by our PRC Legal Advisers, Mr. Liu, who is our beneficial owner and a PRC resident, has completed the initial SAFE registration pursuant to Circular 75. There can be no assurance that the subsequent amendment of registration can be successfully completed in a timely manner. Failure of our present or future Shareholders who are PRC residents to comply relevant requirements could subject these shareholders of our Company to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC subsidiaries to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

We may be unable to complete a business combination transaction efficiently or on favourable terms due to merger and acquisition regulations and certain other PRC regulations.

On 8 August 2006, six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE, jointly issued the M&A Rules, which became effective on 8 September 2006 and was amended in June 2009. The M&A Rules, governing the approval process by which foreign investors merger with PRC business entities and/or acquire PRC assets and/or equity interests in PRC business entities, require the PRC parties to make a series of applications and supplemental applications to the government agencies, depending on the structure of the transaction. In some instances, the application process may require presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Accordingly, due to the M&A Rules, our ability to engage in cross-border business combination transactions has become significantly more complicated, time-consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our Shareholders or sufficiently protect their interests in a transaction.

The M&A Rules allow PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to MOFCOM and other relevant government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The M&A Rules also prohibit a transaction at an acquisition price obviously lower than the appraised value of the PRC business or assets in order to prevent disguised transfer of capital from the PRC to foreign countries, and in certain structures, among others, in the structures where foreign investors merger with Chinese enterprises and establish foreign-invested enterprises, require that considerations must be paid within defined periods, generally not in excess of a year after the business licence of the foreign-invested enterprise has been issued. In addition, the M&A Rules also limit our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited.

Moreover, the Anti-Monopoly Law of the People's Republic of China* (《中華人民共和國反壟斷法》), effective from 1 August 2008 and amended on 24 June 2022 (effective on 1 August 2022), and relevant implementation rules require that the MOFCOM be notified in advance of any of concentrations of undertaking if certain turnover thresholds are triggered. Besides, Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知), issued on 3 February 2011 and became effective on 3 March 2011, establishes a security review system for merger and acquisition of domestic companies by foreign investors. These security review rules specify that mergers and acquisitions by foreign investors that raise "national defence and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement.

Therefore, such regulations may impede our ability to negotiate and complete a business combination transaction on legal and/or financial terms that satisfy our investors and protect our Shareholders' economic interests.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares, and the liquidity and market price of our Shares after the [REDACTED] may be volatile so that an active market may not develop.

Before the [**REDACTED**], there has been no public market for our Shares. The initial [**REDACTED**] range of our Shares was the result of negotiations between the [**REDACTED**] (for themselves and on behalf of the [**REDACTED**]) and us, and the [**REDACTED**] may differ significantly from the market price for our Shares following the [**REDACTED**]. While we have applied to have our Shares [**REDACTED**] on the Hong Kong Stock Exchange, there is no guarantee that the [**REDACTED**] will result in an active, liquid public trading market for our Shares, or the market price of our Shares will not decline below the [**REDACTED**]. The liquidity, trading volume and market price of our Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and the trading price of our Shares.

Since there will be a gap of several days between pricing and trading of our Shares, the [REDACTED] may not be indicative of prices that will prevail in the trading market.

The [**REDACTED**] of our Shares is expected to be determined on the [**REDACTED**]. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several business days after the [**REDACTED**]. Investors may not be able to sell or [**REDACTED**] our Shares during the period between pricing and trading of the Shares. Therefore, investors are subject to the risk that the initial trading price of our Shares may be lower than the [**REDACTED**] as a result of adverse market conditions or other adverse development, that could occur between the time of sale and the time trading begins.

Substantial future sales or the expectation of substantial sales of our Shares in the public market could adversely affect the prevailing market price of our Shares.

The future sale of a significant number of our Shares in the public market after the [**REDACTED**], or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through [**REDACTED**] of our Shares. Except as otherwise described in the section headed "[**REDACTED**]" in this document and the restrictions set out by the relevant laws, regulations and the Listing Rules, there are generally no restrictions imposed on our Controlling Shareholders or substantial shareholders of our Company to dispose of their Shares. Any major disposal of Shares by any of our Controlling Shareholders or substantial shareholders of our Company may cause the market price of our Shares to fall. In addition, these disposals may make it more difficult for our Group to issue new Shares in the future at a time and price that our Directors deem appropriate, thereby may limit our ability to raise capital.

We have significant discretion as to how we will use the net [REDACTED] of the [REDACTED] and you may not necessarily agree with how we use them.

We plan to use the net [**REDACTED**] from the [**REDACTED**] in a number of ways. Please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**]" in this document for further details. However, our management will have discretion as to the actual application of our net [**REDACTED**]. Our management may spend the net [**REDACTED**] from the [**REDACTED**] in ways you may not agree with or that do not yield a favourable return to our Shareholders. You are entrusting your funds to our management, upon whose judgement you must depend, for the specific uses we will make of the net [**REDACTED**] from this [**REDACTED**].

We may not be able to distribute dividends to our Shareholders.

We may distribute dividends by way of cash or by other means that we consider appropriate. The declaration and distribution of dividends is at the discretion of the Board, and our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including without limitations, our business and financial performance, capital and regulatory requirements and general business conditions. We cannot assure you when and in what form dividends will be paid on our Shares after the [**REDACTED**]. We may not be able to have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our financial statements indicate that our operations have been profitable. As a result of the above, we are not able to guarantee that we will make any dividend payments on our Shares in the future. If we are able and decide to pay dividends, we may distribute dividends by way of cash or by other means that we consider appropriate. Please refer to the section headed "Financial Information – Dividend Policy" in this document for further details.

Further, we may decide to make dividend distribution in the form of distribution in species by issuing new Shares. We may not be able to distribute the new Shares to certain of our Shareholders due to local securities laws restrictions. As a result, the shareholding percentage of those Shareholders may be reduced and they may experience dilution.

The market price and trading volume of our Shares may decline if securities or industry analysts do not publish research reports about our business, or they adversely change their recommendations regarding our Shares.

The trading market for our Shares may be affected by research reports about us or our business published by the industry or securities analysts. The market price of our Shares would possibly decline if one or more analysts downgrade our Shares or publish negative opinions about us regardless of the accuracy of the information. We may lose visibility in the financial markets if one or more of these analysts cease coverage of us or fail to regularly publish reports on us, which could cause the market price or trading volume of our Shares to decline.

Shareholders may face difficulties in protecting their interests because we are incorporated under Cayman Companies Act which may provide less protection to minority Shareholders than the laws of Hong Kong and other jurisdictions.

We are incorporated in the Cayman Islands as an exempted company and substantially all of our assets are located outside of Hong Kong. Our corporate affairs are governed by our Memorandum and Articles of Association as well as the Cayman Companies Act and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority Shareholders differ in certain respects from those in Hong Kong and other jurisdictions. Such differences may mean that our minority Shareholders may have less protection than they would otherwise have under the laws of Hong Kong or other jurisdictions.

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the [**REDACTED**]. Prior to the publication of this document, there may be press and media coverage which contains certain information regarding the [**REDACTED**] and us that is not set out in this document. We have not authorised the disclosure of such information in any press or media. We do not accept any responsibility for any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it. Accordingly, prospective investors should not rely on any such information.

Certain facts, forecasts and statistics contained in this document are derived from various publicly available official sources and may not be reliable.

Certain facts, forecasts and other statistics contained in this document relating to the industry in which we operate are derived from various official government publications, market data providers, industry expert commissioned by us and other independent third-party sources. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee the quality or reliability of such source materials. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information.

The information has not been prepared or independently verified by us, the Sole Sponsor, the [**REDACTED**], the [**REDACTED**] or any other party involved in the [**REDACTED**] and no representation is given as to its accuracy. We make no representation as to the accuracy of the information contained in such sources, which may not be consistent with other information compiled within or outside the PRC. Accordingly, the industry information and statistics contained herein may not be accurate and should not be unduly relied upon for your investment.

Forward-looking statements in this document may prove inaccurate.

This document contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this document. By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks materialise or should underlying assumptions prove to be incorrect, our financial condition and actual results of operations may be materially and adversely affected and may vary significantly from those estimated, anticipated or projected, as well as from historical results.

In preparation for the [**REDACTED**], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary [**REDACTED**] on the Hong Kong Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

Since the business and operation of our Group are currently located, managed and conducted in China, there is no business need to appoint any executive Director in Hong Kong. All of the executive Directors and senior management members of our Group are, and will continue to be, based in the PRC. Our Company does not, and will not contemplate in the foreseeable future that it will have a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

An application for a waiver from strict compliance with the requirement to have a sufficient management presence in Hong Kong under Rule 8.12 of the Listing Rules has been made to the Hong Kong Stock Exchange and such waiver [has been granted] by the Hong Kong Stock Exchange subject to the following conditions:

(a) our Company has appointed and will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our Company's principal point of communication with the Hong Kong Stock Exchange. The two authorised representatives appointed are Mr. Liu Guocai (劉國才) (executive Director) and Ms. Fung Wai Sum (馮慧森) (company secretary). The authorised representatives will have the means to contact all our Directors promptly at all times as and when the Hong Kong Stock Exchange wishes to contact our Directors on any matter. They have provided their usual contact details to the Hong Kong Stock Exchange and will be readily contactable by the Hong Kong Stock Exchange if necessary to deal with enquiries from the Hong Kong Stock Exchange from time to time. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Hong Kong Stock Exchange. Our Company will inform the Hong Kong Stock Exchange promptly if there is any change in our authorised representatives or the contact details of any of them;

(b) our Company has appointed Soochow Securities International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will act as an additional point of contact between our Company and the Hong Kong Stock Exchange for the period commencing from the [**REDACTED**] and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the [**REDACTED**]. Our Company will inform the Hong Kong Stock Exchange promptly of any change of its compliance adviser;

(c) our Company will appoint other professional advisers (including legal advisers and accountants) to advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong and to ensure that there will be efficient communication with the Hong Kong Stock Exchange after the [**REDACTED**]; and

(d) each of our Directors has provided his/her mobile phone number, office phone number, e-mail address and fax number to the Hong Kong Stock Exchange. In the event that a Director expects to travel and be out of office, he/she shall provide to the authorised representatives the phone numbers of the place of his/her accommodations or the phone numbers where he/she can be contacted. Furthermore, each Director who is not ordinarily resident in Hong Kong possesses or is able to apply for valid travel documents to visit Hong Kong and is able to meet with the Hong Kong Stock Exchange within a reasonable period.

WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

Our Company has entered into certain transactions which would constitute non-exempt continuing connected transactions under Chapter 14A the Listing Rules after the [**REDACTED**]. Further particulars about such transactions together with the application for a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules are set out in the section headed "Connected Transactions" in this document.

[**REDACTED**]

[REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Liu Guocai (劉國才)	22 Leonie Hill Road #07-02 Singapore	Chinese
Mr. Sun Pingfu (孫平福)	Qingjiang Garden No. 88 Anju Road Qingbaijiang District Chengdu China	Chinese
Mr. Dong Benzi (董本梓)	Room 801, Unit 2 Family Court, Dajingkan Judicial Bureau 11 Jiefang Road Zunyi China	Chinese
Independent Non-executive Directors		
Mr. Chen Guofu (陳國福)	Room 1006, Building No. 6 District No. 6 Hepingli, Dongcheng District Beijing China	Chinese
Ms. Huang Shasha (黃莎莎)	66E, Tower 1, The Harbourside 1 Austin Road West, Kowloon Hong Kong	Chinese
Ms. Wong Yee Man (黃綺汶)	Room H, 13/F, Block 8 Yoho Town, 8 Yuen Lung Street Yuen Long, New Territories Hong Kong	Chinese

Please refer to the section headed "Directors and Senior Management" in this document for further information regarding our Directors.

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor	**GF Capital (Hong Kong) Limited** 29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong

[REDACTED]

Legal Advisers to Our Company	*As to Hong Kong, United States and international sanctions laws:* **Ashurst Hong Kong** 11/F Jardine House 1 Connaught Place Central Hong Kong *As to PRC law:* **Jingtian & Gongcheng** 34/F, Tower 3 China Central Place 77 Jianguo Road Chaoyang District, Beijing China

	As to Cayman Islands law: **Harney Westwood & Riegels** 3501 The Center 99 Queen's Road Central Hong Kong
Legal Advisers to the Sole Sponsor and the [REDACTED]	*As to Hong Kong law:* **Morgan, Lewis & Bockius** Suites 1902-09, 19th Floor Edinburgh Tower, The Landmark 15 Queen's Road Central Hong Kong
	As to PRC law: **Commerce & Finance Law Offices** 12-14 Floor, China World Office 2 No. 1 Jianguomenwai Avenue Beijing 100004 China
Auditors and Reporting Accountants	**Deloitte Touche Tohmatsu** 35/F, One Pacific Place 88 Queensway Hong Kong
Transfer Pricing Consultant	**Mazars Tax Services Limited** 42/F, Central Plaza 18 Harbour Road Wanchai Hong Kong
Industry Consultant	**Frost & Sullivan (Beijing) Inc. Shanghai Branch Co.** Room 2504, Wheelock Square 1717 West Nanjing Road Shanghai China

[REDACTED]

CORPORATE INFORMATION

Registered Office in the Cayman Islands	4th Floor, Harbour Place 103 South Church Street, P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
Principal Place of Business in the PRC	Qingzhou Development Zone, East Park, Cangjiang Industrial Park, Gaoming District, Foshan City China
Principal Place of Business in Hong Kong	Room 801, 8/F, COFCO Tower 262 Gloucester Road Causeway Bay Hong Kong
Company Website	**www.migaogroup.com** *(The information on the website does not form part of this document)*
Company Secretary	Ms. Fung Wai Sum (馮慧森) (ACG, HKACG) 5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
Authorised Representatives	Mr. Liu Guocai (劉國才) 22 Leonie Hill Road #07-02 Singapore Ms. Fung Wai Sum (馮慧森) (ACG, HKACG) 5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
Audit Committee	Ms. Wong Yee Man (黃綺汶) *(Chairman)* Mr. Chen Guofu (陳國福) Ms. Huang Shasha (黃莎莎)

Remuneration Committee	Mr. Chen Guofu (陳國福) *(Chairman)* Ms. Huang Shasha (黃莎莎) Mr. Dong Benzi (董本梓)
Nomination Committee	Mr. Liu Guocai (劉國才) *(Chairman)* Mr. Chen Guofu (陳國福) Ms. Huang Shasha (黃莎莎)

[**REDACTED**]

Compliance Adviser	**Soochow Securities International Capital Limited** Level 17, Three Pacific Place 1 Queen's Road East Hong Kong
Principal Bankers	**Bank of China** Foshan Gaoming Sub-branch* (中國銀行佛山高明支行) 307 Cangjiang Road, Hecheng Street Gaoming District, Foshan City China

The information and statistics set out in this section and other sections of this document were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [**REDACTED**]. *The information from official government sources has not been independently verified by us, the Sole Sponsor, the* [**REDACTED**], *the* [**REDACTED**], *the* [**REDACTED**], *the* [**REDACTED**], *the* [**REDACTED**], *the* [**REDACTED**], *any of their respective directors and advisers, or any other persons or parties involved in the* [**REDACTED**], *and no representation is given as to its accuracy.*

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the Global and China potash fertiliser industry. The report prepared by Frost & Sullivan for us is referred to in the document as the Frost & Sullivan Report. A total fee of RMB850,000 was paid to Frost & Sullivan for the preparation of the report, which we believe reflects market rates for reports of this type.

Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists.

RESEARCH METHODOLOGY

The Frost & Sullivan Report was prepared through both primary and secondary research obtained from various sources using intelligence collection methodologies. Primary research involved discussing the status of the industry with certain leading industry participants across the industry value chain and conducting interviews with relevant parties to obtain objective and factual data and prospective predictions. Secondary research involved information integration of data and publication from publicly available sources, including official data and announcements from government agencies, company reports, independent research reports and data based on Frost & Sullivan's own data base.

Basis and assumptions

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) the social, economic and political environment in the world and China are likely to remain stable in the forecast period; and (ii) industry key drivers are likely to drive the growth of the Global and China potash fertiliser industry in the forecast period. All statistics are based on the information available as at the date of the Frost & Sullivan Report, with the potential impact of the COVID-19 pandemic taken into account.

GLOBAL AND CHINA POTASH FERTILISER INDUSTRY OVERVIEW

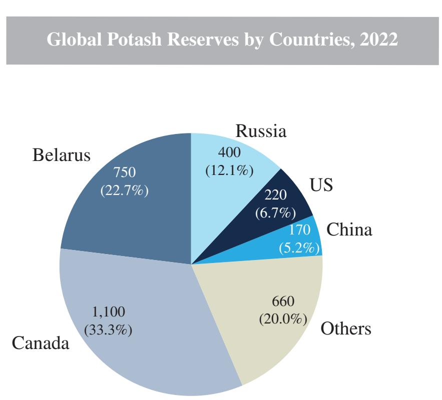
Introduction of Potash Fertiliser

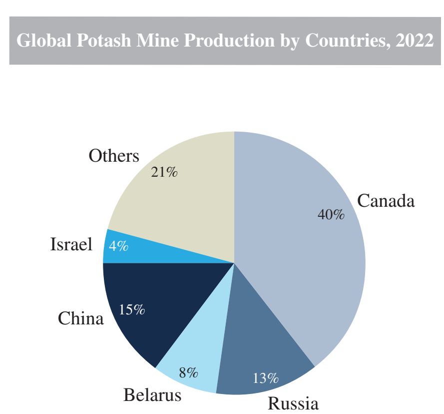
Potassium is one of the three basic plant nutrients along with nitrogen and phosphorus. Potassium, also known as potash, is essential for carbohydrate and starch synthesis, and it also helps plants resist wilting. Up to 98% of potassium in the soil is unavailable to plants in its existing form, making potash fertiliser essential for crop production. Potash fertiliser is defined as a fertiliser made by chemical or physical process with potassium as the main nutrient. There are three major types of potash fertilisers, potassium chloride (KCL), potassium sulfate (SOP) and potassium nitrate (NOP).

Overview of Global Potash Reserve

The global potash reserve is relatively unevenly distributed, and the recoverable reserves are concentrated in a few countries. Among them, Canada, Belarus and Russia are the three countries with the highest reserves in the world. According to the USGS (US Geological Survey), in 2022, the potash reserves of these three countries accounted for more than 60% of the global potash reserves. China has approximately 170 million metric tons of potash reserves (K_2O equivalent), ranking the fourth in the world. However, most of the potash reserves are low-grade potassium and hard-to-reach deep brine deposits, which is difficult to support long-term mining and the increasing downstream demands in the future.

The production volume (K_2O equivalent) of global potash fertilisers reached 50.2 million tonnes in 2022 and is expected to increase from 51.3 million tonnes in 2023 to 54.7 million tonnes in 2027. According to the USGS (US Geological Survey), in 2022, Canada accounted for 40% of the global potash mine production in 2022, followed by China (15%), Russia (13%) and Belarus (8%). Affected by the uncertainty brought about by the conflict between Russia and Ukraine as well as the international sanctions targeting the Belarus Producer, the share of Russia and Belarus' potash mine production in the world declined in 2022. In order to maintain a stable supply, the share of China's potash mine production in the world increased in 2022. However, in the long run, due to the scarcity of potash reserves, the growth of China's domestic potash mine production is limited.

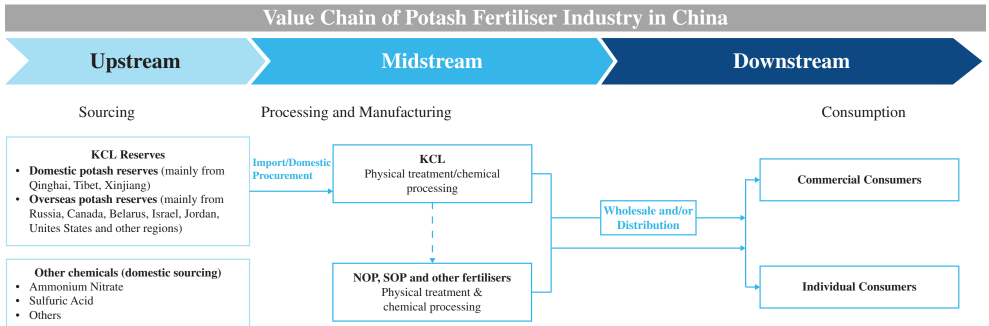




Notes: Data in million metric tons of K_2O equivalent

Source: USGS, Frost & Sullivan Report

Value Chain Analysis in China



Source: Frost & Sullivan Report

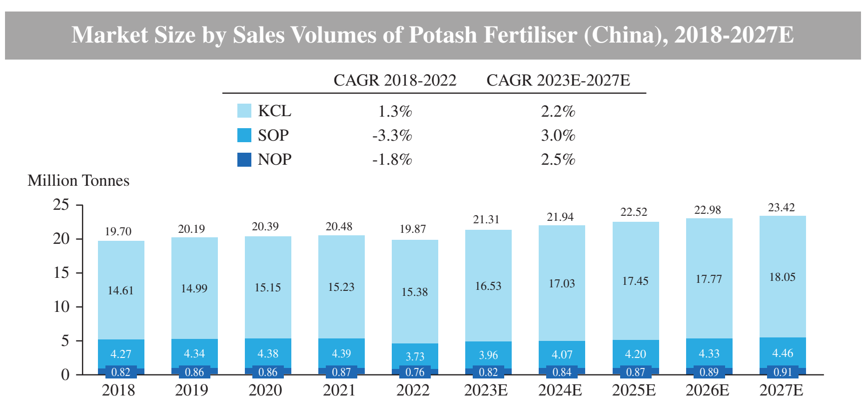
The upstream of China potash fertiliser industry includes KCL reserves and other chemicals. KCL supplied in China is mainly extracted from international and domestic potash reserves. Most KCL is imported from Russia, Canada, Belarus, Israel, etc. Potash reserves in China are primarily located in Qinghai, Xinjiang, Tibet and other regions.

The midstream consists of the processing and manufacturing of potash fertilisers. In some cases, the imported KCL can be sold directly to end customers without further processing. In other cases, imported KCL may go through some physical treatments and be sold to end customers. In addition to the direct application, potash fertilisers can be used for the manufacturing of SOP, NOP and other fertilisers such as compound fertilisers. The production of SOP and NOP needs chemical processing under specific environments and related equipment. It is commonly seen that potash fertiliser manufacturers customise their products according to their downstream clients' particular demands such as product forms and shapes.

The downstream activities of the industry involve wholesale, distribution and end consumption. Particularly, the transportation of fertilisers containing NOP needs to strictly abide by relevant standards such as Regulation on the Safety Management of Hazardous Chemicals (危險化學品安全管理條例). Generally, potash fertilisers are transported to wholesalers, then distributed and sold to the end customers through various distribution channels. In addition, some potash fertilisers are sold directly to consumers without distribution, especially for SOE and large clients. Downstream customers are mainly classified into commercial and individual consumers. Furthermore, some companies in the industry may have overlapping customers/suppliers, for example, potash fertiliser companies may produce compound fertilisers with the raw materials (e.g., KCL) supplied by the downstream customers.

Overview of China Potash Fertiliser Industry

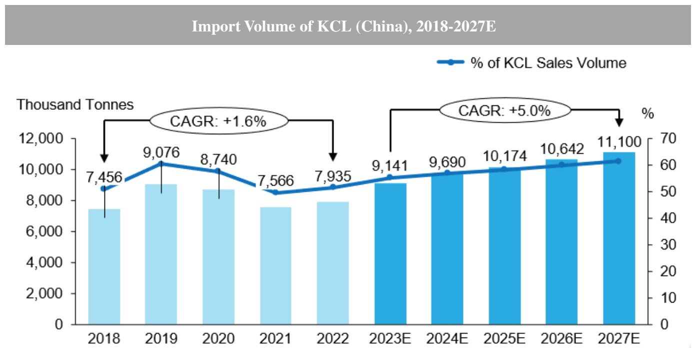
The recent years saw a booming development in China's agriculture and hence an ever-growing demand for potash fertilisers. KCL (potassium chloride) is the most commonly-used potash fertiliser in China and could be used to farm a variety of crops. Due to the limited potassium resources in China, a great proportion of the annual demand for KCL is made up by overseas import. The market size by sales volume of KCL in China reached 15.38 million tonnes in 2022, accounting for 77.4% of the total potash fertiliser sales volume. The sales volume of SOP (potassium sulfate) and NOP (potassium nitrate) reached 3.73 million tonnes and 0.76 million tonnes in 2022. Looking forward, the market size by sales volume of potash fertilisers is forecasted to be further enlarged with sales volume of KCL starting from 16.53 million tonnes in 2023 to 18.05 million tonnes in 2027, showing a CAGR of 2.2%. The application of SOP demonstrates beneficial effects on soil structure, and improves crop resistance to drought, disease and insects. SOP is also a preferred potash fertiliser for chloride sensitive crops such as tobacco and fruit trees. SOP and NOP are also more water soluble which provides the option of applying either to the soil, through irrigation systems, or as a foliage spray. The sales volume of SOP and NOP will reach 4.46 million tonnes and 0.91 million tonnes by 2027, representing CAGRs of 3.0% and 2.5%, from 2023 to 2027.

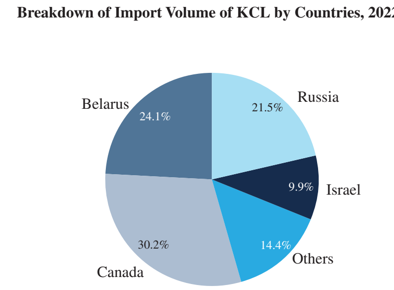


Source: Frost & Sullivan Report

Import Analysis of KCL

The imported KCL is of significance to the potash fertiliser market in China due to the limited supply from domestic potash reserves. In 2022, approximately 50% of the total KCL sales volume in China is sourced from foreign countries. According to the data released by General Administration of Customs, PRC (中華人民共和國海關總署), the import volume of KCL increased from 7,456 thousand tonnes in 2018 to 7,935 thousand tonnes in 2022 with a few fluctuations. Canada, Belarus and Russia were the largest three countries exporting KCL to China in 2022, accounting for approximately 30.2%, 24.1% and 21.5% of the overall China KCL import volume, respectively. Negatively affected by the COVID-19 pandemic, the international trading activities were adversely impacted, causing the decreasing imports of KCL in 2020 and 2021. It is expected that the import volume of KCL in China will keep a steady increase in the coming years and reach approximately 11,100 thousand tonnes by 2027.





Source: General Administration of Customs, PRC, Frost & Sullivan Report

Entry Barriers

(i) Manufacturing Safety and Compliance

- With the increasing attention on environmental sustainability and safety, potash fertiliser manufacturing enterprises have to comply with laws involving environmental protection and government compliance. As special raw materials such as sulfuric acid are used for potash fertiliser manufacturing, regulation requirements are relatively strict. Companies have to obtain licenses such as Safety Production Licence for Hazardous Chemicals (危險化學品安全生產許可證), Registration Certificate of Hazardous Chemicals (危險化學品登記證) and The Safety Production Permit (安全生產許可證), etc. Moreover, manufacturers have to comply with government and industrial standards governing the potash fertiliser industry. Therefore, new entrants need to spend long-term investments to implement the manufacturing safety rules and obtain relevant license.

(ii) Solid Business Networks

- Due to the decentralised sales and distribution, potash fertiliser companies are required to establish a strong distribution network to cover customers from all areas. Leading potash fertiliser companies usually have substantial expertise and logistical resources. Upstream raw material suppliers are more willing to cooperate with large companies with distribution expertise in the market. Major potash fertiliser companies have established close cooperation with upstream suppliers to speed up transaction circulation and reduce the internal friction in the supply chain. It is difficult for new entrants in the industry to establish a solid business network in a short period.

(iii) Procurement Barrier

- Since fertiliser was listed in the "Catalogue of Automatic Import License Management Goods" (自動進口許可管理貨物目錄), importing such commodities should acquire relevant license issued by the Ministry of Commerce. Only companies that hold import license are allowed to proceed customs clearance. Therefore, potash companies that rely on procuring imported potash fertilisers need to obtain the license or maintain close relationships with companies that hold the licenses such as the state-owned enterprises and some cross-border trading companies. It is difficult for new entrants to establish stable business relationships with different types of suppliers in a short term. Furthermore, changes in diplomatic and trade relationships of different countries may have impacts on the international potash fertiliser supply. New entrants might do not have the capability of adopting timely measures to cope with changing situation.

Market Drivers and Trends

(i) Sustained food demand stimulated by population growth

The continuous growth of the global population and economic development, global and China's cereal production and demand will continue to maintain a steady growing trend, which drives the demand for potash fertiliser. Potash fertiliser is an important component of the fertiliser industry, and its demand is closely linked to the production and demand for cereals. Cereals are the most widely grown crops globally, and they play a vital role in feeding the world's population. Potash is an essential nutrient for plant growth and is required for the development of strong roots and stems, as well as for improving the quality and yield of crops. Global and China's cereal production volumes have maintained steady growth over the past few years, with a gradual increase from 2,647.2 million and 610.0 million tonnes in 2018 to 2,786.5 million and 633.2 million tonnes respectively in 2022, at CAGRs of 1.3% and 0.9%, respectively, from 2018 to 2022. The steady growth in global and Chinese cereal production over the past few years has driven the demand for potash fertilisers. Meanwhile, the area of arable land worldwide has continued to decline and is expected to decrease further. Population growth and higher levels of productivity have strong effect on cereals demand, leading to a corresponding increase in demand for potash fertilisers. Furthermore, emerging countries generally have underdeveloped agricultural level and their fertiliser consumption will be much higher than that of developed countries. Therefore, the potash fertiliser industry and manufacturers must continue to innovate and invest in the production and distribution of potash fertilisers to meet the growing demand from the global agriculture sector.

(ii) Improvement in dietary structure brought by consumption upgrades

With the increase in food diversity and the promotion healthy diet concept, the dietary structure has improved. From 2018 to 2022, the global fruit and vegetable production volume have maintained CAGRs of 1.2% and 0.7%, while China has maintained relatively higher CAGRs of 5.1% and 3.3%. Fruits, vegetables and other industrial crops have higher demand for potash fertilisers compared with other agricultural products, the growing production and consumption of these products will continue to drive the demand of potash fertilisers. In addition, the increasing demand for meat products of the emerging countries has greatly promoted the consumption of feed crop as well as fertilisers. Therefore, changes in people's eating habits and improvement in dietary structure will promote the growth of agricultural products with higher demand for potash fertilisers.

(iii) Low potash application rate with large potential market

From 2018 to 2022, the ratio in terms of sales volume of nitrogen, phosphate and potash fertilisers in the world has gradually evolved from 1:0.43:0.35 to 1:0.44:0.36, and the ratio in China reached 1:0.43:0.31 in 2022. The consumption and application level of potash fertilisers in China is still lower than that of many developed countries. Comparing with nitrogen and phosphate fertilisers, potash fertiliser is less harmful to the environment and human health, and has demonstrated advantages in water retention, extreme weather resistance and improvements on crop yield quality. In addition, a series of polices have been issued to encourage the continuous development of potash fertilisers in China. For example, high-concentration potash fertilisers has been listed in the "Catalogue of Industries Encouraging Foreign Investment" 《鼓勵外商投資產業目錄》 by the National Development and Reform Commission and the Ministry of Commerce in 2020. In 2022, the "Notice on a Package of Policies and Measures to Stabilize the Economy" 《紮實穩住經濟一攬子政策措施的通知》 issued by the State Council pointed out that it is necessary to ensure food security and actively support the import of potash fertilisers. As the advantages of potash fertilisers are further recognised by the market, potash fertiliser will become one of the fastest growing and most promising types of fertilisers in China.

(iv) Supporting government policies

The Chinese government has issued strategic supports to the development of the potash fertiliser industry and actively encouraged the construction of overseas potash production base. In addition, the government established the joint negotiation mechanism for potash fertiliser imports to control the import price and promote potash consumption. Moreover, potash fertilisers have been included in the national chemical fertiliser commercial reserves since 2020, and the official notice was issued in the "National Chemical Fertiliser Commercial Reserve Management Measures" 《國家化肥商業儲備管理辦法》. The inclusion of potash fertilisers in the national chemical fertiliser commercial reserves is an important measure to ensure the stable supply of agricultural inputs and promote the sustainable development of agriculture in China. In addition, the government has listed innovative and environmental-friendly fertiliser production technologies for high-quality, high-efficiency and safe production in the "Catalogue of Supported High-tech Fields" (國家重點支持的高新技術領域目錄), According to the "Guiding Opinions on Promoting the Transformation and Development of Fertiliser Industry" (關於推進化肥行業轉型發展的指導意見), the government will promote fertiliser producers to improve their technological innovation capabilities through special funds.

(v) Advanced production technology

In order to enhance market competitiveness, potash fertiliser producers have attached great importance on the improvement of production process and equipment. Irregular granulation technology and round granulation technology are two major fertiliser granulation techniques used to produce potash fertiliser and can significantly improve production efficiency, which have made major breakthroughs.

The advantage of irregular granulation technology is that it can produce fertiliser particles of different particle sizes and shapes, which can meet the needs of different soils and crops. In addition, irregular particles can increase the contact surface area between the fertiliser and the soil during fertilisation, increasing the utilisation efficiency of the fertiliser and thereby improving production efficiency. The advantage of round granulation technology is that it can produce uniform-sized particles with a smooth surface that are not easily caked or layered during transportation and storage, reducing fertiliser loss and improving fertiliser utilisation and production efficiency.

The choice of which technology to use should depend on specific conditions, including soil conditions, crop requirements, fertilisation methods, etc. The related phenol granulation process has been localised, which helps to produce potash fertiliser product with high utilisation rate and absorption rate. With the improvement and progress of various related technologies, the varieties of potash fertiliser products will be more diversified. The concentration of nutrients and physical properties is also expected to gradually increase, and the production process will be more intelligent and environmental-friendly, hence driving the upgrade and development of the industry.

COMPETITIVE LANDSCAPE ANALYSIS

The top five potash fertiliser companies in terms of sales volume in China had a total share of 58.1% in 2022. Our Company, with the sales volume of 1,417.4 thousand tonnes, showed a market share of 7.1% which ranked the third. Among the top five potash fertiliser companies in China, our Company is the only fertiliser supplier that provides KCL, SOP, NOP as well as compound fertilisers. The potash fertiliser companies can be classified into resource-based companies and non reserve-based companies. Our Company is the second largest non reserve-based potash fertiliser company in China in terms of sales volume in 2022. In terms of sales revenue, our Company, with the sales revenue of RMB5,362.0 million, showed a market share of 6.0%, which ranked the third.

Top 5 Companies by Sales Volume and Sales Revenue of Potash Fertiliser (China), 2022

Ranking	Company	Sales Volume (Thousand Tonnes)	Market Share	Sales Revenue (RMB Million)	Market Share	Reserve-based/ Non reserve-based
1	Company A	4,941.1	24.9%	17,300.6	19.5%	Reserve-based
2	Company B	2,700.0	13.6%	7,155.0	8.1%	Non reserve-based
3	Our Company	1,417.4	7.1%	5,362.0	6.0%	Non reserve-based
4	Company E	1,350.0	6.8%	5,130.0	5.8%	Reserve-based
5	Company C	1,135.0	5.7%	4,027.9	4.5%	Non reserve-based

Note: The sales volume and sales revenue is calculated on the calendar year basis.

The market shares of sales volume are calculated based on the physical quantity of potash fertiliser (KCL)

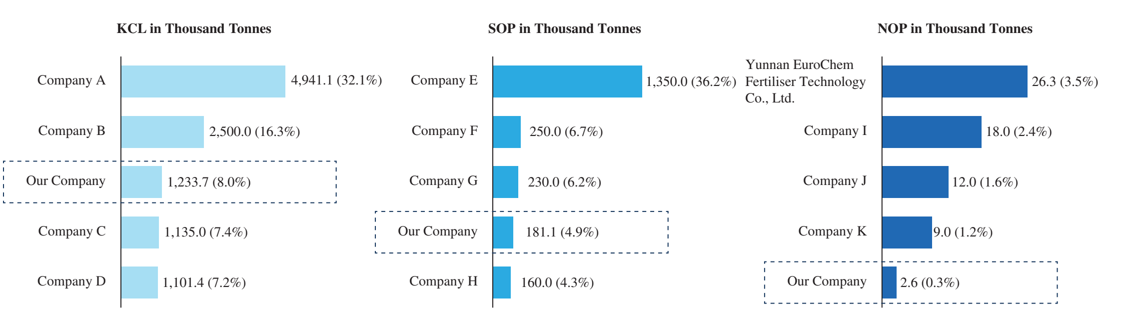
Although Company C has phosphate reserve, it is classified as a non reserve-based potash fertiliser company because it has no potash reserve.

Source: Frost & Sullivan Report

The top five companies of KCL in terms of sales volume had a total share of 71.0% in 2022. Our Company with the sales volume of 1,233.7 thousand tonnes showed a market share of 8.0% which ranked the third.

The top five companies of SOP in terms of sales volume had a total share of 58.2% in 2022. Our Company with the sales volume of 181.1 thousand tonnes showed a market share of 4.9%, which ranked the fourth. In 2022, the top five companies of NOP in terms of sales volume had a total share of 8.9%. Our Company with the sales volume of 2.6 thousand tonnes showed a market share of 0.3%, which ranked the fifth.

Top 5 Companies by Sales Volume of Major Potash Fertiliser Manufacturers (China), 2022



Note: The sales volume is calculated on the calendar year basis.

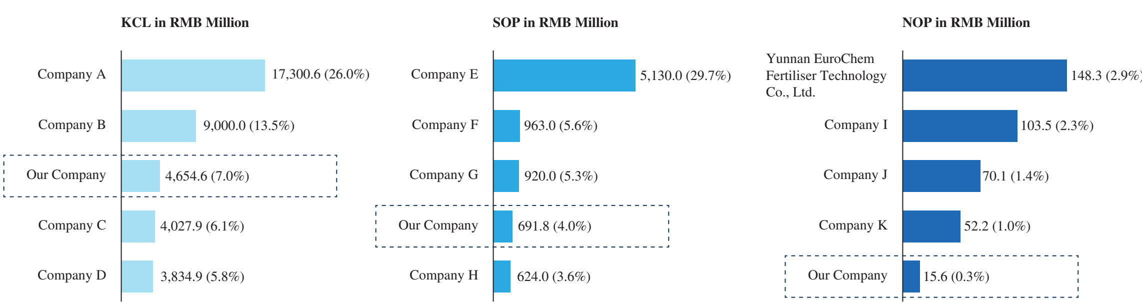
Source: Frost & Sullivan Report

The top five companies of KCL in terms of sales revenue had a total market share of 58.4% in 2022. Our Company with the sales revenue of RMB4,654.6 million accounted for a market share of 7.0%, which ranked the third.

The top five companies of SOP in terms of sales revenue had a total market share of 48.2% in 2022. Our Company with the sales revenue of RMB691.8 million accounted for a market share of 4.0%, which ranked the fourth.

The top five companies of NOP in terms of sales revenue had a total market share of 7.7%. Our Company with the sales revenue of RMB15.6 million accounted for a market share of 0.3%, which ranked the fifth.

Top 5 Companies by Sales Revenue of Major Potash Fertiliser Manufacturers (China), 2022



Note: The sales revenue is calculated on the calendar year basis.

Source: Frost & Sullivan Report

Competitor profiles

(1) Enterprise A is a listed SOE company founded in 1997 and is headquartered in Qinghai. It is mainly engaged in the production and sales of KCL, lithium compounds and utilisation of salt lake resources.

(2) Enterprise B is an unlisted SOE company founded in 2010 and is headquartered in Beijing. It is an international agricultural supplier and agribusiness provider.

(3) Enterprise C is a listed SOE company founded in 1993 and is headquartered in Beijing. It is engaged in the production, import, export, distribution and retail of raw materials and finished products of fertilisers.

(4) Enterprise D is a listed private company founded in 1996 and is headquartered in Qinghai. It is mainly engaged in the production and sales of KCL.

(5) Enterprise E is an unlisted SOE company founded in 2000 and is headquartered in Xinjiang. Its business mainly covers the production and sales of SOP and NOP based on the natural potash reserves.

(6) Enterprise F is an unlisted SOE company founded in 2003 and is headquartered in Qinghai. It is engaged in the development, production and sales of potassium, lithium, boron, magnesium, etc.

(7) Enterprise G is an unlisted private company founded in 1993 and is headquartered in Shandong. It is mainly engaged in the R&D, production, sales and distribution of SOP, hydrochloric acid and other products.

(8) Enterprise H is an unlisted private company founded in 2004 and is headquartered in Qinghai. It is mainly engaged in the development, production and sales of KCL, SOP and potassium sulfate magnesium fertiliser.

(9) Enterprise I is an unlisted private company founded in 2010 and is headquartered in Shanxi. It is mainly engaged in the production of NOP, sodium nitrate, barium chloride, calcium nitrate, lithium nitrate, etc.

(10) Enterprise J is an unlisted private company founded in 1999 and is headquartered in Jiangxi. It is mainly engaged in the R&D, production and sales of NOP, sodium nitrate, compound fertiliser, etc.

(11) Enterprise K is an unlisted private company founded in 2001 and is headquartered in Zhejiang. It is mainly engaged in the R&D, production and sales of NOP, compound fertiliser and other chemical products.

Key Success Factors of Potash Fertiliser Industry

Key success factors of potash fertiliser industry mainly consist of: 1) sufficient and stable sources of supply, 2) innovative, diversified and customized products, and 3) extensive sales lay-out. Firstly, maintaining business relationships with both domestic potash companies and oversea potash fertiliser suppliers are essential to ensure a stable KCL supply. Leading potash companies in China has established close business cooperation with overseas KCL suppliers as well as cross-border trading companies to obtain a stable supply of KCL. In addition, the procurement of KCL through domestic companies (e.g., the state-owned enterprises) with import qualifications is also a major channel for the sourcing of KCL, and maintaining a stable relationship with these companies is also of great importance for the industry players. Secondly, driven by the diversification of fertiliser demands and higher regulatory standards on fertiliser utilisation in China, fertiliser products should adjust ingredients proportion to satisfy the various consumption scenarios and the increasingly stringent environmental requirements. Leading companies, equipped with advanced automatic processing techniques, competitive manufacturing equipment, and experienced industry professionals, have attached great importance on the promotion of high value-added products, such as innovative compound fertiliser products and water-soluble fertiliser products, to continuously enrich their product portfolios. Thirdly, establishing factories in areas based on the downstream market and setting up an extensive sales network is another effective strategy to outcompete in the market, which is conducive to saving transportation costs and avoiding transportation risks. On the other hand, building factories near customers can enable fertiliser companies to establish a tighter relationship with customers, better understand their requirements and market demands, thus providing fertiliser products suitable for the local growing conditions.

RAW MATERIAL PRICE ANALYSIS OF MAJOR POTASH FERTILISER

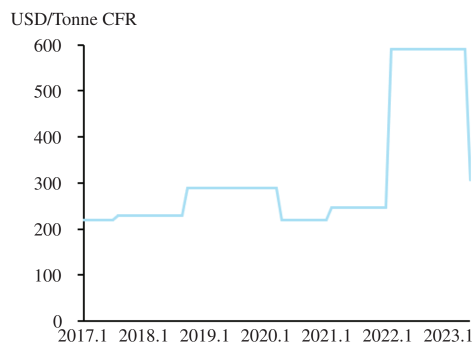
The price of KCL imported by sea in China is determined by the market selling price in China with reference to the sea import master contract price ("**Sea Import Master Contract Price**") negotiated by a consortium of PRC state-owned enterprises, with overseas KCL producers and suppliers usually each year in an annual master contract which specifies the price term. Since half of China's KCL still relies on imports, the Sea Import Master Contract Price has become the vane of China's domestic produced potash fertiliser price. The import price of KCL in China by ground transportation is negotiated by a group of licenced cross-border trading companies organised by China Chamber of Commerce of Metal, Minerals & Chemicals Importers & Exporters (中國五礦化工進出口商會) ("China Importers & Exporters") with major KCL producers and suppliers in Russia and Belarus. The import price by road transportation is generally determined with reference to the Sea Import Master Contract Price and international market price for KCL.

On 15 February 2022, the Chinese negotiation team reached an agreement on the 2022 Sea Import Master Contract Price of KCL with and a Canadian potash fertiliser company, and the contract price was US$590/tonne CFR (cost and freight), increasing significantly from US$247/tonne CFR in 2021. On the one hand, it is attributed to the rising price of agricultural products after the recovery of the global economy, which has further driven up the demand for fertilisers. On the other hand, due to the lasting impact of COVID-19 such as shipping disruption, the recovery of each link along the supply chain is different, resulting in a relatively insufficient supply of potash fertilisers.

Economic sanctions as well as regional conflicts are another two factors affecting global KCL price. In 2021, US, UK and EU successively introduced sanctions against Belarus, involving some potash fertiliser export products, which might impact the global supply balance of potash fertilisers. Some companies that rely on Belarus to import KCL may shift their targets to KCL suppliers in other countries. In 2022, as tensions escalate in the Russian-Ukrainian conflict, the Ukrainian government decided to temporarily ban the export of all types of fertilisers on 12 March 2022. Meanwhile, in order to retaliate against the economic sanctions imposed by Western countries, Russia's government has announced on 10 March 2022 to temporarily suspend the export of fertilisers to the "unfriendly" countries. It is expected that the Russian-Ukrainian conflict will still bring certain uncertainty to the global supply of KCL. Subsequently, as the the U.S. Department of Treasury has clarified on 14 July 2022 that agricultural commodities (including fertilisers) are not targets of the sanctions imposed by the U.S. on Russia and the U.S. has not imposed sanctions on the exportation of fertiliser from, to, transiting, or involving Russia, the uncertainties on the global supply of potash fertiliser decreased. Starting from the third quarter of 2022, due to factors such as the entry of the potash fertiliser market into the off-season, which in turn drove the price of potash fertilisers to fall from a high level.

In 2023, the price of potash fertiliser continued its downward trend. On 6 June 2023, the Chinese negotiation team reached an agreement on the 2023 Sea Import Master Contract Price of KCL with a Canadian potash company. The 2023 Sea Import Master Contract Price is US$307/tonne CFR, with a decrease of US$283/tonne from the previous year. The newly signed 2023 Sea Import Master Contract Price will be valid until the end of 2023. It is expected that the potash fertiliser price in China will be relatively stable for the foreseeable future. The decline in the Sea Import Master Contract Price is beneficial to Chinese farmers in reducing fertiliser costs. As farmers' affordability of potash fertilisers increases, it is expected to stimulate the demand for potash fertilisers in China.

Sea Import Master Contract Price of KCL (China), 2017-2023



Date	Price (US$/tonne CFR)
2016.7	219
2017.7	230
2018.9	290
2020.4	220
2021.2	247
2022.2	590
2023.6	307

Note: The big contract negotiation of potash fertiliser was not held in 2019.

Source: Frost & Sullivan Report

Sulfuric acid, ammonium nitrate are two essential raw materials for the production of potash fertilisers. The average selling price of sulfuric acid increased from RMB261.9 per tonne in 2017 to RMB375.4 per tonne in 2018. Since 2018, the average selling price kept decreasing which was mainly caused by overcapacity and insufficient downstream demand. The average selling price has demonstrated an upward trend in 2021 recovering from 2020, increasing rapidly to approximately RMB642.0 per tonne in 2021. Affected by the decline in downstream demand, the average selling price of sulfuric acid will start to decrease in the second half of 2022. The average selling price of sulfuric acid reached RMB564.2 per tonne in 2022 in China. The average selling price of ammonium nitrate has demonstrated a steady growth in the past few years. In 2020, the shrinking demand after the outbreak of COVID-19 led to the decrease of ammonium nitrate price. The average selling price of ammonium nitrate has also demonstrated an increasing trend since 2021 and reached RMB3,126.6 per tonne in 2022.

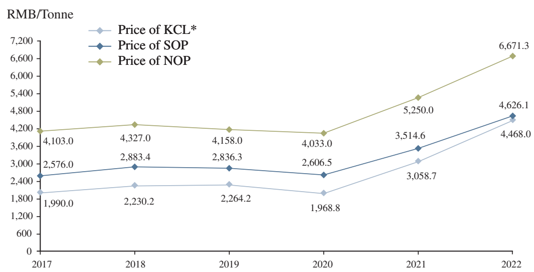
The production and sales of different fertilisers were negatively affected after the outbreak of COVID-19 in 2020 due to the decreasing planting activities during the lockdown period. As the demand for fertilisers dropped off in the spring ploughing season, the market price of different fertilisers and their raw materials also witnessed a decrease in the first quarter of 2020. Meanwhile, the Chinese government has put forward a series of powerful measures and policies (e.g., "Notice of the Central Leading Group against COVID-19 on Printing and Distributing the Current Spring Ploughing Production Guidelines" (中央應對新型冠狀病毒感染肺炎疫情工作領導小組關於印發當前春耕生產工作指南的通知), "Notice on Effectively Supporting the Stable Production and Supply of Agricultural Products During the Prevention and Control of the New Coronary Pneumonia Epidemic" (關於切實支持做好新冠肺炎疫情防控期間農產品穩產保供工作的通知) and "Notice on Doing a Good Job in the Production, Supply and Price Stabilisation of Fertilisers for Spring Ploughing in 2021" (關於做好2021年春耕化肥生產供應和價格穩定工作的通知)) to control the spread of virus as well as to guarantee stable agricultural activities and the stable supply of agricultural products. With the gradual recovery of economy, the demand for fertilisers has gradually recovered since the second quarter of 2020. In 2021, driven by the active spring ploughing and other planting activities, the downstream demand for fertilisers has obviously increased and the price of fertilisers and their raw materials started to increase.

PRICE ANALYSIS OF FERTILISERS

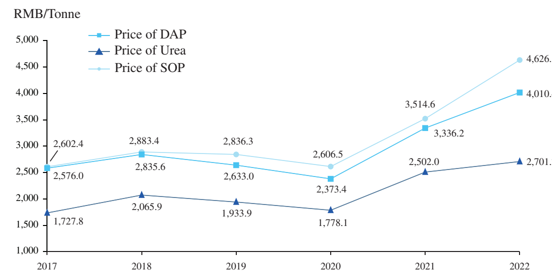
Compared to potash fertilisers, the prices of nitrogen fertilisers, represented by urea, and phosphorus fertilisers, represented by DAP, were generally lower than that of potash fertilisers and experienced a similar trend during the past five years. In 2021, the average selling price of urea and DAP reached RMB2,502.0 per tonne and RMB3,336.2 per tonne, respectively. In 2022, the average selling price of urea and DAP reached RMB2,701.7 per tonne and RMB4,010.4 per tonne, respectively.

The price of KCL experienced an overall growth from 2017 to 2020 despite some fluctuations. From 2017 to 2019, the average selling price of KCL maintained at around RMB2,000 per tonnes. After the outbreak of COVID-19, the price of KCL experienced a decrease due to the shrinking fertiliser demand during the lockdown period. Since 2021, the recovering downstream demand and the tight supply has pushed the price of KCL to an unprecedent level. Similarly, the average selling price of SOP decreased to RMB2,606.5 per tonne in 2020. Affected by the rising price of KCL and other raw materials, the average selling price of SOP also surged since 2021, reaching RMB4,626.1 per tonne in 2022. The price of NOP is higher than that of KCL and SOP due to the complex manufacturing technique and higher production cost. Again, the slump of global prude oil prices and the lockdown in 2020 lowered the price of NOP, while it rebounded significantly since 2021 due to the increasing raw material prices and demands. In 2022, as the global supply shortage of potash fertilisers intensified, the average selling price of KCL, NOP and SOP in China rose significantly, peaked in the second quarter, and slowly declined, although still maintained at historical high in 2022.

Average Price of KCL, NOP and SOP, (China) 2017-2022



Average Price of Nitrogen Fertiliser (Urea), Phosphorus Fertiliser (DAP) and Potash Fertiliser (SOP), (China), 2017-2022



Note:* The price of KCL refers to the selling price of imported KCL in the finished goods form in China.

Source: Frost & Sullivan Report

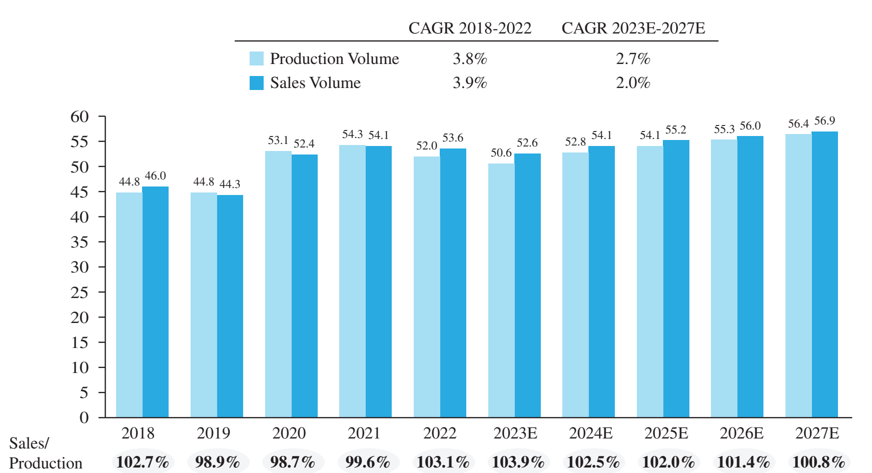
CHINA COMPOUND FERTILISER INDUSTRY OVERVIEW

Production and Sales Volume of Compound Fertiliser

Compound fertiliser is a kind of fertiliser with three-components, providing nitrogen, phosphorus and potassium. Compound fertiliser can be used for balanced fertilisation and can increase the utilisation rate of fertilisers. They can be applied to the soil, or directly on the plant to maintain or increase fertility to produce crops with good quality. They supplement naturally available nutrients in the soil and also provide additional nutrients that are required for specific types of crops.

The production volume of compound fertilisers increased from 44.8 million tonnes in 2018 to 52.0 million tonnes in 2022, representing a CAGR of 3.8%. And the sales volume presented a similar trend, rising from 46.0 million tonnes in 2018 to 53.6 million tonnes in 2022, representing a CAGR of 3.9%. Looking forward, driven by the increasing planting area of different crops, the production volume and sales volume are expected to increase to 56.4 million tonnes and 56.9 million tonnes in 2027.

Market Size by Production and Sales Volume of Compound Fertiliser Industry (China), 2018-2027E



Source: Frost & Sullivan Report

PRC LAW AND REGULATIONS

Most of our business operations are based in the PRC and are subject to extensive supervision and regulation by the PRC Government. This section will introduce the major regulatory authorities and the main laws, rules and regulations which impact key aspects of our business.

MAJOR REGULATORY AUTHORITIES

State Council

The State Council, as the highest organ of state administration, is responsible for reviewing, approving and reforming the investment system and approval system of the PRC government and the catalogue of investment projects approved by the government.

National Development and Reform Commission

The National Development and Reform Commission (the "**NDRC**") (國家發展和改革委員會) is responsible for formulating and implementing the major policies related to the economic and social development of the PRC; planning major construction projects and management of production capacity.

The Ministry of Emergency Management

The Ministry of Emergency Management (The "**MOEM**", which the State Administration of Work Safety has been incorporated into.) (應急管理部) is responsible for managing and supervising production safety in the PRC and ensuring the implementation of PRC laws and regulations in relation to production safety.

Ministry of Ecology and Environment

The Ministry of Ecology and Environment (The "**MOEE**", which the Ministry of Environmental Protection has been incorporated into.) (生態環境部) is responsible for formulating ecological environment policies, plans and standards, and for monitoring the ecological environment and law enforcement, regulating pollution control and organising inspections of central authorities on environmental protection.

Ministry of Commerce

The Ministry of Commerce (the "**MOFCOM**") (商務部) is responsible for managing domestic and overseas trading and cooperation with international economies and approving foreign investment projects and overseas investment projects of PRC enterprises.

The Ministry of Housing and Urban-Rural Development

The Ministry of Housing and Urban-Rural Development (住房和城鄉建設部) is responsible for examining and approving construction projects and industry management.

FOREIGN INVESTMENT IN THE PRC

The establishment, operation and management of companies in PRC are governed by the PRC Company Law (《中華人民共和國公司法》) which was promulgated by the Standing Committee of the National People's Congress (the "**SCNPC**") on 29 December 1993, came into effect on 1 July 1994 and was last revised on 26 October 2018. Under the PRC Company Law, companies are generally classified into two categories, i.e. limited liability companies and companies limited by shares. Each a limited liability company or a company limited by shares is an enterprise legal person, and liable for its debts with all its assets. PRC Company Law is also applicable to foreign-invested companies, except otherwise set out in any other regulations. On 24 December 2021, the draft amendment to the PRC Company Law was published for public comments by the SCNPC. The amendment made systematic changes to the existing PRC Company Law. Uncertainties exist regarding the final form of these regulations as well as the interpretation and implementation thereof after promulgation.

Pursuant to the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**") promulgated by the National People's Congress (the "**NPC**") on 15 March 2019 and came into effect on 1 January 2020, the "Foreign Investment" refers to the investment activity directly or indirectly conducted by the foreign natural person, enterprise or other organisation (hereinafter referred to as the "foreign investors"), including the following circumstances: (i) a foreign investor establishes a foreign-invested enterprise within the territory of China, independently or jointly with any other investor; (ii) a foreign investor acquires shares, equities, property shares or any other similar rights and interests of an enterprise within the territory of China; (iii) a foreign investor makes investment to initiate a new project within the territory of China, independently or jointly with any other investor; and (iv) a foreign investor makes investment in any other way stipulated by laws, administrative regulations or provisions of the State Council. The state applies the administrative system of pre-establishment national treatment plus negative list to foreign investment. Foreign Investors shall not invest in any field prohibited by the Negative List and shall meet the investment conditions stipulated for any field restricted by the Negative List, while for foreign investments outside the Negative List, national treatment will be given. The business forms, structures, and rules of activities of foreign-funded enterprises shall be governed by PRC Company Law, the Partnership Law of the People's Republic of China (《中華人民共和國合夥企業法》) and other laws. In conducting production and distribution activities, foreign-funded enterprises shall comply with the provisions of laws and administrative regulations pertaining to labour protection and social insurance, conduct taxation, accounting, foreign exchange, and other affairs according to laws, administrative regulations, and the relevant provisions issued by the state, and accept the supervisory inspection legally conducted by the appropriate departments.

Investments activities in China by foreign investors are principally governed by the Encouraged Industries Catalog for Foreign Investment (2022 version) (《鼓勵外商投資產業目錄(2022年版)》) (the "**Catalog**") which was promulgated by the MOFCOM and the NDRC on 26 October 2022 and became effective on 1 January 2023 and the Special Administrative Measures for Foreign Investment Access (Negative List 2021) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the "**Negative List (2021)**"), which was promulgated by the MOFCOM and the NDRC on 27 December 2021 and became effective on 1 January 2022. The Catalog and the Negative List (2021) set forth the industries in which foreign investments are encouraged, restricted and prohibited. Industries that are not listed in any of these three categories are generally open to foreign investment unless otherwise specifically restricted by other PRC rules and regulations.

LAWS AND REGULATIONS RELATING TO OVERSEAS LISTING

On 17 February 2023, the CSRC promulgated Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "**Overseas Listing Trial Measures**") and relevant five guidelines, which became effective on 31 March 2023. The Overseas Listing Trial Measures comprehensively improved and reformed the existing regulatory regime for overseas offering and listing of PRC domestic companies' securities and regulated both direct and indirect overseas offering and listing of PRC domestic companies' securities by adopting a filing-based regulatory regime.

Pursuant to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfil the filing procedure with the CSRC and report relevant information. The Overseas Listing Trial Measures provides that an overseas offering and listing is explicitly prohibited, if any of the following: (i) such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; (ii) the intended overseas securities offering and listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) the domestic company intending to make the securities offering and listing, or its controlling shareholder(s) and the actual controller, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (iv) the domestic company intending to make the securities offering and listing is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (v) there are material ownership disputes over equity held by the domestic company's controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controller.

The Overseas Listing Trial Measures also provides that if the issuer meets both the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as indirect overseas offering by PRC domestic companies: (i) 50% or more of any of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; and (ii) the main parts of the issuer's business activities are conducted in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have their usual place(s) of residence located in mainland China. Where an issuer submits an application for initial public offering to competent overseas regulators, such issuer must file with the CSRC within three business days after such application is submitted.

On the same day, the CSRC also held a press conference for the release of the Trial Measures and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies (《關於境內企業境外發行上市備案管理安排的通知》), which, among others, clarifies that (1) on or prior to the effective date of the Overseas Listing Trial Measures, domestic companies that have already submitted valid applications for overseas securities offering and listing but have not obtained approval from overseas regulatory authorities or stock exchanges may reasonably arrange the timing for submitting their filing applications with the CSRC, and must complete the filing before the completion of their overseas securities offering and listing; (2) a six-month transition period will be granted to domestic companies which, prior to the effective date of the Overseas Listing Trial Measures, have already obtained the approval from overseas regulatory authorities or stock exchanges (such as the completion of hearing in the market of Hong Kong or the completion of registration in the market of the United States), but have not completed the indirect overseas listing; if domestic companies fail to complete the overseas listing within such six-month transition period, they shall file with the CSRC according to the requirements.

LAW SUPERVISION OVER SAFE PRODUCTION

Production Safety Law of the PRC

According to the Production Safety Law of the PRC (*《中華人民共和國安全生產法》*, the "**Production Safety Law**") promulgated on 29 June 2002 and amended on 27 August 2009, 31 August 2014 and 10 June 2021, production and operating entities shall meet the work safety conditions required by the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Entities that do not meet such production safety conditions shall not engage in production or operating activities. Entities engaged in production, operation and storage of hazardous items shall establish a department to carry out work safety management or designate personnel solely responsible for work safety management. Production and operating entities shall provide their employees with education and training on work safety to ensure that the employees have the necessary knowledge regarding work safety.

Regulations on Safety Production Permit

The Regulations on Safety Production Permit (《安全生產許可證條例》), which were promulgated by the State Council on 13 January 2004 and revised on 18 July 2013 and 29 July 2014, stipulates that enterprises engaged in the production of hazardous chemicals must obtain a safety production permit ("**Safety Production Permit**") from the competent work safety authorities prior to its commencement of production. Enterprises without the Safety Production Permit are not allowed to engage in hazardous chemical production activities. The Safety Production Permit is valid for three years and may be extended within three months prior its expiration by the original issuing authority.

If an enterprise violates the provisions of the Regulations on Safety Production Permit and commences production without obtaining the Safety Production Permit or fails to renew the Safety Production Permit upon its expiration, the relevant authorities may order it to suspend production, confiscate the illegal gains and impose a fine on the enterprise. If a criminal offence is committed, the offender may be subject to criminal liabilities.

LAW SUPERVISION OVER THE CHEMICAL FERTILISER INDUSTRY

Regulations on Fertiliser Registration

The Administrative Measures for Fertiliser Registration (《肥料登記管理辦法》), which was promulgated by the Ministry of Agriculture (now known as the Ministry of Agriculture and Rural Affairs) on 23 June 2000, came into effect on the same day, and was amended on 11 October 2015, 3 February 2016, 12 January 2017 and 7 January 2022, the PRC government implements a registration system for the production, operation, use and publicity of fertiliser products in the PRC. Unregistered fertiliser products shall not be imported, produced, sold or used, and shall not be advertised or publicised.

Fertiliser producers applying for fertiliser registration shall, in accordance with the Requirements for Fertiliser Registration Materials (《肥料登記資料要求》), which was promulgated by the Ministry of Agriculture on 25 May 2001 and amended on 30 November 2017, provide information on product chemistry, fertiliser efficiency, safety, labelling and other aspects and representative fertiliser samples.

Some specific kinds of fertiliser which was long-term used in farmland and with national or industrial standard can exception from registration. The following list is every single member of those fertiliser mentioned above: Ammonium sulphate ($(NH_4)_2SO_4$), urea, ammonium nitrate (NH_4NO_3), calcium cyanamide ($CaCN_2$), ammonium phosphate ($NH_4H_2PO_4$, $(NH_4)_2HPO_4$), phosphate nitrate, superphosphate, potassium chloride (KCl), potassium sulphate (K_2SO_4), potassium nitrate (KNO_3), ammonium chloride (NH_4Cl), ammonium bicarbonate (NH_4HCO_3), calcium magnesium phosphate, potassium dihydrogen phosphate (KH_2PO_4), single trace element fertiliser, high concentration compound fertiliser.

Regulations on the Pricing

On 29 December 1997, the Pricing Law of the PRC (《中華人民共和國價格法》) was promulgated, which stipulated that the price of most commodities and services is subject to market condition and decided by market participants. Only a small number of commodities and services, the list of which shall be stipulated by the central and provincial-level competent authority, are subject to government guided prices or government set prices.

In the meantime, market participants must not carry out certain improper pricing acts, including but not limited to, (1) colluding with others to manipulate market prices, thereby infringing on the legal rights and interests of other market participants or consumers; (2) dumping goods with lower cost in order to squeeze out competitors or monopolize the market, thereby disrupting normal production and business order and damaging the national interest or the legal rights and interests of consumers, except for fresh products, seasonal products, overstocked goods, etc., of which the prices are legally reduced; and (3) fabricating and spreading news of a price rise, driving up prices and propelling commodity prices to rise exorbitantly.

Regulations on the Value-Added Tax on Fertilisers

According to the Notice on the Policies on Resuming the VAT Levy on Fertilisers (《關於對化肥恢復徵收增值稅政策的通知》) jointly promulgated by the MOF, the General Administration of Customs and the State Administration of Taxation (the "SAT") on 10 August 2015 which came into effect on 1 September 2015, companies selling and importing chemical fertilisers shall be subject to 13% VAT. Subsequently, the VAT rate dropped to 11% pursuant to Circular on Simplifying and Integrating Policies Related to Value-added Tax Rate (《關於簡併增值稅稅率有關政策的通知》) promulgated on 28 April 2017 and the VAT rate was again adjusted to the current 10% pursuant to Circular on Adjusting Value-added Tax Rate (《關於調整增值稅稅率的通知》) promulgated on 4 April 2018. The VAT was then gradually reduced and on 20 March 2019, the Announcement on Policies Concerning Deepening the Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) promulgated by the MOF, the SAT and the General Administration of Customs further reduced the VAT rate to 9%. In addition, on 29 April 2008, the MOF and the SAT issued the Notice on the Exemption of Value-Added Tax on Organic Fertiliser Products (《關於有機肥產品免徵增值稅的通知》), which exempts organic fertilisers and organic-inorganic compound fertilisers from value-added tax.

LAW SUPERVISION OVER THE TOBACCO PRODUCTS

The Standing Committee of the National People's Congress promulgates the Law of the People's Republic of China on Tobacco Monopoly (2015 Revision) (《中華人民共和國煙草專賣法》) on 14 April 2015, stipulating that the State shall according to law exercise monopoly administration over the production, sale, import and export of tobacco monopoly commodities, and practice a tobacco monopoly license system. The department of tobacco monopoly administration under the State Council shall be responsible for the nation-wide tobacco monopoly. The departments of tobacco monopoly administration in the provinces, autonomous regions and municipalities directly under the Central Government shall be responsible for the tobacco monopoly within the areas under their respective jurisdiction, and shall be under the dual leadership of the department of tobacco monopoly administration under the State Council and the people's governments of the relevant provinces, autonomous regions and municipalities directly under the Central Government, with the leadership of the department of tobacco monopoly administration under the State Council as the main leading primary authority.

The State Council promulgates the Regulations for the Implementation of the Law of the People's Republic of China on Tobacco Monopoly (2021 Revision) (《中華人民共和國煙草專賣法實施條例》) on 10 November 2021, stipulating that tobacco monopoly refers to monopoly of the State of the administration of production, marketing and import and export of monopolized tobacco products. Application for tobacco monopoly licenses shall be required according to the provisions of the Tobacco Monopoly Law and the provisions of this set of rules for producing and handling wholesale and retail sale of tobacco products subject to monopoly and for handling imports and exports of such products and for handling purchase and marketing of foreign tobacco products.

The State Tobacco Monopoly Administration on 31 March 2021, Notice of The State Tobacco Monopoly Administration on the Promulgation of Detailed Rules for Implementation of the Administrative Measures on Tobacco Monopoly Licenses (《國家煙草專賣局關於印發煙草專賣授權管理辦法實施細則的通知》) stipulates that the applications for the following tobacco monopoly licenses shall be accepted and examined by the tobacco monopoly administrations at the provincial level at the local places of the applicants' business venues, and approved by the State Tobacco Monopoly Administration: (i) application for tobacco monopoly license for production enterprises to engage in production and processing business of tobacco monopoly products; and (ii) application for the tobacco monopoly license for wholesale enterprises to engage in the wholesale business of tobacco products across provinces, autonomous regions and centrally-administered municipalities, or engage in operation business of other tobacco monopoly products.

LAW SUPERVISION OVER THE CHEMICAL INDUSTRY

Regulation on Safety Management of Hazardous Chemicals

According to the Regulation on Safety Management of Hazardous Chemicals (*《危險化學品安全管理條例》*) issued by the State Council on 26 January 2002 and amended on 2 March 2011 and 7 December 2013, the PRC government implements catalogue management for chemicals listed in the catalogue of hazardous chemicals. Entities engaged in production, storage, usage, operation and transportation of hazardous chemicals are required to meet the safety conditions set out by relevant laws, administrative regulations, national standards and industrial standards and obtain relevant permits. For example, enterprises shall obtain a business licence for hazardous chemicals before engaging in operations related to hazardous chemicals. New construction, renovations and expansions of construction projects for production and storage of hazardous chemicals shall be subject to inspection of the safety conditions by production safety supervision and management authorities.

Administrative Rules on Registration of Hazardous Chemicals

According to the Administrative Rules on Registration of Hazardous Chemicals (《危險化學品登記管理辦法》) issued by the State Economic and Trade Commission (rescinded) on 8 October 2002 and replaced by the new regulation which was issued on 1 July 2012 by the State Administration of Work Safety (now know as the Ministry of Emergency Management), the PRC government implements a registration system for hazardous chemicals. Enterprises engaged in production or import of hazardous chemicals listed in the Catalogue of Hazardous Chemicals (《危險化學品目錄》) shall conduct general inspection of their hazardous chemicals, establish records for management of hazardous chemicals, apply for registration of hazardous chemicals with the relevant registration authorities as set out in the requirements, fill in the registration information based on facts and submit the required documents, and receive an inspection from production safety supervision and management authorities as set out in the relevant laws.

Administrative Regulations on the Safety Supervision of Construction Project of Hazardous Chemical

The Administrative Regulations on the Safety Supervision of Construction Project of Hazardous Chemical (《危險化學品建設項目安全監督管理辦法》), which was promulgated by the State Administration of Work Safety on 30 January 2012 and came into effect on 1 April 2012, and revised on 27 May 2015, stipulates that projects for the construction, renovation and expansion of facilities used in the production or storage of hazardous chemicals, as well as projects which generate hazardous chemicals (including hazardous chemical long-distance pipeline construction projects), are subject to inspections, supervision and administration by competent regulatory authorities. Such projects shall not commence construction or operation without first completing the safety review and the acceptance of the completed safety facilities.

Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises

The Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》) was formulated according to the Regulations on Safety Production Permit, and was promulgated by the State Administration of Work Safety and became effective on 17 May 2004. Amendments were made to such measures by the State Administration of Work Safety on 5 August 2011, 27 May 2015 and 6 March 2017.

According to the aforesaid measures, hazardous chemical production enterprises must obtain the Safety Production Permit for Hazardous Chemicals. The local work safety authorities at the provincial level are responsible for the issuance and administration of Safety Production Permit for Hazardous Chemicals for enterprises within its administrative regions except central enterprises and their directly controlled enterprise headquarters involved in the production of hazardous chemicals. If a hazardous chemical production enterprise commences production without obtaining the Safety Production Permit for Hazardous Chemicals, the relevant authorities may order it to suspend production, confiscate the illegal gains and impose a fine of no less than RMB100,000 but not exceeding RMB500,000 on the enterprise. If a criminal offence is committed, the offender may be subject to criminal liabilities.

Administrative Measures on Operation Permit of Hazardous Chemicals

According to the Administrative Measures on Operation Permit of Hazardous Chemicals (*《危險化學品經營許可證管理辦法》*) issued by the State Administration of Work Safety (now known as the Ministry of Emergency Management) 17 July 2012 and amended on 27 May 2015, the operational activities (including warehouse operation) of hazardous chemicals in the PRC shall be carried out under a hazardous chemical permit issued by the production safety supervision authorities. However, a hazardous chemical producer that has obtained a hazardous chemical safety production permit and sells its own products within its factory area is not required to obtain a separate hazardous chemical operation permit. To obtain an operation permit, the hazardous chemical operation enterprises should meet all the statutory requirements on business premises, staff training, regulatory system, rescue equipment and other aspects.

Regulation on Administration of Production Permit for Industrial Products

According to the Regulation on Administration of Production Permit for Industrial Products (*《工業產品生產許可證管理條例》*) issued by the State Council on 9 July 2005, the PRC government implements a production permit system for important industrial products and other industrial products listed in the Catalogue of Industrial Products under Production Permit System (the "**Industrial Product Catalogue**"). Enterprises engaged in production of hazardous chemicals listed in the Industrial Product Catalogue shall obtain the production permit for industrial products in accordance with the requirements of such regulation. To obtain a production permit, an enterprise should possess appropriate staffing, production conditions, inspection methods, production techniques, technical documents, effective quality management systems and accountability systems, its products should meet the relevant national standards, industrial standards and other statutory requirements, and the enterprise should comply with national industry policies by not using outdated techniques, having a high consumption of energy, polluting the environment and wasting resources which shall be eliminated and are prohibited from investment by the PRC government.

LAW SUPERVISION OVER FOREIGN TRADE

The Foreign Trade Law of the PRC (*《中華人民共和國對外貿易法》*) was initially promulgated on 12 May 1994 and later amended on 6 April 2004, 7 November 2016 and 30 December 2022, respectively by the Standing Committee of the National People's Congress (the "**SCNPC**"). According to the Foreign Trade Law of the PRC, goods and technologies could be imported and exported freely, unless otherwise specified in relevant laws or administrative regulations. The MOFCOM has implemented an automatic licensing system for certain imports and exports, under which the MOFCOM or its authorised agencies shall grant a license to the consignee or consignor who applies for automatic licensing prior to completing customs clearance formalities for imports and exports subject to automatic licensing, and has published a list of such goods. Both pure and other kinds of potassium chloride have been included in the current Catalogue of Goods under Automatic Import Licensing (2023 version) (*《自動進口許可管理貨物目錄(2023年)》*), which came into effect on 1 January 2023. To further administer the automatic import and export of goods, several regulations have also been promulgated including the Regulations on the Import and Export of Goods of the PRC (*《中華人民共和國貨物進出口管理條例》*) which came into effect on 1 January 2002 and the Administrative Measures on Automatic Import Licensing (*《貨物自動進口許可管理辦法》*) which was latest revised on 10 October 2018 most recently.

Pursuant to the Administrative Measures on Automatic Import Licensing, the MOFCOM shall implement automatic licensing for certain imports based on import needs as monitored and announced in the catalogue at least 21 days before the implementation. The consignees (including importers and users) of goods subject to automatic import licensing shall apply to the local or relevant licence issuing authorities for an automatic import licence before completing customs declaration formalities. The licence issuing authorities shall issue an automatic import licence to successful applicants within a period of not more than 10 working days if the applications are proper and complete. Consignees applying for an automatic import licence shall submit the following documents: (i) the importer or exporter qualification certificate, filing registration document or approval certificate for foreign investment enterprise and business license of the consignee (only first-time applicants within the calendar year shall be required to submit the aforesaid certificates and documents); (ii) application form for automatic import license; (iii) import contract of the goods; (iv) the import agency agreement (original copy) shall be submitted if the import is handled by an agent; (v) proof that the usage or end user satisfies the relevant provisions if there are special provisions in laws and regulations for the usage or end user of the imports; (vi) documents provided by the catalogue to be submitted for different types of commodities; and (vii) other documents required by the MOFCOM. Consignees shall be responsible for the authenticity of the documents submitted and ensure that the related business activities comply with the provisions of State laws.

LAW SUPERVISION OVER PROJECT INVESTMENT

The State Council issued the Decision on Investment System Reform

The State Council issued the Decision on Investment System Reform (*《國務院關於投資體制改革的決定》*) (the "**Investment Reform Decision**") on 16 July 2004 which came into effect on the same day. The legislation aims to reduce the direct intervention of the PRC government in business activities, to allow the market to allocate resources, to improve investment efficiency, and to facilitate the continuous, coordinated and healthy development of the Chinese economy. With the issuance of the Investment Reform Decision, the PRC government has streamlined the approval process for investment projects. There are three types of management of investment projects: ratification, approval and filing. The ratification system no longer applies to projects that do not use government investment for construction. The approval system shall be applied for major projects and restricted projects in order to protect the public interest. The filing system is applicable for other projects regardless of investment size, except for projects prohibited from investment according to national laws and regulations and special requirements of the State Council.

According to the Notice on Issue of Catalogue of Investment Projects subject to Approval by the Government (2016 version) (*《關於發布政府核准的投資項目目錄(2016年本)的通知》*) issued by the State Council on 12 December 2016, investment in construction of fixed assets investment projects listed in the Catalogue of Investment Projects subject to Approval by the Government (2016 version) shall be approved by relevant project approval authorities in accordance with relevant requirements, and the investment in construction of projects not listed in the Catalogue of Investment Projects subject to Approval by the Government (2016 version) shall be filed with relevant authorities.

LAW SUPERVISION OVER ENVIRONMENTAL PROTECTION

Environmental Protection Law of the PRC

According to the Environmental Protection Law of the PRC (*《中華人民共和國環境保護法》*) promulgated by the SCNPC on 26 December 1989 and effective on the same day, and amended on 24 April 2014, the construction of any project that causes pollution to the environment must comply with the regulations on environment protection relating to the construction projects. The environmental protection facilities for construction projects shall be designed, constructed and put into operation simultaneously with the main works. The PRC government implements a system for administering licences for the discharge of pollutants under the provisions of the laws. Enterprises, units and other production operators under the licencing management for pollutant discharge should only discharge pollutants which satisfy the requirements of pollutant discharge licence. Those which have not yet obtained the pollutant discharge licence may not discharge pollutants. Pollutant-discharging enterprises, units and other production operators shall pay sewage fees pursuant to the relevant provisions of the State.

Environmental Impact Assessment of the PRC

According to the Environmental Impact Assessment of the PRC (《中華人民共和國環境影響評價法》) promulgated by the SCNPC on 28 October 2002, amended on 2 July 2016 and 29 December 2018, construction entities shall implement the following procedures for their construction projects in accordance with Classification of Construction Project Lists for Environmental Impact Assessments (《建設項目環境影響評價分類管理名錄》) promulgated by the Ministry of Environmental Protection: (i) in case the environmental impact is significant, full assessment reports of environmental impacts shall be prepared; (ii) in case the environmental impact is mild, reports containing environmental impact analyses and specific assessments shall be prepared; and (iii) in case the environmental impact is minimal, environmental impacts registration forms shall be submitted without any assessments. The project in case construction may not proceed its environmental impact assessment documents fail to pass the review of the competent authority in accordance with the laws and regulations or which are disapproved after review.

Regulations on the Administration of Environmental Protection for Construction Project

According to the Regulations on the Administration of Environmental Protection for Construction Project (《建設項目環境保護管理條例》) promulgated by the State Council on 29 November 1998 and became effective on 29 November 1998, and amended on 16 July 2017 by the State Council and took effect on 1 October 2017, construction units shall assess the environmental impacts for their construction projects. Construction units shall, depending on the level of the environmental impacts, report environmental impact reports and the required environmental impact forms prepared by institutions which possess relevant qualifications to the relevant construction and protection administration and obtain approval from relevant administration before commencing. Environmental protection facilities shall be designed, constructed and put into operation simultaneously with the main construction works. Upon the completion of construction projects, construction units shall make an acceptance cheque of the matching environmental protection facilities and prepare an acceptance report according to the standards and procedures stipulated by the competent administrative department of environmental protection under the State Council, and shall make the acceptance report publicly available in accordance with the law unless it is required to be kept confidential according to national provisions.

Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste

The Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), promulgated by the SCNPC on 30 October 1995 and latest amended on 29 April 2020, stipulates that construction projects where solid waste are generated or projects for storage, utilisation or disposal of solid waste shall be subject to environmental impact assessment. Ancillary facilities necessary for the prevention and control of environmental pollution by solid waste set out in the environmental impact reports of construction projects shall be designed, constructed and put into operation simultaneously with institutional projects. Construction projects shall not be put into operation or used until the relevant competent environmental protection department has checked and accepted the prevention and control of environmental pollution facilities.

Law of the PRC on Prevention and Control of Water Pollution

According to the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) promulgated by the SCNPC on 11 May 1984 and latest amended on 27 June 2017, an environmental impact assessment must be conducted lawfully in respect of all projects involving the construction, alternation or expansion of water facilities which discharge pollution directly or indirectly into water. Facilities for prevention and control of water pollution of construction projects must be designed, constructed and put into use or operation simultaneously with the main facility.

Law of the PRC on Prevention and Control of Atmospheric Pollution

According to the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) promulgated by the SCNPC on 5 September 1987 and latest amended on 26 October 2018, when construction projects have an impact on atmospheric environment, enterprises and public institutions shall conduct environmental impact assessments and publish the environmental impact assessment documents according to the law; when discharging pollutants to the atmosphere, they shall conform to the atmospheric pollutant discharge standards and abide by the total quantity control requirements for the discharge of key atmospheric pollutants.

Law of the PRC on Prevention and Control of Environmental Noise Pollution

According to the Law of the PRC on Prevention and Control of Noise Pollution (《中華人民共和國噪聲污染防治法》) promulgated by the SCNPC on 24 December 2021 and took effect on 5 June 2022, the new construction, reconstruction or expansion projects that may cause noise pollution shall be subject to the environmental impact assessment. The facilities for the prevention and control of noise pollution in a construction project shall be designed, built and put into production or use simultaneously with the main part of the project. Before a construction project is put into production or use, the construction employer shall, in accordance with the provisions of relevant laws and regulations, conduct the acceptance check of the supporting facilities for noise pollution prevention and control, work out the acceptance check report, and release it to the public. The construction project may not be put into production or use before its acceptance check is carried out or if it fails to pass its acceptance check.

Environmental Protection Tax Law of the PRC and Implementing Regulations for the Law of the PRC on Environmental Protection Tax

Pursuant to the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法》) promulgated by the SCNPC on 25 December 2016 and became effective on 1 January 2018, and amended on 26 October 2018 and Implementing Regulations for the Law of the PRC on Environmental Protection Tax (《中華人民共和國環境保護稅法實施條例》) promulgated by the State Council on 25 December 2017 and became effective on 1 January 2018, enterprises that discharge taxable pollutants directly to the environment within the territorial areas of the PRC and other sea areas are under the jurisdiction of the PRC. Polluters should pay environmental protection tax based on the pollutant discharged. Polluters who have paid pollutant discharge charges shall not be exempted from the liability of preventing and controlling pollution, making compensation relating to the pollution made and other liabilities under laws and administrative regulations.

Measures for the Administration of Pollutant Discharge Permits (For Trial Implementation)

Pursuant to Measures for the Administration of Pollutant Discharge Permits (For Trial Implementation) (*《排污許可管理辦法(試行)》*), which was promulgated by the Ministry of Environmental Protection of the PRC (the "**MEP**", now known as the Ministry of Ecology and Environment) on 10 January 2018 and revised on 22 August 2019, MEP shall enact and publish the classified management catalogue of pollutant discharge permits for stationary pollution sources (*《固定污染源排污許可分類管理名錄》*) (the "**Classified Management Catalogue**") in accordance with the law, and explicitly incorporated the scope and time limit of the pollutant discharge permit management. The specific scope of pollutant discharging entities subject to the key administration or simplified administration of pollutant discharge licensing shall be determined in accordance with the Classified Management Catalogue. According to the Classified Management Catalogue, Key management of pollutant discharge permits shall be implemented for pollutant discharge units that produce and discharge pollutants or have a great impact on the environment; Pollutant discharge units that produce and discharge pollutants and have a small impact on the environment shall implement simplified management of pollutant discharge permits. Pollutant discharge units that produce and discharge pollutants and have little impact on the environment shall be subject to pollutant discharge registration management. A pollutant discharge unit that implements registration management does not need to apply for a pollutant discharge permit. It shall fill in the pollutant discharge registration form on the national pollutant discharge license management information platform (全國排污許可證管理信息平臺).

LAW SUPERVISION OVER PROPERTY IN CHINA

Land Administration Law of the PRC

The Land Administration Law of the PRC (*《中華人民共和國土地管理法》*), which was promulgated on 25 June 1986 and revised on 29 December 1988, 29 August 1998, 28 August 2004 and 26 August 2019 by the SCNPC, and relevant regulations stipulate that urban land in the PRC belongs to the state and land in rural and suburban areas (except as otherwise owned by the state), as well as farm housing land, individual land plots and mountainous land, belongs to relevant farming collectives. State-owned land and land owned by farming collectives may, according to law, be provided for use by organised work units (including enterprises) or individuals. Enterprises or individuals wishing to use State-owned land must apply for and obtain a State-Owned Land Use Rights Certificate from the competent land administration. Pursuant to relevant regulations and rules, generally speaking, state-owned land use rights are valid for a period of 70 years in respect of land for residential use, 40 years in respect of land for commerce, tourism and entertainment purposes, and 50 years in respect of land for industrial use or for comprehensive utilisation or other purposes.

According to the PRC Civil Code (《中華人民共和國民法典》), which was promulgated on 28 May 2020 and came into effect on 1 January 2021 by the NPC the real rights refer to a rights holder's exclusive right of direct control over a specific property in accordance with the law, and include ownership, usufruct rights and security interest. Upon legal registration, the creation, alteration, transfer or termination of the real rights of an immovable comes into effect; and it shall have no effect if it is not registered in accordance with law, unless otherwise prescribed by any law.

Pursuant to a series of construction-related laws and regulations, including but not limited the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), Law on Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), the Construction Law of the PRC (《中華人民共和國建築法》), Administrative measures for construction permit of Construction Engineering (《建築工程施工許可管理辦法》), Administration Regulation on the Quality Management for Construction Projects (《建設工程質量管理條例》), and the Provisions on Acceptance Inspection Upon Completion of House Construction and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收規定》), before obtaining the property ownership certificate, the developer of a construction project is required to obtain various permits, certificates and other approvals, including land use right certificate, the construction land planning permit, the construction project planning permit and construction permit in relation to such construction project. After completion of a construction project, a construction project owner shall organise the design, construction, and project supervision contractors concerned and other relevant contractors to conduct completion-based cheque and acceptance, and submit an acceptance report to the competent construction administrative departments or other relevant departments for the record.

LAW SUPERVISION OVER INTELLECTUAL PROPERTY

Patent

According to the Patent Law of the PRC (《中華人民共和國專利法》) revised by the SCNPC on 27 December 2008 and taking effect on 1 October 2009 and latest amended on 17 October 2020 (the "**Patent Law**"), when an invention or utility model patent is granted, unless otherwise stipulated in the Patent Law, without the approval of the patent owner, no entity or person shall implement the relevant patent, that is, manufacture, use, offer to sell, sell or import the patented products for business purpose, or use the patented method and use, offer to sell, sell or import the products directly obtained with the patented method. When the appearance design patent is granted, without the approval of the patent owner, no entity or person shall implement the relevant patent, that is, manufacture, use, offer to sell, sell or import the patented products incorporating the patented design. In the event that a patent is owned by two or more co-owners without an agreement regarding the distribution of revenue generated from the exploitation of any co-owner of the patent, such revenue shall be distributed among all the co-owners.

Implementing the patent without the approval of the patent owner constitutes the infringement of patent rights. Any dispute in connection with this shall be resolved by the relevant parties through negotiation. If the relevant parties refuse to negotiate or the negotiation fails, the patent owner or the relevant stakeholders may file a lawsuit in the people's court or turn to the patent administration authorities for handling. If the relevant patent administration authority determines that there exists infringement, it shall order the infringer to stop the infringement immediately. The party concerned that disagrees to the order may bring a lawsuit in a people's court according to the Administrative Procedure Law of the PRC (《中華人民共和國行政訴訟法》) in 15 days after receiving the handling notice. If the infringer neither raises litigation nor stops in the infringement upon the expiry of the 15-day period, the relevant patent administration authority may turn to the people's court for enforcement. The relevant patent administration authority may, upon the request of the relevant parties, conduct mediation on the compensation for the patent infringement. If the mediation fails, the parties concerned may bring a lawsuit in a people's court according to the Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》).

Trademark

According to the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on 23 August 1982 and latest amended on 23 April 2019 (the "**Trademark Law**"), the registered trademark has a validity period of 10 years starting from the registration date. The trademark registrant enjoys the exclusive right to use the trademark. According to Article 57 of the Trademark Law, any of the following acts shall be an infringement of the exclusive right to use a registered trademark:

1. Using a trademark that is identical with a registered trademark in respect of the same goods without the authorisation from the trademark registrant;

2. Using a trademark that is similar to a registered trademark in respect of the same goods or using a trademark that is identical with or similar to a registered trademark in respect of the similar goods, which can cause confusion, without the authorisation from the trademark registrant;

3. Selling goods that infringe the exclusive right to use a registered trademark;

4. Counterfeiting, or making, without authorisation, representations of a registered trademark of another person, or selling such representations of a registered trademark as were counterfeited, or made without authorisation;

5. Replacing the trademark registrant's registered trademark without authorisation, and selling goods bearing such a replaced trademark;

6. Facilitating the infringement on the exclusive right of another person to use a registered trademark, or helping another person to commit the infringement on the exclusive right to use a registered trademark;

7. Causing, in other respects, prejudice to the exclusive right of another person to use a registered trademark.

Any dispute in connection with the activities the infringe the exclusive right to use a registered trademark set out in Article 57 of the Trademark Law shall be resolved by the relevant parties through negotiation. If the relevant parties refuse to negotiate or the negotiation fails, the trademark registrant or the relevant stakeholders may file a lawsuit in the people's court or turn to the industrial and commercial administrative department for handling.

If the industrial and commercial administrative department determines that there exists infringement, it shall order the infringer to stop the infringement, confiscate and destroy the infringing goods and the tools used to manufacture the infringing goods and counterfeiting the registered trademark, and impose a penalty of less than 5 time of the illegal business income if the illegal business income exceeds RMB50,000, or impose a penalty of less than RMB250,000 if there is no illegal business income or the illegal business income is less than RMB50,000. If the infringer commits the trademark infringement for more than twice in 5 years or there is any other severe situation, a heavier punishment shall be given. If the seller does not know the goods he sells infringe the exclusive right to use a registered trademark and proves that the goods are obtained by him legally, and discloses the goods supplier, the industrial and commercial administrative department shall order him to stop selling the relevant goods.

In case of any dispute in connection with the compensation for the infringement on the exclusive right to use a registered trademark, the relevant parties may ask for mediation by the industrial and commercial administrative department or file a lawsuit in the people's court according to the Civil Procedure Law of the PRC. If the relevant parties fail to reach agreement after the mediation by the industrial and commercial administrative department or the mediation agreement is not performed, the relevant parties may file a lawsuit in the people's court according to the Civil Procedure Law of the PRC.

LAW SUPERVISION OVER LABOUR

The Labour Law of the PRC

The Labour Law of the PRC (*《中華人民共和國勞動法》*), which was promulgated by the SCNPC on 5 July 1994, came into effect on January 1, 1995, and was amended on 27 August 2009 and 29 December 2018, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labour safety and health systems, stringently implement national protocols and standards on labour safety and health, conduct labour safety and health education for workers, guard against labour accidents and reduce occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labour protection equipment that complies with labour safety and health conditions stipulated under national regulations, as well as provide regular health cheque for workers that are engaged in operations with occupational hazards. Workers engaged in special operations shall have received specialised training and obtained the pertinent qualifications. An employer must develop a vocational training system. Vocational training funds must be set aside and used in accordance with national regulations and vocational training for workers must be carried out systematically based on the actual conditions of the company.

The Labour Contract Law of the PRC and its implementation regulations

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012, and came into effect on 1 July 2013, and the Implementation Regulations on Labour Contract Law (《中華人民共和國勞動合同法實施條例》) which was promulgated on 18 September 2008, and came into effect on the same day, regulate employer and the employee relations and contain specific provisions involving the terms of the labour contract. Labour contracts must be made in writing and may, after reaching agreement upon due negotiations, be for a fixed-term, an un-fixed term, or conclude upon the completion of certain work assignments. An employer may legally terminate a labour contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions.

The Laws and Regulations on Social Security Insurance

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on 28 October 2010, came into effect on 1 July 2011, and amended on 29 December 2018, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Provisional Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), the Regulation of Insurance for Work Injury (《工傷保險條例》), the Regulation of Unemployment Insurance (《失業保險條例》), the Decision of the State Council on Setting up Basic Medical Insurance System for Staff Members and Workers in Cities and Towns (《國務院關於建立城鎮職工基本醫療保險制度的決定》), enterprises are obliged to provide their employees in the PRC with welfare schemes covering basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. If an enterprise fails to pay social insurance premiums in full within the time specified by the authorities, a daily fine of 0.05% on any delinquent payments may be imposed on it. If an enterprise fails to make such payments on time, it may be liable to a fine equal to one to three times the overdue amount.

The Regulations on the Administration of Housing Provident Funds

According to the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), which were promulgated by the State Council and came into effective on 3 April 1994 and revised on 24 March 2002 and 24 March 2019, enterprises should undertake registration at the competent managing centre of housing fund and then, upon the examination by such managing centre of housing fund, undergo the procedures of opening the account of housing fund for their employees at the relevant bank. Enterprises are also obliged to timely pay and deposit then housing fund in the full amount. In the event that an enterprise fails to pay housing provident fund within the time period according to the regulation, the PRC authorities may order it to pay the fund with in a time limit. If the enterprise still fails to make overdue contributions, such relevant PRC authorities may apply to court for compulsory execution. If the enterprise fails to undertake registration of housing provident fund or fail to open housing fund account for its employees, the competent PRC authorities shall order the enterprise to complete such registration procedure regarding housing provident fund within a prescribed time limit. If the enterprise fails to do so within the prescribed time limit, a penalty ranging from RMB10,000 to RMB50,000 may be imposed.

LAW SUPERVISION OVER TAXATION

Enterprise income tax

According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"《中華人民共和國企業所得稅法》), which was promulgated by the National People's Congress (the "**NPC**") on 16 March 2007 and came into effect on 1 January 2008, and amended on 24 February 2017 and 29 December 2018, and the Implementation Regulations on the EIT Law (《中華人民共和國企業所得稅法實施條例》), which was promulgated by the State Council on 6 December 2007, and came into effect on 1 January 2008, and amended on 23 April 2019 a uniform income tax rate of 25% will be applied to domestic enterprises, foreign-invested enterprises and foreign enterprises that have established production and operation facilities in the PRC, except for the high-tech enterprises provided by the state, which will be subject to enterprise income tax at the reduced rate of 15%. These enterprises are classified as either resident enterprises or non-resident enterprises. Resident enterprises refer to enterprises that are established in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises refer to enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but who (whether or not through the establishment of institutions in the PRC) derive income from the PRC. However, if non-resident enterprises have not established institutions in the PRC, or if they have established institutions in the PRC but there is no actual relationship between the relevant income derived in the PRC and the institutions set up by them, enterprise income tax is set at the rate of 10%.

Withholding tax and international tax treaties

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns a 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments once approvals have been obtained from the relevant tax authorities.

Pursuant to the Notice of the SAT on the Several Issues of the Implementation of Dividend Clauses in Tax Treaty (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the SAT and came into effect on 20 February 2009, the non-resident taxpayer or the withholding agent is required to obtain and to keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment.

Value-added tax

According to Provisional Regulations on Value-added Tax of the PRC (*《中華人民共和國增值税暫行條例》*) issued by the State Council on 13 December 1993 and taking effect on January 1, 1994 and amended respectively on 5 November 2008, 6 February 2016 and 19 November 2017 ("**Provisional Regulations on VAT**"), all the entities and persons engaged in sales of goods or provision of processing, repair and maintenance labour, sales of services, intangible assets or real estate or import of goods in China shall be subject to value-added tax. The taxable value shall be calculated based on the output tax and input tax. Unless otherwise specified by the Provisional Regulations on VAT, for the sales of goods, labour, tangible asset lease services or import of goods by the tax payer, the VAT rate shall be 17%; for the sales of transportation, postal, basic telecom, construction and real estate lease service, sales of real estate, transfer of land use right, sales and import of special goods listed in the Provisional Regulations on VAT by the tax payer, the VAT rate shall be 11%; for the sales| of services and intangible assets by the tax payer, the VAT rate shall be 6%. Unless otherwise specified, the VAT rate for the export of goods by the tax payer shall be zero; and the VAT rate for the cross-border sales of services and intangible assets within the scope as specified in the regulations of the State Council by the domestic institutions and individuals shall be zero.

According to the Circular on Simplifying and Integrating Policies Related to Value-added Tax Rate (*《關於簡併增值税税率有關政策的通知》*) jointly issued by SAT and Ministry of Finance on 28 April 2017 and taking effect on 1 July 2017, the VAT rate structure will be simplified on 1 July 2017, and the VAT rate of 13% will be cancelled. The tax payer selling or importing the following goods shall be subject to value-added tax at the tax rate of 11%: agricultural products (including food), tap water, heating, liquefied petrochemical gas, natural gas, edible vegetable oil, air conditioning, hot water, gas, coal product for household use, edible salt, farm machinery, feedstuff, pesticide, agricultural film, fertiliser, marsh gas, dimethyl ether, books, newspaper, magazines, audio and video products and electronic publications.

On 4 April 2018, SAT and MOF jointly issued Circular on Adjusting Value-added Tax Rate (*《關於調整增值税税率的通知》*) to further adjust the VAT rate, including the change of tax rate from 17% and 11% to 16% and 10% respectively for the taxable sales or import of goods by the tax payer.

Transfer pricing

Pursuant to the EIT Law, the Implementation Rules and the transfer pricing regulations in the PRC including the Announcement of the State Administration of Taxation on Matters Relating to the Improvement of Affiliated Declaration and Contemporaneous Document Management (《國家税務總局關於完善關聯申報和同期資料管理有關事項的公告》) promulgated and became effective on 29 June 2016 and the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Special Tax Investigation Adjustments and Mutual Agreement Procedures (《國家税務總局關於發佈特別納税調查調整及相互協商程序管理辦法的公告》) promulgated on 17 March 2017 and became effective on 1 May 2017, related party transactions should comply with the arm's length principle and if the related party transactions fail to comply with the arm's length principle resulting in the reduction of the enterprise's taxable income, the relevant tax authorities have power to make adjustments. When implementing transfer pricing investigation, the relevant tax authorities shall conduct comparability analysis and select a reasonable transfer pricing method for the analysis of the related party transactions. The transfer pricing methods include comparable uncontrolled price method, resale price method, cost-plus method, net profit method, profit split method and other methods in line with the arm's length principle. In addition, enterprise which have related party transactions meeting the reporting criteria shall prepare transfer pricing documentation per tax year and submit to the relevant tax authorities if required by the relevant tax authorities. Transfer pricing documentation includes the master file, local file and special issue file, each of which is applied to different circumstances in relation to the related party transactions of the PRC company.

SANCTIONS LAWS AND REGULATIONS

Our International Sanctions Legal Advisers have provided the following summary of the sanctions regimes imposed by the jurisdictions below. This summary does not intend to set out the laws and regulations relating to the US, the EU, the UK, the UN and Canada sanctions in their entirety.

United States

OFAC administers and enforces U.S. primary sanctions programs, and violation of primary sanctions carries monetary and criminal penalties.

Primary Sanctions

In general, U.S. primary sanctions apply to "**U.S. Persons**", which means

(i) Any individual who is a U.S. citizen or legal permanent resident of the United States, including dual citizens, regardless of his or her current location in the world;

(ii) Any individual, regardless of his or her nationality, while physically located in the U.S.;

(iii) Any corporation, partnership, association, or other organisation organised under the laws of the United States or of any state, territory, possession, or district of the United States;

(iv) The foreign branches of any U.S. corporation, partnership, association or other organisation organised under the laws of the United States or of any state, territory, possession or district of the United States.

In the case of U.S. sanctions applicable to Cuba and Iran, Primary Sanctions also apply to non-U.S. subsidiaries of U.S. companies and other non-U.S. entities owned or controlled by U.S. Persons.

U.S. primary sanctions directly impose prohibitions on transactions and dealings with targeted countries, entities, and individuals. Primary sanctions principally apply to U.S. Persons, although they may be applied to non-U.S. Persons who cause U.S. Persons to violate sanctions or otherwise facilitate the violation of some sanctions programs.

When the U.S. Government imposes primary sanctions against a foreign country, entity or individual, U.S. law often prohibits U.S. Persons from engaging in any transaction with or providing almost any goods or services for the benefit of the targeted country, entity or individual. U.S. law may also require a U.S. Person to "*block*" any assets owned, controlled or held for the benefit of a sanctioned country, entity, or individual. A "*blocked*" asset means no transaction may be undertaken or effected with respect to the asset – no payments, benefits, provision of services or other dealings – except pursuant to an authorisation or license from OFAC.

In addition, primary sanctions prohibit U.S. Persons, wherever located, from approving, financing, facilitating or guaranteeing any transaction by a foreign person where the transaction by that foreign person would be prohibited if performed by a U.S. Person or within the United States. This is generally known as the prohibition on "*facilitation*".

There are two types of U.S. primary sanctions programs – "country based" programs and "list based" programs. Violations of either type can result in "*strict*" civil liability (not a negligence standard) where fines and penalties may be imposed. In addition, wilful violations may result in criminal liability, punishable by imprisonment and elevated fines.

Country based programs. U.S. sanctions programs targeting specific countries fall into two categories: programs that are comprehensive in scope and programs that are limited in scope.

(i) Comprehensive country-based sanctions programs prohibit U.S. Persons from dealing in any manner with a sanctioned country and their governments. Currently, the U.S. maintains comprehensive sanctions against: Cuba, Iran, North Korea, Syria and the Crimea region of Ukraine, the self-proclaimed Luhansk People's Republic, the self-proclaimed Donetsk People's Republic and Zaporizhzha and Kherson territories of Ukraine occupied by Russia. Generally, comprehensive country sanctions prohibit transactions with or services in, from or benefitting the targeted country. However, the comprehensive country sanctions may also be applicable to transactions outside the country.

(ii) Limited country-based sanctions programs prohibit U.S. Persons from participating in certain types of transactions with the sanctioned country and their governments, such as the provision of certain services, financing, investments, exports and/or imports. Limited country-based sanctions programs are often referred to as "sectoral sanctions". Prohibited activities vary from program to program. Currently, the U.S. government maintains limited sanctions programs relating to: Belarus, China, Russia, and Venezuela.

List based programs. In addition to country-based targets, primary U.S. sanctions include list-based sanctions that prohibit U.S. Persons from dealing with or facilitating dealings with individuals, entities and organizations that have been designated as SDNs by the OFAC.

U.S. Persons are not allowed to have any dealings whatsoever with or facilitate dealings with parties designated on the SDN List unless specifically authorised by OFAC.

Secondary Sanctions

The U.S. has also enacted secondary sanctions targeting non-U.S. Persons who are engaged in certain defined activities. Secondary sanctions grant broad discretion to the U.S. President and his delegated representatives to deny access to the U.S. economic system to non-U.S. Persons who have been determined to engage in the specified transaction. The imposition of penalties under secondary sanctions legislation is a mechanism that the U.S. employs to punish and deter non-U.S. parties from certain behaviour and transactions.

United States Sanctions Relating to Belarus

The U.S. sanctions relating to Belarus have been imposed since 2006 under a number of Executive Orders, among which, Executive Order 14038 imposes "sectoral sanctions", which, among others, authorises OFAC to designate persons determined to "operate in, or have operated in,"the potassium chloride (i.e., potash or KCL) sector of the economy of Belarus;

On 9 August 2021, OFAC designated the Belarus Producer as an SDN, on the basis that it is owned or controlled by the Government of Belarus and for operating or having operated in the potassium chloride (potash) sector of the economy of Belarus. On the same day, OFAC issued general license 4 allowing U.S. Persons 120 days to wind down transactions with the Belarus Producer and its subsidiaries (until 8 December 2021). As a result, U.S. Persons are prohibited from engaging in transactions with the Belarus Producer since 9 August 2021, except for transactions that are ordinarily incident and necessary to the wind down of transactions with the Belarus Producer.

On 2 December 2021, OFAC designated Supplier D as an SDN, which purportedly handles the trading and exportation of potash for the Belarus Producer, for operating or having operated in the potassium chloride (potash) sector of the economy of Belarus. On the same day, OFAC issued general license 5 allowing U.S. Persons 120 days to wind down transactions with Supplier D and its subsidiaries (until 1 April 2022), including the wind down of transactions in which the Belarus Producer has a property interest. The inclusion in general license 5 of transactions in which the Belarus Producer has a "property interest" captures transactions entered into with Supplier D (prior to the imposition of sanctions) in respect of potash sourced from the Belarus Producer.

Whilst Belarus general licenses 4 and 5 are limited in applicability to U.S. Persons, OFAC policy is that it will not impose sanctions on non-U.S. Persons for activities that are permitted for U.S. Persons (i.e., wind down transactions permitted by the general licenses).

In March 2022, the U.S. imposed sweeping export control restrictions on Belarus for enabling Russia invasion of Ukraine including notably a policy of denial on sensitive items that support Belarus's defence, aerospace, and maritime industries as well as restrictions targeting the export of luxury goods.

On 3 March 2022, the U.S. Commerce Department, through the BIS, imposed stringent export controls in response to Belarus's substantial enabling of Russia's further invasion of Ukraine. These sanctions imposed new Commerce Control List-based license requirements for Belarus, among other things expanding the existing "military end use" and "military end user" control scope to include Belarus for all items subject to the Export Administration Regulations. On 11 March 2022, the BIS imposed restrictions on the export, reexport, and transfer (in country) of luxury goods (including certain spirits, tobacco products, clothing items, jewellery, vehicles and antique goods) to all end users in Belarus and to certain Belarusian individuals and malign actors located worldwide.

On 15 March 2022, OFAC re-designated Alyaksandr Lukashenka, the Belorussian President, and newly designated his wife, pursuant to Executive Order 13405.

On 9 August 2023, OFAC designated additional individuals, entities, and aircraft.

United States Sanctions Relating to Russia

U.S. sanctions relating to Russia have been imposed under a number of Executive Orders. The Executive Orders issued in 2014 found that Russia's purported annexation of Crimea continued to undermine democratic processes in Ukraine and thereby constituted an unusual and extraordinary threat to the national security and foreign policy of the U.S.

The U.S. sanctions on Russia have drastically escalated as a result of Russia's invasion of Ukraine in February 2022. For example, Executive Order 14065 was issued on 21 February 2022, finding that Russia's purported recognition of the so-called Donetsk People's Republic or Luhansk People's Republic regions of Ukraine contradicts Russia's commitments under the Minsk agreements and further threatens the peace, stability, sovereignty, and territorial integrity of Ukraine.

In a joint statement on 26 February 2022, the U.S. (together with EU, UK and other major economies) also agreed to remove selected Russian banks from the SWIFT messaging system and impose unprecedented restrictions on the Russian Central Bank and its ability to use its currency reserves on Western markets.

Three additional Executive Orders were issued in March and April 2022 restricting "new investment" in Russia by U.S. persons.

Many of these sanctions apply to both U.S. and non-U.S. Persons. These sanctions take several different forms:

(a) certain Russian persons and entities have been placed on the SDN List and thus U.S. Persons and, in most cases (particularly the SDN designations implemented in 2022), non-U.S. Persons are prohibited from dealing with them and the entities that they own 50% or more (directly or indirectly, solely or in aggregate);

(b) the Crimea, Luhansk and Donetsk regions annexed by Russia are subject to a comprehensive trade embargo for U.S. Persons and most of these restrictions will also apply to non-U.S. Persons;

(c) "sectoral" sanctions (mainly applicable to U.S. persons) have been imposed on Russia's energy, financial, and defence industries, among other sectors, and target specified types of investment, finance, and/or sales of U.S.-origin goods and services to these industries as well as key public financial institutions;

(d) significant export control restrictions, including general denial policy for certain categories of goods exported to Russia (semiconductors, computers, information security), and removing Russia from the preferred trade partner status, which will impact U.S. content/origin goods and technology being transferred to Russia or Russian parties anywhere in the world;

(e) removal of numerous Russian banks from the SWIFT messaging system, ensuring that those banks were disconnected from the international financial system;

(f) restriction of "new investment" in Russia by U.S. Persons;

(g) price caps on certain Russian energy resources sold internationally; and

(h) secondary sanctions threaten the imposition of penalties on non-U.S. Persons that undertake a variety of defined activities with Russia, including significant transactions with SDNs, operating in Crimea, Luhansk and Donetsk regions, construction of energy export pipelines, sanctions evasion, corruption, and defence and intelligence-related sector transactions.

However, to reduce the impact on global food supplies and prices and ensure world food security, the U.S. Department of the Treasury clarified on 14 July 2022 that the U.S. has not imposed sanctions on the production, manufacturing, sale, or transport of agricultural commodities (including fertilisers), agricultural equipment, or medicine relating to Russia. On the same date, the OFAC issued General License No. 6B authorising among other things, certain transactions related to the production, manufacturing, sale, or transport of Russian agricultural commodities (including fertilisers). Specifically, it was emphasised that the U.S. has not imposed sanctions on the exportation of fertiliser from, to, transiting, or involving Russia. In addition, transactions involving insurance and reinsurance services related to the transportation or shipping of fertilisers from, to, transiting, or related to Russia are permitted under U.S. sanctions. Finally, U.S. financial institutions are authorised to process transactions authorised by the general license, and foreign financial institutions may engage in or facilitate transactions. The term "fertilizer" is used in a broad sense as defined in the U.S. Agricultural Trade Act of 1978 and therefore includes potash/KCL products. On 17 January 2023, the OFAC issued General License No. 6C, which replaced General License No. 6B by expanding the applicable scope to include the "provision" of agricultural commodities, as well as certain services (such as accounting, trust and corporate formation, and management consulting services) that would otherwise be prohibited under the determination pursuant to Executive Order 14071.

Further, the OFAC confirmed on 2 August 2022 EuroChem Group was not targeted by U.S. sanctions because it is not owned 50% or more by blocked persons (such as its founder, Andrey Igorevich Melnichenko, who was designated as an SDN by the OFAC on the same day).

On 24 February 2023, the OFAC announced further sanctions actions against Russia, which imposed sanctions on 22 individuals and 83 entities, targeting Russia's financial services, metals and mining, aerospace, defence, military supply chains, technology and electronics, carbon fiber, as well as individuals and companies worldwide that are helping Russia evade existing sanctions.

On 12 April 2023, the OFAC announced sanctions designations of over 120 entities and individuals from over 20 countries in connection with U.S. sanctions targeting Russia. The sanctions aimed to further curb Russia's access to the international financial system through facilitators and their businesses, and among the sanctions targets was the facilitation network of a Russian oligarch. OFAC also sought to reinforce existing measures and further disrupt Russia's importation of critical technologies used in its war against Ukraine.

On 19 May 2023, the OFAC sanctioned 22 individuals and 104 entities from over 20 countries, targeting Russia-related sanctions evasions and circumventions, Russia's access to critical technology, future energy extraction capabilities and financial service sectors. Additionally, the OFAC expanded sanctions authorities to target new sectors of Russia's economy, including the architecture, engineering, construction, manufacturing and transportation sectors. The U.S. Department of State also designated almost 200 individuals, entities, vessels and aircraft.

On 20 July 2023, OFAC and the U.S. Department of State announced nearly 120 additional sanctions designations and further designated multiple individuals and entities in August 2023.

United Nations

The UN can take action to maintain or restore international peace and security under Chapter VII of the UN Charter. It does this by way of resolutions passed by the UN Security Council. UN Security Council sanctions have taken a number of different forms and have measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions.

There are 14 ongoing UN sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the Security Council.

UN Security Council Resolutions are binding upon UN member states but are not enforceable against private parties. UN member states are therefore required to implement UN sanctions. The domestic laws of UN member states will determine how sanctions imposed by the UN Security Council are implemented and enforced against private parties.

The UN Sanctions Relating to Belarus and Russia

Belarus and Russia are not the subject of any UN sanctions.

The UN's effort to support exports of agriculture products and fertilisers

On 22 July 2022, the UN, Russia, Turkey and Ukraine agreed the Black Sea Grain Initiative, which allows exports of Ukrainian grains, other foodstuffs and fertilisers to resume through a safe maritime humanitarian corridor to the rest of the world. On the same date, the UN also signed a memorandum of understanding with Russia on the full access of Russian food and fertiliser products to global markets. As a result of these agreements and Ukrainian ability to use its ports and control its waterways, there has been a steady flow of Ukrainian agricultural exports.

European Union

The EU has nearly 50 different sanctions regimes in place. The EU implements all sanctions adopted by the UN Security Council. The EU may also reinforce UN sanctions by applying measures in addition to those imposed by the UN Security Council and/or impose sanctions on its own initiative.

All EU sanctions apply: (a) within the EU (including its airspace); (b) on board any aircraft or vessel under the jurisdiction of any EU member state; (c) to any EU national, regardless of where they are resident/located; (d) to any legal person, entity or body which is incorporated/constituted under the laws of any EU member state, irrespective of their location, including unincorporated branches, but not entities incorporated outside the EU; and (e) to any legal person, entity or body in respect of any business done in the EU.

EU sanctions are implemented through EU regulations, which are directly applicable in the member states of the EU and do not require further implementing legislation on a national level. Each member state sets its own penalties for breaches of EU sanctions. This is generally done by way of national legislation. In some member states of the EU, national legislation creates criminal offences and may further elaborate on activities which will be regarded as contrary to EU regulations. The EU Commission is responsible for ensuring that EU member states implement, and the regulations imposing, the relevant sanctions, but it does not take any enforcement action for individual breaches of EU sanctions. Any enforcement action for breach of EU sanctions is taken on a national level by specifically designated member state authorities.

European Union Sanctions Relating to Belarus

The EU has had sanctions on Belarus in place since 2006, when it passed Council Regulation (EC) No 765/2006 concerning restrictive measures in respect of Belarus (the "Belarus Regulation"). This has been amended on numerous occasions. In June 2021, following the grounding of an EU flagged plane, the EU (along with others, including the UK), extended the earlier sanctions to include specific trade controls on potash products.

Following the Russian invasion of Ukraine with the support from Belarus, sanctions were further expanded in March 2022 and continued to be expanded thereafter. The EU targeted high ranking member of the Belarusian military and adopted significant export control restrictions. The EU also banned several Belarusian banks from SWIFT messaging system, imposed sectorial restrictions targeting mainly the financial sector (notably restrictions against the Belarus Central Bank similar to those imposed against the Russian Central Bank), and banned exports of items such as battlefield equipment, aviation parts, firearms and other goods and technology which might contribute to Belarus's military and technological enhancement to Belarus.

European Union Sanctions Relating to Russia

The EU has implemented various forms of sanctions programs against Russia.

In terms of non-sectoral sanctions, the EU has imposed certain "classic" sanctions on persons and entities associated with the Putin regime as a countermeasure to the annexation of Crimea and Sevastopol, unrest in eastern Ukraine, and the most recent Russian military invasion of Ukraine.

In terms of sectoral sanctions, in July and September 2014, the EU imposed so-called "sectoral sanctions" on the Russian economy. These sanctions were subsequently amended and extended for 6 months successively since 1 July 2016.

In broad terms, the above EU Russia Economic Sanctions (both sectoral and non-sectoral) provide for matters such as:

(a) a prohibition on the sale, supply, transfer or export to Russia of so-called dual-use goods and technology for military use in Russia or to Russian military end-users;

(b) a prohibition on EU nationals and companies buying or selling or otherwise dealing with new bonds, equity treasury deposits, transferrable securities or money-market instruments issued by certain Russian banks, defence companies, and oil companies and/or their subsidiaries or persons acting on their behalf, including making new loans or credit available to such entities, with a maturity exceeding 90 or 30 days respectively if issued after 1 August or 12 September 2014 (depending on the entity) (referred to as the "capital markets restrictions");

(c) restrictions on exports of certain energy-related equipment and technology to Russia but not projects concerned with the exploitation of gas (a reflection of the high dependence by EU member states on Russian gas);

(d) gradual suspension of oil-related purchases from Russia and related restrictions (including price caps) on E.U. insurance and logistics providers;

(e) a prohibition on the provision of specified services necessary for certain oil-related activities;

(f) a prohibition on the use by several major Russian banks from use of the SWIFT messaging system;

(g) restrictions on providing "technical assistance", "brokering services", financing or financial assistance in respect of the above items, or items on the EU's Common Military List;

(h) a prohibition on the sale, licensing, transfer or the granting of rights to access or re-use intellectual property rights or trade secrets related to certain goods and technology subject to export restrictions to individuals or entities in Russia, or for use in Russia;

(i) a prohibition on the unauthorised transit of goods through Russia which might contribute to Russia's military and technological enhancements, or the development of the defence and security sector, suited for use in aviation or the space industry and of jet fuel and fuel additives; and

(j) a prohibition of vessel from accessing the EU ports and locks if the competent authority has reasonable cause to suspect such vessel is in beach of the prohibitions applicable to activity relating to Russian crude oil and petroleum products.

Following Russia's military invasion of Ukraine in February 2022, the EU has introduced at least 11 separate packages (on 23-25 February, 28 February – 2 March, 9 March, 15 March, 8 April, 3 June, 21 July, 5 October and 16 December 2022, 24 February and 23 June 2023) of restrictive measures (together, the "**EU Russia Economic Sanctions**"). The current EU sanctions in place against Russia are outlines below:

(a) restrictions on certain designated persons, entities and bodies (also notably including some financial institutions), usually comprising asset freezes or travel bans (often referred to as non-sectoral sanctions);

(b) prohibition of "any transaction" with certain Russian state-owned-entities;

(c) ban on overflight of EU airspace and access to EU airports by Russian carriers of all kinds;

(d) sectoral sanctions, including restrictions on activities in the following sectors:

    (i) arms;

    (ii) financing and capital markets (including a SWIFT ban for numerous Russian banks as well as asset freeze measures targeting several Russian banks and unprecedented restrictions against the Russian Central Bank);

    (iii) oil & gas; and

    (iv) military;

(e) suspension of energy and mining transactions and investment with Russia and related limitations on E.U. insurance and logistics providers;

(f) suspension of broadcasting of state owned media;

(g) export and import restrictions;

(h) oil price cap; and

(i) restrictions on the provision of certain professional services (accounting and legal services, engineering, IT consultancy services, etc.) and trust services.

However, for the purposes of reducing the impact on global food supplies and prices and ensuring world food security, on 21 July 2022, the EU stated that it is committed to avoiding all measures which might lead to food insecurity around the globe, and it had not taken any measures targeting the trade in agricultural and food products, including wheat and fertilisers, between third countries and Russia, pursuant to the Council Regulation (EU) 2022/1269.

On 19 September 2022, the EU permitted transfer of certain fertilisers to third countries via EU operators or the EU territory and permitted the financing or financial assistance relating to such transfer.

On 9 November 2022, the EU stated that it has essentially exempted the agri-food sector and fertilisers from its restrictive measures against Russia. Moreover, they allow the transfer of potash fertilisers, originating or exported from Russia to non-EU countries, to be carried out by EU operators or via EU territory. The financing or financial assistance associated with such transfers is allowed, as is the provision of insurance. In addition, EU sanctions also contain specific provisions to ensure that transactions for Russian agricultural products, including fertilisers, are able to proceed smoothly.

On 16 December 2022, in view of EU's stance to avoid and combat food insecurity around the world, and in order to avoid disruptions in the payment channels for agricultural products, it was decided to introduce a new derogation allowing to unfreeze assets of, and to make funds and economic resources available to, certain individuals who held a significant role in international trade in agricultural and food products, including wheat and fertilisers.

United Kingdom

The UK now operates its own sanctions regime.

UK laws in respect of sanctions, both EU sanctions and autonomous sanctions, ("**UK Sanctions**") apply: (a) within the territory and territorial waters of the UK and to all UK Persons, wherever they are in the world; (b) to all individuals and legal entities who are within or undertake activities within the UK's territory; and/or (c) to all UK nationals and UK legal entities established under UK law, including their non-UK branches (but not separately incorporated non-UK subsidiaries), irrespective of where their activities take place.

The Office of Financial Sanctions Implementation ("**OFSI**"), which is part of HM Treasury, maintains two lists of those subject to financial sanctions: (a) the "consolidated list" includes all designated persons subject to financial sanctions under EU and UK legislation, as well as those subject to UN sanctions which are implemented through EU regulations; and (b) a separate list of entities subject to specific capital market restrictions. OFSI also has the power to impose financial penalties on a party which breaches financial sanctions.

The UK Sanctions Relating to Belarus

The UK, when it was still a member of the EU, had in place certain sanctions in relation to Belarus. These EU sanctions were transferred into a specific standalone measure in 2019 by way of UK preparation for a "no deal Brexit". The UK sanctions were in effect identical to the EU sanctions, relating broadly to the designation of certain persons associated with the regime of President Lukashenko, except for the material differences in the lists of Designated Persons, with the UK sanctioning the Belarus Producer on 2 December 2021.

In March 2022, the UK imposed additional sanctions against Belarus over its support for Russia's invasion of Ukraine. The UK government sanctioned several high ranking military officers and two military enterprises.

On 5 July 2022, the UK extended its Belarus sanctions regime to mirror that imposed on Russia. Subsequent sanctions were imposed in June 2023 and August 2023.

By way of summary, the UK sanctions include the following measures:

(a) sanctions designation;

(b) financial restrictions, including: financial dealings with transferable securities or money-market instruments issued by and extending loans and credit arrangements to Belarus, Belarus state-owned entities and banks, as well as persons connected with Belarus;

(c) trade sanctions, including export, import and internet services restrictions; and

(d) restrictions related to aircrafts and ships, including a prohibition on Belarussian aircraft overflying or landing in the UK and a prohibition on Belarussian ships entering UK ports.

The UK Sanctions Relating to Russia

The UK Russian sanctions came fully into force on 31 December 2020. These regulations have replaced, with substantially the same effect, relevant existing EU legislation and related UK regulations. In response to Russia's invasion of Ukraine, the UK has implemented a series of new sanctions measures against Russia.

The UK sanctions adopted against Russia take several forms:

(a) asset freeze measures targeting Russian financial and political elites and key entities (financial institutions, defence companies);

(b) financial sector restrictions (correspondent banking restrictions, restrictions on dealing with Russian sovereign debt, expanded capital markets/loans restrictions, central bank and public financial institution restrictions);

(c) broad investment restrictions (including a prohibition on directly acquiring any ownership or control in an entity connected with Russia);

(d) trust services restrictions;

(e) financial and trade restrictions relating to Crimea, Luhansk and Donetsk regions;

(f) airspace ban and prohibitions on port entry;

(g) oil price cap;

(h) internet services restrictions;

(i) trade restrictions relating to critical industry goods and technology; and

(j) restrictions on direct and indirect provision of certain business services to persons and entities connected with Russia.

Canada

Canada has multiple sanctions regimes in place, targeting governments, companies, groups, organisations, or individuals through a variety of measures, including freezing the assets and economic resources of certain designated persons or entities.

Canadian sanctions are only of primary nature as they apply: (a) within Canada; (b) to Canadian national, regardless of where they are resident/located; (c) to any legal person, entity or body which is incorporated/constituted under the laws of Canada, irrespective of their location, including unincorporated branches, but not entities incorporated outside Canada; and (d) to any legal person, entity or body in respect of any business done in Canada.

Canada Sanctions Relating to Belarus

Canada has enacted sanctions against Belarus and imposed a ban on certain potassium chloride exports from Belarus. They also imposed certain trade restrictions, including export and import bans on certain restricted goods and technology. In addition, Canada has listed several Belarusian individuals and entities (the "**Belarus Listed Persons**") and prohibits dealings in property owned, held or controlled by or on behalf of Belarus Listed Persons as well as transactions with or for the benefit of Belarus Listed Persons. On 25 February 2022, Canada implemented new sanctions against Supplier D and the Belarus Producer due to the Belarusian government's aiding and abetting Russia's invasion of Ukraine.

Canada Sanctions Relating to Russia

Canada has enacted sanctions against Russia since 2014. To respond to the gravity of Russia's violation of the sovereignty and territorial integrity of Ukraine in February 2022, Canada has enacted new sanctions measures against Russia.

Canada's Russian sanctions come in different forms:

(a) designating several Russian individuals and entities (the "**Russia Listed Persons**") and imposing asset freeze and dealings prohibition on such Russia Listed Persons;

(b) imposing restrictions on certain sectors, such as the financial and energy sectors;

(c) prohibiting any ship that is registered in Russia or used, leased or chartered, in whole or in part, by or on behalf of or for the benefit of Russia, a person in Russia or a Russia Listed Person from docking in Canada or passing through Canadian waters;

(d) export control on listed goods for use in offshore oil, shale oil or Arctic oil exploration and production;

(e) prohibiting the import, purchase or acquisition of certain specific listed petroleum products from Russia or from any person in Russia;

(f) prohibiting the provision of certain services in relation to the maritime transport of Russian crude oil and certain petroleum products purchased above the price cap;

(g) export control on certain restricted goods and technology to any person in Russia;

(h) export and import control on certain luxury goods;

(i) export control on goods that could be used for the manufacturing of weapons and chemicals primed for use in electronic devices that could be used in weapons;

(j) prohibiting the provision of all insurance, reinsurance, and underwriting services for aircraft, aviation and aerospace products owned or controlled by, or registered to, chartered by, or operated by Russian entities or individuals; and

(k) prohibiting the provision of certain services to the Russian oil, gas, chemical and manufacturing industries.

OVERVIEW

Our Group was founded in June 2003 by Mr. Liu, our founder, chairman, chief executive officer, executive Director and our Controlling Shareholder with his personal funds, where he established Sichuan Migao, the first operating PRC subsidiary of our Group and commenced the business in the production of NOP. Since then, our Group has expanded to the production of other fertiliser products, such as KCL, SOP and compound fertiliser products and we are now one of the largest potash fertiliser companies, in terms of sales volume of potash fertilisers in China in 2022, with integrated sourcing, manufacturing, processing and selling capabilities.

In May 2006, Migao Corporation (TSX), our then holding company of our operating subsidiaries, was listed on the TSX Venture Exchange by way of a reverse take-over. We subsequently transferred to and commenced trading of our shares on TSX in May 2007. In 2016, as we believed that the then valuation of Migao Corporation (TSX) did not truly reflect its operating scale and the size of its business, which was attributed to lack of understanding and interest of overseas investors in the businesses managed and conducted in the PRC, it was decided to privatise Migao Corporation (TSX). By way of a plan of arrangement under the Business Corporation Act (Ontario) and a corporate amalgamation of Migao Corporation (TSX) and Migao Corporation (Purchaser), Migao Corporation (TSX) was delisted and privatised in December 2016. Please refer to the section headed "History, Reorganisation and Corporate Structure – Prior Listing on the TSX Venture Exchange and the TSX" in this document for further details of the Privatisation.

As part of our Reorganisation which is further described below, our Company was incorporated on 21 November 2017 and became the holding company of our Group. Please refer to the section headed "History, Reorganisation and Corporate Structure – The Reorganisation" in this document.

HISTORY AND DEVELOPMENT

Key Business Milestones

The following is a summary of our Group's key business development milestones:

2003	Sichuan Migao was established and began the operation of our first production line.
2004	Guangdong Migao was established and began the operation of our SOP production line.
2006	Changchun Migao was established.
	Migao Corporation (TSX), through a reverse take-over, was listed on TSX Venture Exchange.
2007	Shares of Migao Corporation (TSX) transferred to and commenced trading on TSX.
2010	Singapore Migao was established and began wholesale of fertilisers.
2014	We and EuroChem International cooperated to incorporate EuroChem Migao, a joint venture established for the investment in Yunnan EuroChem.

2015	We acquired a majority stake in Daxing Migao in order to strengthen our business relationship with Guizhou Tobacco Investment.
2016	Migao Corporation (TSX) was privatised and ceased to be listed on the TSX. Ranked top ten in the production of potash fertilisers by the China National Chemical Information Center (中國化工信息中心) since 2016.
2018	We and Heilongjiang Beidahuang established Anda Migao and Baoqing Migao in order to strengthen the business relationship with Heilongjiang Beidahuang.
2020	Awarded the "Meritorious Enterprise of the Potash Salt and Potash Fertiliser Industry of China" by China Inorganic Salts Industry Association.
2021	Ranked top 100 in the production of fertilisers by the China National Chemical Information Center (中國化工信息中心) and China Chemical Industry Information Association* (中國化工情報信息協會).
2022	We acquired Tongjiang Migao to support our development plan to build the Heilongjiang Logistics and Production Centre in Tongjiang City, Heilongjiang Province with a view to enhance our product supply efficiency and capability. Also, Migao Century (Chengdu) was established to support the centralisation of our research and development and to build and operate the research and development centre in Chengdu City, Sichuan Province.

OUR SUBSIDIARIES

The detailed information of our subsidiaries as at the Latest Practicable Date is set out below:

Name of subsidiary	Place of establishment/ incorporation	Date of establishment/ incorporation	Principal business activities
Sichuan Migao	PRC	6 June 2003	Production and sales of fertilisers
Guangdong Migao	PRC	30 April 2004	Production and sales of fertilisers
Changchun Migao	PRC	5 December 2006	Production and sales of fertilisers
Daxing Migao	PRC	5 November 1996(1)	Production and sales of fertilisers
Baoqing Migao	PRC	14 May 2018(2)	Production and sales of fertilisers
Anda Migao	PRC	19 June 2018(3)	Production and sales of fertilisers

Name of subsidiary	Place of establishment/ incorporation	Date of establishment/ incorporation	Principal business activities
Tongjiang Migao	PRC	27 May 2021(4)	Logistics and warehousing centre; production and sales of fertilisers
Migao Century (Chengdu)	PRC	11 August 2022	Research and development related activities; provision of technical and project management services; sales of fertilisers
HK Migao	Hong Kong	24 August 2005	Investment holding
Singapore Migao	Singapore	31 March 2010	Wholesale of fertilisers
Malaysia Migao International(5)	Malaysia	10 July 2017	Investment holding
Malaysia Migao(5)	Malaysia	24 November 2017	Investment holding

Notes:

(1) Daxing Migao became our subsidiary on 26 August 2015.

(2) Baoqing Migao became our subsidiary on 31 March 2022.

(3) Anda Migao became our subsidiary on 31 March 2022.

(4) Tongjiang Migao became our subsidiary on 26 April 2022.

(5) We set up Malaysia Migao International and Malaysia Migao in anticipation of potential expansion into the fertiliser market in Malaysia. However, as at the Latest Practicable Date, neither Malaysia Migao International and Malaysia Migao had commenced material operation in Malaysia nor held any material investment and assets in Malaysia.

For detailed information of shareholding changes of our Company and our subsidiaries, please refer to the sections headed "History, Reorganisation and Corporate Structure – The Reorganisation", "Appendix IV – Statutory and General Information – A. Further Information about Our Group – 2. Changes in Our Share Capital" and "Appendix IV – Statutory and General Information – A. Further Information about Our Group – 5. Changes in the Share Capital of Our Subsidiaries" in the document.

OUR JOINT VENTURE

EuroChem Migao and Yunnan EuroChem

We, through our wholly-owned subsidiary, HK Migao formed a 50%-50% joint venture, EuroChem Migao, in Hong Kong on 14 February 2014 with EuroChem International, an Independent Third Party. EuroChem Migao is an investment holding company and directly holds 70% equity interest in Yunnan EuroChem. The principal business activities of Yunnan EuroChem are the production and sales of fertilisers and related chemical products.

Yunnan EuroChem was established in the PRC on 12 July 2013 under its initial name of Yunnan Migao Fertiliser Co., Ltd.* (雲南米高化肥有限公司) with a registered capital of RMB60 million, of which 60% and 40% of its registered capital was contributed by Sichuan Migao and Guangdong Migao, respectively. On 28 October 2014, EuroChem Migao acquired the entire equity interest in Yunnan EuroChem from Sichuan Migao and Guangdong Migao, at a consideration of US$18 million determined with reference to a valuation report prepared by an Independent Third Party, which was settled on 13 November 2014. Yunnan EuroChem was renamed as Yunnan EuroChem Fertiliser Technology Co., Ltd.* (雲南歐羅漢姆肥業科技有限公司) on 18 April 2016.

To strengthen our strategic relationship with Yunnan Tobacco, on 19 October 2018, EuroChem Migao transferred 30% equity interest in Yunnan EuroChem to Yunnan Huaye, a subsidiary of Yunnan Tobacco, for a consideration of RMB33.5 million, which was determined with reference to the registered capital of Yunnan EuroChem. The consideration was settled on 15 November 2018. Since the transfer, Yunnan EuroChem has became a joint venture and held as to 70% and 30% equity by EuroChem Migao and Yunnan Huaye, respectively.

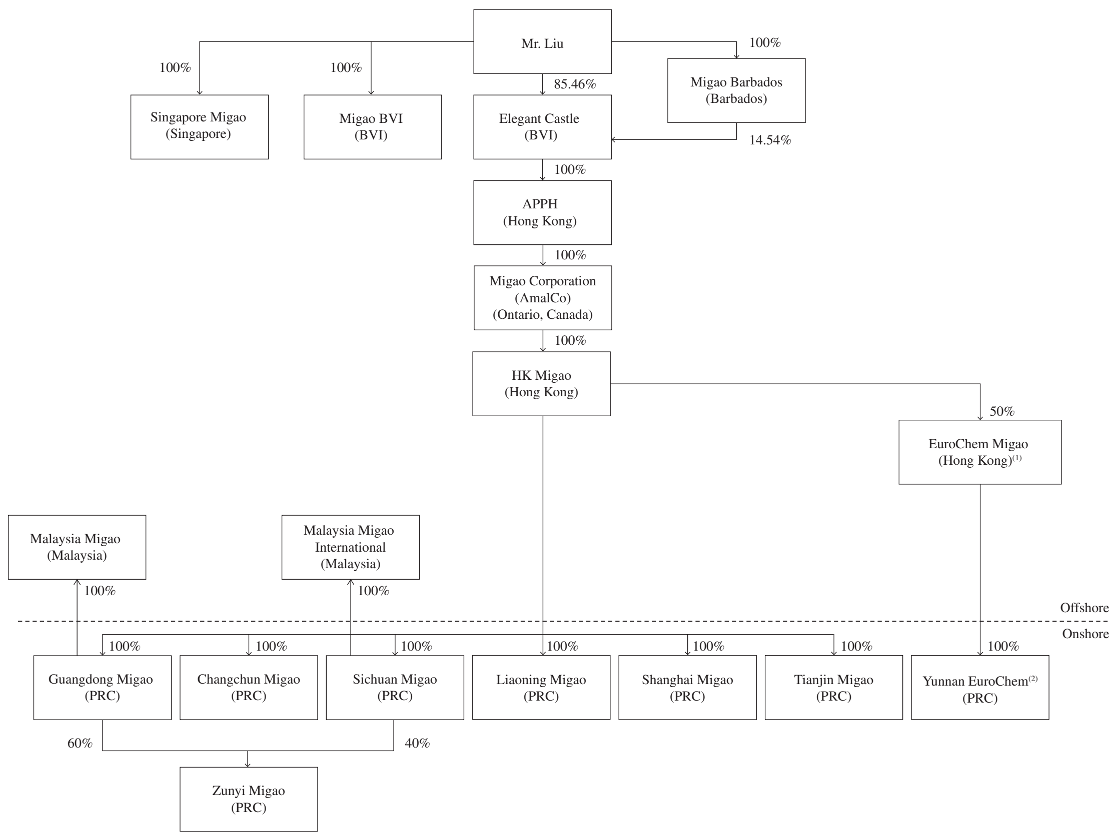
As EuroChem Migao is accounted for as our joint venture and Yunnan EuroChem is accounted for as joint venture invested by EuroChem Migao, both of them are not consolidated into the consolidated financial statements of our Group or EuroChem International under the applicable accounting standards.

THE REORGANISATION

Following the completion of the Privatisation, the details of which are set out in the paragraph headed "History, Reorganisation and Corporate Structure – Prior Listing on the TSX Venture Exchange and the TSX" in this section, we underwent the Reorganisation for the purpose of the [**REDACTED**].

Group Structure prior to the Reorganisation

Immediately prior to the Reorganisation, the shareholding structure of our Group was as follows:



Notes:

(1) EuroChem Migao is a joint venture company and is not consolidated into our Group. EuroChem Migao is equally held by HK Migao and EuroChem International, an Independent Third Party.

(2) Yunnan EuroChem was wholly owned by EuroChem Migao prior to the Reorganisation. Yunnan EuroChem is not consolidated into our Group.

The Reorganisation

Daxing Migao

On 26 August 2015, Zunyi Migao acquired 71% equity interest in Daxing Migao from Liaoning Fengyuan Tianli Agricultural Production Information Limited* (遼寧豐元天利農業生產資料有限公司), an Independent Third Party and the then equity holder of Daxing Migao at a consideration of RMB25 million which was determined at arm's length negotiation. The remaining 29% equity interest were held by Guizhou Tobacco Investment. We acquired the majority equity interest in Daxing Migao in order to strengthen our Group's business relationship with Guizhou Tobacco Investment.

On 24 November 2015, with a view to develop a long term strategic relationship with Guizhou Tobacco Investment, Zunyi Migao transferred 20% equity interest in Daxing Migao to Guizhou Tobacco Investment at nil consideration. After such transfer, 51% and 49% equity interest in Daxing Migao were held by Zunyi Migao and Guizhou Tobacco Investment, respectively.

On 28 September 2016, Daxing Migao increased its registered capital to RMB50 million, the capital contributions of which were subscribed proportionally by Zunyi Migao and Guizhou Tobacco Investment, respectively.

On 31 December 2016, Sichuan Migao acquired 51% equity interest in Daxing Migao from Zunyi Migao at a consideration of RMB16.4 million which was determined with reference to the net asset value of Daxing Migao at that time. The consideration was settled on 11 July 2018. The remaining of 49% equity interest in Daxing Migao is held by Guizhou Tobacco Investment.

On 4 January 2018, Daxing Migao changed its name to Zunyi Daxing Compound Fertiliser Co., Ltd.* (遵義大興複肥有限責任公司).

Our Company

Our Company was incorporated in the Cayman Islands on 21 November 2017 under its initial name of Migao Group Limited 米高集團有限公司 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On the date of its incorporation, its entire issued share capital of US$10,000 has been fully paid-up and was held by Migao BVI, an investment holding company wholly-owned by Mr. Liu. On 12 June 2019, our Company changed its name to Migao Group Holdings Limited 米高集團控股有限公司.

Singapore Migao

On 22 December 2017, our Company acquired the entire issued share capital in Singapore Migao from Mr. Liu at a nominal consideration of S$1. The consideration was settled on even date.

Malaysia Migao International

Sichuan Migao transferred the entire issued share capital of Malaysia Migao International to Malaysia Migao at a consideration of RM2, which was determined with reference to the nominal value of the shares of Malaysia Migao International. The consideration was deemed to be fully settled on 27 February 2018 and the transfer was completed on 28 March 2018.

Baoqing Migao

Baoqing Migao was established in the PRC on 14 May 2018 with a registered capital of RMB100 million at the time of its establishment, of which 40%, 37% and 23% of its equity interest was contributed by Guangdong Migao, Changchun Migao and Heilongjiang Beidahuang, respectively. We therefore held, in aggregate, 77% of equity interest in Baoqing Migao. The principal business activities of Baoqing Migao include the production and sales of fertilisers.

Despite the minority interest held by Heilongjiang Beidahuang, in order to prove our management capability and foster an amicable and trusted cooperation relationship between the parties, we agreed that decisions on certain matters should be consented by all shareholders of Baoqing Migao and included such requirement in the articles of association of Baoqing Migao. Therefore, since its establishment, we and Heilongjiang Beidahuang exercised joint control over Baoqing Migao, and accordingly, Baoqing Migao was treated as a joint venture of our Group. After years of cooperation, we believed we had demonstrated to Heilongjiang Beidahuang our ability and capability to successfully manage and operate Baoqing Migao. As such, we discussed with Heilongjiang Beidahuang of the plan to amend the articles of association of Baoqing Migao to remove the requirements for unanimous consent on certain matters so we can operate Baoqing Migao more efficiently and it was agreed by Heilongjiang Beidahuang. Following the relevant amendments to the articles of association of Baoqing Migao, we have obtained control over Baoqing Migao and it became our subsidiary from 31 March 2022.

Anda Migao

Anda Migao was established in the PRC on 19 June 2018 with a registered capital of RMB100 million at the time of its establishment, of which 31%, 34% and 35% of its equity interest was contributed by Guangdong Migao, Changchun Migao and Heilongjiang Beidahuang respectively. We therefore held, in aggregate, 65% of equity interest in Anda Migao. The principal business activities of Anda Migao include the production and sales of fertilisers.

On 26 June 2020, Anda Migao increased its registered capital from RMB100 million to RMB180 million, the capital contributions of which were subscribed proportionally by its shareholders.

On 16 February 2022, Anda Migao increased its registered capital from RMB180 million to RMB240 million, the capital contributions of which were subscribed proportionally by its shareholders.

Despite the minority interest held by Heilongjiang Beidahuang, in order to prove our management capability and foster an amicable and trusted cooperation relationship between the parties, we agreed that decisions on certain matters should be consented by all shareholders of Anda Migao and included such requirement in the articles of association of Anda Migao.

Therefore, since its establishment, we and Heilongjiang Beidahuang exercised joint control over Anda Migao, and accordingly, Anda Migao was treated as a joint venture of our Group. After years of cooperation, we believed we had demonstrated to Heilongjiang Beidahuang our ability and capability to successfully manage and operate Anda Migao. As such, we discussed with Heilongjiang Beidahuang of the plan to amend the articles of association of Anda Migao to remove the requirements for unanimous consent on certain matters so we can operate Anda Migao more efficiently and it was agreed by Heilongjiang Beidahuang. Following the relevant amendments to the articles of association of Anda Migao, we have obtained control over Anda Migao and it became our subsidiary since 31 March 2022.

Malaysia Migao

Guangdong Migao transferred the entire issued share capital of Malaysia Migao to Singapore Migao at a consideration of RM2, which was determined with reference to the nominal value of the shares of Malaysia Migao. The consideration was deemed to be fully settled on 24 September 2019 and the transfer was completed on 7 October 2019.

Migao Century (Chengdu)

Migao Century (Chengdu) was established in the PRC on 11 August 2022 with a registered capital of US$20 million contributed by HK Migao. The principal activities of Migao Century (Chengdu) include, among others, the provision of technical and project management services, sales of fertilisers, and research and development and its related activities.

Migao BVI

On 18 October 2019, Mr. Liu transferred his entire shareholding in Migao BVI to Migao Bardados for nil consideration. As a result of the above transfer, Migao BVI became wholly-owned by Migao Barbados.

Elegant Castle

On 18 October 2019, Mr. Liu transferred his entire shareholding in Elegant Castle to Migao Barbados at a consideration of US$58,075. The settlement was completed on even date. As a result of the above transfer, Elegant Castle became wholly-owned by Migao Barbados.

HK Migao

On 30 October 2019, our Company acquired the entire issued share capital of HK Migao from Migao Corporation (AmalCo) at a nominal consideration of HK$1. As a result of the above transfer, HK Migao became wholly-owned by our Company.

Tongjiang Migao

On 26 April 2022, Liaoning Migao transferred the entire issued share capital of Tongjiang Migao to Changchun Migao at a consideration of RMB1, which was determined with reference to the valuation report prepared by an independent valuer. As a result of the transfer, Tongjiang Migao became our indirect wholly-owned subsidiary.

Shanghai Migao

Shanghai Migao was established in the PRC on 26 September 2006 with a registered capital of C$9 million contributed by HK Migao. Its principal business activities were the production of fertilisers and related chemical products. However, due to the plans regarding zoning and environment policies contemplated by the local government, it ceased production in March 2016.

As such, on 1 January 2017, we disposed the entire equity interest in Shanghai Migao to APPH in order to streamline the business of our Group. The consideration of approximately RMB4.4 million was determined based on arm's length negotiation and was settled by way of deemed distribution on 31 March 2020. For details, please refer to the section headed "Financial Information – Selected Balance Sheet Items – Related Party Transactions – (e) Deemed Distribution to Mr. Liu" in this document.

On 7 December 2021, the business scope of Shanghai Migao has been changed to the provision of technical services in the field of chemical technology and non-residential real estate leasing. On 8 May 2023, the name of Shanghai Migao was changed to Huantaiyang Chemical Industry (Shanghai) Co., Ltd.* (寰太洋化工(上海)有限公司). As at the Latest Practicable Date, it no longer engaged in the production and sales of fertiliser products.

For each of the years ended 31 December 2019, 2020 and 2021, based on its management accounts prepared in accordance with PRC GAAP, Shanghai Migao recorded net loss for the year primarily due to the maintenance costs incurred to maintain its production facilities and the depreciation charges of the production facilities and equipment.

Liaoning Migao

Liaoning Migao was established in the PRC on 18 January 2005 with a registered capital of US$3 million. Its principal business activities included the production of fertilisers and related chemical products as well as wholesale and import/export business of KCL.

Taking into account the uncertainty of the proposed zoning policy of the local government to re-zone the area where Liaoning Migao is located to non-chemical industrial zone and to further streamline the business of our Group, on 1 January 2017, we disposed the entire equity interest in Liaoning Migao to APPH. The consideration of approximately RMB92.7 million was determined based on arm's length negotiation and was settled by way of deemed distribution on 31 March 2020. For details, please refer to the section headed "Financial Information – Selected Balance Sheet Items – Related Party Transactions – (e) Deemed Distribution to Mr. Liu" in this document.

On 15 June 2022, APPH transferred its entire equity interest in Liaoning Migao to an Independent Third Party at a consideration of US$16,400,000. Such consideration was determined after arm's length negotiation with reference to the valuation report prepared by an independent valuer and was fully settled on 28 June 2022. Subsequent to the disposal, Mr. Liu ceased to hold any interest in Liaoning Migao and Liaoning Migao ceased to be a related party of our Company.

Having considered that (i) there were no material administrative penalties recorded on Liaoning Migao during the Track Record Period and up to the date of the above disposal based on searches on the National Enterprise Credit Information Publicity System (國家企業信用資訊公示系統), the State Administration of Taxation of Major Tax Violations and Untrustworthy Cases Information Announcement (國家稅務總局重大稅收違法失信案件資訊公佈欄), the Yingkou City Emergency Management Bureau (營口市應急管理局), the Yingkou City Ecological Environment Bureau (營口市生態環境局), the Yingkou Health Commission (營口市衛生健康委員會), the Yingkou Housing Provident Fund Management Center (營口市住房公積金管理中心), the Yingkou Human Resources and Social Security Bureau (營口市人力資源與社會保障局), the Yingkou Commerce Bureau (營口市商務局) and the SAFE websites; (ii) Liaoning Migao having obtained the necessary licenses for its business operations during the Track Record Period and up to the date of the above disposal (including but not limited to the National Production Licence for Industrial Products (全國工業產品生產許可證), Safety Production Permit (安全生產許可證), Hazardous Chemicals Business License (危險化學品經營許可證), Production Record Certificate of Non-drug Chemicals (非藥品類易製毒化學品生產備案證明) and Pollutant Discharge Permit (排污許可證)); and (iii) the confirmation by the directors of Liaoning Migao that Liaoning Migao was not subject to any material administrative penalties during the Track Record Period and up to the date of the above disposal, our PRC Legal Advisers are of the view that Liaoning Migao did not have any material non-compliance during the Track Record Period and up to the date of the above disposal.

Based on its management accounts prepared in accordance with PRC GAAP, for each of the years ended 31 December 2019 and 2020, Liaoning Migao recorded net loss for the year primarily due to the relatively lower selling prices of its fertiliser products as it mainly sold to smaller retail customers. For the year ended 31 December 2021, Liaoning Migao recorded net profit for the year primarily due to the increase in its sales volume of fertiliser products and the increase in market price of potash fertiliser products.

Zunyi Migao

Zunyi Migao was established in the PRC on 21 February 2011 with a registered capital of RMB60 million contributed by Guangdong Migao. Its principal business activities were the production and sales of fertilisers and related chemical products.

On 8 August 2011, Guangdong Migao transferred 40% equity interest in Zunyi Migao to Sichuan Migao for nil consideration. As a result, Zunyi Migao was held as to 60% and 40% equity interest by Guangdong Migao and Sichuan Migao, respectively.

On 1 January 2017, with a view to streamline the business of our Group, Guangdong Migao and Sichuan Migao disposed their entire equity interest in Zunyi Migao at a total consideration of approximately RMB78.67 million to APPH. The consideration was determined with reference to then registered capital of Zunyi Migao and was settled by way of deemed distribution on 31 March 2020. For details, please refer to the section headed "Financial Information – Selected Balance Sheet Items – Related Party Transactions – (e) Deemed Distribution to Mr. Liu" in this document. Since March 2017, Zunyi Migao ceased production as the production was taken over by Daxing Migao as many of the orders were from customers in the vicinity of the Daxing Production Facility.

On 22 November 2021, the name of Zunyi Migao was changed to Migao (Zunyi) Real Estate Leasing Co., Ltd.* (米高(遵義)房地產租賃有限公司) and the business scope has been changed to non-residential real estate leasing. On 5 May 2023, its name is further changed to Huantaiyang (Zunyi) Real Estate Leasing Co., Ltd.* (寰太洋(遵義)房地產租賃有限公司). As at the Latest Practicable Date, its primary business is the leasing of properties and it does not engage in the production and sales of fertiliser products.

For each of the years ended 31 December 2019, 2020 and 2021, based on its management accounts prepared in accordance with PRC GAAP, Zunyi Migao recorded net loss for the year primarily due to the depreciation charges of properties it held which mainly consisted of warehouses.

Tianjin Migao

Tianjin Migao was established in the PRC on 12 December 2007 with a registered capital of C$12.6 million contributed by HK Migao. Its principal business activities were the production of fertilisers and related chemical products.

On 30 September 2017, we disposed the entire equity interest in Tianjin Migao to APPH in order to streamline the business of our Group, as the primary business of Tianjin Migao at the time of disposal was leasing of properties. The consideration of approximately RMB53.7 million was determined based on arm's length negotiation and was settled on 31 March 2020.

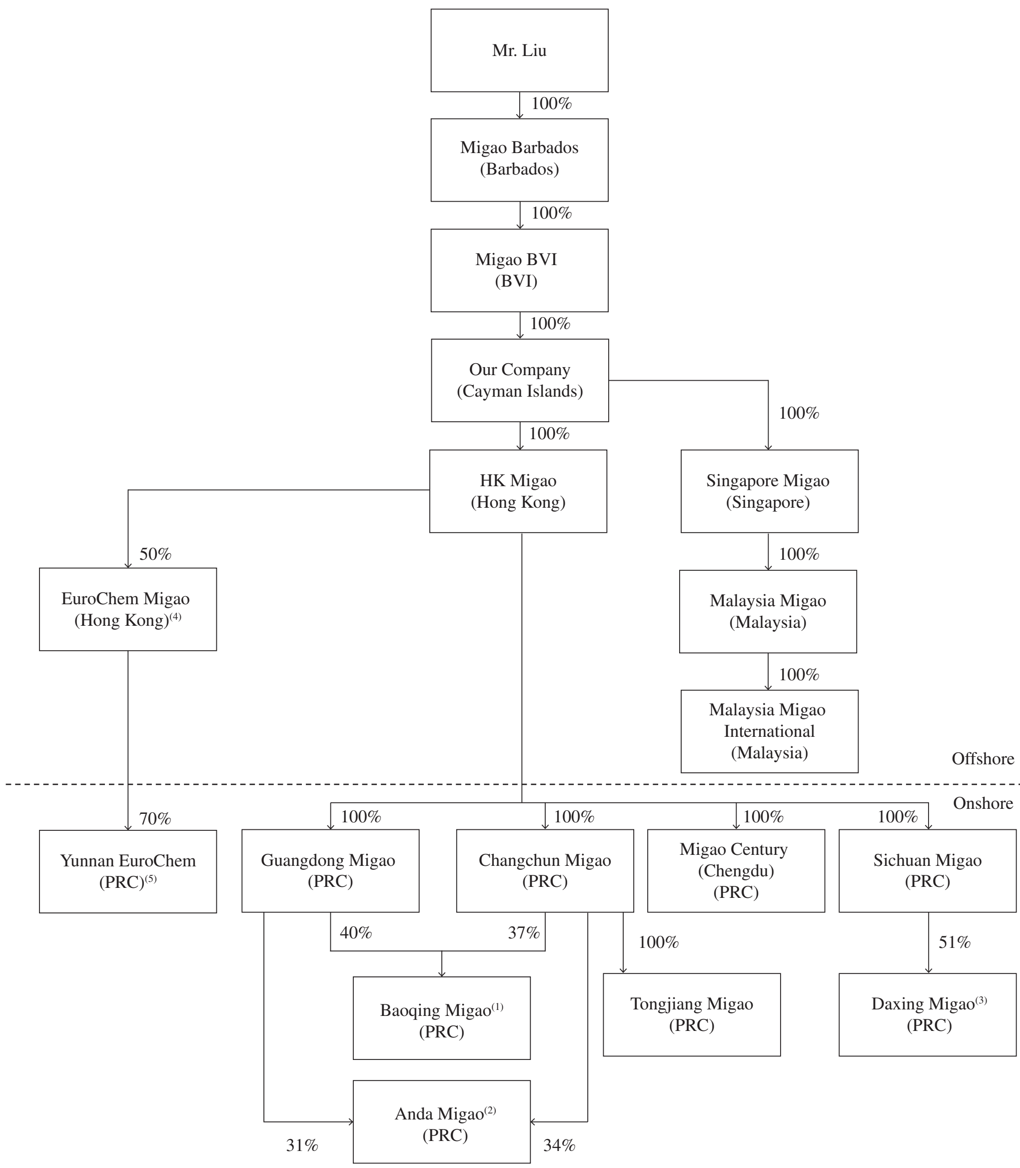
On 18 November 2021, the business scope of Tianjin Migao has been changed to the sales of chemical products and non-residential real estate leasing. On 9 May 2023, its name is changed to Huantaiyang Chemical (Tianjin) Co., Ltd.* (寰太洋化工(天津)有限公司). As at the Latest Practicable Date, its primary business was the leasing of warehouse nearby the Tianjin port and it did not engage in the production and sales of fertiliser products.

For each of the years ended 31 December 2019, 2020 and 2021, based on its management accounts prepared in accordance with PRC GAAP, Tianjin Migao recorded net loss for the year primarily due to the depreciation charges of properties it held which mainly consisted of warehouses.

GROUP STRUCTURE

Group Structure after the Reorganisation and before the [REDACTED]

Set out below is the shareholding structure of our Group immediately after the completion of the Reorganisation and prior to the [**REDACTED**] and the [**REDACTED**]:



Notes:

(1) The remaining 23% of Baoqing Migao is held by Heilongjiang Beidahuang, a substantial shareholder of Baoqing Migao and Anda Migao, and is therefore a connected person of our Company.

(2) The remaining 35% of Anda Migao is held by Heilongjiang Beidahuang, a substantial shareholder of Baoqing Migao and Anda Migao, and is therefore a connected person of our Company.

(3) The remaining 49% of Daxing Migao is held by Guizhou Tobacco Investment, an Independent Third Party (other than being a substantial shareholder of Daxing Migao).

(4) EuroChem Migao is a joint venture company and is not consolidated into our Group. EuroChem Migao is equally held by HK Migao and EuroChem International, an Independent Third Party.

(5) Yunnan EuroChem is the joint venture invested by our direct joint venture, EuroChem Migao and is not consolidated into our Group. Yunnan EuroChem is held as to 70% and 30% equity interest by EuroChem Migao (our direct joint venture) and Yunnan Huaye (an Independent Third Party).

Subdivision and Increase of our Authorised Share Capital

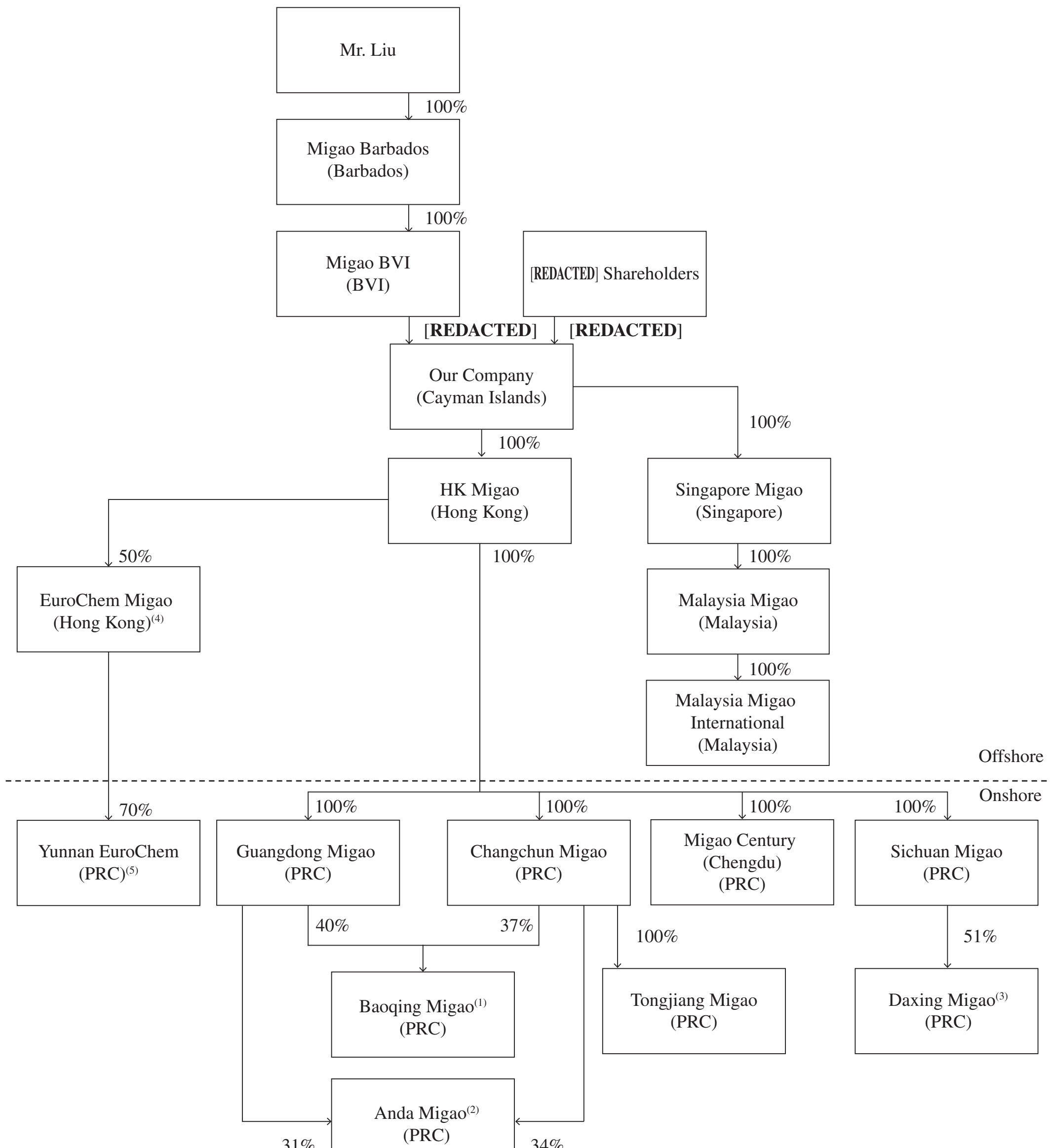
On [●], the authorised share capital of our Company was subdivided from US$50,000 divided into 50,000 Shares of US$1 each to [5,000,000] Shares of US$[0.01] each. On [●], our authorised share capital was increased from [5,000,000] Shares of US$[0.01] each to [10,000,000,000] Shares of US$[0.01] each. Our Company remained wholly-owned by Migao BVI after the above changes in our authorised share capital.

[**REDACTED**]

Pursuant to the written resolutions of our Shareholder passed on [●], conditional on the share premium account of our Company being credited as a result of the [**REDACTED**], our Directors are authorised to capitalise an amount of US$[**REDACTED**] standing to the credit of the share premium account of our Company by applying such sum towards the paying up in full at par a total of [**REDACTED**] Shares for allotment and issue to the person(s) of Shares whose name(s) appear on the register of members of our Company, on a pro rate basis at the close of business on the date preceding the [**REDACTED**] (or as they may direct).

Group Structure Immediately after the [REDACTED]

Immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (assuming that the [**REDACTED**] has not been exercised), the shareholding structure of our Group will be as follows:



Notes:

(1) The remaining 23% of Baoqing Migao is held by Heilongjiang Beidahuang, a substantial shareholder of Baoqing Migao and Anda Migao, and is therefore a connected person of our Company.

(2) The remaining 35% of Anda Migao is held by Heilongjiang Beidahuang, a substantial shareholder of Baoqing Migao and Anda Migao, and is therefore a connected person of our Company.

(3) The remaining 49% of Daxing Migao is held by Guizhou Tobacco Investment, an Independent Third Party (other than being a substantial shareholder of Daxing Migao).

(4) EuroChem Migao is a joint venture company and is not consolidated into our Group. EuroChem Migao is equally held by HK Migao and EuroChem International, an Independent Third Party.

(5) Yunnan EuroChem is the joint venture invested by our direct joint venture, EuroChem Migao and is not consolidated into our Group. Yunnan EuroChem is held as to 70% and 30% equity interest by EuroChem Migao (our direct joint venture) and Yunnan Huaye (an Independent Third Party).

PRIOR LISTING ON THE TSX VENTURE EXCHANGE AND THE TSX

Listing on TSX Venture Exchange and the TSX

Migao Corporation (TSX), the then holding company of our operating subsidiaries, was listed on the TSX Venture Exchange by way of a reverse take-over of Fox Mountain Explorations Ltd. ("**Fox Mountain**") by HK Migao on 18 May 2006. Fox Mountain was renamed as "Migao Corporation" upon completion of the reverse take-over. Shares of Migao Corporation (TSX) subsequently ceased to trade on the TSX Venture Exchange on 9 May 2007 and commenced to trade on TSX on 10 May 2007 following the approval of its application for the listing of its shares.

The Privatisation

On 7 June 2016, Migao Corporation (TSX) entered into an arrangement agreement with Mr. Liu and Migao Corporation (Purchaser) pursuant to which Migao Corporation (Purchaser) shall acquire 34,614,548 shares, representing approximately 66% of the issued share capital of Migao Corporation (TSX), at C$0.75 per share for a total cash consideration of C$25,960,911.00 (the "**Acquisition**") by way of a plan of arrangement under the Business Corporations Act (Ontario) (the "**Plan of Arrangement**"). Prior to the Acquisition, the remaining shares of Migao Corporation (TSX), being 17,746,612 shares and 135,000 shares were held by Migao Corporation (Purchaser)'s affiliates, namely, Migao International and Mr. Liu.

The cash consideration of C$0.75 per share represented a 97.37% premium over the closing price of the shares of Migao Corporation (TSX) on the TSX on 6 June 2016, the last trading day before announcement of the Plan of Arrangement, and a premium of approximately 93.4% over the 20 trading-day volume-weighted average price of the shares on TSX ended 6 June 2016.

The Plan of Arrangement was approved by the shareholders of Migao Corporation (TSX) at the special general meeting held on 27 July 2016 and by the Ontario Superior Court of Justice (Commercial List) on 29 July 2016.

On 6 September 2016, the Acquisition was completed and all shares of Migao Corporation (TSX) were held by Migao Corporation (Purchaser) and its affiliates. The shares of Migao Corporation (TSX) was delisted from TSX on 9 September 2016.

On 21 December 2016, Migao Corporation (TSX) and Migao Corporation (Purchaser) completed a corporate amalgamation. The entity after the amalgamation was also named Migao Corporation.

Funding of the Privatisation

The total consideration of the Acquisition was financed through internal resources of Migao Corporation (Purchaser).

Reasons for the Privatisation and Delisting

We believed that the then valuation of Migao Corporation (TSX) did not truly reflect its operating scale and the size of business, which were attributed to lack of understanding and interest of overseas investors in the businesses managed and conducted in the PRC.

Compliance record during the listing on TSX Venture Exchange and TSX

To the best of our Directors' knowledge, there was no material non-compliance incident during the period in which Migao Corporation (TSX) was listed on TSX Venture Exchange and TSX and there is no matter that should be brought to the investors' attention in relation to the compliance record of Migao Corporation (TSX) during its listing on the TSX Venture Exchange and the TSX.

Based on the due diligence conducted by the Sole Sponsor, the Sole Sponsor was not aware of any material findings which cast doubt on our Directors' view that there was no material non-compliance incident during the period in which Migao Corporation (TSX) was listed on TSX Venture Exchange and TSX and there is no matter that should be brought to the investors' attention in relation to the compliance record of Migao Corporation (TSX) during its listing on the TSX Venture Exchange and the TSX.

APPLICATION FOR [REDACTED] ON THE HONG KONG STOCK EXCHANGE

We consider Hong Kong a suitable venue for [**REDACTED**] as our businesses and operations principally located, managed and conducted in the PRC, and a [**REDACTED**] in Hong Kong will not only contribute to opportunities for future fund-raising, but also allow more Hong Kong, PRC and other Asian-based investors to have a better understanding and appreciation of our Group's business. This will also provide better synergy for us to enhance our corporate profile, brand awareness, corporate governance and shareholder base. The Directors consider a [**REDACTED**] in Hong Kong will benefit our Company and its Shareholders as a whole.

PRE-[REDACTED] SHARE OPTION SCHEME

We had conditionally adopted the Pre-[**REDACTED**] Share Option Scheme on 23 March 2022 to enable us to grant options to selected participants as incentives or rewards for their contribution to our Group. No option had been granted or agreed to be granted by our Company pursuant to the Pre-[**REDACTED**] Share Option Scheme since its adoption. In view of our business operation and development need, the Pre-[**REDACTED**] Share Option Scheme was subsequently terminated pursuant to the written resolution of our Directors on 18 April 2023.

PRC LEGAL COMPLIANCE

Our PRC Legal Advisers have confirmed that the Reorganisation, equity transfers and increase in registered capital of our subsidiaries incorporated in the PRC as described in this section were legal and valid and all material approvals and permits have been obtained and are valid, in all material respects, in compliance with all applicable PRC laws and regulations.

SAFE REGISTRATION

Pursuant to the Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (Hui Fa [2005] No. 75, hereinafter referred to as the "Circular No. 75") issued by SAFE on 21 October 2005, and the Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment and Financing and in Return Investment via Special Purpose Companies (《關於境內居民通過特殊目公司境外投融資及返程外匯管理有關問題的通知》) (Hui Fa [2014] No. 37) issued on 4 July 2014 to replace Circular No. 75, domestic residents shall, before establishing or controlling an overseas special purpose company, apply to the local branch or department of foreign exchange administration for going through the procedures for foreign exchange registration of overseas investments.

Our PRC Legal Advisers have confirmed that Mr. Liu has duly registered in respect of his investment in our Group in accordance with SAFE Circular No. 75.

M&A RULES

The M&A Rules, a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors, which were jointly promulgated by six PRC regulatory agencies, came into effect on 8 August 2006 and was amended on 22 June 2009. Under the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into a foreign invested enterprise, or subscribes for new equity via an increase in registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign invested enterprise. Where a domestic enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic enterprise which is related to or connected with it/him/her, approval from the MOFCOM is required. The M&A Rules also provide that an offshore special purpose vehicle formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading securities of such offshore special purpose vehicle on an overseas stock exchange.

Given that Guangdong Migao and Sichuan Migao were wholly owned by HK Migao before the promulgation of the M&A Rules and Changchun Migao was directly established as foreign-invested enterprise, our PRC Legal Advisers are of the opinion that we are not subject to the M&A Rules and hence it is not necessary for us to obtain approval from the MOFCOM and CSRC for the [**REDACTED**] under the M&A Rules.

OVERVIEW

We are one of the largest potash fertiliser companies, in terms of sales volume of potash fertilisers in China in 2022, with comprehensive sourcing, manufacturing, processing and selling capabilities offering various potash fertiliser products, including KCL, SOP, NOP and compound fertilisers. According to the Frost & Sullivan Report, we ranked the third among potash fertiliser companies in China in terms of sales volume of potash fertilisers in 2022 and we ranked the second among non reserve-based potash fertiliser companies in China in 2022 by the same measure. We accounted for approximately 6.0% of the total sales revenue of potash fertilisers in China for the same year. In terms of sales volume of KCL, SOP and NOP in 2022, we ranked the third, the fourth and the fifth among potash fertiliser companies in China, respectively, and accounted for approximately 7.0%, 4.0% and 0.3% of the total sales revenue of KCL, SOP and NOP, respectively, in China for the same year. Among the top five potash fertiliser companies in China, we are the only fertiliser supplier that offer comprehensive product lines, namely KCL, SOP, NOP and compound fertilisers. In 2020, we were granted the "Meritorious Enterprise of the Potash Salt and Potash Fertiliser Industry of China" by the potash salt and potash fertilisers branch of the China National Inorganic Salts Industry Association. We have been appraised as the "Top Ten Potash Fertilisers of China" and the "Top 100 Chemical Fertiliser Enterprises of China" of the year consecutively since 2016 by China National Chemical Information Center and China Chemical Industry Information Association.

According to the Frost & Sullivan Report, potash fertilisers are the major type of fertilisers for high value-added crops. There has been a rapid increase in consumption of potash fertilisers in the PRC as spending and dietary structure of the Chinese population have been upgraded and improved in recent years. In addition, the PRC government has made a number of strategic supports to the development of the potash fertiliser industry. It is expected that potash fertilisers will become one of the fertiliser types with the fastest development and the greatest potential in the chemical fertiliser industry in China. We have maintained long-term and stable business relationships with certain important customers, including several large-scale agricultural reclamation companies, state-owned tobacco companies and agribusiness companies.

According to the Frost & Sullivan Report, KCL can be used for agricultural plantation directly as fertiliser, and also as a main raw material for the production of SOP, NOP and compound fertilisers. Given that potassium resources is relatively scarce in China, there is a relatively high dependence on import of potash fertilisers. As we have established comprehensive procurement channels for KCL, we believe we can effectively secure a steady supply of the main raw material for producing potash fertilisers, enabling us to better manage the cost of our raw materials and satisfy our customers' needs. For FY2021, FY2022 and FY2023, we purchased approximately 927,000 tonnes, 1,310,000 tonnes and 1,010,000 tonnes of KCL respectively, and the total purchase of KCL amounted to approximately RMB1,568.4 million, RMB3,208.5 million and RMB3,025.8 million, respectively.

As at the Latest Practicable Date, we operated a total of five key production facilities in Heilongjiang Province, Jilin Province, Guizhou Province and Guangdong Province in the PRC, among which, Baoqing Production Facility and Anda Production Facility in Heilongjiang Province are owned by Baoqing Migao and Anda Migao respectively, which have become our subsidiaries since 31 March 2022. Our indirect joint venture, namely Yunnan EuroChem, also operates one production facility in Yunnan Province, China. All of them are located in prime geographic areas, which are in the vicinity of our key customers with easy access to transportation network, thereby not only facilitating timely delivery of products to customers in a cost advantageous manner, but also allowing us to quickly respond to customers' need for differentiated product formulae and services. We manufacture SOP and compound fertilisers and granulate KCL in these facilities. Our Chengdu Production Facility located in Sichuan Province used to be our only facility to manufacture NOP before it ceased production due to the change of zoning policy by the local government. We are currently planning to build our New Sichuan Production Facility in Mianyang City, Sichuan Province to enable us to resume the production of NOP and the Heilongjiang Logistics and Production Centre in Tongjiang City, Heilongjiang Province to enhance our product supply capability and efficiency.

During the Track Record Period, benefited from the steady growth in demand for potash fertilisers in the PRC market, we achieved a steady growth. Our total revenue increased from RMB2,081.6 million in FY2021 to RMB3,841.4 million in FY2022 and further to RMB4,722.7 million for FY2023 and our profit for the year increased from RMB206.5 million in FY2021 to RMB396.6 million in FY2022 and further to RMB421.5 million for FY2023.

COMPETITIVE STRENGTHS

We believe the following competitive strengths enable us to maintain a leading position in the industry:

We are one of the largest potash fertiliser companies, in terms of sales volume of potash fertilisers in China in 2022 offering quality and diversified potash fertiliser products

We are one of the largest potash fertiliser companies, in terms of sales volume of potash fertilisers in China in 2022, with comprehensive sourcing, manufacturing, processing and selling capabilities. Our products include KCL, SOP, NOP and compound fertilisers. According to the Frost & Sullivan Report, we ranked the third among potash fertiliser companies in China in terms of sales volume of potash fertilisers in 2022 and we ranked the second among non reserve-based potash fertiliser companies in China by the same measure. We accounted for approximately 6.0% of the total sales revenue of potash fertilisers in China for the same year. We offer a comprehensive range of potash products and we are, among the top five potash fertiliser companies in China, the only supplier that are able to offer comprehensive product lines, namely KCL, SOP, NOP and compound fertilisers. We are also able to develop and provide tailor-made potash fertiliser products for customers according to their planting environment to satisfy their diverse and specific needs. We are capable of providing KCL, SOP, NOP with various specifications and specialty compound fertilisers applicable to various types of crops such as tobaccos, chilis, fruits, tea leaves and vegetables. At the same time, we can also provide customised compound fertiliser products according to our customers' respective needs.

Our main products are widely used in agricultural areas, in particular on crops, for increasing outputs and improving quality of crops. According to the Frost & Sullivan Report, the sales volume of potash fertiliser products in China is expected to maintain steady growth from 2023 to 2027. Furthermore, with the implementation of nationwide policies and the effort in supporting the chemical fertiliser industry, the PRC government has promoted chemical fertiliser production enterprises to enhance their technological innovations and has prompted the steady and rapid development of the industry. For example, the government has included new fertiliser technologies for high-quality, high-efficiency and safe production in the Catalogue of Supported High-tech Fields* (國家重點支持的高新技術領域目錄). According to the Guiding Opinions on Promoting the Transformation and Development of Fertiliser Industry* (關於推進化肥行業轉型發展的指導意見), the PRC government will support the transformation and development of the chemical fertiliser industry through various special funding programs.

Our potash fertiliser products are well-recognised by customers and the industry. We believe our "Migao" brand is a renowned brand in the potash fertiliser market in China. Our potash fertiliser products have been granted various awards from government authorities and industry associations for their high quality, including, among others, a number of awards of municipal, provincial and national levels. In 2020, we were granted the "Meritorious Enterprise of the Potash Salt and Potash Fertiliser Industry of China" by the potash salt and potash fertilisers branch of the China National Inorganic Salts Industry Association. We have been appraised as the "Top Ten Potash Fertilisers of China" and the "Top 100 Chemical Fertiliser Enterprises of China" of the year consecutively since 2016 by China National Chemical Information Center and China Chemical Industry Information Association.

Facing the steady growth in the demand for potash products in the PRC market, we believe that our ability to consistently provide a stable supply of a diversified portfolio of high quality potash fertiliser products has enabled us to compete with other potash fertiliser suppliers in China. We will capitalise on the growing demand for potash fertilisers in the PRC market and further solidify our market position as a leading comprehensive quality potash fertiliser supplier in China.

We have established a long-term and stable relationship with large-scale enterprise customers and deployed our customer service network strategically

Our major customers include large-scale agricultural reclamation companies, state-owned tobacco companies and agribusiness companies. We supply potash fertiliser products to them directly without having to rely on third party distributors. Given the operation scale of these customers, they usually place bulk purchase orders for our potash fertiliser products. Our top five customers during the Track Record Period included Customer A and Hulunbeier Agricultural Reclamation Group Co., Ltd.* (呼倫貝爾農墾物資石油集團有限公司) ("**Hulunbeier Agricultural**"), both being large-scale state-owned agricultural reclamation companies; Guizhou Tobacco Investment, being state-owned tobacco company; and Company B and Anhui Huilong, both being large-scale state-owned agribusiness companies. Revenue generated from these five major customers in aggregate accounted for approximately 50.7%, 54.2% and 46.7% of our total revenue for FY2021, FY2022 and FY2023, respectively. As at the Latest Practicable Date, our business relationship with the said customers was on average over 10 years.

We have developed strategic relationships and cooperations with our major customers. In 2018, (i) EuroChem Migao, our joint venture, sold 30% equity interests of Yunnan EuroChem to one of our key tobacco company customers; and (ii) we established two joint ventures, Baoqing Migao and Anda Migao, with an important agricultural reclamation customer, Customer A, and we further consolidated the two joint venture as our subsidiaries on 31 March 2022. In 2016, we acquired 51% of Daxing Migao, with the remaining 49% owned by Guizhou Tobacco Investment, another key tobacco company customer of us. We believe that such strategic relationships and cooperations would benefit our customers and us mutually, as our customers are able to secure stable supply of quality fertiliser products while we are able to secure stable demand for our fertiliser products. Additionally, such strategic cooperation arrangement with our customers enables us to better understand the needs of our customers and provide them with tailor-made fertiliser products. We also believe that the cooperation arrangement demonstrates our customers' willingness of maintaining long-term relationships with us.

Moreover, we deploy customer service network strategically in addressing market demand. All of our production facilities are well situated at main plantation zones in China at (i) the Northeast Soybean, Spring Wheat, Maize and Beet Area, (ii) the Northern Plateau Small Grains and Beet Area, (iii) the Sichuan and Shaanxi Basin Rice, Maize, Potato, Citrus and Mulberry Area, (iv) the Yunnan-Guizhou Plateau Rice, Maize, Tobacco Area and (v) the South China Double Cropping of Rice, Tropical Crops and Sugarcane Area. Approximately 95.3%, 76.1% and 70.8% of our revenue were derived from customers located in these plantation zones for FY2021, FY2022 and FY2023, respectively. In addition, the strategic site selection of our physical presence and well-developed transportation networks enjoyed by these sites enable us to provide potash fertiliser products to our customers in a timely and cost-effective manner and to promptly provide after-sales services.

Given that our competitive strengths in customer service network and our track record performance, we believe that we can further expand our customer base and enter the wider market.

We have multiple channels for comprehensive procurement of raw materials for potash fertilisers to secure steady supply

KCL is the major raw material for potash fertilisers production. Reserve of global potash resource is unevenly distributed. According to the Frost & Sullivan Report, global availability of potash and the recoverable reserves are concentrated in Canada, Belarus and Russia. In 2022, the potash reserves of these three countries accounted for more than 60% of the global potash reserves. It is therefore common in the industry for potash fertiliser producers and suppliers in the PRC to rely heavily on a few overseas KCL producers for the supply of KCL due to the market dominance of these overseas KCL producers and China's lack of local quality potash reserves.

We have been operating potash fertiliser business in China for more than 20 years and have established comprehensive procurement channels for KCL, which enable us to obtain stable supply of KCL from major overseas potash fertilisers producers at competitive prices. We have the relevant import qualification and during the Track Record Period, we have applied for and been issued with the automatic import licenses for each lot of shipment of KCL, which entitles us to directly import KCL from overseas suppliers. Also, we cooperate with other enterprises with relevant import qualification, to procure KCL from overseas indirectly. We maintained long-term business relationships with major overseas potash fertilisers producers, including top five potash companies in the world.

We believe that, benefitted from our well-established import channels for KCL, we can obtain a steady supply of our major raw material, KCL, at competitive prices, thus delivering more value to our customers and enhancing our brand and reputation.

We have a well-established research and development team to provide technological supports for the continuous development of our Group

We have research and development employees in Heilongjiang Province, Jilin Province, Sichuan Province, Guizhou Province and Guangdong Province. As at the Latest Practicable Date, we had 79 employees in our internal professional research and development team. Mr. Sun Pingfu, our chief research and development officer, has over 30 years of experience in technology development, production management and project management in the chemical industry and is one of the drafters of GB/T 20784-2018, the state standard for NOP. Mr. Sun Pingfu was appraised as a "Meritorious Person of Potash Salt and Potash Fertiliser Industry of China" by the China National Inorganic Salts Industry Association in 2020.

Since the establishment of our Group, we have identified research and development as an important part of our strategy. Our research and development team initiated over 140 research and development projects, aiming at (i) improving product quality and stability, (ii) reducing energy consumption and enhancing production efficiency, (iii) enhancing compliance with environmental standards for production, (iv) developing specific compound fertilisers and new types of fertilisers, and (v) improving production processes and promoting automatic production procedures to ensure our competitiveness. For FY2021, FY2022, and FY2023, our research and development costs and expenses were RMB24.5 million, RMB38.9 million and RMB31.0 million, respectively. As at the Latest Practicable Date, we had 101 registered patents in China, including 12 invention patents and 89 utility model patents, and were in the process of applying for 19 invention patents.

We believe that our commitment in research and development has continuously improved our technology level and is also our key to success.

Our management team possess profound experience and most of them have been working with us for over ten years

Our management is key to our success. We have a strong and motivated management team who are dedicated to our success. Our Group was established in 2003. Under the leadership and management of our management team and with over 20 years of experience and commitment, we are one of the largest potash fertiliser companies in terms of sales volume of potash fertilisers in China in 2022 according to the Frost & Sullivan Report.

Our executive Directors and senior management team have extensive experience in and profound understanding of the potash fertiliser industry. Mr. Liu, an executive Director and our chairman, is the founder of our Group and has over 20 years of industry experience in the operation and management of the potash fertiliser companies. Besides, our senior management has extensive experience in the potash fertiliser industry and an average of over 15 years of experience in the management and operation of the potash fertiliser production business. Our management team has a deep understanding and keen insight into the trend of China's potash fertiliser industry, the trend of upstream supply chain and the needs of the downstream customers. Please refer to the section headed "Directors and Senior Management" in this document for the biographical information of our management.

Our management team works closely to formulate business and growth strategies. Most of our executive Directors and members of our senior management have been with us for more than ten years, which, in our opinion, indicates that we have a stable and harmonious working environment. It has fostered a corporate culture of cooperation and cohesion, which we believe contributes to our continued success. We consider that our stable management team and their extensive experience will enable us to travel through industry cycles and continue to capture future market opportunities and achieve our goals.

BUSINESS STRATEGIES

We intend to continue to strengthen and develop our existing market and industry position by adopting the following strategies while striving to enhance shareholder value and pursue growth strategies:

Strengthening our cooperation with major customers and expansion of our customer base

We have focused on building a strong customer network with key customers including large agricultural reclamation companies, state-owned tobacco companies, and agribusiness companies. Generally, those customers are companies of larger scale with good credit and strong financial position, which form our solid customer base. To enhance cooperation with existing major customers and further expand our customer base, we intend to (i) enhance the production and supply capacity of SOP and NOP, (ii) expand strategic cooperation network with customers, and (iii) enrich offerings of compound fertiliser products to address the demand for customised high-end potash fertilisers for crops.

To enhance our production capabilities for SOP, phase II of our Anda Production Facility in Heilongjiang, which contains an additional four SOP production lines, commenced trial production in the second half of 2022. As at the Latest Practicable Date, the total estimated production capacity of SOP of our Group had reached 400,000 tonnes, which are strategically located close to our major customers. Moreover, to resume our production capacities for NOP and further enhance our production capacities for SOP and compound fertilisers, we have entered into cooperation agreement with local governments of China, pursuant to which we planned to construct our New Sichuan Production Facility in Mianyang City, Sichuan Province. Construction of such facility is expected to be completed by the first half of 2025 with estimated production capacity of SOP, NOP and compound fertilisers of 80,000 tonnes, 60,000 tonnes and 200,000 tonnes respectively. Please refer to the section headed "Business – Expansion Plan" in this document for further information. Meanwhile, we are in active discussions with suppliers to expand the scale of procurement to be commensurate with the increase in production capacity.

To expand expansion of strategic cooperation network with customers, we intend to continue, as and when appropriate, to establish partnerships or joint ventures with selected existing and potential customers to expand our strategic cooperation network. We have strategically established production facilities in close proximity to our customers, allowing us to supply fertiliser products at lower cost and in shorter time, which we believe has placed us in a better position to establish long-term relationships with them.

To enrich our offerings of compound fertiliser products, we intend to further address our customer demand for customised high-end potash fertilisers through the development and improvement of new compound fertiliser formulae. During the Track Record Period, we worked with our tobacco company customers to ensure that our fertiliser products are tailored to our customers' needs and are suitable for different planting stages of tobacco crops as well as the climatic and soil conditions of the region in which they are planted. In addition, we have developed special compound fertilisers for crops such as chilis, fruits, tea leaves and vegetables. We plan to expand the existing product offerings by taking advantage of this experience and tap into the market of other high-end crops, such as mushrooms and flowers. We believe that we are able to capture the demands from these markets through our extensive experiences in the potash fertiliser industry and advanced production technologies and facilities, thereby enhancing our customer base.

Expansion of procurement scale and diversification of procurement channels

According to the Frost & Sullivan Report, it is expected that consumption of potash fertilisers in China will maintain steady growth to 2027. In order to meet the market demand for potash fertiliser products in China and to pursue our capacity expansion strategies, we intend to expand our procurement scale of KCL by increasing purchase through active negotiation with existing major suppliers, while exploring cooperation opportunities with other major potash suppliers in areas with rich premium potassium mineral.

For FY2021, FY2022 and FY2023, our total purchase volume of KCL amounted to approximately 927,000 tonnes, 1,310,000 tonnes and 1,010,000 tonnes, respectively. For FY2021 and FY2022, Supplier A, Supplier B, Supplier C and Supplier D were our top five suppliers, and Supplier B and Supplier C remained as our top five suppliers in FY2023. Our purchase volume of KCL from them amounted to approximately 799,000 tonnes, 625,000 tonnes and 627,500 tonnes, respectively, which accounted for approximately 86.2%, 47.7% and 62.1% of our total KCL purchase volume for the same periods, respectively. We ceased entering into new purchase contracts with Supplier D subsequent to December 2021. On 25 January 2022, we entered into a memorandum of cooperation (as further supplemented on 16 May 2022 and 5 December 2022) with Supplier A, agreeing on a supply of 500,000 tonnes of imported KCL to us from 2022 to January 2024. In addition, we actively expanded our supply channels and entered into a memorandum of understanding with a large SOE in the PRC, China National Chemical Construction Corporation ("**CNCCC**"), agreeing on a supply of 500,000 tonnes of imported KCL to us from March 2022 to December 2023. Further, we also expanded our domestic sourcing of KCL and entered into a memorandum of understanding with Sichuan Southwest Salt Lake Trading Company Limited* (四川西南鹽湖貿易有限公司) ("**Southwest Salt Lake**"), an associate company of the largest domestic potash producer group in the PRC, agreeing on a supply of 300,000 tonnes of premium grade potash to us from September 2022 to August 2023. As advised by our PRC Legal Advisers, pursuant to the terms of the memorandum of understanding, we may continue to purchase potash from Southwest Salt Lake until the 300,000 tonnes of potash under the memorandum of understanding have been purchased. We have also planned to explore cooperation opportunities with other suppliers with sources of KCL from other areas. Through these efforts, we believe we can secure a safe, steady and reliable system of a diversified supply chain, thereby further consolidating our market position in the industry.

In addition, we also plan to invest and construct the Heilongjiang Logistics and Production Centre in the Northern region of China, and plan to transport KCL from the ports to this centre for processing, production, packaging and storage. It will facilitate the integration of upstream supply chain and enhance our KCL sourcing and storage management capabilities. We also plan to provide storage and management solutions to other KCL importers through the Heilongjiang Logistics and Production Centre. We believe that this can benefit other KCL importers and strengthen our cooperation with them, thereby further enhancing the stability of our raw material supply.

Continuous investment in research and development to maintain industrial position, and enhancing product competitiveness

In order to maintain our leading position in the industry, we will continue to keep track on the latest technological developments in the market, regularly evaluate our production processes and production facilities in areas to be improved, and make improvement as necessary, so as to enhance efficiency and maintain growth and our position in the industry. We intend to continuously improve the production processes (i) to enhance the performance stability of our equipment to enhance product quality and production efficiency; (ii) to enhance automation level of processes to reduce labour costs and human errors, improve safety and reduce environmental incidents; and (iii) to increase product offerings to diversify our customer base.

In addition, with the introduction of a number of policies and measures by the PRC government, we plan to apply various new technologies to our production processes with an aim to improve our equipment and upgrade our production facilities to ensure our compliance with environmental regulations and to reduce labour cost and emissions.

We invested substantially in our research and development in the past, and we intend to continue to support our internal research and development team, as well as to cooperate with external research institutions and enterprises to research and develop new production processes in order to maintain our competitiveness in the industry.

Further, we intend to invest in the construction of a research and development centre in Chengdu City, Sichuan Province to centralise our research and development team to enhance its efficiency. Please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**] – Research and Development Centre" in this document for further information.

Establishment of sales network in Southeast Asia for further expansion of overseas markets

We have been operating in China for more than 20 years. Although our revenue was derived substantially from China during the Track Record Period, we intend to tap into certain overseas markets to further expand our customer base and implement our strategies for global development given that the huge potential of the overseas potash fertiliser market. During the Track Record Period, we exported potash fertiliser products produced in China to overseas markets through Singapore Migao, one of our subsidiaries established in 2010. For FY2021, FY2022 and FY2023, our sales to areas outside of China amounted to RMB22.5 million, RMB15.6 million and RMB86.7 million, respectively. Leveraging the strategic location of Singapore as a regional hub in Southeast Asia and our long established presence in Singapore, we believe we are well positioned to further expand our business in the Southeast Asia, a region with active plantation activities and strong agricultural industry traditionally.

According to the Frost & Sullivan Report, demand for potash fertilisers in Southeast Asia is expected to keep growing due to the advantage they deliver to crops. Consumption of potash fertilisers in Southeast Asia is expected to maintain its growth trend in the future. The market size of Southeast Asia by sale volume of potash fertilisers will be increased from 3.5 million tonnes in 2023 to 4.0 million tonnes in 2027 as anticipated by Frost & Sullivan.

To build a sales network in Southeast Asia and to further expand to other overseas markets where opportunity arises, our preliminary plan is to (i) promote our potash fertiliser products by increasing cooperation with and through local large scale fertiliser merchants and producers; and (ii) step up in deployment of local sales network and offices to further expand our customer base and implement our development strategies overseas.

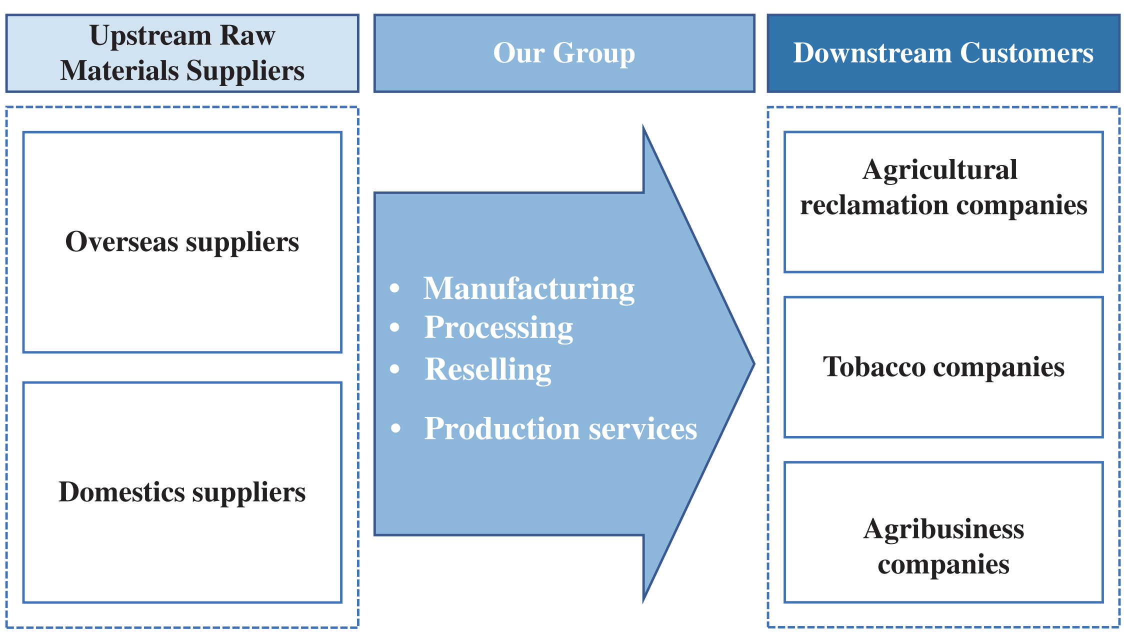
BUSINESS MODEL

We are one of the largest potash fertiliser companies, in terms of sales volume of potash fertilisers in China in 2022, with integrated sourcing, manufacturing, processing and selling capabilities. During the Track Record Period, our major products were KCL and SOP.

For FY2021, FY2022 and FY2023, the aggregate sales of KCL and SOP contributed to approximately 85.2%, 96.7% and 95.3% of our total revenue, respectively, while the remaining were primarily generated from the sales of NOP, compound fertilisers, and by-products and other products, which primarily consist of HCL as a by-product from the manufacturing process of SOP and fertiliser additive.

KCL is also our major raw material for other potash related products and our purchase of KCL accounted for more than 75.0% of our total purchases during each year of the Track Record Period. We purchase KCL from both overseas and domestic suppliers. Our customers are primarily agricultural reclamation companies, tobacco companies, and agribusiness companies in China.

The following diagram illustrates our business model in the context of the potash fertiliser manufacturing industry:



We manufacture and sell potash fertiliser products, including KCL granules, SOP fertilisers and compound fertilisers, to our customers. Our SOP and compound fertiliser products are manufactured and our KCL are granulated at our own production facilities in accordance with PRC national standard and/or our customers' specifications. We also sell HCL, the by-products derived from the manufacturing process of SOP fertilisers, to certain customers. In addition to KCL granules granulated by us, we also sell processed KCL products to our customers. We generally engage third parties to process our purchased KCL by adding certain additives and repackage the processed KCL products for sale to our customers. We also source and resell KCL, SOP, NOP and compound fertiliser products to our customers without further manufacturing or processing.

Since the fourth quarter of 2021, we started to provide fertiliser production services to Guizhou Tobacco Investment, one of our customers, for certain tobacco compound fertiliser products where it would provide us with the principal raw materials and we would manufacture them into the relevant tobacco compound fertiliser products in accordance with the stipulated product specifications. We charge a production fee for such services. For further information, please refer to the sections headed "Business – Products – Compound Fertilisers" and "Business – Overlapping Customers and Suppliers" in this document.

PRODUCTS

KCL fertilisers and SOP fertilisers are our major products. We also provide NOP fertilisers, compound fertilisers, and by-products and other products, which primarily consist of HCL as by-product during our manufacturing process of SOP fertilisers and fertiliser additive.

The key ingredient of our major products is potassium. Potassium, also known as potash, is the principal chemical in our fertiliser products and is one of the three basic plant nutrients along with nitrogen and phosphorus. Potassium is essential for carbohydrate and starch synthesis, and it also helps plants resist wilting. Up to 98% of potassium in the soil is unavailable to plants in its existing form, making potash fertilisers essential for crop production. Potassium salts in the form of sulphates (SOP), chlorides (KCL) and nitrates (NOP) are the forms of potash used in fertilisers. With the help of potash fertilisers, the quality of food being grown and crop yields are improved.

Potash fertilisers offer a wide range of benefits including (i) increase water retention; (ii) resistance to extreme weather; (iii) improve disease and pest resistance; (iv) low harmful effect on the environment and human health; and (v) improve crop yield and quality. Potash fertiliser is the major fertiliser type for high value-added agricultural crops, but its sales volume is usually lower than the sales volume of the other two major fertilisers (i.e., nitrogen and phosphorus) in the world as its average price is more expensive than nitrogen and phosphorus fertilisers. However, with the fast development of China's agricultural industry and upgrading of dietary structure, the demand for high value-added agricultural crops has increased, which generates rapidly growing sales for potash fertilisers.

Driven by the growing demand, the sales of our potash fertiliser products had experienced a significant growth during the Track Record Period. We expect to continue to benefit from the growing demand for potash fertiliser products in China. The following table sets forth the breakdown of our revenue by product type during the Track Record Period:

	For the year ended 31 March					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
KCL	1,250,489	60.1	3,180,575	82.8	4,024,088	85.2
SOP	522,039	25.1	533,569	13.9	476,058	10.1
NOP	49,068	2.4	8,933	0.2	15,366	0.3
Compound fertilisers						
– Sale(1)	193,629	9.3	24,992	0.7	47,747	1.0
– Production fees(2)	–	–	20,804	0.5	30,041	0.6
By-products and others(3)	66,354	3.2	72,527	1.9	129,449	2.7
Total	**2,081,579**	**100.0**	**3,841,400**	**100.0**	**4,722,749**	**100.0**

Notes:

(1) It represents sale of compound fertiliser products to our customers.

(2) It presents the production fees for the provision of production services to Guizhou Tobacco Investment, one of our major customers, for the manufacturing of certain tobacco compound fertiliser products for it, a new business arrangement we started to adopt in the fourth quarter of 2021.

(3) By-products and others which mainly consist of HCL and fertiliser additive.

Our average selling prices per tonne of our KCL, SOP, NOP and compound fertiliser products (excluding production fees) ranged from approximately RMB1,723.9 to RMB3,771.6, RMB2,328.4 to RMB3,850.3, RMB3,726.6 to RMB6,097.7 and RMB2,275.7 to RMB2,501.8 during the Track Record Period, respectively. For information regarding the sales volume and average selling price of our products by types, please refer to the section headed "Financial Information – Key Factors Affecting our Results of Operations" in this document.

KCL

Potassium chloride, also known as KCL or MOP, is a compound with the chemical formula KCl and contain around 60% potassium oxide (K_2O) equivalent. It is characterised by a colourless, crystalline appearance and an odourless smell. KCL in its solid form can be easily dissolved in water. It is the most commonly used potash fertiliser and could be used to farm a variety of food, like wheat and celery. It can quickly be absorbed by plants and used directly by plants. KCL can also be used as a major raw material for other potash based fertilisers such as SOP, NOP and compound fertilisers. KCL is usually a less expensive source of potash given that it does not require further chemical processing.

Below are photos of our KCL products in its powder form, granulated form and our KCL product package:

SOP

Potassium sulphate, also known as SOP, is a compound with the chemical formula K_2SO_4 and contains around 50% potassium oxide equivalent and 17.6% sulphur. Normally, SOP appears as a white to faint yellow crystalline powder or crystals. Its hygroscopicity, the capacity of a product to react to the moisture content of the air by absorbing or releasing water vapour, is less than KCL which makes it more resistant to caking. In terms of effect on soil acidity and alkalinity, SOP is neutral and similar to KCL. SOP provides crops with sulphur, making it a useful fertiliser for crops requiring greater sulphur nutrition. Examples of crops which benefit from higher sulphur nutrition are crops in the cabbage, onions and mustard families as well as all oilseed crops and most tropical and temperate fruit crops. Further, SOP not only can supplement potassium for soil like KCL but also supplement zinc, boron, and other elements for the soil and also adjust the chemical structure of the soil and enhance soil fertility.

Below are photos of SOP products and our SOP product package:

NOP

Potassium nitrate, also known as NOP, is a compound with the chemical formula KNO_3. It contains potassium, oxygen, and nitrogen. It is an alkali metal nitrate white or grey in colour. Agricultural NOP contains around 46% potassium oxide equivalent and nitrogen in the nitrate form; hence, it supplies two primary nutrients to the crops. Since the nutrients are supplied together and potassium improves plant utilisation of nitrate by effecting uptake and translocation, crop quality is more easily achieved when NOP is used. An abundant supply of nitrogen is essential for all high-yielding crops. For crops that prefer nitrate source to an ammonium source of nitrogen, this type of potash fertiliser is a good option and it is moderate in price. It is a suitable fertiliser for special use cropping situations (i.e., tobacco, fruit, vegetables, and flowers) given that NOP is chlorine-free, has high water solubility, and its active ingredients nitrogen and potassium can be quickly absorbed by crops.

We did not manufacture NOP products during the Track Record Period since we ceased manufacturing of NOP in 2019 when we decided to relocate our Chengdu Production Facility, our only production facility that manufactured NOP, due to re-zoning policy of the local government. All our sales of NOP products were procured from Yunnan EuroChem, our indirect joint venture, which manufactures NOP fertilisers at the Yunnan Production Facility, as well as from other domestic suppliers.

Below are photos of NOP products and our NOP product package:

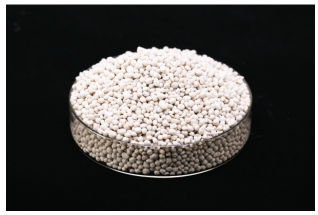
Compound Fertilisers

Compound fertiliser is a multi-component fertiliser providing nitrogen, phosphorus and potassium. It can be used for balanced fertilisation and increase the utilisation rate of fertilisers. It has comprehensive nutrition that promotes crop yield and income, restores soil life, balances fertilisation and degradation of agricultural residues.

During the Track Record Period, a significant amount of the compound fertilisers we manufactured were for tobacco planting purposes and were sold to tobacco companies in China. For the tobacco compound fertiliser products we manufactured for Guizhou Tobacco Investment, one of our major customers, we generally procure the principal raw materials as specified and supplied by it as it had stringent requirements on the tobacco compound fertiliser products. For our other customers where they do not specify any requirements as to the source of raw materials, we would source and procure the raw materials through our own procurement process.

Starting from the fourth quarter of 2021, we were no longer required to procure the principal raw materials from Guizhou Tobacco Investment for certain tobacco compound fertiliser products we manufactured for it. Instead, Guizhou Tobacco Investment provides the principal raw materials to us for manufacturing into tobacco compound fertiliser products. Under this new arrangement, the ownership to the raw materials remains with Guizhou Tobacco Investment. We charge a production fee for the provision of production services. Since the adoption of this new business arrangement in the fourth quarter of 2021, we generated production fees of RMB20.8 million and RMB30.0 million in FY2022 and FY2023, respectively, representing approximately 0.5% and 0.6% of our total revenue for FY2022 and FY2023, respectively. Please refer to the section headed "Business – Overlapping Customers and Suppliers" in this document for further information. We also sell our compound fertilisers to other types of companies such as agricultural reclamation companies.

Below are photos of compound fertiliser products and our compound fertiliser product package:



By-Product

HCL is an aqueous solution of hydrogen chloride, belonging to one-component inorganic strong acid. HCL is a dangerous chemical with characteristics of colorlessness, irritating odour, high corrosiveness, and volatility. It is an important part of the chlor-alkali industry and can be widely used in medicine, food, metallurgy, printing and dyeing, leather and other industrial fields. HCL is a by-product from the manufacturing process of SOP, which we can sell to our customers for additional income apart from the sales of our main products.

MANUFACTURING

For KCL granules, the primary process is the physical granulation of KCL into various sizes. For SOP and compound fertiliser manufacturing, they require physical and chemical processes in their manufacturing.

Historically, we manufactured NOP products at our Chengdu Production Facility. Due to change of zoning policy by local government, the manufacturing of NOP products at our Chengdu Production Facility ceased since January 2019. As such, we did not have any manufacturing of NOP products during the Track Record Period.

KCL Granulating

We granulate KCL from powdered form into various sizes of KCL granules as specified by our customers in accordance with PRC national standard. As at the Latest Practicable Date, we had a total of three KCL granulating lines, one of which was located at our Changchun Production Facility and the other two were located at our Anda Production Facility. During the Track Record Period, we occasionally utilised the granulating equipment of other fertiliser production lines for granulation of KCL granules in order to meet the demand of our KCL products.

Our KCL products granulating process involves the following major steps.

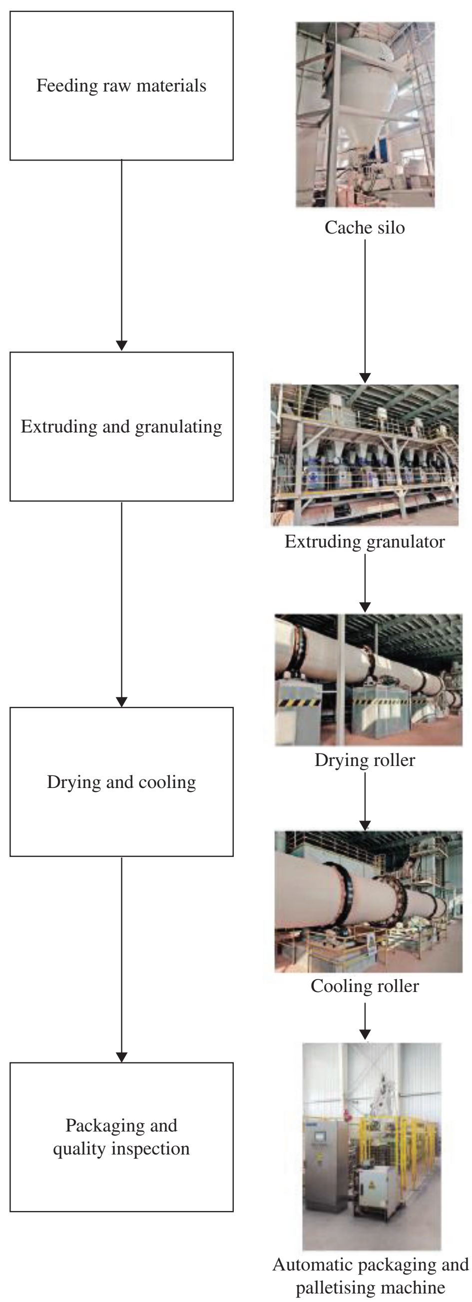
- Step one: The anti-dosing system sends KCL to the silo, which then enter into the cache silo through the bucket elevator. After water is injected and mixed well, the mixture are delivered to the materials separation belt through the bucket elevator again for separation.

- Step two: After separation, the mixture will enter into the granulator for extrusion, and extruded particles enter into the semi-finished product roller screen, and unqualified particles enter into the bucket elevator by way of screening to re-enter into the granulator for re-extrusion.

- Step three: Screened semi-finished particles enter into the drying roller before they enter into the cooling roller after being dried. The particles after cooling enter into the finished product roller screen for screening again, while unqualified particles re-enter into the extruding granulator for re-extrusion.

- Step four: Finished KCL granules after screening in step three will enter into the finished product silo and are packaged and weighed by the automatic packer for random inspection. The qualified KCL granules are sent to the finished product warehouse.

The diagram below illustrates the main procedures to granulate raw materials into KCL granules:



SOP Manufacturing

The major raw materials used for our SOP manufacturing include KCL and sulphuric acid. SOP is manufactured by the Mannheim Process and HCL is the by-product derived from the manufacturing process. We manufacture SOP fertiliser products and we can customise the products to meet our customers' specifications if requested by our customers. We also purchase SOP for further manufacturing into our SOP fertiliser products in accordance with the specifications and requirements as set out by our customers if our customers have tight timeline or additional orders as further manufacturing usually requires less lead time.

As at the Latest Practicable Date, we had a total of 40 SOP production lines, 16 of which were located at our Guangdong Production Facility, eight of which were located at our Changchun Production Facility, eight of which were located at our Anda Production Facility and eight of which were located at our Baoqing Production Facility.

Our SOP products manufacturing process involves the following major steps:

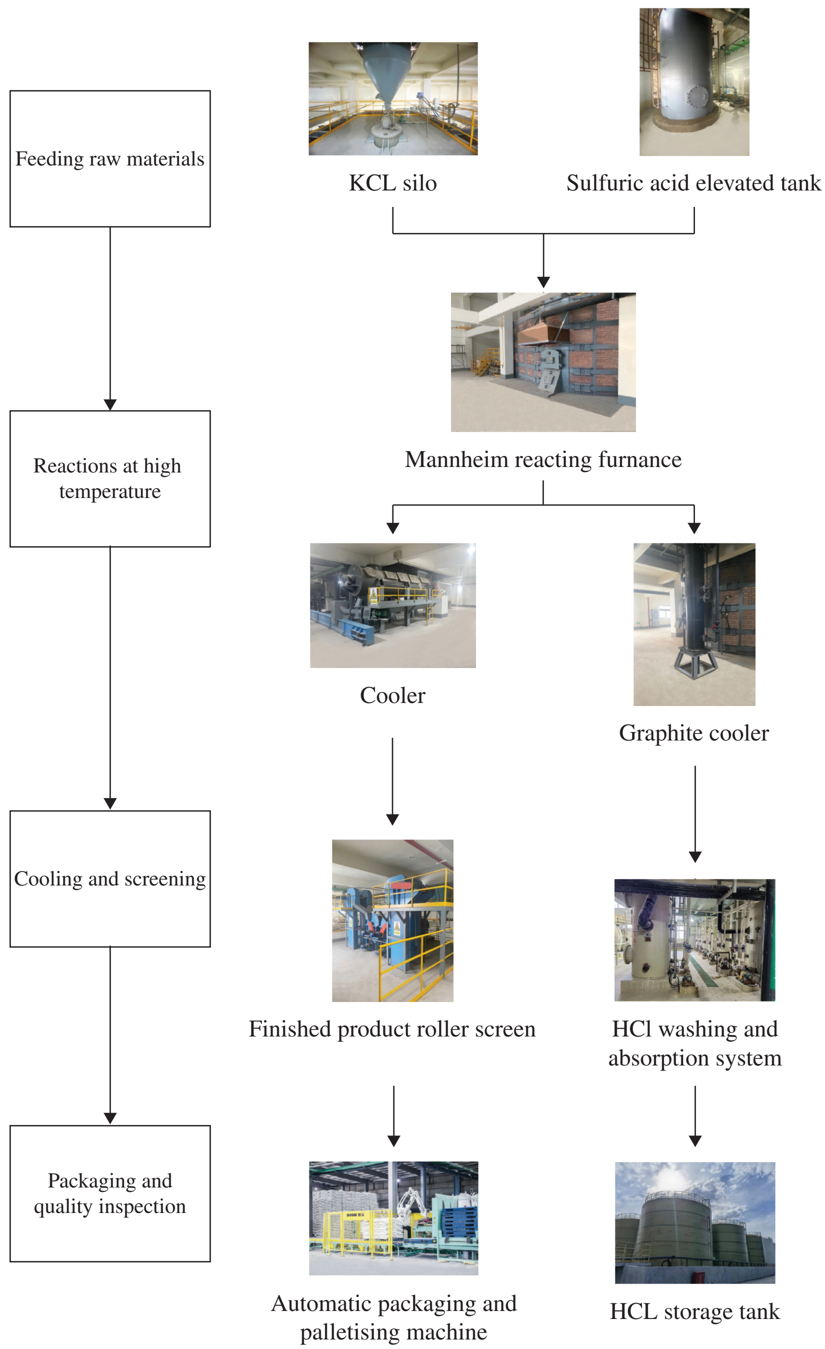
- Step one: KCL is transmitted to the silo through the hoist and sulfuric acid in the sulfuric acid storage tank is transmitted to the sulfuric acid elevated tank through the sulfuric acid pump.

- Step two: Sulfuric acid and KCL are put into the Mannheim reacting furnace. Under chemical reactions at high temperature, the stirrer in the furnace fully stirs KCL and sulfuric acid to generate SOP and HCL gas.

- Step three: SOP generated by the Mannheim Process is transmitted to the cooler and enters into the scrapper after cooling and is then sent to the crusher for crushing. Purchased SOP, if any, will also be added to the subsequent process through the scraper. Crushed SOP is transmitted to the finished product roller screen for screening and unqualified SOP powder is returned to the crusher for re-crushing. HCL generated by the Mannheim Process is transmitted to the cooler for cooling and then is transmitted to HCL washing and absorption system.

- Step four: Finished SOP after screening in step three enters into the finished product silo for automatic packaging and granulating and a manual sampling inspection is conducted. Qualified SOP products are sent to the finished product warehouse. Meanwhile, HCL is absorbed in the multi-layer absorber through the high-efficiency graphite cooler and then loaded into the HCL storage tank.

The diagram below illustrates the main manufacturing process of our SOP products:



Compound Fertiliser Manufacturing

We primarily use KCL, SOP, NOP, ammonium nitrate phosphate, ammonium dihydrogen phosphate and/or other raw materials to manufacture compound fertilisers. We may purchase compound fertilisers with standardised formulae to further manufacture into our compound fertilisers products with tailored formulae based on the final use of the compound fertiliser products of our customers, by adding new components and/or other raw materials to the purchased compound fertilisers.

During the Track Record Period, a significant portion of our compound fertilisers products were manufactured for tobacco planting applications. We also manufacture a small portion of our compound fertilisers products for tea, chili, fruits and vegetables planting applications. As at the Latest Practicable Date, we had three compound fertiliser production lines at our Daxing Production Facility.

For our tobacco compound fertiliser manufacturing, the raw materials are blended through certain processes to manufacture tobacco compound fertilisers products based on the fertiliser formulae as set out by our tobacco company customers. We also collaborate with our tobacco company customers to research and develop new formulae for compound fertiliser products which are well tailored to their needs and are suitable for growth in the regions which they are located.

Compound fertiliser manufacturing involves the following major steps:

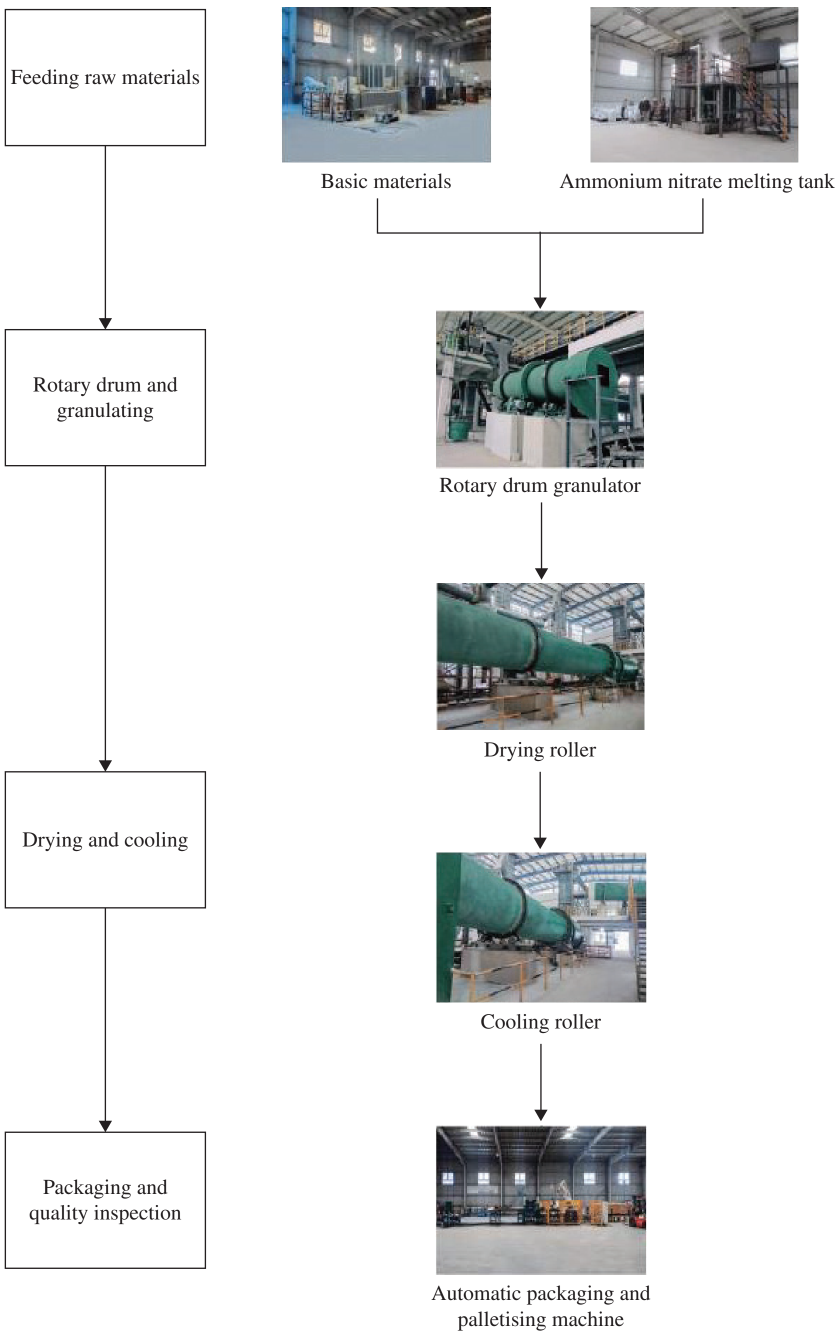
- Step one: Based on the specified formulae, KCL, SOP, NOP and other basic materials and porcelain earth (adhesives) are added to raw material silos, then transmitted to granulator by raw material belt after measuring; if ammonium nitrate phosphate needs to be added according to the specific formulae, ammonium nitrate phosphate would be transmitted to ammonium nitrate melting tank to become ammonium nitrate phosphate solvent and transmitted to the granulator.

- Step two: Steams are added to the granulator, and the above materials are fully stirred to form particles by rotary drum and rolling-over.

- Step three: The semi-finished particles enter into the drying roller before they enter into the cooling roller after being dried. The particles after cooling enter into the finished product roller screen (No. 1, No. 2, No. 3 and No. 4 sieving machine) for four times of sieving, the unqualified particles are returned to granulator for re-granulating.

- Step four: The finished compound fertiliser after cooling treatment enter into the automatic packaging line for weighing and manual sampling, and the qualified compound fertiliser products are stored in the finished product warehouse.

The diagram below illustrates the main manufacturing process of our compound fertilisers:



EQUIPMENT

Our production facilities are configured with equipment and utilise technologies that we believe are advanced in the potash fertiliser manufacturing industry. We utilise machinery and equipment in our manufacturing processes that are designed to create efficiencies by enhancing the quantity and quality of our products while reducing costs.

We use different major manufacturing equipment for our manufacturing. Some of the major equipment include Mannheim reacting furnace, potassium nitrate crystalliser, granulator, ammonium chloride crystalliser and cooler. The replacement cycle of our major equipment generally ranged from approximately two to 20 years. As at 31 March 2023, the estimated remaining useful life of our major equipment generally ranged from approximately one to 19 years. In addition to performing regular maintenance on our equipment to maximise their useful life, we also plan to upgrade or replace some major equipment using some of the [**REDACTED**] from the [**REDACTED**]. For further information of the use of [**REDACTED**] from the [**REDACTED**] on the upgrading and replacement of equipment in our production facilities, please refer to the section headed "Future Plans and Use of [**REDACTED**]" in this document.

We repair and maintain our equipment and facilities on a regular basis. In addition, we carry out our major equipment repairing, inspection and/or maintenance during non-peak season every year, which is generally from April to September, in order to avoid material disruption to our production. For FY2021, FY2022 and FY2023, our expenses in repairing and maintaining our equipment and facilities, including the expenses of purchasing replaceable parts, amounted to RMB8.6 million, RMB14.2 million and RMB3.1 million, respectively. We recorded relatively higher expenses in repairing and maintaining our equipment and facilities for FY2022 primarily because of (i) the repair of the fire hydrant water supply system and the maintenance of the inner walls of our production rooms of our Guangdong Production Facility; and (ii) the maintenance of some of our Mannheim reacting furnaces at our Changchun Production Facility. We have not experienced any material or prolonged operational interruption due to equipment or facilities failure during the Track Record Period.

RESEARCH AND DEVELOPMENT

We have certain advanced technologies, such as Continuous Production of Potassium Sulfate by Metathesis Technology* (複分解法連續生產硫酸鉀技術), Pulse Dust Collector Technology* (脈衝除塵器技術) and SOP and KCL Granulation Technology* (硫酸鉀和氯化鉀造粒技術). We believe these technologies can enhance our production capacity, reduced labours, decreased energy consumption and lowered our production costs. We have also implemented advanced automatic control system at our production facilities to increase our production efficiency.

The main goal of our research and development is to improve our existing production processes through incorporation of new equipment and techniques into the processes to optimise our operation efficiency and effectiveness as well as to reduce the cost of production.

Mr. Sun Pingfu, our executive Director, having over 30 years of experience in technology development, production management and project management in the chemical industry, is leading our research and development initiative.

Further, we also collaborate with a number of PRC research institutes, production facilities and universities to carry out research and development projects, and some of these projects were led by us. Some intellectual property rights derived from these collaborations belong to us and we are the sole owner of these intellectual property rights. For FY2021, FY2022 and FY2023, our research and development costs and expenses were RMB24.5 million, RMB38.9 million and RMB31.0 million, respectively.

To facilitate our research and development, we intend to construct a research and development centre in Chengdu City, Sichuan Province to centralise our research and development team to enhance its efficiency. Please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**] – Research and Development Centre" in this document for further information.

PRODUCTION FACILITIES AND CAPACITIES

Overview

As at the Latest Practicable Date, we had five key production facilities namely, Guangdong Production Facility, Changchun Production Facility, Daxing Production Facility, Baoqing Production Facility and Anda Production Facility, which are located in Guangdong Province, Jilin Province, Heilongjiang Province and Guizhou Province. Among these, Baoqing Production Facility and Anda Production Facility are owned by Baoqing Migao and Anda Migao, respectively, which became our subsidiaries on 31 March 2022. We also have a production facility, Chengdu Production Facility, in Chengdu City, Sichuan Province, which is subject to relocation due to local re-zoning policy. In addition, our indirect joint venture, Yunnan EuroChem, operates a production facility which is located in Yunnan.

As at the Latest Practicable Date, we had three KCL granulating lines, 40 SOP production lines, and three compound fertilisers production lines. Our total estimated production capacity of our KCL, SOP and compound fertiliser products were 390,000 tonnes, 400,000 tonnes and 172,000 tonnes, respectively.

Our production facilities are strategically located across different parts of China where the majority of our customers are located. The close proximity to the majority of our customers enables us to deliver our products to our customers in a timely and cost-efficient manner and also allows us to react swiftly to the needs of different customers across different regions in these provinces. Most of our major customers are located in five plantation zones in China and approximately 95.3%, 76.1% and 70.8% of our revenue were derived from customers from these planting zones for FY2021, FY2022 and FY2023, respectively.

The map below shows the plantation zones in China and the geographical location of our production facilities and the production facility of our indirect joint venture, Yunnan Production Facility, as at the Latest Practicable Date.

Notes:

(1) Guangdong Production Facility

(2) Changchun Production Facility

(3) Anda Production Facility is owned by Anda Migao which became our subsidiary on 31 March 2022

(4) Baoqing Production Facility is owned by Baoqing Migao which became our subsidiary on 31 March 2022

(5) Daxing Production Facility

(6) Our Chengdu Production Facility is subject to relocation due to change of zoning policy by the local government

(7) Yunnan Production Facility is the production facility of Yunnan EuroChem, our indirect joint venture

Our Group's Production Facilities

Key Production Facilities During the Track Record Period

Our Guangdong Production Facility is located in Guangdong Province. It commenced operations in 2004 and mainly manufactures SOP fertiliser products. As at the Latest Practicable Date, it hosted 16 SOP production lines. During the Track Record Period, the top two geographical locations served by our Guangdong Production Facility for each year included Southern China, Central China and Northeastern China.

Our Changchun Production Facility is located in Jilin Province. It commenced operations in 2008 and mainly manufactures SOP products. As at the Latest Practicable Date, it hosted one KCL granulating line and eight SOP production lines. During the Track Record Period, the top two geographical locations served by our Changchun Production Facility for each year included Northeastern China and Northern China.

Our Daxing Production Facility is located in Guizhou Province. It commenced operations in 2016 and mainly manufactures compound fertiliser products. As at the Latest Practicable Date, it hosted three compound fertiliser production lines. During the Track Record Period, the top two geographical locations served by our Daxing Production Facility for each year included Southwestern China, Eastern China and Northeastern China.

Production Facilities Consolidated since 31 March 2022

In Heilongjiang Province, we have Baoqing Production Facility and Anda Production Facility, which are owned by Baoqing Migao and Anda Migao and which became our subsidiaries on 31 March 2022. For FY2023, the top two geographical locations served by our Baoqing Production Facility for the year included Northeastern China and Eastern China. For FY2023, the top two geographical locations served by our Anda Production Facility for the year included Northeastern China and Eastern China.

Our Baoqing Production Facility consists of two phases. Phase I commenced operations in 2018 for manufacturing of SOP fertiliser products, which hosted four SOP production lines as at the Latest Practicable Date. We also commenced construction of phase II of our Baoqing Production Facility for four additional SOP production lines and obtained the approval for trial production in March 2022. We began trial production in April 2022 and received the construction completion approval from the relevant authorities in March 2023.

Our Anda Production Facility consists of two phases. Phase I commenced operations in 2021 and is for manufacturing of SOP fertiliser products and granulation of KCL, which hosted four SOP production lines and two KCL granulating lines, including the one approved by the relevant government authorities in February 2023, as at the Latest Practicable Date. We have also commenced construction of phase II of our Anda Production Facility for four additional SOP production lines around June 2021. We began trial production in December 2022 and expect to receive the construction completion approval from the relevant authorities in the second half of 2023.

As at the Latest Practicable Date, the total aggregate estimated production capacity of our Baoqing Production Facility and Anda Production Facility was approximately 200,000 tonnes of KCL and 160,000 tonnes of SOP.

Production Facility Subject to Relocation

Our Chengdu Production Facility is located in Sichuan Province and mainly manufactured NOP products and compound fertilisers. Due to change of zoning policy by local government to re-zone the area where our Chengdu Production Facility is located and our discussion with the local government since October 2018, we decided to relocate our Chengdu Production Facility. Further to our discussion with the local government, we ceased manufacturing of NOP products in January 2019 and, in view of the uncertainty in the timetable of the local government re-zoning implementation plan, we decided to cease manufacturing of compound fertiliser products at our Chengdu Production Facility in April 2020 and consolidate manufacturing of compound fertilisers to our Daxing Production Facility. We also suspended the KCL granulation operations at our Chengdu Production Facility from March 2022. During the Track Record Period, the top two geographical locations served by our Chengdu Production Facility for each year included Southwestern China, Southern China and Eastern China.

The timing for which we are required to close our Chengdu Production Facility is still subject to local government's re-zoning implementation plan and was not made available to us as at the Latest Practicable Date.

Impact of Chengdu Production Facility on our Group

Since our Chengdu Production Facility is our only production facility that produces NOP products, with the cessation of NOP manufacturing, we no longer manufacture NOP. To mitigate the immediate impact on our Group, we have been procuring NOP products from Yunnan EuroChem, our indirect joint venture. Yunnan EuroChem owns and runs a fertiliser production facility in Yunnan Province, the Yunnan Production Facility. We have entered into an NOP cooperation framework agreement (the "**Previous NOP Cooperation Framework Agreement**") with Yunnan EuroChem on 1 April 2020. Pursuant to the Previous NOP Cooperation Framework Agreement, under similar terms, Yunnan EuroChem shall give us priority to satisfy our purchase demands. Both parties shall enter into a separate sale and purchase contract for each purchase which will specify the specific time, place and manner of delivery of potash products. Once the sale and purchase contract comes into effect, we are not allowed to return goods and both parties are not allowed to terminate the contract. The term of the Previous NOP Cooperation Framework Agreement is three years, from 1 April 2020 to 31 March 2023. Upon the expiry of the Previous NOP Cooperation Framework Agreement, we and Yunnan EuroChem entered into another NOP cooperation framework agreement with similar terms as the Previous NOP Cooperation Framework Agreement on 1 April 2023 (the "**New NOP Cooperation Framework Agreement**"). The term of the New NOP Cooperation Framework Agreement is three years, from 1 April 2023 to 31 March 2026.

During the Track Record Period, in addition to the Previous NOP Cooperation Framework Agreement, we also purchased NOP products from other domestic suppliers, which were generally available in China. For FY2021, FY2022 and FY2023, revenue from our sale of NOP products amounted to RMB49.1 million, RMB8.9 million and RMB15.4 million, respectively, which only accounted for approximately 2.4%, 0.2% and 0.3% of our total revenue, respectively.

We had one compound fertiliser production line at our Chengdu Production Facility prior to its cessation of production of compound fertilisers. Since its cessation of production, all the production of compound fertilisers were manufactured at our Daxing Production Facility, which had three production lines of compound fertilisers with an aggregate estimated production capacity of 172,000 tonnes as at the Latest Practicable Date. Currently our Daxing Production Facility has sufficient capacity to produce all the compound fertilisers that we sell. For FY2021, FY2022 and FY2023, our total sale volume of compound fertilisers products (inclusive of compound fertiliser products produced under the production services business model) amounted to approximately 82,000 tonnes, 57,000 tonnes and 77,000 tonnes, respectively.

The estimated cost to close down our Chengdu Production Facility is approximately RMB4.8 million, including, among others, the machineries and equipment removal expenses and miscellaneous expenses. We expect that such expenditure could be fully covered by the sale of the machineries and equipment at our Chengdu Production Facility which we estimate to be approximately RMB5.7 million based on a fee quote we obtained from a third party company. In the unlikely event that there is any shortfall, we plan to finance such expenditure from our internal resources.

Based on our estimation, the annual costs to maintain our Chengdu Production Facility prior to its closure is approximately RMB11 million, which primarily included depreciation charges of the building, staff costs, land use right tax and property tax and other miscellaneous expenses.

In view of the above, our Directors believe that the relocation of our Chengdu Production Facility did not and would not have a significant impact on our business operation given that (i) we were able to source the required amount of NOP products from Yunnan EuroChem and other domestic NOP suppliers; and the sale of NOP products only accounted for a small percentage of our total revenue during the Track Record Period; (ii) our Daxing Production Facility had the capacity to produce the required amount of compound fertiliser products we sold during the Track Record Period; (iii) we have KCL granulating lines at both Changchun Production Facility and Anda Production Facility to cover the KCL granulating operations at our Chengdu Production Facility; (iv) the estimated costs in relation to the closure of our Chengdu Production Facility is expected to be fully covered from the sale of the machineries and equipment at our Chengdu Production Facility; and (v) the estimated annual costs in maintaining our Chengdu Production Facility only accounted for less than 1% of our total revenue for each of FY2021, FY2022 and FY2023.

We intend to construct our New Sichuan Production Facility in Mianyang City, Sichuan Province and resume production of NOP and compound fertilisers at the new production facility upon completion of its construction. For further information, please refer to the section headed "Business – Expansion Plan – New Sichuan Production Facility Plan" in this document.

Utilisation Rates

The table below sets out various information of our production facilities (including Baoqing Production Facility and Anda Production Facility) during the Track Record Period:

	For the Year Ended 31 March								
	2021			2022			2023		
	Estimated production capacity[(1)]	**Actual production volume[(2)]**	**Utilisation rate[(3)]**	**Estimated production capacity[(1)]**	**Actual production volume[(2)]**	**Utilisation rate[(3)]**	**Estimated production capacity[(1)]**	**Actual production volume[(2)]**	**Utilisation rate[(3)]**
	tonnes	*tonnes*	*%*	*tonnes*	*tonnes*	*%*	*tonnes*	*tonnes*	*%*
KCL[(4)]	**190,000**	**250,880**	**132.0**	**248,333[(8)]**	**322,219**	**129.8**	**306,667**	**314,868**	**102.7**
• Changchun Production Facility[(4)]	190,000	250,880	132.0	190,000	246,592	129.8	190,000	181,843	95.7
• Anda Production Facility[(4)(5)]	–	–	–	58,333[(8)]	75,627	129.6	116,667[(10)]	133,025	114.0
SOP	**280,000**	**220,328**	**78.7**	**303,333[(8)]**	**160,668**	**53.0**	**373,333**	**110,937**	**29.7**
• Guangdong Production Facility	160,000	101,457	63.4	160,000	75,804	47.4	160,000	32,053	20.0
• Changchun Production Facility	80,000	87,385	109.2[(7)]	80,000	41,771	52.2	80,000	–[(11)]	0.0[(11)]
• Baoqing Production Facility[(5)]	40,000	31,486	78.7	40,000	36,808	92.0[(9)]	80,000	37,564	47.0
• Anda Production Facility[(5)]	–	–	–	23,333[(8)]	6,285	26.9	53,333[(12)]	41,321	77.5[(11)]
Compound fertiliser[(6)]	**172,000**	**75,763**	**44.0**	**172,000**	**62,112**	**36.1**	**172,000**	**77,311**	**44.9**
• Chengdu Production Facility[(6)]	–	–	–	–	–	–	–	–	–
• Daxing Production Facility[(6)]	172,000	75,763	44.0	172,000	62,112	36.1	172,000	77,311	44.9

Notes:

(1) The estimated production capacity is calculated with reference to (i) the assumption that all production lines are capable to operate 24 hours per day and 330 days for each year for FY2021, FY2022 and FY2023, taking into account the downtime required for maintenance; but (ii) constrained by the registration documents we filed with the PRC authorities for our production facilities. According to the relevant PRC authorities' approval and filing documents on capacity of our facilities obtained by us, there are no other specific requirements or constraints on capacity except the capacity scale of each project.

(2) For KCL, the actual production volume represents the actual production volume of granulated KCL for the year at our Changchun Production Facility and our Anda Production Facility utilising KCL granulating lines and other fertiliser production lines at the relevant production facility. For SOP and compound fertilisers, the actual production volume represents the actual production volume from the respective production lines for the year.

(3) The utilisation rate equals the actual production volume divided by the respective estimated production capacity for the year multiplied by 100%.

(4) The estimated production capacity of KCL only included the estimated production capacity of the one KCL granulating line at our Changchun Production Facility and the one/two KCL granulating line(s) at our Anda Production Facility. Although we occasionally utilised the granulating equipment of our other fertiliser production lines at our production facilities (including our Changchun Production Facility, Chengdu Production Facility, Daxing Production Facility, Anda Production Facility and Baoqing Production Facility) to granulate KCL, we did not include the estimated production capacity of those granulating equipment in deriving our estimated production capacity of KCL in the table above since those are not used exclusively for granulation of KCL. The aggregate actual production volume of KCL granules utilising granulating equipment of other fertiliser production lines other than at our Changchun Production Facility and Anda Production Facility were approximately 66,000 tonnes, 170,000 tonnes and 8,200 tonnes for FY2021, FY2022 and FY2023, respectively.

The utilisation rate of KCL equals the actual production volume of KCL at our Changchun Production Facility and Anda Production Facility divided by the estimated production capacity of the one KCL granulating line at our Changchun Production Facility and the one/two KCL granulating line(s) at our Anda Production Facility. The utilisation rate exceeded 100% because we occasionally utilised the granulating equipment of our SOP production lines of Changchun Production Facility and Anda Production Facility for granulation of KCL.

(5) Baoging Production Facility and Anda Production Facility became part of our Group since 31 March 2022.

(6) As our Chengdu Production Facility ceased manufacturing of compound fertilisers in April 2020, we did not have any compound fertilisers manufacturing at our Chengdu Production Facility during the Track Record Period. During the Track Record Period, we made use of our idle equipment in the Chengdu Production Facility and Daxing Production Facility to granulate KCL products.

(7) We recorded high utilisation rate of SOP at our Changchun Production Facility for FY2021 due to the high market demand for SOP products from the customers of Changchun Migao. Also as the maintenance time for our Changchun Production Facility was less than usual for FY2021, it allowed us to exceed 100% utilisation rate.

(8) Phase I of the Anda Production Facility commenced trial production in September 2021. Its estimated production capacity of KCL and SOP for FY2022 was calculated on pro rata basis based on an estimated annual production capacity of 100,000 tonnes and 40,000 tonnes, respectively.

(9) Given that the lower demand for our SOP products for FY2022, we decided to concentrate SOP manufacturing to our Baoqing Production Facility which thereby led to a high utilisation rate of SOP at our Baoqing Production Facility for FY2022.

(10) A fertiliser production line at the Anda Production Facility with 100,000 tonnes estimated annual production capacity was redesignated and approved as a KCL granulating line in February 2023. Anda Production Facility estimated annual production capacity of KCL for FY2023 was calculated based on (i) full estimated annual production capacity of 100,000 tonnes of KCL of the original KCL granulating line; and (ii) a pro rata basis of an estimated annual production capacity of 100,000 tonnes of KCL of the redesignated KCL granulating line.

(11) Given the relatively low demand for SOP products for FY2023, we did not engage our Changchun Production Facility for the manufacturing of SOP products. We allocated the manufacturing from our Changchun Production Facility to our Anda Production Facility.

(12) Phase II of the Anda Production Facility commenced trial production in December 2022. Anda Production Facility estimated production capacity of SOP for FY2023 was calculated based on (i) full estimated annual production capacity of 40,000 tonnes of SOP of Phase I of the Anda Production Facility; and (ii) a pro rata basis of an estimated annual production capacity of 40,000 tonnes of SOP of Phase II of the Anda Production Facility.

The utilisation rates of our production lines are generally subject to seasonality impact. As our fertiliser products are primarily for agricultural use, our production is subject to seasonal fluctuations as the demand of fertilisers is affected by the seasonal nature of fertiliser applications. Farmers tend to apply crop nutrients during two application periods, the strongest one in the spring (January to March), before planting, and the other in the fall (October to December), after harvest. As a result, the strongest demand for our products typically occurs during the spring planting season and the fall harvest season. Therefore, our peak season is typically from October to March and our non-peak season is typically from April to September. Please refer to the section headed "Financial Information – Key Factors Affecting our Results of Operations – Seasonality" in this document for further information.

As we need to ensure we have sufficient production capacity during our peak season to satisfy our customers' demand, we generally plan for our production capacity based on our production during our peak season. As such, we generally witnessed lower utilisation rates for our SOP and compound fertiliser products during the Track Record Period.

KCL

Our KCL utilisation rate was 132.0%, 129.8% and 102.7% for FY2021, FY2022 and FY2023, respectively. Our KCL utilisation rate exceeded 100% for FY2021, FY2022 and FY2023 mainly because we occasionally utilised the granulating equipment of our SOP production lines at our Changchun Production Facility and Anda Production Facility for KCL granulation.

SOP

We had a low SOP utilisation rate of approximately 53.0% for SOP products for FY2022 due to the general lower demand of SOP products by our customers due to high selling prices of SOP products. It led to some of our customers to choose to use KCL products as alternative to SOP products as KCL products can in general be used to replace, to some extent, SOP products, and thereby resulting in lower demand of SOP products for FY2022. We had a low SOP utilisation rate of approximately 29.7% for SOP products for FY2023 primarily due to a decrease in demand of SOP products by customers as a result of a higher average selling price of SOP products during FY2023 as compared to that of FY2022.

Compound Fertilisers

We recorded a relatively low compound fertiliser utilisation rate of approximately 44.0%, 36.1% and 44.9% for FY2021, FY2022 and FY2023, respectively. Although all our fertiliser products are subject to seasonality impact, our compound fertiliser products are especially affected by seasonality impact. For FY2021, FY2022 and FY2023, we manufactured approximately 92.5%, 98.3% and 97.6% of our total compound fertiliser products for the year during the peak season of each of the respective year. Our compound fertiliser products are generally tailor made to customer specifications and therefore the manufacturing of compound fertiliser products at our Daxing Production Facility follows closely the placement of orders by our customers based on their individual needs. For example, we generally manufacture tobacco compound fertilisers based on the specific formulae we research and develop with them in order to ensure the tobacco compound fertiliser products are tailored to their needs and are suitable for growth of tobaccos. Given that compound fertiliser products generally need to be tailor made, we are not able to manufacture our compound fertiliser products during our non-peak season until we have confirmed the specific formulae with the customers which are generally provided to us close to the plantation season.

Our Unconsolidated Indirect Joint Venture's Production Facility

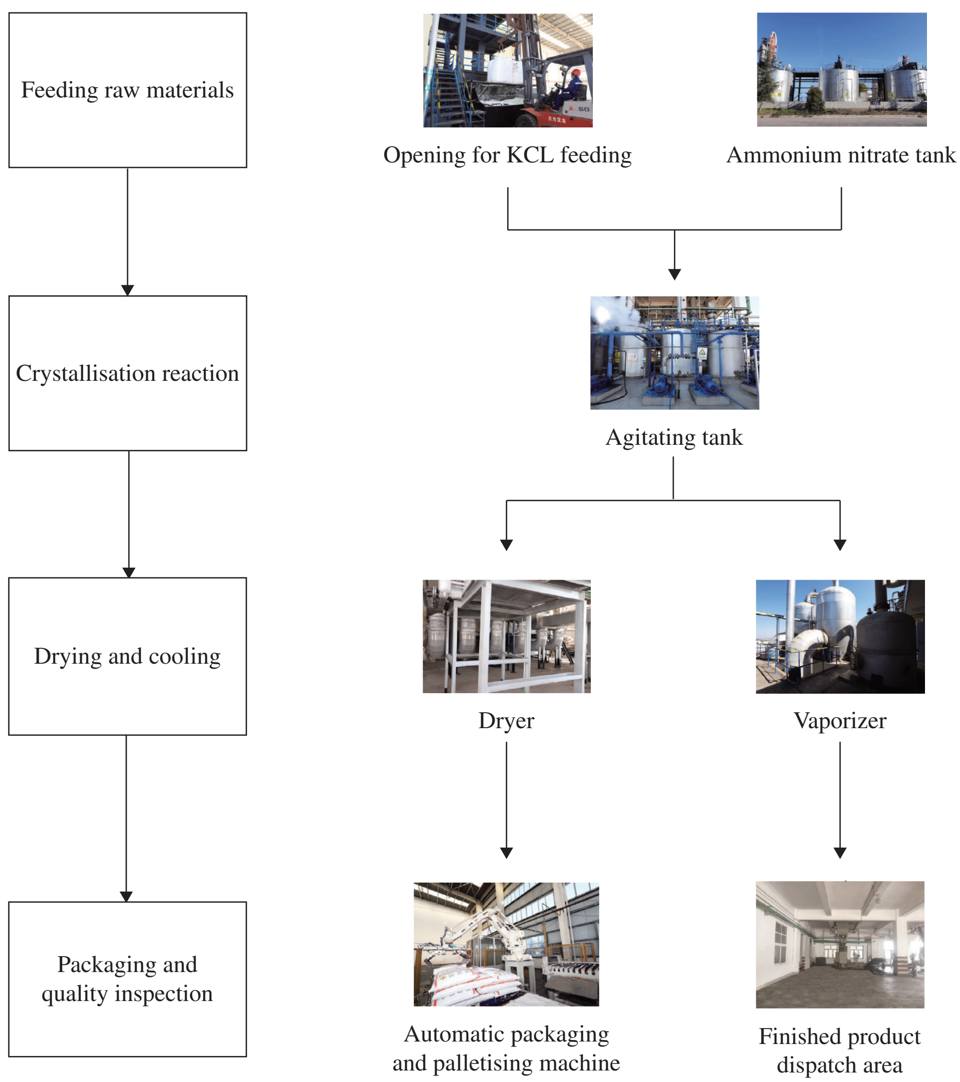
Yunnan Production Facility is operated by Yunnan EuroChem, our indirect joint venture. For further information regarding Yunnan EuroChem, please refer to the section headed "History, Reorganisation and Corporate Structure – Our Joint Venture – EuroChem Migao and Yunnan EuroChem" in this document. As at the Latest Practicable Date, the Yunnan Production Facility hosted one NOP production line and two compound fertilisers production lines.

Its estimated production capacity of NOP and compound fertiliser products were 80,000 tonnes and 100,000 tonnes, respectively, for FY2023. For FY2021, FY2022, and FY2023, the actual production volume of NOP products was approximately 56,000 tonnes, 34,000 tonnes and 47,000 tonnes, respectively, and the actual production volume of compound fertiliser products was approximately 60,000 tonnes, 18,000 tonnes and 60,000 tonnes, respectively.

NOP Manufacturing Process at Yunnan Production Facility

KCL and ammonium nitrate are used as the primary raw materials for the manufacturing of NOP products at the Yunnan Production Facility. Through certain chemical processes, NOP is produced as the main product and NHCL is produced as a by-product.

The diagram below illustrates the main manufacturing process of NOP fertilisers at the Yunnan Production Facility:



EXPANSION PLAN

To expand our production capacities to capture the anticipated growing demands for our fertiliser products and to replace our Chengdu Production Facility, we intend to commence construction of our New Sichuan Production Facility in the first half of 2024.

New Sichuan Production Facility Plan

To ensure we will have our own NOP manufacturing capability after our Chengdu Production Facility ceased manufacturing of NOP products, we intend to commence construction of our New Sichuan Production Facility in Mianyang City, Sichuan Province in the first half of 2024, which upon its construction shall be able to replace the NOP and compound fertilisers manufacturing functions at our Chengdu Production Facility. In addition, the New Sichuan Production Facility will also allow us to capture the market demand of other types of potash fertiliser products in the area when we have a production facility located close to those customers. We have already begun exploring the market demand in the area and had acquired 14 new customers from the region where they had, in aggregate, purchased approximately 130,000 tonnes of KCL and compound fertiliser products from us for FY2023.

In January 2021, we have entered into a cooperation agreement with the local authorities in respect of our investment in the new production facility. Below are certain key terms of the cooperation agreement:

- **Investment Amount:** We plan to invest a total amount of RMB2 billion to acquire 200 mu of land in the Mianyang Economic and Technological Development Zone and to implement the project for manufacturing and sale of SOP, NOP, compound fertilisers and potash fertiliser products. Such investment amount also includes the working capital and investment for inventory for five years. The total investment amount will be funded from internal resources, external borrowings, net [**REDACTED**] from the [**REDACTED**], and cash flow from the operations of the New Sichuan Production Facility.

- **Production Lines:** We plan to build eight sets of SOP production lines with an estimated annual production capacity of 80,000 tonnes, one set of NOP production line with an estimated annual production capacity of 60,000 tonnes and one set of compound fertiliser production line with an estimated annual production capacity of 200,000 tonnes in the new facility.

- **Land Acquisition and Price:** The land will be offered for sale through public listing at a price to be determined by the Mianyang government at the time of sale and we will acquire the land in accordance with the laws and obtain the PRC real property ownership certificate.

- **Land Use and Term:** The land is to be used for industrial purposes for construction of production plants, offices and ancillary facilities. The term for the land-use right is 50 years.

- **Land Payment Terms:** After we acquire the land, we will execute the state-owned construction land use right transfer confirmation and state-owned construction land use right transfer contract with the Mianyang government, and pay the land transfer fee and the related land transfer taxes in full at the time specified in the contract.

- **Obligations of the Management Committee:** The management committee of the local government authorities shall be responsible for (i) the construction of water supply, power supply, gas supply, sewage discharge networks, roads, and other municipal facilities; (ii) relocation of local farming households; (iii) assisting us to apply for construction project programming permit; (iv) assisting us to apply for project approval and the PRC real property ownership certificate; and (v) assisting us to obtain various subsidy funding and preferential policy support.

- **Obligations of Us:** We are required to provide feasibility report and ensure compliance with national industrial policies, market entry standards and environmental protection and safety provisions, and pay the relevant fees and expenses.

- **Preferential Policy:** We are entitled to enjoy various preferential policies offered by the local government.

Construction Plan and Investment Costs

We intend to construct eight SOP production lines, one NOP production line and one compound fertilisers productions line with an aggregate estimated production capacity of 80,000 tonnes of SOP, 60,000 tonnes of NOP and 200,000 tonnes of compound fertilisers, respectively.

We expect to commence construction in the first half of 2024 and to complete construction in the first half of 2025. The total site area of our New Sichuan Production Facility is expected to be approximately 133,334 sqm and the total gross floor area is expected to be approximately 86,378.3 sqm.

For our New Sichuan Production Facility, we expect the investment costs to be approximately RMB265.8 million, of which approximately (i) RMB56.5 million is the land acquisition costs; (ii) RMB94.0 million is the construction costs; (iii) RMB94.3 million is for purchasing of equipment and machinery; and (iv) RMB21.0 million is installation and miscellaneous costs.

Assuming that, among others, (i) total hiring of 255 employees; (ii) property and building with 20 years depreciation period; (iii) equipment and machinery with 10 years depreciation period; (iv) maintenance fee of 2% of the fixed assets; (v) other management fees of 30% of the employee salary and benefits; (vi) other manufacturing fees of 2% of the fixed assets; (vii) other sales expenses of 1% of the total revenue; (viii) utilisation rate of SOP and NOP production lines to reach 60% for the first year of operation, 70% for the second year of operation and 80% for the third to seventh year of operation and the utilisation rate of compound fertiliser production lines to reach 30% for the first year of operation, 40% for the second year of operation and 50% for the third to seventh year of operation; (ix) sale price of SOP products of RMB3,300 per tonne and sale price of compound fertiliser products (with NOP in its component) of RMB4,100 per tonne; and (x) corporate income tax rate of 25% with no preferential tax treatment, the breakeven point of our New Sichuan Production Facility, i.e., the amount of sales required to cover its costs and expenses which results in zero net income, is approximately within two years from the commencement date of its construction. The expected time required for our New Sichuan Production Facility to recover the investment costs, i.e., the payback period, is approximately 5.8 years from the commencement date of its construction. As at the Latest Practicable Date, we had not incurred any cost in connection with the land acquisition nor the construction of our New Sichuan Production Facility as it was still under the planning stage.

The following table sets out a breakdown of our main investment amount with respect to the land acquisition, construction, equipment and machinery acquisition, and installation and miscellaneous costs of our New Sichuan Production Facility for the year specified.

	For the year ending 31 March 2025
	RMB'000
Land acquisition	56,510
Construction	94,020
Equipment and machinery	94,310
Installation and miscellaneous costs	20,990
Total	**265,830**

Justification for Construction of New Sichuan Production Facility

Due to change of zoning policy by local government to rezone the area where our Chengdu Production Facility is located, we intend to construct and relocate to our New Sichuan Production Facility to replace the manufacturing of NOP and compound fertilisers products at our Chengdu Production Facility.

As we had to purchase NOP products from suppliers to continue to provide NOP products to our customers and maintain our market presence in the NOP market since the cessation of NOP production of our Chengdu Production Facility in January 2019, our only production facility that manufactured NOP, we believe it is important for us to have our own NOP manufacturing capability to ensure a stable supply of NOP products and to potentially increase our market share in the NOP market. During the Track Record Period, we had relatively insignificant sales volume of NOP products primarily because we did not have the facility to manufacture them and had to rely on external sourcing so we did not focus on our sales of NOP products, though it is generally the type of our fertiliser products with the highest selling price. Historically, we had certain sales of NOP products prior to the cessation of NOP production at our Chengdu Production Facility, with several years where we had annual sales of over 50,000 tonnes of NOP products by our Chengdu Production Facility. Once we have regained the capability to manufacture NOP products at our own production facilities, we intend to promote the sales of our NOP products to our customers.

In relation to SOP fertilisers products, our Chengdu Production Facility has not had any SOP production lines. However, we had reached an overall relatively high utilisation rate for SOP fertilisers products at our production facilities (including Baoqing Production Facility and Anda Production Facility which were owned by Baoqing Migao and Anda Migao, respectively, and which became our subsidiaries on 31 March 2022) of approximately 78.7% for FY2021. Our SOP fertiliser products utilisation rate (including Baoqing Production Facility and Anda Production Facility) decreased to approximately 53.0% for FY2022 primarily due to the substantial increase in the price of SOP products which led to some customers to choose to use KCL products as alternative to SOP products as KCL products can in general be used to replace, to some extent, SOP products, and thereby resulting in lower demand of SOP products for FY2022. Our SOP fertiliser products utilisation rate further decreased to approximately 29.7% for FY2023 primarily due to decrease in demand of SOP products by customers as a result of the higher average selling price of SOP products during FY2023 compared to FY2022. Please refer to the section headed "Financial Information – Key Components of Our Consolidated Statements of Comprehensive Income – Revenue from Sales of Products – Sales of SOP Products" in this document for further information. However, we expect our customers' demand for SOP fertiliser products will increase in the future when the price of KCL products and SOP products become stable. Further, as there are a number of tobacco companies in the Sichuan Province area which require SOP products, we believe it is important for us to expand our SOP production capacity by constructing additional SOP production lines at our New Sichuan Production Facility so we can capture the expected growing demand of SOP fertilisers and to increase our market share in the SOP fertiliser market. Also, as we are developing a new manufacturing process to manufacture SOP to enhance the efficiency of SOP production, we intend to adopt the new manufacturing process at the New Sichuan Production Facility. Please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**] – Research and Development Centre" in this document for further information of the new manufacturing process.

In relation to compound fertilisers products, our Chengdu Production Facility had one compound fertilisers production line with estimated production capacity of 100,000 tonnes prior to its cessation of compound fertilisers manufacturing in April 2020. We decided to increase our estimated production capacity of compound fertilisers to 200,000 tonnes in view that we expect our customers' demand for compound fertiliser products will increase in the future. It is intended that a significant amount of the NOP products manufactured at the New Sichuan Production Facility will be used for the manufacturing of our compound fertiliser products at the New Sichuan Production Facility given the demand for compound fertiliser products (with NOP in its component) from tobacco companies in the area. Also, historically, we had certain sales of compound fertiliser products manufactured at our Chengdu Production Facility prior to the cessation of its manufacturing, with several years where we had annual sales of over 50,000 tonnes of compound fertiliser products by our Chengdu Production Facility. In addition, as there are various potential compound fertiliser customers (such as tobacco companies and vegetables, fruits and flowers agricultural companies and farmers) located in or nearby Sichuan Province, we believe that our New Sichuan Production Facility will allow us to explore our business cooperation opportunity with them as our close proximity to them will help them save transportation costs and delivery time for compound fertiliser products.

According to the data published by the National Bureau of Statistics of the PRC, regionally in Southwestern China (including Sichuan Province, Yunnan Province and Guizhou Province), there has been a growing demand for potash fertilisers. From 2018 to 2022, the grain, vegetable and fruit production volume in Southwestern China increased from approximately 64.1 million tonnes, 92.6 million tonnes and 22.6 million tonnes in 2018, respectively, to approximately 65.8 million tonnes, 114.3 million tonnes and 33.7 million tonnes in 2022, respectively, representing CAGRs of approximately 0.7%, 5.4% and 10.4%, respectively. Further, according to the Frost & Sullivan Report, as certain provinces have focused on taking actions on illegal occupation of cultivated land to resume farming and plantation in 2023, it is expected such would promote the increase in the area of cultivated land nationwide, and thereby would drive the demand of potash fertilisers in the PRC.

In addition, the governments of Sichuan Province, Yunnan Province and Guizhou Province have also formulated incentive development goals on the agricultural industry which is expected to boost the demand for potash fertiliser in those provinces:

- Sichuan Province: In 2022, the sown area of grain in Sichuan ranked sixth in China. As one of the 13 main grain production areas in China, Sichuan is tasked with the important mission of national food security. In recent years, the comprehensive grain production capacity of Sichuan has steadily increased. According to the "Sichuan Province's "14th Five-Year Plan" to Promote Agricultural and Rural Modernisation Plan" (《四川省"十四五"推進農業農村現代化規劃》), the sown area of grain in Sichuan will reach more than 95 million acres and the grain production volume will reach more than 35.4 million tonnes by 2025. At the same time, Sichuan will further implement high-standard farmland construction projects, with increasing grain production capacity as the primary goal, focusing on permanent basic farmland protection areas, grain production functional areas, and important agricultural product production protection areas. From 2021 to 2025, Sichuan aims to build more than 10 million acres of high-standard farmland.

- Yunnan Province: As the largest tobacco leaf production province in China, the Yunnan government has paid great attention to consolidate and expand Yunnan's leading position in the tobacco industry. According to the "Three-Year Action Plan for Agricultural Modernization in Yunnan Province (2022-2024)" (《雲南省農業現代化三年行動方案(2022–2024年)》), the Yunnan government aims that the tobacco planting area and flue-cured tobacco production in Yunnan will reach around 6 million acres and 16.5 million tonnes respectively, and the output value of the entire tobacco industrial chain will reach around RMB235 billion by 2024.

- Guizhou Province: Guizhou is a leading tea leaf planting province in China. The tea leaf production volume in Guizhou increased from approximately 180,200 tonnes in 2018 to 245,900 tonnes in 2021 at a rapid CAGR of approximately 10.9%. According to the "14th Five-Year Plan for National Economic and Social Development of Guizhou Province and Outline of Vision 2035" (《貴州省國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》), it is aimed that tea production volume will reach around 500,000 tonnes and a tea related industrial chain with an output value of more than RMB30 billion will be established by 2025.

Given the proximity of our New Sichuan Production Facility to the above provinces, we believe that we can benefit from the promotion and growth of the agricultural industry in the Sichuan Province, Yunnan Province and Guizhou Province upon the construction of our New Sichuan Production Facility.

Further, to further develop the business of our Group, we would actively look for cooperation with business partners to expand our sales network. For example, we have entered into a strategic framework cooperation agreement with a company which is principally engaged in the sales of a comprehensive suite of merchandise in the PRC (including agricultural products such as fertilisers, forage, pesticides, agricultural equipment and machinery and agricultural services) and provision of intelligent business and marketing subscription service, offering merchant solutions and rendering other various related services. We believe our cooperation with them can significantly increase our reach of new potential customers and increase our sales. Further, it is expected that the strategic cooperation will be focused on exploring the potash fertiliser markets in, among others, Southwestern China, Central China and Eastern China, and we believe our New Sichuan Production Facility will be able to serve the customers in those areas and increase our market shares in those regions.

Funding of Expansion Plans

We plan to use our internal resources, external borrowings and the net [**REDACTED**] from the [**REDACTED**] to fund the investment plan of our New Sichuan Production Facility. For details of the timeframe for our Group to utilise the [**REDACTED**] from the [**REDACTED**] for our New Sichuan Production Facility, please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**]" in this document.

QUALITY CONTROL

We believe that strict quality control and the production of consistent, quality products are essential for us to maintain sustainable growth in the potash fertiliser industry. Accordingly, we have implemented a quality control system in the production process of our products to ensure that the quality of our products meet our customers' expectations.

We have adopted the following quality management and control systems:

- Raw materials: we perform quality control inspections on the raw materials and purchase from our long-standing suppliers who are able to provide us with high quality raw materials used for our production.

- Process control: we have well-trained and experienced management and operating personnel to optimise operation efficiency and stabilise the production output and quality.

- Testing and inspection: we have monitoring appliances at every stage of our production process. Our quality inspection team performs random tests on the raw materials and finished products on a sample basis to ensure that the products comply with the required national, market and customer standards. Testing processes include checking the physical appearance and composition of raw materials and finished products. We also conduct sample checking on products which we procure for reselling.

- Packaging and storage: we adopt systematic packaging and storage procedures to ensure proper packaging and to avoid damage to our products during storage in our warehouses.

In recognition of our product quality, we have received numerous certificates by relevant authorities including, among others, GB/T19001-2016/ ISO9001:2015 and GB 38400-2019 for the production and sale of our fertiliser products for certain of our production facilities. The below table sets forth some of the major certificates we received:

Name of Certificate	Issuing Authority	Validity Period	Holder
Quality Management System Certificate (質量管理體系認證證書)	China Quality Certification Centre	4 November 2020 – 10 November 2023	Sichuan Migao
Certificate of Quality Management System (質量管理體系認證證書)	Ever Win Quality Certificate Centre	18 September 2021 – 14 September 2024	Guangdong Migao
Certificate of Quality Management System (質量管理體系認證證書)	China Quality Association Quality Assurance Centre	27 April 2023 – 27 August 2026	Daxing Migao

In addition, Baoqing Migao, which became our subsidiary on 31 March 2022, has the following major certificate:

Name of Certificate	Issuing Authority	Validity Period	Holder
Product Certification (產品認證證書)	Beijing Zhong Hua Combination Certification Co. Ltd.	5 January 2022 – 29 July 2024	Baoqing Migao

Save for defective products, we generally do not accept returns of our fertiliser products. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material sales returns by customers, product liability or other legal claims arising from allegations relating to the quality of our products.

PRICING AND SETTLEMENT TERMS

Pricing

During the Track Record Period, our average selling prices per tonne of our KCL, SOP, NOP and compound fertiliser products (excluding production fees) ranged from approximately RMB1,723.9 to RMB3,771.6, RMB2,328.4 to RMB3,850.3, RMB3,726.6 to RMB6,097.7 and RMB2,275.7 to RMB2,501.8, respectively.

We generally adopt a cost-plus approach to determine the prices of our products, under which we add a premium to the products' unit costs, which are calculated based on the raw material costs and their estimated manufacturing, administrative and sales costs, with reference to the prevailing market prices of similar products. In general, SOP and NOP products which require chemical and more complicated manufacturing processes and have higher raw material costs are sold for higher prices than KCL products and compound fertiliser products.

According to the Pricing Law of the PRC (《中華人民共和國價格法》), the price of most commodities and services (including fertiliser products) is subject to market condition and decided by market participants. Market participants, however, must not carry out certain improper pricing acts such as manipulation of market prices by collusion, fabrication and spreading news of price rise, and etc. Please refer to the section headed "Regulatory Overview – Law Supervision Over the Chemical Fertiliser Industry – Regulations on the Pricing" for further information.

Settlement Terms

Our customers generally settle payments in RMB through bank transfer or bank's acceptance bill. We may require advance payment prior to delivery of our fertiliser products for specific customers. Our credit period to our customers generally ranges from 30 to 180 days.

In determining the credit period to be granted to our customers, we mainly assess their credibility and our business relationships with them. Such credit period granted to our customers are reviewed by us regularly.

CUSTOMERS, SALES AND MARKETING

Customers and Sales Terms

Our sales department is responsible for the sales of our products. During the Track Record Period and up to the Latest Practicable Date, we sold substantially all of our products in the PRC. We primarily sell our fertiliser products to agricultural reclamation companies, tobacco companies and agribusiness companies and primarily sell our by-products to industrial companies.

During the Track Record Period and up to the Latest Practicable Date, our Group did not engage any distributor for selling our products and all of our customers are considered by our Directors as our end-customers, primarily because (i) we did not enter into any distribution agreement with our customers during the Track Record Period; (ii) our customers generally purchase our products by way of purchase orders and maintained seller-buyer relationship with us; (iii) we have no ownership, managerial or contractual control over any of our customers or on their sales, credit or pricing policies, and marketing activities; (iv) we do not accept any return or exchange of our products sold to our customers except for defective products; (v) we have no restrictions or requirements on our customers regarding their geographical coverage, sales target, minimum purchase requirements, channels, target customers or avoidance of competition policies; (vi) our customers are not required to sell fertiliser products under our brand; and (vii) our customers do not provide us, and are not required to provide us with, any information regarding their sales, inventory levels and customers' demands of our products. As such, our Directors consider that all of our customers were our end-customers and that we did not adopt any distributorship business models in selling our products.

We generally obtain purchase orders or purchase agreements with our customers through tender process or commercial negotiation. Majority of our sales during the Track Record Period were through commercial negotiations with our customers.

For tender process, the tender notice and tender documents generally include the following information: (i) the type of products, (ii) the estimated quantity of the products, (iii) the specifications of the products, and (iv) the qualifications of bidders such as registered capital and annual revenue. Upon receiving the tender notice and tender documents, we will review the relevant documents and take into account various factors including the price, our production schedule, payment terms and seasonality before deciding whether to submit a tender.

Upon submission of the tender, the tenderer may evaluate the bidder against a variety of factors such as the bidders' production capabilities, supply stability, sample inspection records, quality control and safety systems and certificates, general track record, financial performance and customer services before awarding a tender to a bidder. After a tender is awarded to us, we would then execute a sale and purchase agreement with the tenderer. For certain of our sale and purchase agreements, we are required to pay a deposit money and the deposit money will be used to guarantee our performance of our obligations under the agreements and will be repaid back to us after we have fulfilled our obligations under the agreements.

We may also negotiate commercially with our customers to determine the specific terms in sale and purchase agreement. The sale and purchase agreement is generally negotiated on an order by order basis.

The table below sets forth the general principal terms of our sale and purchase agreements with our major customers:

i.	Term	Until purchase order is fulfilled or fulfilled by a stipulated deadline in the agreement
ii.	Order specifications	As per the product type and technical specifications in each agreement
iii.	Quantity and price	Total quantity, unit price and total price are set out in each agreement and total quantity and price may be subject to fluctuation
iv.	Payment method	By telegraphic transfer or bank's acceptance bill
v.	Credit period	(i) Payment before delivery; (ii) payment of deposit and partial delivery and delivery of remaining purchase after full payment; or (iii) delivery of products prior to payment with credit period up to 180 days
vi.	Delivery	We may be responsible for delivery or the customer may pick up the products
vii.	Return arrangement	Our customers are entitled to perform sample checks on our products and can raise a dispute relating to the quality of our products within a stipulated period

Top Five Customers

For FY2021, FY2022 and FY2023, sales to our largest customer accounted for approximately 27.9%, 22.4% and 20.0% of our total revenue, respectively. For the same periods, sales to our top five customers accounted for approximately 58.1%, 59.4% and 52.4% of our total revenue, respectively. While we value our relationship with each of our customers, we believe that the loss of any one particular customer, including any one of our major customers, would not materially impact our business in the long term. Save as disclosed in this document, to the best knowledge of our Directors, the five largest customers during the Track Record Period or their respective shareholders and directors, do not have any past or present relationship (including, without limitation, employment, business, financial or trust relationship) with our Company, our subsidiaries, their respective shareholders, directors, senior management or any of their respective associates.

The following tables set forth details of our top five largest customers during the Track Record Period:

Year Ended 31 March 2023

Customer	Background[(2)]/ Business nature	Principal Businesses	Approximate Registered capital/share capital *('000)*	Major products sold	Payment method	Credit period *(days)*	Revenue *(RMB'000)*	Approximate percentage to our total revenue	First contract with the customer
Customer A[(3)]	SOE/agricultural reclamation company	agriculture and agricultural production, operation and management	RMB23,600,000	KCL SOP Others	bank transfer	advance payment	945,404	20.0	2011
Company B[(4)]	SOE/agribusiness company	an international agricultural material supplier and a domestic comprehensive agricultural services company with focus on agricultural production, agricultural and fertiliser research, trading and distribution, warehousing and logistics, retail sales, and other agricultural services	RMB1,410,857	KCL SOP	bank transfer	advance payment	646,657	13.7	2012
Customer H[(4)]	Hong Kong/ agribusiness company	production and sales of chemical fertilisers; research of bio-organic fertiliser and compound fertiliser	HK$10	KCL	bank transfer/bank acceptance bill	advance payment/ 180	339,890	7.2	2022
Anhui Huilong Agricultural Materials Group Co., Ltd.* (安徽輝隆農資集團股份有限公司) ("**Anhui Huilong**")	SOE/agribusiness company	sales of agricultural production materials (including chemical fertilisers), raw chemical materials and products, and mineral products; purchase, process, and sales of fodder; purchase and sale of agricultural side products; sales of grain; production and processing of compound fertilisers	RMB953,993	KCL SOP	bank transfer	advance payment	297,278	6.3	2017
Hulunbeier Agricultural	SOE/agricultural reclamation company	retail sale of refined oil, operation and retail sale of crop seeds and agricultural products, sales of fertilisers, provision of agricultural services and sales of daily sundries	RMB257,909	KCL SOP	bank transfer	advance payment	246,015	5.2	2015

Year Ended 31 March 2022

Customer	Background[(2)]/ Business nature	Principal Businesses	Approximate Registered capital/share capital *('000)*	Major products sold	Payment method	Credit period *(days)*	Revenue *(RMB'000)*	Approximate percentage to our total revenue	First contract with the customer
Customer A[(3)]	SOE/agricultural reclamation company	agriculture and agricultural product production, operation and management	RMB23,600,000	KCL SOP	bank transfer/ bank acceptance bill	advance payment	861,044	22.4	2011
Company B[(4)]	SOE/agribusiness company	an international agricultural material supplier and a domestic comprehensive agricultural services company with focus on agricultural production, agricultural and fertiliser research, trading and distribution, warehousing and logistics, retail sales, and other agricultural services	RMB1,410,857	KCL SOP	bank transfer	advance payment	847,338	22.1	2012
Customer C	Non-SOE/ agribusiness company	trade of agricultural materials, production, sales and trade of chemical fertilisers, sales of agricultural side products such as grain and oil	RMB367,451	KCL SOP	bank transfer	advance payment	221,111	5.8	2015
Hulunbeier Agricultural	SOE/agricultural reclamation company	retail sale of refined oil, operation and retail sale of crop seeds and agricultural products, sales of fertilisers, provision of agricultural services and sales of daily sundries	RMB257,909	KCL SOP	bank transfer	90	188,258	4.9	2015
Customer E	Hong Kong/ agribusiness company	production and sales of chemical fertilisers	HK$5,000	KCL	bank transfer/ bank acceptance bill	advance payment	164,726	4.3	2019

Year Ended 31 March 2021

Customer	Background(2)/ Business nature	Principal Businesses	Approximate Registered capital/share capital *('000)*	Major products sold	Payment method	Credit period *(days)*	Revenue *(RMB'000)*	Approximate percentage to our total revenue	First contract with the customer
Customer A(3)	SOE/agricultural reclamation company	agriculture and agricultural product production, operation and management	RMB23,600,000	KCL SOP	bank transfer	advance payment	580,059	27.9	2011
Hulunbeier Agricultural	SOE/agricultural reclamation company	retail sale of refined oil, operation and retail sale of crop seeds and agricultural products, sales of fertilisers, provision of agricultural services and sales of daily sundries	RMB257,909	KCL SOP	bank transfer/ bank acceptance bill	advance payment	260,945	12.5	2015
Guizhou Tobacco Investment(4)	SOE/tobacco company	investment and management of non-financial projects; sales of cigarettes, cigars, prepackaged food, mineral products, daily necessities, and agricultural materials	RMB177,622	KCL NOP Compound fertilisers	bank transfer/ bank acceptance bill	90	189,714	9.1	Prior to 2010
Baoqing Migao(4)/(5)	Non-SOE/ agribusiness company	production and sale of chemical fertilisers	RMB100,000	KCL SOP	bank transfer/ bank acceptance bill	advance payment	104,502	5.0	2020
Customer G	SOE/agribusiness company	wholesale of pesticide, management of crop seed, and production and sales of fertilisers	RMB63,000	KCL SOP	bank transfer	advance payment	74,513	3.6	2017

Notes:

(1) Customers belonging to the same group of companies are aggregated.

(2) SOE only refers to SOE in China.

(3) This customer is our connected person.

(4) These customers were our overlapping customers and supplier for the relevant year. For further information, please refer to the section headed "Business – Overlapping Customers and Suppliers" in this document.

(5) Baoqing Migao was one of our joint ventures and became our subsidiary on 31 March 2022.

Although we only commenced business relationship with Customer H in 2022, it became one of our top five customers in FY2023. Two subsidiaries of Customer H in the PRC that our Group had business dealings with are agribusiness companies primarily focusing its operations in Jiangsu Province and Liaoning Province. Their principal business includes production and sales of chemical fertilisers, and research of bio-organic fertilisers and compound fertilisers. We began our business with them in early 2022. As Customer H started to enter into the fertiliser market in 2021, it approached us for cooperation opportunities and it became our third largest customer in FY2023.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material dispute with our customers or any material claim relating to our fertiliser products.

Customer Service

Taking advantage of our various facilities across the PRC and the close proximity to our clients, we strive to provide our clients with quality service at every stage of our business. We believe we have comprehensive and outstanding customer service that is available to our customers 24 hours a day, and are able to respond to our customers promptly. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material sales returns or any product liability claims by our customers.

Marketing

Our sales and marketing team is led by Mr. Fu Yangmei, one of our senior management. As at the Latest Practicable Date, it comprised a total of 18 sales and marketing personnel and is responsible for procuring sales orders, maintaining customers' relationships, conducting market researches, organising marketing events and formulating sales and marketing strategies. In order to procure sales orders and maintain customers' relationships, our sales and marketing staff regularly visit our customers to obtain information on the quality and delivery of our fertiliser products and customers to visit our production facilities to enable them to have better understanding of our operations and fertiliser products and to increase their confidence in us and our fertiliser products. We also regularly participate in trade fairs and exhibitions to promote our fertiliser products, such as the International Fertilizer Association Annual Conference, Argus Fertiliser Market Business Asia Conference and the China Phosphate Fertiliser and Compound Fertiliser Exhibition.

RAW MATERIALS PROCUREMENT

Our primary raw materials used for the production of our fertiliser products are KCL, SOP, NOP and sulphuric acid.

KCL

Our major raw material is KCL. For FY2021, FY2022 and FY2023, the quantity of KCL we purchased amounted to approximately 927,000 tonnes, 1,310,000 tonnes and 1,010,000 tonnes, respectively, and our total purchases of KCL amounted to approximately RMB1,568.4 million, RMB3,208.5 million and RMB3,025.8 million, respectively, representing approximately 77.7%, 86.6% and 90.4% of our total purchases for the same periods, respectively.

During the Track Record Period, we procured KCL from overseas and domestic suppliers. According to the Frost & Sullivan Report, the distribution of potash and the recoverable reserves are concentrated in Canada, Belarus and Russia. In 2022, the potash reserves of these three countries accounted for more than 60% of the global potash reserves. It is therefore common in the industry for potash fertiliser producers and suppliers in the PRC to rely heavily on a few overseas KCL producers for the supply of KCL due to the market dominance of these overseas KCL producers and China's geologically lack of quality potash reserves. As such, it is the industry norm for PRC potash fertiliser companies to source KCL, directly or indirectly, from a few major overseas KCL producers. For FY2023, we had 6.8% overseas purchase of KCL by volume.

We categorise whether the purchase is an overseas purchase or a domestic purchase generally based on the location of the suppliers. Below table sets out our total purchase volume of KCL and percentage of total purchase volume of KCL of overseas purchase and domestic purchase during the Track Record Period:

	Year ended 31 March					
	2021		2022		2023	
	Tonnes	*%*	*Tonnes*	*%*	*Tonnes*	*%*
Overseas[(1)]	**420,021**	**45.3**	**370,510**	**28.3**	**68,273**	**6.8**
– By sea	237,035	25.6	242,855	18.6	37,931[(3)]	3.8
– By land	182,986	19.7	127,655	9.7	30,343	3.0
Domestic[(2)]	**506,881**	**54.7**	**939,724**	**71.7**	**941,519**	**93.2**
Total	926,902	100.0	1,310,234	100.0	1,009,792	100.0

Notes:

(1) Overseas purchase includes direct purchase and purchase through designated agent from suppliers located outside of Mainland China.

(2) Domestic purchase refers to purchase from suppliers located within Mainland China.

(3) For FY2023, we purchased 37,931 tonnes of KCL from a Hong Kong entity belonging to the Supplier C group.

According to the Frost & Sullivan Report, the price of KCL imported by sea in China is determined by the market selling price in China with reference to the sea import master contract price (the "**Sea Import Master Contract Price**") negotiated by a consortium of PRC state-owned enterprises, such as Sinochem, CNAMPGC Holding Limited Corporation (中農集團控股股份有限公司) and China BlueChemical, with overseas KCL producers and suppliers usually each year in an annual master contract which specifies the price term. The Sea Import Master Contract Price of KCL is published by the state-owned enterprises involved in the negotiation. The Sea Import Master Contract price per tonne of KCL increased from US$220 in April 2020 to US$247 in February 2021 and further increased to US$590 in February 2022 and subsequently decreased to US$307 in June 2023.

Further, according to the Frost & Sullivan Report, the import price of KCL in China by ground transportation (the "**Land Import Price**") is negotiated by a group of licenced cross-border trading companies organised by China Chamber of Commerce of Metal, Minerals & Chemicals Importers & Exporters* (中國五礦化工進出口商會) ("**China Importers & Exporters**") with major KCL producers and suppliers in Russia and Belarus. The Land Import Price is generally determined with reference to the Sea Import Master Contract Price and international market price for KCL.

For FY2021, FY2022 and FY2023, our average purchase price per tonne of KCL from overseas suppliers was approximately RMB1,539.8, RMB2,657.4, and RMB2,297.9, respectively, while our average purchase price per tonne of KCL from domestic suppliers for FY2021, FY2022 and FY2023 was approximately RMB1,818.4, RMB2,366.6 and RMB3,047.1, respectively. Our purchase price of KCL is determined by market condition and prevailing market price with reference to the Sea Import Master Contract Price and the Land Import Price depending on the mode of purchase. The fluctuation of our average purchase price of KCL from overseas suppliers and domestic suppliers generally follows the general trend of fluctuation of the Sea Import Master Contract Price, save for our purchase of KCL from overseas suppliers in FY2023 as majority of such purchases were made in January 2023 to March 2023 where the market price of KCL had significantly declined.

Overseas Purchases

When we purchase KCL directly from overseas suppliers, we sign purchase contracts with the overseas suppliers and are required under PRC laws to make such purchases under KCL automatic import licenses issued to our subsidiary, Guangdong Migao, for the relevant shipment of goods to complete customs declaration formalities. For further information about our KCL automatic import licenses, please refer to the sections headed "Business – Licences and Approvals" and "Regulatory Overview – Law Supervision Over Foreign Trade" in this document. We also purchase KCL through our designated agent, Supplier B, with overseas suppliers. Under such arrangement, the purchase of KCL under those contracts are made under the KCL automatic import licenses of such designated agent.

Direct purchases

During the Track Record Period, we purchased a significant amount of our KCL under contracts signed by Guangdong Migao with (i) Supplier D, the trading arm of a Belarus producer, and (ii) Supplier A, an international fertiliser trading company which, to our best knowledge and belief, sourced its KCL from Russia. These imported KCL were delivered to us through shipment by sea or by railway. We are responsible for the miscellaneous costs for the import, such as custom clearance fees and other ancillary fees, which are reflected in our costs, and for obtaining the automatic import licenses to import the KCL into the PRC. We have ceased entering into new purchase contracts with Supplier D since December 2021. Please refer to the section headed "Business – Business Dealings with Third Parties Subject to International Sanctions" for further information.

Guangdong Migao typically enters into framework agreements with Supplier A for the purchase of KCL over a specified period of time. The actual purchase amount and price of KCL will be determined by the parties under separate contracts as addendum to the framework agreement. The principal terms of the framework agreement are set out below:

Termination and renewal:	The framework agreements generally may be terminated by either party by 60 days prior written notice. The term of the framework agreements vary and are more than one year. No renewal clause generally.
Rights and obligations of parties involved and minimum purchase amounts:	The parties will further agree on a monthly program and we shall buy the specified volume of products on the monthly basis. The supplier has the right to stop further shipment by sending an official notice to us if we refuse to purchase certain volume of the products, which exceeds 10% of the monthly supply specified.
Pricing and quantity:	Price and quantity are stipulated in each purchase order.
Payment method:	Advance payment by bank transfer against invoice and shipment confirmation 10 calendar days before shipment or payment by irrevocable letter of credit payable at 90 days or 180 days from shipment date.
Delivery method:	By railway.

Title and Risk:	Title and risk of loss pass to us when the products are placed at our disposal at the Russian-Chinese frontier.
Restrictions on export:	The products shall not be re-exported to outside PRC without prior written consent of the supplier or we will be subject to a penalty at a rate of 20% of the value of the re-exported products. During the Track Record Period, to the best knowledge of our Directors, we did not export any KCL and did not receive any penalty from Supplier A for breach of the contract term in relation to restrictions on export.

We also signed a memorandum of understanding with Supplier A for the purchase of potash on 25 January 2022. Please refer to the section headed "Business – Development in Global Potash Supply and Prices – Measures Taken by us to Address the Supply Uncertainty – Strengthen Strategic Cooperation with Existing Potash Suppliers" in this document for further information.

Purchases through designated agent

From April 2020 until September 2021, we also purchased KCL from overseas through our designated agent, Supplier B. The KCL purchased were imported through shipments by railway, and our designated agent would settle payment with the overseas suppliers. During the same period, we also engaged Supplier B as our designated agent for consignment sale of those KCL to our customers. Supplier B is specialised in cross-border trade solutions and was located close to some of our customers in the northern region of the PRC. As the designated agent is responsible for obtaining the relevant licenses for the import and the storage of the products at the border and the products are usually delivered in several batches to the designated agent, we consider that it would be more cost efficient and reduce logistics costs to sell and deliver the products mainly to customers in the northern region of the PRC directly from the warehouse of Supplier B nearby the border. Further, although both Baoqing Production Facility and Anda Production Facility are located in the Heilongjiang Province, Baoqing Migao and Anda Migao were our joint ventures instead of our subsidiaries when we had consignment sales of KCL through the designated agent. After Baoqing Migao and Anda Migao became our subsidiaries and we had control of them, we no longer engaged Supplier B as our designated agent for the consignment sale as Baoqing Migao and Anda Migao can facilitate and deal with our Group's customers. For FY2021, FY2022 and FY2023, we generated revenue of approximately RMB319.8 million, RMB161.6 million and nil from the consignment sale, which accounted for approximately 15.4%, 4.2% and nil of our total revenue for each of the year, respectively.

Our consignment sales commenced from April 2020 until September 2021. Under the consignment sales arrangement, Supplier B, as our designated agent, issued invoices in its own name to our customers after the products were picked up by them from Supplier B, usually within the same month of delivery. We reconciled the consignment sales with Supplier B on monthly basis, but did not issue invoices to Supplier B until completion of the last consignment sale for the aforementioned period. According to the HKFRS, we shall be regarded as the principal of the consignment sales arrangement pursuant to, among others, the transaction flows contemplated under the consignment sales contracts as we have "control" of the specified goods before such goods are transferred to our ultimate customers under such contracts, and therefore, the revenue from consignment sales shall be considered as originated and generated by our Group and we shall recognise revenue when "control" of the goods underlying the particular performance obligation is transferred to our customer (i.e. when our customers picked up the products from Supplier B at the time of delivery). As such, such revenue was adjusted back in the books of Guangdong Migao when we prepared for the refiling of our tax filings in March and July 2022. Please refer to the section headed "Financial Information – Key Components of Our Consolidated Statements of Comprehensive Income – Income Tax Expense – PRC Tax Re-filings" in this document for further information on our refiling of our tax filings. We issued a single invoice for all the consignment sales to Supplier B in November 2022 and settled all the relevant receivables from Supplier B in November 2022 and January 2023.

We did not pay any service fees or rewards to Supplier B for the consignment sales during the Track Record Period. However, as mentioned in the transaction flow above, Supplier B issued invoices and collected payments from our customers throughout the period of the consignment sales arrangement, but it only settled payments with us after completion of all the consignment sales in two instalments in November 2022 and January 2023. As such, we believe that the above arrangement provided Supplier B with greater flexibility to its cash flow as it was able to temporarily retain our customers' payments during the period of the consignment sales arrangement.

To the best knowledge and belief of our Directors, save as disclosed in this document, Supplier B and our Company, our subsidiaries, their respective shareholders, directors, senior management or any of their respective associates do not have any past or present relationship including, without limitation, employment, business, financial or trust relationship.

Our designated agent, Supplier B, entered into framework agreements with Supplier A and the trading arm of the Russian Producer for the purchase of KCL and the principal terms of which are set out below:

Price:	Price for each lot or group of shipment lots shall be agreed separately in a supplemental contract.
Quantity:	The specified quantity required to be purchased shall be agreed in the addendum on a monthly basis. If the purchase amount is less than 90% of the fixed monthly quantity, the suppliers shall have the right to stop further shipments.
Shipment:	Shipment will be shipped in several lots during specified period. Shipment by sea or by railway.
Cancellation of shipment:	In case of shut down of the production facilities due to planned or accidental maintenance or renovation, the suppliers have the right to cancel shipment.

We entered into a consignment sale agreement with Supplier B for our consignment sales and the salient terms of our consignment sales with Supplier B are set out below:

Consignment sale:	For the products purchased through Supplier B as our designated agent, we engage Supplier B to sell a portion of those products to our customers.
Ownership:	The ownership of the products remains with us until sale to our customers. Supplier B is merely a local consignment agent.
After-sale services:	We shall be responsible for the quality of the products and any after-sale services.
Payment by customers:	Supplier B shall collect payments from our customers for the consignment sale and Supplier B shall hold the payments on our behalf.
Settlement:	For the products purchased through Supplier B as our designated agent, Supplier B will settle payment with our overseas suppliers. Supplier B will also collect payment from our customers for the consignment sale. We will then settle with Supplier B for the above purchases and consignment sale, on a net basis.

Domestic Purchases

We also purchase KCL from domestic KCL suppliers and the price of KCL is commercially negotiated between us and these domestic KCL suppliers. The price already includes the miscellaneous costs for the import of KCL and may be subject to fluctuation depending on the actual circumstances. We typically do not enter into any long term framework agreements with domestic KCL suppliers, save for the memorandum of understanding with CNCCC and Southwest Salt Lake. Please refer to the section headed "Business – Development in Global Potash Supply and Prices – Measures Taken by us to Address the Supply Uncertainty" in this document for further information.

SOP, NOP and Sulphuric Acid

The other major raw materials used in our production, namely, SOP, NOP and sulphuric acid, are procured in the PRC. We generally purchase SOP and NOP from local suppliers; we also purchase SOP and NOP from Guizhou Tobacco Investment, our tobacco company customer, for manufacturing of tobacco compound fertiliser products for it. For sulphuric acid, we purchase from local suppliers in local areas close to our production facilities.

We purchase SOP and NOP either for the manufacturing of our fertilisers products or for direct resale to our customers. For sulphuric acid, it is used for the manufacturing of our SOP fertiliser products. Our total aggregate purchases of SOP, NOP and sulphuric acid for FY2021, FY2022 and FY2023, amounted to approximately RMB263.2 million, RMB236.8 million and RMB62.2 million, respectively, representing approximately 13.0%, 6.4% and 1.9% of our total purchases for the respective year.

SUPPLIERS

We have adopted stringent policies on the selection of our raw materials suppliers. The basic criteria of selection of our raw material suppliers include but not limited to (i) the supplier's reputation; (ii) the ability of the suppliers to supply quality raw materials that meet our standards, such as the price, variety and quality stability of the raw materials; and (iii) the customer services provided by the suppliers. We may also consider specific requirements on raw materials requested by our customers to determine where to source the raw materials.

Top Five Suppliers

For FY2021, FY2022 and FY2023, purchases from our largest supplier amounted to approximately RMB451.4 million, RMB706.8 million and RMB976.9 million, respectively, which accounted for approximately 22.4%, 19.1% and 29.2% of our total purchases, respectively. For the same periods, purchases from our five largest suppliers amounted to approximately RMB1,531.7 million, RMB2,484.5 million and RMB2,491.4 million, respectively, which accounted for approximately 75.9%, 67.0% and 74.4% of our total purchases, respectively. Furthermore, to the best knowledge of our Directors, none of our Directors, their respective associates or any shareholder who owns 5% or more of our Company's issued share capital held any interest in any of our five largest suppliers during the Track Record Period.

The following tables set forth details of our top five largest suppliers during the Track Record Period:

Year Ended 31 March 2023

Supplier	Background[(2)]/ Business nature	Major products purchased	Payment method	Credit period *(days)*	Purchase *(RMB'000)*	Approximate percentage to our total purchases	First contract with the supplier
Supplier C[(3)]	Hong Kong/ agribusiness company	KCL	bank transfer/bank acceptance bill	prepayment	976,900	29.2	2015
Supplier B[(3)]	Non-SOE/agribusiness company	KCL	bank transfer/bank acceptance bill	prepayment	971,329	29.0	2009
CNCCC[(3)]	SOE/agribusiness company	KCL	bank transfer	prepayment	204,959	6.1	2021
Company B[(3)]	SOE/agribusiness company	KCL	bank transfer	prepayment	186,185	5.6	2005
Huaken International Trade Co., Ltd* (華墾國際貿易有限公司)	Non-SOE/ agribusiness company	KCL	bank transfer	prepayment	152,014	4.5	2022

Year Ended 31 March 2022

Supplier	Background[(2)]/ Business nature	Major products purchased	Payment method	Credit period *(days)*	Purchase *(RMB'000)*	Approximate percentage to our total purchases	First contract with the supplier
Supplier D	Belarus supplier/ agribusiness company	KCL	bank transfer/ letter of credit	90	706,819	19.1	2013
Company B[(3)]	SOE/agribusiness company	KCL SOP	bank transfer	prepayment	684,436	18.5	2005
Supplier B	Non-SOE/ agribusiness company	KCL SOP	bank transfer/ bank acceptance bill	prepayment	467,195	12.6	2009

Supplier	Background[2]/ Business nature	Major products purchased	Payment method	Credit period *(days)*	Purchase *(RMB'000)*	Approximate percentage to our total purchases	First contract with the supplier
Supplier C	Hong Kong/ agribusiness company	KCL SOP Compound fertilisers	bank transfer/ bank acceptance bill	prepayment	423,535	11.3	2015
Supplier A	United Arab Emirates/ agribusiness company	KCL	bank transfer/ letter of credit	prepayment	202,533	5.5	2018

Year Ended 31 March 2021

Supplier	Background[2]/ Business nature	Major products purchased	Payment method	Credit period *(days)*	Purchase *(RMB'000)*	Approximate percentage to our total purchases	First contract with the supplier
Supplier C	Hong Kong/ agribusiness company	KCL SOP	bank transfer/ bank acceptance bill	prepayment	451,369	22.4	2015
Supplier D	Belarus supplier/ agribusiness company	KCL	bank transfer/ letter of credit	90	377,977	18.7	2013
Supplier B[3]	Non-SOE/ agribusiness company	KCL SOP Others	bank transfer/ bank acceptance bill	prepayment	337,499	16.7	2009
Supplier A	United Arab Emirates/ agribusiness company	KCL	bank transfer/ letter of credit	prepayment	245,680	12.2	2018
Baoqing Migao[3]/[4]	Non-SOE/ agribusiness company	KCL SOP	bank transfer/ bank acceptance bill	prepayment	119,152	5.9	2020

Notes:

(1) Suppliers belonging to the same group of companies are aggregated.

(2) SOE only refers to SOE in China.

(3) These suppliers were our overlapping customers and suppliers for the relevant year/period. For further information, please refer to the section headed "Business – Overlapping Customers and Suppliers" in this document.

(4) Baoqing Migao was one of our joint ventures and became our subsidiary on 31 March 2022.

During the Track Record Period and up to the Latest Practicable Date, we had established business relationships with our major suppliers, which enabled us to obtain a stable and reliable supply of raw materials, save for Supplier D which we no longer purchased from it subsequent to December 2021 due to international sanctions imposed on the potash sector in Belarus (including designating Supplier D on the SDN List). We had not experienced any material disruption or dispute in the supply of raw materials during the Track Record Period.

OVERLAPPING CUSTOMERS AND SUPPLIERS

During the Track Record Period, we had some customers who were also our suppliers during the relevant year ("**Overlapping Customers & Suppliers**"). Majority of our Overlapping Customers & Suppliers during the Track Record Period were agribusiness companies which were generally engaged in the business of trading of fertiliser products. We primarily sold our fertiliser products to our Overlapping Customers & Suppliers and primarily purchased raw materials and fertiliser products from our Overlapping Customers & Suppliers.

For Guizhou Tobacco Investment, which was our Overlapping Customers & Suppliers and a tobacco company, we primarily purchased raw materials and fertiliser products (such as KCL, SOP and NOP) from it for use in the manufacturing and sales of the tobacco compound fertiliser products to it as it has stringent requirements on the raw materials and fertiliser products to be used in its tobacco compound fertiliser products. Starting from the fourth quarter of 2021, we were no longer required to procure the principal raw materials from Guizhou Tobacco Investment for the tobacco compound fertiliser products we manufactured for it. Instead, it provides the principal raw materials to us for manufacturing into tobacco compound fertiliser products. We charge a production fee for the provision of production services. Please refer to the section headed "Business – Products – Compound Fertilisers" in this document for further information. In addition to tobacco compound fertiliser products, we also sell certain of our other fertiliser products (such as KCL, SOP, NOP, and other types of compound fertilisers) to it as it also procures its raw materials and fertiliser products from us to use for the production of its tobacco compound fertiliser products.

For FY2021, FY2022 and FY2023, we had a total of 16, 18 and 19 Overlapping Customers & Suppliers, respectively, and our revenue generated from them amounted to RMB435.3 million, RMB1,004.3 million and RMB1,287.9 million, respectively, representing approximately 20.9%, 26.1% and 27.3% of our total revenue, respectively. For FY2021, FY2022 and FY2023, our purchases from them amounted to RMB699.3 million, RMB1,265.4 million and RMB2,807.8 million, respectively, representing approximately 34.6%, 34.1% and 83.9% of our total purchases, respectively. We recorded a significant increase in our purchases from our Overlapping Customers & Suppliers as a percentage to our total purchases for FY2023 primarily because we purchased over 90% of our KCL from domestic suppliers for FY2023 and some of these domestic suppliers were also our customers for FY2023 and consequently led to higher purchases from Overlapping Customers and Suppliers for FY2023. However, although a number of these domestic suppliers were also our customers for FY2023, majority of our transactions with them were for the purchases of raw materials instead of sales of fertiliser products. For example, our aggregate purchases from Supplier B, CNCCC and Supplier C for FY2023 were RMB2,153.2 million while our aggregate sales to them were only RMB31.4 million for FY2023.

Our Directors consider that we recorded significant transactions with Overlapping Customers & Suppliers during the Track Record Period mainly due to the following reasons:

(i). as we aggregated our customers and suppliers on a group basis, an Overlapping Customer and Supplier may consist of more than one entity company. To the best knowledge of our Directors, with respect to Company B each company within a group is a separate legal entity and operate under its own corporate governance framework and their respective decision for doing business with our Group are made by different and independent management; and hence they retain autonomy in decision-making processes concerning various aspects of the operations, such as procurement and sales activities. Most importantly, most of these companies of Company B only purchased goods from us without selling goods to us during the same financial year. However, when all the companies of the same group are aggregated together and disclosed on a group basis, all of their purchases and sales became overlapping purchases and sales. Please refer to the section headed "Business – Overlapping Customers and Suppliers – Company B" for further information;

(ii). for certain of our Overlapping Customers and Suppliers, majority of the products purchased by us from the Overlapping Customers and Suppliers were not the same products sold by us to them. For example, we had overlapping purchases and sales with Supplier B for FY2023, but the products which we sold to it were different from the products which we purchased from it. We sold SOP and NOP products and other materials to it while we only purchased KCL products from it for FY2023 so there were actually no overlapping purchases and sales of the same products with Supplier B for FY2023; and

(iii). for certain of our Overlapping Customers and Suppliers, although we had overlapping sales and purchases with them, majority of those transactions were either of a sales nature or a purchase nature. For example, for FY2023 our revenue generated from Supplier C was merely RMB3.6 million while our purchases from it was RMB976.9 million. As such, majority of our transactions with Supplier C was of a purchase nature. Occasionally, our suppliers would purchase fertiliser products from us or we would purchase fertiliser products from our customers primarily due to a surge in demand where our suppliers or we needed to replenish inventory to settle their or our customers' respective demand in a timely manner. According to the Frost & Sullivan Report, this is a common practice in the industry.

The following table sets forth certain details of the purchases and sale from and to each Overlapping Customer & Supplier who was also our top five customers or suppliers, as well as other Overlapping Customers & Suppliers:

Year Ended 31 March 2023

Company Name	**Revenue**	**Percentage of total revenue**	**Average selling price**	**Purchase**	**Percentage of total purchases**	**Average purchase price**
	RMB'000	*%*	*RMB*	*RMB'000*	*%*	*RMB*
Company B	**646,657**	**13.7**	**N/A**	**186,185**	**5.6**	**N/A**
– KCL	625,715	13.3	3,920.0	186,185	5.6	3,744.8
– SOP	20,942	0.4	4,154.3	–	–	–
Customer H	**339,890**	**7.2**	**N/A**	**71,602**	**2.1**	**N/A**
– KCL	339,890	7.2	4,320.9[3]	71,602	2.1	3,017[3]
Supplier B	**21,193**	**0.5**	**N/A**	**971,329**	**29.0**	**N/A**
– KCL	–	–	–	971,329	29.0	3,256.4
– SOP	3,557	0.1	3,761.5	–	–	–
– NOP	6,084	0.1	5,183.5	–	–	–
– Others	11,552	0.3	–	–	–	–
CNCCC	**6,654**	**0.1**	**N/A**	**204,959**	**6.1**	**N/A**
– KCL	6,654	0.1	4,678.9[4]	204,959	6.1	1,512.4[4]
Supplier C	**3,566**	**0.1**	**N/A**	**976,890**	**29.2**	**N/A**
– KCL	–	–	–	962,848	28.8	3,221.6
– SOP	3,566	0.1	3,715.9	14,052	0.4	3,229.4
Subtotal	**1,017,960**	**21.6**	**N/A**	**2,410,965**	**72.0**	**N/A**
Other Overlapping Customers & Suppliers	269,978	5.7	N/A	396,789	11.9	N/A
Total	**1,287,938**	**27.3**	**N/A**	**2,807,754**	**83.9**	**N/A**

Year ended 31 March 2022

Company Name	Revenue	Percentage of total revenue	Average selling price	Purchase	Percentage of total purchases	Average purchase price
	RMB'000	*%*	*RMB*	*RMB'000*	*%*	*RMB*
Company B	**847,338**	**22.1**	**N/A**	**684,436**	**18.5**	**N/A**
– KCL	803,978	21.0	3,270.9(5)	679,237	18.3	1,548.6(5)
– SOP	43,360	1.1	2,904.0	5,199	0.2	2,429.3
Yunnan EuroChem	**90,202**	**2.3**	**N/A**	**54,369**	**1.5**	**N/A**
– KCL	75,378	2.0	3,003.7(6)	41,914	1.2	1,957.1(6)
– SOP	14,677	0.4	4,049.0	–	–	–
– NOP	–	–	–	8,683	0.2	4,029.6
– Compound fertilisers	–	–	–	3,772	0.1	2,834.9
– Others	147	0.0	N/A	–	–	–
Guizhou Tobacco Investment	**35,290**	**0.9**	**N/A**	**9,182**	**0.2**	**N/A**
– KCL	8,084	0.2	3,605.5	869	0.0	3,605.5
– SOP	74	0.0	3,945.0	–	–	–
– NOP	80	0.0	4,587.2	6,025	0.2	4,354.7
– Compound fertiliser	1,161	0.0	3,412.5	–	–	–
– Others	5,087	0.1	N/A	2,288	0.0	N/A
– Production services	20,804	0.5	N/A	–	–	–
Subtotal	**972,830**	**25.3**	**N/A**	**747,987**	**20.2**	**N/A**
Other Overlapping Customers & Suppliers	31,482	0.8	N/A	517,426	14.0	N/A
Total	**1,004,312**	**26.1**	**N/A**	**1,265,413**	**34.2**	**N/A**

Year ended 31 March 2021

Company Name	Revenue	Percentage of total revenue	Average selling price	Purchase	Percentage of total purchases	Average purchase price
	RMB'000	*%*	*RMB*	*RMB'000*	*%*	*RMB*
Guizhou Tobacco Investment	**189,714**	**9.1**	**N/A**	**109,655**	**5.4**	**N/A**
– KCL	9,631	0.5	2,018.4	6,721	0.3	2,025.4
– SOP	–	–	–	48,995	2.4	2,484.0
– NOP	16,235	0.8	3,812.8	16,198	0.8	3,812.8
– Compound fertiliser	158,728	7.6	2,496.0(7)	79	0.0	3,147.0(7)
– Others	5,120	0.2	N/A	37,662	1.9	N/A
Baoqing Migao(1)	**104,502**	**5.0**	**N/A**	**119,152**	**5.9**	**N/A**
– KCL	101,435	4.9	1,993.9	61,211	3.0	1,912.8
– SOP	3,067	0.1	2,111.2	57,941	2.9	2,226.8
APPH(2)	**39,021**	**1.9**	**N/A**	**10,875**	**0.5**	**N/A**
– KCL	39,021	1.9	1,560.9	3,650	0.2	1,738.2
– SOP	–	–	–	4,615	0.2	2,097.6
– Compound fertiliser	–	–	–	155	0.0	1,034.8
– Others	–	–	–	2,455	0.1	N/A
Yunnan EuroChem	**30,713**	**1.5**	**N/A**	**50,821**	**2.5**	**N/A**
– KCL	19,446	0.9	1,853.2	–	–	–
– SOP	9,097	0.5	2,615.1	534	0.0	2,816.0
– NOP	–	–	–	42,447	2.1	3,559.6
– Compound fertiliser	1,846	0.1	2,003.3	7,767	0.4	2,010.5
– Others	324	0.0	N/A	73	0.0	N/A

Company Name	Revenue	Percentage of total revenue	Average selling price	Purchase	Percentage of total purchases	Average purchase price
	RMB'000	*%*	*RMB*	*RMB'000*	*%*	*RMB*
Company B	**24,023**	**1.2**	**N/A**	**36,193**	**1.8**	**N/A**
– KCL	8,922	0.5	2,060.2	32,271	1.6	1,654.9
– SOP	15,101	0.7	2,321.9	3,922	0.2	2,614.7
Supplier B	**582**	**0.0**	**N/A**	**337,499**	**16.7**	**N/A**
– KCL	–	–	–	288,113	14.3	1,739.0
– SOP	–	–	–	49,296	2.4	2,239.9
– Others	582	0.0	N/A	90	0.0	N/A
Subtotal	**388,555**	**18.7**	**N/A**	**664,195**	**32.8**	**N/A**
Other Overlapping Customers & Suppliers	46,751	2.2	N/A	35,057	1.7	N/A
Total	**435,306**	**20.9**	**N/A**	**699,252**	**34.5**	**N/A**

Notes:

(1) Baoqing Migao was one of our joint ventures and became our subsidiary on 31 March 2022.

(2) This customer is our connected person and is indirectly wholly owned by Mr. Liu.

(3) Our average selling price of KCL to Customer H for FY2023 was significantly higher than our average purchase price of KCL from Customer H primarily because we mainly sold granulated KCL to Customer H which generally has a higher selling price, while we mainly purchased powder KCL from Customer H which generally has a lower selling price.

(4) Our average purchase price of KCL from CNCCC for FY2023 was significantly lower than our average selling price of KCL to CNCCC primarily because the purchase price was determined with reference to the then prevailing Sea Import Master Contract Price at the time of our contract which was entered into prior to February 2022 (when the Sea Import Master Contract Price was increased to USD590) and with a mark up margin, while our average selling price of KCL to CNCCC was determined based on a cost-plus approach with reference to the prevailing domestic market price of imported KCL. Therefore, the large gap between our average selling price and our average purchase price of KCL with CNCCC for FY2023 was due to the different pricing mechanism adopted for our sales transactions and purchase transactions with CNCCC.

(5) Our average purchase price of KCL from Company B for FY2022 was significantly lower than our average selling price of KCL to Company B primarily because the purchase price was determined with reference to the then prevailing Sea Import Master Contract Price in US$ at the time of our preliminary agreement on the purchases with Company B (which was primarily from January 2021 to June 2021 and the Sea Import Master Contract Price was only US$220 for January 2021 and US$247 for February to June 2021) and with a mark up margin and adjusted by the foreign exchange rates at the time of signing the relevant contract, while our average selling price of KCL to Company B was determined based on a cost-plus approach with reference to the prevailing domestic market price of imported KCL and majority of our sales of KCL to Company B was conducted subsequent to July 2021 where the domestic market price of imported KCL started to increase significantly (i.e. from RMB2,382.4 in the second quarter of 2021 to RMB4,037.5 for the first quarter of 2022). Therefore, the large gap between our average selling price and our average purchase price of KCL with Company B for FY2022 was due to the different pricing mechanism adopted for our sales transactions and purchase transactions with Company B.

(6) Our average purchase price of KCL from Yunnan EuroChem for FY2022 was significantly lower than our average selling price of KCL to Yunnan EuroChem primarily because pricing of our transactions with Yunnan EuroChem was mutually agreed with reference to the prevailing market price around the time of transaction. The majority of the KCL supplied by Yunnan EuroChem was purchased by us during the non-peak season, when the average market selling price was relatively lower.

(7) Compound fertilisers include various types and composition of fertilisers and therefore has a wide range in price. For FY2021, the compound fertiliser products we sold to Guizhou Tobacco Investment included various concentration compound fertiliser products, while the fertiliser products we purchased from Guizhou Tobacco Investment were primarily high concentration compound fertiliser products which generally have a higher price. As such, for FY2021 our average purchase price of compound fertilisers from Guizhou Tobacco Investment was significantly higher than our average selling price of compound fertilisers to Guizhou Tobacco Investment.

Guizhou Tobacco

Our sales to and purchases from Guizhou Tobacco Investment decreased substantially for FY2022 primarily due to the change of business arrangement with Guizhou Tobacco Investment for certain tobacco compound fertiliser products we manufactured for it since the fourth quarter of 2021. Under the new arrangement, we no longer had to purchase the raw materials from Guizhou Tobacco Investment for the manufacturing of the relevant tobacco compound fertiliser products and sell the tobacco compound fertiliser products to it. Instead, Guizhou Tobacco Investment provided the raw materials to us and we derived production fees for manufacturing the relevant tobacco compound fertiliser products.

Company B

Our sales to and purchases from Company B both increased substantially from RMB24.0 million and RMB36.2 million, respectively, for FY2021 to RMB847.3 million and RMB684.4 million, respectively, for FY2022, and decreased to RMB646.7 million and RMB186.2 million, respectively, for FY2023. During the Track Record Period, there were ten separate companies under the shareholding of Company B which had transactions with our Group. All of our sales and purchase amounts with these individual companies of Company B were aggregated and disclosed on a group basis. Nevertheless, each of these companies is separately and independently operated whereby their purchase orders and sales orders with us are placed by each of these companies in its own name, and the payments for which are separately settled.

During FY2021, FY2022 and FY2023, we had transactions with five, nine and eight separate companies of Company B, respectively. For FY2021, out of these five companies of Company B, we conducted only one-way sales of SOP and/or KCL products to four of them (without purchase of any products from these four companies), and such one-way sales in aggregate contributed to approximately RMB15.9 million, representing approximately 66.3% of our revenue generated from Company B for FY2021. For FY2022, out of these nine companies of Company B, we conducted only one-way sales of SOP and/or KCL products to eight of them (without purchase of any products from these eight companies), and such one-way sales in aggregate contributed to approximately RMB668.9 million, representing approximately 78.9% of our revenue generated from Company B for FY2022. For FY2023, out of these eight companies of Company B, we conducted only one-way sales of KCL and/or SOP products to seven of them (without purchase of any products from these seven companies), and such one-way sales in aggregate contributed to approximately RMB562.4 million, representing approximately 87.0% of our revenue generated from Company B for FY2023. For our transactions with these companies of Company B where we only conducted one-way sales (the "**Non-Overlapping Company B Entities**"), in substance those transactions should not be seen as transactions with overlapping customers and suppliers since the Non-Overlapping Company B Entities only became overlapping customers and suppliers because they are disclosed on a group basis.

With respect to the remaining one individual company of Company B (the "**Overlapping Company B Entity**") where we engaged in both such sales and purchase transactions with it for FY2021, FY2022 and FY2023, our total purchase from such Overlapping Company B Entity for FY2021, FY2022 and FY2023 was RMB36.2 million, RMB684.4 million and RMB186.2 million, respectively; while we generated revenue of RMB8.1 million, RMB178.4 million and RMB84.3 million from it for FY2021, FY2022 and FY2023, respectively, which accounted for approximately 33.7%, 21.1% and 13.0% of our revenue generated from Company B for FY2021, FY2022 and FY2023, respectively.

As a major SOE potash importer in the PRC, the Overlapping Company B Entity engages in the sale of KCL to its customers (including us) in its ordinary course of business. We had an established business relationship with it; and it serves as one of our major domestic partners for the procurement of KCL originated from overseas. Our purchase of KCL products from the Overlapping Company B Entity amounted to approximately RMB32.3 million, RMB679.2 million and RMB186.2 million for FY2021, FY2022 and FY2023, respectively. Such purchase reflected the ordinary business arrangement under which we procure KCL from the Overlapping Company B Entity (as a major supplier of our Group). The amounts of purchase made by us from the Overlapping Company B Entity are much larger than the sales amounts made by us to the Overlapping Company B entity (as further described below). This fact is consistent with the nature of our business relationship. The significant increase in purchase by us from the Overlapping Company B Entity for FY2022 is because we ceased to enter into new purchase contracts for the purchase of KCL with Supplier D after it was designated by OFAC as an SDN in 2021.

On the other hand, as a major player of potash fertilisers in the PRC, the Overlapping Company B Entity may also procure KCL from time to time to ensure it has sufficient KCL inventory to support its operational needs and to support the stability of national fertiliser supply. Generally, the lead time for the purchase of KCL by us from the Overlapping Company B Entity is longer than the lead time for the sales of KCL by us to the Overlapping Company B Entity given that the purchase of KCL from the Overlapping Company B Entity was usually in a larger amount and agreed a few months in advance as it may need to import the KCL from overseas, whereas the sales of KCL to the Overlapping Company B Entity would typically be based on the unmet demand of the Overlapping Company B Entity in a particular period of time where it may need to source KCL domestically to satisfy its temporary needs. Our sales of KCL to the Overlapping Company B Entity increased from nil for FY2021 to approximately RMB140.1 million for FY2022, representing approximately 17.4% of our revenue generated from our total sales of KCL products to Company B in FY2022. To the best knowledge of the Directors, such an increase was mainly due to the fact that the Overlapping Company B Entity has increased its efforts to source KCL from domestic markets in recent years due to the growing demand of its own supply chains and the need to replenish its inventory in a timely manner. We did not sell any KCL to the Overlapping Company B Entity for FY2023.

We also engaged in the sales and purchase of SOP products with the Overlapping Company B Entity. Our purchase of SOP products from the Overlapping Company B Entity amounted to approximately RMB3.9 million and RMB5.2 million for FY2021 and FY2022, respectively, which is insignificant. We occasionally purchased SOP products from the Overlapping Company B Entity in FY2021 and FY2022 primarily due to the surging demand for our SOP products from our agricultural reclamation customers during the spring planting season, which is typically the peak season for SOP, and during which time we typically experienced constraint in production capacity and/or inventory to meet the demand from such customers. Our sales of SOP products to the Overlapping Company B Entity increased from approximately RMB8.1 million for FY2021 to approximately RMB38.3 million for FY2022. For FY2023, we did not purchase any SOP from the Overlapping Company B Entity and we generated revenue of RMB84.3 million from our sale of SOP products to the Overlapping Company B Entity.

Yunnan EuroChem

Our sales to Yunnan EuroChem increased from RMB30.7 million for FY2021 to RMB90.2 million for FY2022. We recorded low sales to Yunnan EuroChem for FY2021 primarily due to the high demand of our products from Customer A, which is one of our important strategic partners, so we prioritised orders from Customer A given the constraint of our production capacity during peak season.

Supplier B

We had relatively high purchases from Supplier B for FY2023 primarily due to our cessation of purchase of KCL from Supplier D since it was designated by OFAC as an SDN in 2021.

Supplier C

Our purchase from Supplier C was relatively high at RMB976.9 million for FY2023, which accounted for approximately 29.2% of our total purchases for the relevant year. As we ceased to purchase KCL from Supplier D since it was designated by OFAC as an SDN in 2021 and we mostly purchased KCL from domestic suppliers for FY2023, we therefore had a relatively high purchase of KCL from Supplier C for FY2023.

The following table ("**OCS & Non-Overlapping Customers and Suppliers Price Table**") sets out our average selling price by main product of our Overlapping Customers & Suppliers and customers who were not our Overlapping Customers & Suppliers ("**Non-Overlapping Customers**") and average purchase price by main product of our Overlapping Customers & Suppliers and suppliers who were not our Overlapping Customers & Suppliers ("**Non-Overlapping Suppliers**") during the Track Record Period:

	For the year ended 31 March					
	2021		2022		2023	
	Overlapping Customers & Suppliers	Non-Overlapping Customers/ Non-Overlapping Suppliers	Overlapping Customers & Suppliers	Non-Overlapping Customers/ Non-Overlapping Suppliers	Overlapping Customers & Suppliers	Non-Overlapping Customers/ Non-Overlapping Suppliers
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Average selling price *(RMB)*						
– KCL(1)	1,869.3	1,701.8	3,248.8	2,742.8	3,988.2	3,691.5
– SOP	2,357.6	2,324.5	3,128.4	3,309.7	3,775.8	3,859.8
– NOP(2)	3,812.9	3,685.3	4,725.5	3,998.6	5,160.7	6,946.1
– Compound fertiliser(3)	2,489.4	1,890.0	3,353.2	2,208.5	2,376.8	2,614.3
Average purchase price *(RMB)*						
– KCL(4)	1,761.6	1,668.5	2,013.4	2,805.4	2,968.7	3,297.4
– SOP	2,307.4	2,257.5	3,201.2	3,070.0	3,416.9	–(7)
– NOP(5)	3,626.1	4,231.9	4,156.8	5,093.8	7,149.8	5,963.3
– Compound fertiliser(6)	1,981.2	1,150.2	2,834.9	1,808.3	1,263.6	1,308.9

Notes:

(1) For FY2021, our average selling price of KCL to Overlapping Customers & Suppliers was higher than our average selling price of KCL to Non-Overlapping Customers primarily because of (i) our higher selling price of KCL to Baoqing Migao, one of our Overlapping Customers & Suppliers for FY2021, as we sold our KCL to them in March 2021 where the market selling price of imported KCL in March 2021 was approximately RMB2,175.2 according to the Frost & Sullivan Report; and (ii) our lower selling price of KCL to Customer A, our largest customer and one of our Non-Overlapping Customers for FY2021, given that they usually placed orders with us in advance and allowed for a longer lead time and also in order to secure our long term business relationship with them.

For FY2022, our average selling price of KCL to Overlapping Customers & Suppliers was significantly higher than our average selling price of KCL to Non-Overlapping Customers primarily because of (i) our higher selling price of KCL to Company B, our largest Overlapping Customer & Supplier in terms of sales for FY2022, due to majority of our sales of KCL to them was conducted subsequent to July 2021 where the market selling price of KCL started to increase significantly; (ii) our higher selling price of KCL to one of our tobacco customers which was one of our Overlapping Customers & Suppliers for FY2022, as we entered into our sale contract with them in October 2021 where the market selling price of KCL had increased significantly when compared to the first half of FY2022; (iii) our lower selling price of KCL to Customer A, our largest customer and one of our Non-Overlapping Customers for FY2022, given that they usually placed orders with us in advance and allowed for a longer lead time and also in order to secure our long term business relationship with them. Further, majority of our sales of KCL to Customer A was from the sale contracts entered into prior to July 2021 (i.e. prior to the significant increase in market selling price of KCL in FY2022); and (iv) our lower selling price of KCL to one of our top five customers and one of our Non-Overlapping Customers for FY2022, due to our sale contracts with them for our sale of KCL to them in FY2022 was entered into prior to July 2021 (i.e. prior to the significant increase in market selling price of KCL in FY2022). According to the Frost & Sullivan Report, the market selling price of imported KCL increased from approximately RMB2,382.4 during the second quarter in 2021 to RMB3,438.2 during the third quarter in 2021 and further to RMB3,499.5 during the fourth quarter in 2021 and further to RMB4,037.5 during the first quarter of 2022.

For FY2023, our average selling price of KCL to Overlapping Customers & Suppliers was higher than our average selling price of KCL to Non-Overlapping Customers primarily because of (i) our higher selling price of KCL to Customer H, our second largest Overlapping Customer & Supplier in terms of sales for FY2023, due to we mainly sold granulated KCL to Customer H which generally has a higher average selling price, while we mainly purchased powder KCL from Customer H which generally has a lower selling price; (ii) our lower selling price of KCL to Customer A, our largest customer and one of our Non-Overlapping Customers for FY2023, given that they usually placed orders with us in advance and allowed for a longer lead time and also in order to secure our long term business relationship with them. Further, majority of our sales of KCL to Customer A was from the sale contracts entered into prior to January 2022 or subsequent to October 2022 where the market price of KCL was relatively lower; (iii) our lower selling price of KCL to a Non-Overlapping Customer for FY2023 for the sale of KCL of approximately 44,000 tonnes where the sale contracts for such products was signed in September 2022 and February 2023 when the market selling price of KCL had dropped; and (iv) our lower selling price of KCL to a Non-Overlapping Customer for FY2023 for the sale of KCL of approximately 24,000 tonnes where the sale price for such products was agreed subsequent to November 2022 and the market selling price of KCL had dropped. According to the Frost & Sullivan Report, the market selling price of imported KCL decreased from approximately RMB5,110.8 during the second quarter in 2022 to RMB4,690.4 during the third quarter in 2022, further to approximately RMB3,669.7 during the fourth quarter in 2022 and further to approximately RMB3,598.0 during the first quarter in 2023.

(2) For FY2022, our average selling price of NOP to Overlapping Customers & Suppliers was significantly higher than our average selling price of NOP to Non-Overlapping Customers primarily because the majority of our sales of NOP to Overlapping Customers & Suppliers was conducted in March 2022 where the average market selling price of KCL (a key raw material for the manufacturing of NOP) was at a relatively high level, while our sales of NOP to Non-Overlapping Customers was conducted primarily during the first half of FY2022 where the average market selling price of KCL was lower compared to the second half of FY2022.

For FY2023, our average selling price of NOP to Overlapping Customers & Suppliers was significantly lower than our average selling price of NOP to Non-Overlapping Customers primarily because our sales of NOP to Overlapping Customers & Suppliers were conducted in November 2022 where the market selling price of KCL had dropped, while majority of the sales contracts for our sales of NOP to Non-Overlapping Customers was entered into between January 2022 and February 2022 where the market selling price of KCL was still at a relatively high level.

(3) For FY2021 and FY2022 our average selling price of compound fertilisers to Overlapping Customers & Suppliers was significantly higher than our average selling price of compound fertilisers to Non-Overlapping Customers primarily because majority of the compound fertiliser products we sold to the Overlapping Customers & Suppliers were of high concentration which usually has a higher selling price, while the compound fertiliser products we sold to Non-Overlapping Customers included high, mid and low concentration compound fertiliser products and mid and low concentration compound fertiliser products usually have a lower selling price.

For FY2023, our average selling price of compound fertilisers to Overlapping Customers & Suppliers was lower than our average selling price of compound fertilisers to Non-Overlapping Customers primarily because majority of the compound fertiliser products we sold to the Overlapping Customers & Suppliers were of low concentration which usually has a lower selling price, while the compound fertiliser products we sold to Non-Overlapping Customers included high, mid and low concentration compound fertiliser products.

(4) For FY2022, our average purchase price of KCL from Overlapping Customers & Suppliers was significantly lower than our average purchase price of KCL from Non-Overlapping Suppliers primarily because the majority of our purchases of KCL from Overlapping Customers & Suppliers was from Company B and the purchase price was determined with reference to the then prevailing Sea Import Master Contract Price in US$ at the time of our preliminary agreement on the purchases with Company B (which was primarily from January 2021 to June 2021) and adjusted by the foreign exchange rates at the time of signing the relevant contract which led to a lower average purchase price of KCL from Overlapping Customers & Suppliers.

For FY2023, our average purchase price of KCL from Overlapping Customers & Suppliers was lower than our average purchase price of KCL from Non-Overlapping Suppliers primarily because a significant portion of the KCL we purchased from Overlapping Customers & Suppliers was from CNCCC and the relevant purchase contract was entered into prior to February 2022 (when the Sea Import Master Contract Price was increased) which led to a lower average purchase price of KCL from Non-Overlapping Suppliers.

(5) For FY2021, our average purchase price of NOP from Overlapping Customers & Suppliers was significantly lower than our average purchase price of NOP from Non-Overlapping Suppliers primarily because majority of our purchases of NOP from Overlapping Customers & Suppliers was from Yunnan EuroChem and it generally has a lower selling price of NOP products compared to average market price. However, its selling price of NOP products to our Group was similar to its selling price of NOP products to its other customers during the period.

For FY2022, our average purchase price of NOP from Overlapping Customers & Suppliers was significantly lower than our average purchase price of NOP from Non-Overlapping Suppliers primarily because majority of our purchases of NOP from Overlapping Customers & Suppliers was conducted on or prior to July 2022 where the market selling price of KCL (a key raw material for the manufacturing of NOP) only started to increase significantly subsequent to July 2022, while majority of our purchases of NOP from Non-Overlapping Suppliers was conducted in the second half of FY2022 where the market selling price of KCL was significantly higher compared to the first half of FY2022.

For FY2023, our average purchase price of NOP from Overlapping Customers & Suppliers was significantly higher than our average purchase price of NOP from Non-Overlapping Suppliers primarily because Singapore Migao purchased NOP from Yunnan EuroChem and the purchase price included the shipment fee for the shipment of the NOP to Singapore which therefore had a higher purchase price.

(6) For FY2021 and FY2022, our average purchase price of compound fertiliser from Overlapping Customers & Suppliers was significantly higher than our average purchase price of compound fertiliser from Non-Overlapping Suppliers primarily because the majority of compound fertiliser products we purchased from Overlapping Customers & Suppliers were of high concentration which usually has a higher selling price, while the majority of compound fertiliser products we purchased from Non-Overlapping Suppliers were of low or mid concentration which usually has a lower selling price.

(7) For FY2023, we did not purchase any SOP from non-Overlapping Suppliers.

The following table sets out our gross profit and average gross profit margin of our Overlapping Customers & Suppliers and Non-Overlapping Customers during the Track Record Period:

	For the year ended 31 March					
	2021		2022		2023	
Type	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Overlapping Customers & Suppliers	73,921	17.0	248,092	24.7	263,994	20.5
Non-Overlapping Customers	176,820	10.7	385,330	13.6	503,539	14.7

For FY2021, FY2022 and FY2023, our gross profit margin derived from our sales to our Overlapping Customers & Suppliers was approximately 17.0%, 24.7% and 20.5%, respectively, and our gross profit margin derived from our sales to our Non-Overlapping Customers was approximately 10.7%, 13.6% and 14.7%, respectively. As we applied the annual weighted average cost approach to determine our unit cost of goods sold in our calculation for both gross profit margin of our Overlapping Customers & Suppliers and our Non-Overlapping Customers, our average gross profit margin derived from our sales to our Non-Overlapping Customers was lower than those we derived from our Overlapping Customers & Suppliers for FY2021, FY2022 and FY2023 primarily due to the same reasons which led to the differences in the average selling price of our products to our Overlapping Customers & Suppliers and Non-Overlapping Customers as described above in the OCS & Non-Overlapping Customers and Suppliers Price Table. Where we have excluded our sales to the Overlapping Customers & Suppliers mentioned in Note (1) to the OCS & Non-Overlapping Customers and Suppliers Price Table above due to the various reasons as set out in such note, our gross profit margin derived from our sales to our Overlapping Customers & Suppliers was approximately 15.3%, 21.3% and 17.9% for FY2021, FY2022 and FY2023, respectively. Where we have excluded our sales to the Non-Overlapping Customers mentioned in Note (1) to the OCS and Non-Overlapping Customers and Suppliers Price Table above due to the various reasons as set out in such note, our gross profit margin derived from our sales to our Non-Overlapping Customers was approximately 12.0%, 19.9% and 16.4% for FY2021, FY2022, FY2023, respectively.

As confirmed by our Directors, during the Track Record Period, the gross profit margins generated from the sales to our Overlapping Customers & Suppliers, saved as disclosed in the discussion of our average selling price of our products to Overlapping Customers & Suppliers and Non-Overlapping Customers in Note (1) to the OCS and Non-Overlapping Customers and Suppliers Price Table above, were generally comparable with those of similar transactions conducted with our Non-Overlapping Customers during the same period.

Based on the due diligence conducted by the Sole Sponsor, the Sole Sponsor was not aware of any material findings which cast doubt on the bases of our Directors' view mentioned above.

Our Directors confirmed that (i) the transactions with our Overlapping Customers & Suppliers were conducted on an arm's length basis in the ordinary course of our business; (ii) negotiations of the terms of our sales to and purchases from our Overlapping Customers & Suppliers were conducted on an individual basis and the sales and purchases were neither interconnected nor inter-conditional with each other (save for Guizhou Tobacco Investment as mentioned above); and (iii) the terms of transactions, including pricing (save as described above in the OCS & Non-Overlapping Customers and Suppliers Price Table) and other terms, with our Overlapping Customers & Suppliers were in all material respects comparable with those with our other customers and suppliers. We were under no obligation to purchase from the Overlapping Customers & Suppliers, and vice versa (save for Guizhou Tobacco Investment as mentioned above). During the Track Record Period, we may offset certain of our receivables from our Overlapping Customers & Suppliers for the sale of our products to them against the purchases of products they sold to us.

Based on the due diligence conducted by the Sole Sponsor, the Sole Sponsor was not aware of any material findings which cast doubt on our Directors' view that the pricing and other terms of our Group's transactions with the Overlapping Customers & Suppliers were in all material respects comparable with those of our Group's transactions with our other customers and suppliers.

Save as disclosed in this document, none of our Directors, their respective close associates, or any Shareholder who, to the best knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in each of them during the Track Record Period. Save as disclosed above, to the best knowledge of our Directors, we did not have any other Overlapping Customer & Supplier during the Track Record Period.

TRANSFER PRICING ARRANGEMENT

Intra-group Transactions

During the Track Record Period, we operated our Group's business principally through four subsidiaries (i.e. Guangdong Migao, Sichuan Migao, Daxing Migao and Changchun Migao) with production facilities in the PRC and our trading subsidiary in Singapore. During the Track Record Period, there were certain intra-group transactions in respect of the raw materials and finished goods buy-sell between our operating subsidiaries. The major intra-group transactions included:

(i) Sales of raw materials by Guangdong Migao to Sichuan Migao and Changchun Migao;

(ii) Sales of raw materials by Sichuan Migao to Guangdong Migao, Changchun Migao and Daxing Migao;

(iii) Sales of finished products between our four subsidiaries; and

(iv) Sales of finished products by Guangdong Migao and Changchun Migao to Singapore Migao.

The major circumstances leading to such intra-group transactions included the following:

(i) Guangdong Migao holds KCL automatic import licences – The imports and exports of KCL are subject to control by the PRC government. The MOFCOM has implemented an automatic licensing system for imports and exports of KCL. During the Track Record Period, Guangdong Migao held KCL automatic import licences. It purchased and imported KCL from overseas suppliers directly for our Group and sold the KCL to our other PRC subsidiaries for further granulating, manufacturing or selling purposes.

(ii) Occasions when there was a lack of raw materials in a subsidiary – Our Group's production facilities require a large amount of KCL and a range of other products as raw materials for their production or processing. During the Track Record Period, there were certain occasions where a subsidiary did not have sufficient raw materials in stock or unable to replenish the stock from its own sources. In these situations, the affected subsidiary would purchase raw materials from another of our subsidiaries for manufacturing or processing.

(iii) Occasions when there was a lack of products or production capacity in a subsidiary – During the Track Record Period, there were certain occasions where a subsidiary did not have sufficient inventory, did not produce the specific type of fertilisers requested by our customers or did not have sufficient production capacity to deal with the surging demand of the customers. In these situations, the relevant subsidiary would purchase finished products from another of our subsidiary for sales to external customers.

(iv) Expansion of business to Southeast Asian market – Singapore Migao was strategically set up as a trading company for the development of Southeast Asian market. Without any production capacity, Singapore Migao purchased finished products, mainly SOP fertilisers, from Guangdong Migao and Changchun Migao for ongoing sales to overseas customers during the Track Record Period.

Transactions with Related Parties

Apart from the intra-group transactions, we also entered into buy-sell transactions in respect of the raw materials and finished goods with our related parties during the Track Record Period. The transaction amounts are summarised in Note 23 to the Accountants' Report in Appendix I to this document.

Our major transactions with related parties included:

(i) Sales and purchase of raw materials and finished products with Baoqing Migao, Anda Migao and Yunnan EuroChem[(1)];

(ii) Sales and purchase of raw materials and finished products with Liaoning Migao;

(iii) purchase of finished products from Zunyi Migao; and

(iv) Sales of finished products to and purchase of raw materials from Guizhou Tobacco Investment.

Note:

(1) Anda Migao and Baoqing Migao became our subsidiaries and ceased to be related parties of our Group from 31 March 2022 onwards, and, therefore, the relevant transactions with Anda Migao and Baoqing Migao were intra-group transactions in FY2023. For the major circumstances leading to the intra-group transactions in FY2023, please refer to the paragraph headed "Business – Transfer Pricing Arrangement – Intra-group Transactions" in this document.

The major circumstances leading to the above transactions included the following:

(i) Occasions when there was a lack of products and/or production capacity – During the Track Record Period, there were occasions where there was surging demand for SOP fertilisers or other products in the market whilst we did not have sufficient production capacity at the time to manufacture the products requested by the customers. Understanding that Baoqing Migao, Anda Migao, Yunnan EuroChem, Liaoning Migao and/or Zunyi Migao have similar technologies and abilities as our Group and are able to manufacture fertiliser products satisfying our customers' requirements, we purchased the finished products from them for sales to the external customers in these cases. In particular, our Chengdu Production Facility ceased manufacturing of NOP in January 2019 due to local re-zoning policy. Since then, we no longer manufacture NOP products within our Group and have been procuring NOP products from Yunnan EuroChem, our indirect joint venture, and other domestic suppliers.

Similarly, there were occasions where Baoqing Migao, Anda Migao, Yunnan EuroChem, Liaoning Migao and/or Zunyi Migao did not have sufficient inventory or did not produce the specific type of fertilisers requested by their customers during the Track Record Period. In these situations, they purchased the products from us for sales to their external customers.

(ii) Close proximity of Liaoning Migao to the KCL suppliers – During the Track Record Period, our Group also purchased KCL from Liaoning Migao. It is because Liaoning Migao is located in the northern region and it is closer to the Russian border and our production facilities in the northern region than Guangdong Migao.

(iii) Stringent requirements on the tobacco fertiliser ingredients – Guizhou Tobacco Investment is one of the major strategic customers of our Group. During the Track Record Period, we purchased the principal raw materials required in the manufacturing of tobacco compound fertilisers from Guizhou Tobacco Investment as they have stringent requirements on the fertiliser ingredients to be used in the manufacturing of their tobacco compound fertiliser products. We would utilise the raw materials we purchased from them to manufacture and sell the requested compound fertilisers to them. In addition, we also sold certain products (e.g., KCL, SOP and NOP) to them as raw materials for their manufacturing of tobacco compound fertiliser products. Starting from the fourth quarter of 2021, we were not required to procure the principal raw materials supplied by Guizhou Tobacco Investment. Instead, we provided fertiliser production services to Guizhou Tobacco Investment for manufacturing tobacco compound fertiliser products for them from the principal raw materials provided by them. We also sold some raw materials to Guizhou Tobacco Investment and used these raw materials when providing tobacco compound fertiliser manufacturing services. During the manufacturing process, ownership of those raw materials remain with Guizhou Tobacco Investment.

Our Transfer Pricing Arrangements

The intra-group selling prices and the selling price to related parties are determined through cost-plus approach, and with reference to the prevailing market price. Our transactions with related parties were conducted in accordance with terms agreed between us and the respective related parties. Our Directors confirmed that our transfer pricing arrangements during the Track Record Period and up to the Latest Practicable Date are on normal commercial terms and are in compliance with the arm's length principle. Neither the tax authorities in the PRC nor in Singapore have raised any inquiry, audit or investigation on our Group's transfer pricing arrangements as at the Latest Practicable Date.

In preparation of the [**REDACTED**], our Group has engaged Mazars Tax Services Limited (the "**Transfer Pricing Consultant**"), an independent consultant on transfer pricing, to conduct a review on whether our intra-group transactions and transactions with related parties conducted during the Track Record Period are in line with the arm's length principle. According to OECD Transfer Pricing Guidelines, all related party transactions should be transacted in accordance with the arm's length principle. This proposition is adopted by tax administrations around the world, including that of the PRC and Singapore.

During the review process, the Transfer Pricing Consultant interviewed our Group's management to understand the operation and pricing policy, reviewed the transfer pricing documentation, financial information as well as conducted benchmarking analyses by using a third-party information database. When conducting the benchmarking analyses, different qualitative and quantitative screening were used to come up with set of comparable companies. Qualitative screening is to ensure that the operation of the selected companies are comparable to our operation in the intra-group transactions and other transactions with related parties. It includes reviewing the active/inactive status, geographical location, standard industry classification codes, independence indicator, and functions performed and products sold by the potential comparable companies. In terms of quantitative screening, companies without sufficient financial data, incurred operating loss in consecutive years, or with fluctuating financial data were eliminated to ensure that comparable financial data can be obtained.

Based on the functions performed and the risks borne by the group companies in the intra-group transactions and other transactions with related parties, the Transfer Pricing Consultant considers that (i) the group companies which mainly carried out production activities of fertiliser products and borne the production risk in the transactions could be characterised as limited risk manufacturers; whilst (ii) the group companies which carried out the procurement activities of KCL and other raw materials and borne the major risks, such as the legal risk, market risk and foreign exchange risk, in the transactions could be characterised as risk bearing distributors. Therefore, two sets of comparable companies, including (i) 13 comparable companies involved in the production of fertiliser products, and (ii) 6 comparable companies involved in the distribution of fertiliser products and/or other agricultural chemicals, are selected. Products of those selected comparable companies include our products, i.e. KCL, SOP, NOP and compound fertilisers.

Based on the financial results of the selected comparable companies, the Transfer Pricing Consultant computed an arm's length range of return for each set of companies and compared them with the weighted average profit margin achieved by our group companies in the intra-group transactions and other transactions with related parties. Based on the review and analyses performed, most of the profit margins achieved by our group companies in the intra-group transactions and other transactions with related parties fall within the arm's length range of return. A few transactions fall below the range due to seasonal and/or other specific reasons, such as some of the transactions are in substance direct re-sale transactions in which the value-added element is comparatively smaller than the operation of the selected comparable companies. The Transfer Pricing Consultant considered the reasons provided by our management are legitimate business reasons. In this regard, the Transfer Pricing Consultant is of the view that all the Group's entities are compensated for their functions undertaken and risks assumed in the intra-group transactions and the transactions with related parties during the Track Record Period. There is no indication that these transactions are not in line with the arm's length principle.

Our Directors confirm that in ensuring ongoing compliance with the relevant transfer pricing laws and regulations in the PRC and Singapore,

– Our management will review and monitor the transfer pricing arrangements from time to time to ensure that the intra-group transactions and transactions with related parties comply with the arm's length principle;

– Intercompany balances and transactions are reconciled with our Group from time to time and at reporting periods to ensure that no significant difference exists; and

– Our chief financial officer will monitor the amount of related party transactions to determine whether transfer pricing documentation and contemporaneous documents are required to be prepared.

BUSINESS DEALINGS WITH THIRD PARTIES SUBJECT TO INTERNATIONAL SANCTIONS

International Sanctions Applicable to Belarus

During the Track Record Period, we purchased a large amount of KCL, directly and indirectly, from Supplier D in Belarus, which was one of our top five suppliers. Supplier D is purportedly the trading arm of the Belarus Producer. During the Track Record Period, we did not engage in any direct transaction with the Belarus Producer. The table below sets forth our overseas purchase of KCL from Supplier D and our domestic purchase of KCL originated from Belarus, in absolute amount and as a percentage of our total purchase of KCL, for the years indicated.

	Year ended 31 March		
	2021	**2022**	**2023**
Overseas Purchases of KCL from Supplier D[1] *(RMB'000)*	377,977	706,819	–
Domestic Purchases of KCL Originated from Belarus[2] *(RMB'000)*	32,271	245,160	9,234
Percentage of Total Purchases of KCL *(%)*	26.2	29.7	0.3

Notes:

1. These purchases represent our purchases of KCL directly from Supplier D.

2. These purchases represent our purchases of KCL directly from domestic purchasers whose KCL are originated from Belarus (including a shipment of our purchases of KCL directly from a domestic purchaser (Company B) in April 2022 which shipment is originated from Supplier D).

Belarus is not a comprehensively Sanctioned Country within the meaning of the 2019 Guidance Letter. However, Belarus has been subject to various sanctions measures imposed by many Western countries, including U.S., EU, UK and Canada, due to human rights violations and public corruption by the Lukashenko government, and most recently, its active support of Russia's military operations against Ukraine in early 2022. These sanctions target important sources of revenue to the Lukashenko regime, including potassium chloride (potash), the only abundant mineral resource in Belarus and its key export.

On 9 August 2021, OFAC designated the Belarus Producer as an SDN, and issued a general license allowing U.S. Persons 120 days (i.e., until 8 December 2021) to wind down transactions with the Belarus Producer and its subsidiaries ("**Belarus General License 4**"). On 2 December 2021, OFAC designated Supplier D as an SDN, and issued a general license allowing U.S. Persons 120 days (i.e., until 1 April 2022) to wind down transactions with Supplier D and its subsidiaries, including the wind down of transactions in which the Belarus Producer has a property interest ("**Belarus General License 5**"). To qualify for these licenses, the following conditions must be met: (i) the underlying contract should predate the SDN designation, and (ii) all purchases, payments and shipments are completed before the expiration of the relevant license. Notably, OFAC clarified that General License 5 did not authorize direct transactions with the Belarus Producer after the expiry of General License 4 on 8 December 2021. Whilst the Belarus general licenses are limited in applicability to U.S. Persons, OFAC policy is that it will not impose sanctions on non-U.S. Persons for activities that are permitted for U.S. Persons (i.e., wind down transactions permitted by the general licenses).

Since Supplier D was designated by OFAC as an SDN, we have ceased entering into new purchase contracts with it. The final shipments of our direct purchase of KCL from Supplier D pursuant to the pre-existing contracts were shipped on 27 December 2021 and were received in China in February 2022; in addition, we had certain dealings with Supplier D as set out in details below.

Rebates from Supplier D and related set off arrangement

Under our purchase agreements with some of our suppliers, we are entitled to rebates on our purchases when we achieved the specified level of purchase volume. During the Track Record Period, we were entitled to rebates on our purchases from Supplier D pursuant to our contracts with Supplier D. As at 31 March 2022, the outstanding rebate receivable by Guangdong Migao from Supplier D amounted to approximately RMB39.2 million (equivalent to US$5.9 million). Such rebate receivable, together with the other excess prepayments by Guangdong Migao to Supplier D arising from previous purchases, was set off against the outstanding trade payable by Guangdong Migao to Supplier D under the 2021 Contract as further described below. Such set off was agreed with Supplier D and as a result of this set off, our remaining outstanding payable to Supplier D amounted to approximately RMB302.6 million (equivalent to US$47.9 million) as at 30 June 2022 (the "**Outstanding Supplier D Payable**"). The Outstanding Supplier D Payable was subsequently and substantially settled by way of a tripartite settlement arrangement as set out below.

The tripartite settlement arrangement in respect of the Outstanding Supplier D Payable involved Guangdong Migao, Supplier D and three fertiliser trading companies and the amount due to/from between them.

Between our Group and Supplier D: Guangdong Migao entered into a contract with Supplier D in March 2021 (as re-affirmed in November 2021) (the "**2021 Contract**") for purchase of potash. Guangdong Migao had made certain prepayments for the purchases under this contract in RMB in December 2021 but had not paid for the remaining accounts payable to Supplier D, being the Outstanding Supplier D Payable, prior to the expiry date of Belarus General License 5 on 1 April 2022. Guangdong Migao obtained confirmation from Supplier D that it had received all potash from the Belarus Producer prior to 8 December 2021 (i.e. the expiry date of Belarus General License 4). In addition, all potash under the 2021 Contract was shipped by Supplier D to us by 27 December 2021 (i.e., prior to 1 April 2022, the expiry date of Belarus General License 5).

Between our Group and the Fertiliser Traders: Separately, on 18 March 2021, Guangdong Migao entered into three contracts with Supplier A and two other fertiliser trading companies (collectively, the "**Fertiliser Traders**"), respectively. The two other fertiliser trading companies are both incorporated in Hong Kong and have been in the fertiliser trading business since their respective inception, one of which is an independent third party of the Group, and the other one was related to the Group until February 2023. Guangdong Migao made various US$ and RMB prepayments to these Fertiliser Traders after 1 April 2022, but they had not fulfilled Guangdong Migao's purchases. While certain of these prepayments were in US$, we confirm that the prepayments were specifically for KCL sourced from Russia, and the Fertiliser Traders also confirmed that the prepayments did not result in any payments made to Supplier D or goods being delivered from Supplier D after 1 April 2022.

Between the Fertiliser Traders and Supplier D: The Fertiliser Traders informed Guangdong Migao that they also engaged in fertiliser trading with Supplier D and have made certain purchases for potash from Supplier D for which they prepaid in RMB prior to October or November 2021 (as the case may be). However, Supplier D could not satisfy their purchases and thus owed the Fertiliser Traders certain prepayments.

The Settlements: Supplier D proposed and the parties agreed to set off these debts (among Guangdong Migao, Supplier D and the Fertiliser Traders) in their respective accounting records. This tripartite set off arrangement was documented in three settlement confirmations signed on 31 July 2022 (the "**Settlements**"). As a result of these Settlements, the Outstanding Supplier D Payable was reduced to approximately RMB2.5 million (equivalent to US$0.4 million). Our Group does not intend to make any payment to Supplier D nor any further set off arrangement with Supplier D until and unless all applicable sanctions on Supplier D are lifted.

Indirect purchase transaction with Supplier D

With respect to the domestic purchase of KCL originated from Belarus for FY2023, it is part of the purchases made pursuant to a purchase and sale contract Guangdong Migao entered into with Company B (a Chinese SOE supplier) in April 2021. The KCL of that purchase and sale contract was sourced from Supplier D and was shipped to us in multiple shipments, all of which were received by us by October 2021 (before Supplier D was designated as an SDN in December 2021), except for the last shipment which was received by us in April 2022 (the "**April 2022 Shipment**") due to the logistic arrangement of Company B. Based on the confirmation from Company B, the April 2022 Shipment was fully paid for and delivered by Supplier D to Company B in China in July 2021. We do not intend to engage in further transactions with Supplier D (either directly or indirectly) for so long as it remains subject to international sanctions of any kind.

Save for the transactions and dealings disclosed herein, since the imposition of sanctions targeting the Belarus Producer and as at the Latest Practicable Date, there are no other purchases of KCL by us (whether directly or indirectly) whose origins were from Belarus or sourced from the Belarus Producer or Supplier D, and our Group has completely ceased all commercial transactions or dealings of any sort with the Belarus Producer and Supplier D; additionally, we have instituted a compliance system to ensure that no KCL will be sourced (directly or indirectly) from Belarus and any sanctioned parties.

Based on the above facts and confirmations, we are advised by our International Sanctions Legal Advisers that, with respect to U.S. sanctions:

1. in respect of our purchases from Supplier D prior to 9 August 2021, being the date on which the Belarus Producer was designated as an SDN, such purchases were not subject to U.S. primary or secondary sanctions;

2. in respect of our direct purchases from Supplier D after 9 August 2021 pursuant to (a) a contract dated December 2020 and (b) the 2021 Contract for potash sourced from the Belarus Producer, given that (i) the transactions were conducted pursuant to the terms of contracts initially entered into prior to the introduction of sanctions on the Belarus Producer and Supplier D which set out the quantity and quality of the specified potash and (ii) the shipments thereunder were made by Supplier D to us in September 2021 and December 2021, respectively, and (iii) all potash was received by Supplier D from the Belarus Producer before 8 December 2021 (i.e. the expiry of Belarus General License 4), such transactions would be deemed "wind down" transactions within the scope of the Belarus general licenses, and accordingly, such transactions would not be the subject of secondary sanctions enforcement pursuant to published OFAC guidance;

3. in respect of the set off between Supplier D and us using the rebates owed by Supplier D to us, even though they took place after 1 April 2022 (the expiry of Belarus General License 5), on the basis that such rebates set off (i) was not accompanied by any actual payments between us and Supplier D and (ii) merely represented a settlement through bookkeeping/accounting entries, they would not give rise to either U.S. primary or secondary sanctions risks;

4. in respect of the prepayments Guangdong Migao made to the Fertiliser Traders after 1 April 2022, while certain of these prepayments were in US$, on the basis of our confirmations and the Fertiliser Traders' confirmations stated above, these prepayments did not give rise to either U.S. primary or secondary sanctions risks;

5. in respect of the Settlements, they did not give rise to any U.S. primary sanctions risks due to lack of U.S. nexus; in terms of secondary sanctions risks, on the basis that (i) there were no actual payments made between the three parties under the Settlements and that the Settlements represented a tripartite set off of outstanding obligations, and (ii) the U.S. government's policy is to reduce the impact on global food supplies and prices and to ensure world food security, these Settlements are not subject to material risk under U.S. secondary sanctions;

6. in respect of the April 2022 Shipment, on the basis that it was received and fully paid for (by Company B to Supplier D) prior to Supplier D being designated as an SDN, the April 2022 shipment was not subject to the Belarus sanctions and there was no violation of the sanctions law by us to receive delivery of this shipment in April 2022;

7. our procurement of potash sourced from Belarus would not constitute "operating in, or having operated in" the potassium chloride (potash) sector of Belarus. While OFAC has not issued any guidance in respect of the definition of "operating in", such term is commonly interpreted to be limited to investment in, or establishing a legal presence in, the targeted sector and our Group has not undertaken such activities; and

8. our cessation of entering into new purchase contract with Supplier D since its SDN designation, together with our efforts and compliance measures taken to prevent procurement of potash from Belarus after expiry of Belarus General License 5, would help to mitigate any material sanctions risk.

Our International Sanctions Legal Advisers further advised us that, with respect to UN, EU, UK and Canada sanctions, since our business dealings with Supplier D and the Belarus Producer are carried out by our subsidiaries, none of which are incorporated in the EU, UK or Canada and thus EU, UK and Canada sanctions would not apply.

Therefore, our business dealings in respect of Belarus are not subject to material risk in respect of U.S. primary or secondary sanctions, nor subject to material risk in respect of the relevant UN, EU, UK and Canada sanctions.

International Sanctions Applicable to Russia

During the Track Record Period, we purchased KCL overseas or domestically that were originated from Russia. The table below sets forth our overseas and domestic purchases of KCL originated from Russia, in absolute amount and as a percentage of our total purchases of KCL, for the years indicated.

	Year ended 31 March		
	2021	**2022**	**2023**
Overseas Purchase of KCL Originated from Russia *(RMB'000)*	268,763	277,764	156,883
Domestic Purchases of KCL Originated from Russia *(RMB'000)*	–	470,774	2,853,490
% of Total Purchase of KCL	17.1	23.3	99.5

Other than the purchases of KCL set out in the tables above, the remaining purchases in FY2021, FY2022 and FY2023 were domestic purchases, accounted for approximately 56.7%, 47.0% and 0.2% of our total purchases of KCL for the respective year. For FY2021 and FY2022, although the contracts for such domestic purchases did not specify the place of origin of the goods, to our best knowledge and based on our understanding of the potash industry in China, a majority of such domestic purchases were from Russia. For FY2023, such domestic purchases were KCL originated from PRC.

Apart from purchase of KCL from Russia, one of our subsidiaries also has a 50%-50% joint venture, namely, EuroChem Migao, with EuroChem Group. For details, please refer to the section headed "History, Reorganisation and Corporate Structure – Our Joint Venture" in this document.

Russia has been subject to various sanctions measures since its actions and claims of sovereignty in Crimea were deemed to be illegal by many Western governments and governmental organisations. Following its military operations against Ukraine in February 2022, Western countries have adopted further sanctions measures against Russia ranging from asset freeze measures targeting its companies, elites and high ranking senior official to various sectoral restrictions including notably sweeping financial restrictions.

However, to ensure global food security, the U.S. Department of Treasury has clarified on 14 July 2022 that agricultural commodities (including fertilisers) are not targets of the sanctions imposed by the U.S. on Russia and the U.S. has not imposed sanctions on the exportation of fertiliser from, to, transiting, or involving Russia. On the same day, the OFAC issued a broad General License No. 6B to authorise, among other activities, certain transactions related to the production, manufacturing, sale, or transport of agricultural commodities (including fertilisers) relating to Russia. The term "fertilizer" is used in a broad sense as defined in the U.S. Agricultural Trade Act of 1978 and therefore should include potash/KCL products. On 17 January 2023, the OFAC issued General License No. 6C, which replaced General License No. 6B by expanding the applicable scope to include the "provision" of agricultural commodities.

On 2 August 2022, the OFAC also confirmed that EuroChem Group is not subject to U.S. sanctions because it is not owned 50% or more by blocked persons (including its founder, who was designated as an SDN by the OFAC on that date).

Similarly, the EU stated on 21 July 2022 that it is committed to avoiding all measures which might lead to food insecurity around the globe, and it had not adopted any measures targeting the trade in agricultural and food products (including fertilisers) between third countries and Russia. On 9 November 2022, the EU stated that it has essentially exempted the agri-food sector and fertilisers from its restrictive measures against Russia. For further details, please refer to the paragraphs headed "Risk Factors – Risks Related to Our Business – We could be adversely affected as a result of any transactions we have with countries that are, or become subject to, sanctions administered by the Relevant Sanctions Authorities and other relevant authorities administering sanctions measures" and "Regulatory Overview – Sanctions Laws and Regulations" in this document.

As advised by our International Sanctions Legal Advisers, on the basis that:

1. the relevant authorities have officially confirmed that Russia's fertilisers (including potash) is not a target of sanctions imposed on Russia, and none of our direct or indirect counterparties of overseas purchases from Russia is identified as an SDN by OFAC; and

2. EU, UK or Canada sanctions only apply to EU, UK or Canadian individual and companies; these sanctions would not impact or impair our business activities conducted only by companies which are incorporated in countries other than the EU, UK or Canada,

our business dealings in respect of Russia are not subject to material risk in respect of U.S. primary or secondary sanctions, nor subject to material risk in respect of the relevant UN, EU, UK and Canada sanctions.

Further Sanctions Considerations

As further advised by our International Sanctions Legal Advisers, on the basis of the facts described above and given that we had not been designated as a Sanctioned Target or subject to penalties due to any violation of international sanctions, our business dealings with parties in Belarus and Russia did not constitute "Primary Sanctioned Activity" as defined in the 2019 Guidance Letter; in addition, such business dealings are highly unlikely to result in the imposition of U.S. secondary sanctions against us for the purpose of the 2019 Guidance Letter.

Further, given the scope of the [**REDACTED**] and the expected use of [**REDACTED**] as set out in this document, our International Sanctions Legal Advisers are of the view that the involvement by parties in the [**REDACTED**] should not implicate any applicable international sanctions on such parties, including our Company, our potential investors, Shareholders, the [**REDACTED**], the Hong Kong Stock Exchange and related group companies and accordingly, the sanctions risk exposure to our Company, potential investors and Shareholders, and persons who might, directly or indirectly, be involved in permitting the [**REDACTED**], trading, clearing and settlement of our Shares (including the [**REDACTED**], the Hong Kong Stock Exchange and related group companies) is very low.

As a result, while we do not intend to engage in further transactions with Supplier D or otherwise purchase KCL originated from Belarus, either directly or indirectly, for so long as Supplier D and/or the potash sector of Belarus remains subject to international sanctions, we intend to continue to purchase potash from Russia after the [**REDACTED**], subject to our strict adherence to our sanctions compliance measures.

We undertake to the Hong Kong Stock Exchange that we will:

1. not directly or indirectly apply the [**REDACTED**] from the [**REDACTED**] and any other funds raised through the Hong Kong Stock Exchange to (i) finance or facilitate any Primary Sanctioned Activity and/or Secondary Sanctionable Activity; or (ii) pay any damages for terminating or transferring the relevant contracts that constitute Primary Sanctioned Activity and/or Secondary Sanctionable Activity; and

2. disclose in our annual and interim reports (i) details of any new and/or existing Primary Sanctioned Activity and/or Secondary Sanctionable Activity; (ii) our efforts in monitoring our business exposure to sanctions risks; and (iii) the current status of, and the anticipated plans for, any new and/or existing Primary Sanctioned Activity and/or Secondary Sanctionable Activity.

Sanctions Compliance Measures

In order to protect the interest of our Group and our Shareholders from economic sanctions risks, we have adopted the following enhanced internal control and risk management measures:

1. monitoring future developments of applicable sanctions regimes and undertaking prompt risk mitigation measures commensurate with such future developments, including potential terminations or suspensions of business relationships, to ensure continued compliance of our Group's businesses and operations;

2. adding compliance clauses in our purchase contracts with suppliers confirming that the potash or other products they supply to us are not produced by any Sanctioned Person, or otherwise originated in a Sanctioned Country, or where adding such compliance clauses are commercially not feasible, sending notifications to such overseas suppliers to request them *not* to supply any goods that may be produced by a Sanctioned Person, or otherwise originated in a Sanctioned Country;

3. for each purchase order, prior to paying for and accepting the order, obtaining and reviewing certificate of origins or other supporting documents evidencing the source of origins, and submitting the documentary evidence to the Sanctions Compliance Committee for approval of the relevant transaction. To the extent the suppliers cannot provide satisfactory documents on the source of origins or unable to confirm in writing that the source of origins is not from Supplier D or any Sanctioned Person, we will not proceed with or immediately terminate the transaction;

4. enhanced Know-Your-Client procedures to review the background information (such as identity and nature of business as well as ownership structure) relating to the counterparties to the transaction along with the draft business transaction documentation;

5. periodic screening procedures to check the counterparties against the various lists of restricted parties and countries maintained by the Relevant Sanctions Authorities, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions whose lists are publicly available, and is otherwise subject to sanctions or export controls restrictions. Where possible, engaging external counsel to assist with assessing the sanctions related risks for the relevant transactions;

6. enhanced periodic compliance trainings to ensure awareness of sanctions risks and timely and effective identification and reporting of actual and potential violations and ad hoc sanctions alerts in case of a major escalation of sanctions which might affect our business operations;

7. established a sanctions compliance committee (the "**Sanctions Compliance Committee**") to assist our Board to, among other things, evaluate our sanctions compliance policies, formulate sanctions compliance measures and related internal control procedures, assess and monitor the sanctions risks of our Group, supervise the implementation of the sanctions compliance policies, measures and internal control procedures. The Sanctions Compliance Committee comprises four members, and the chairman of the Sanctions Compliance Committee is Mr. Dong Benzi (董本梓), our executive Director. For details of his biography, please refer to the section headed "Directors and Senior Management" in this document;

8. continue operations and business activities in strict compliance with international sanctions applicable to such activities and/or each member of our Group, which may require that certain entities (e.g. those located in the UK or EU or are otherwise subject to EU or UK sanctions rules and regulations, including Cayman Islands) are not involved in such activities;

9. as and when the Sanctions Compliance Committee considers necessary, we will engage external international sanctions advisers to advise us as to whether our Group should engage in the business opportunities with countries that are subject to any form of international sanctions; and

10. identified key employees, senior management and board members to advise them of their potential international sanctions implications under their national sanctions regimes.

Our International Sanctions Legal Advisers have reviewed and evaluated these internal control measures and are of the view that these measures, when implemented by our Group, would be adequate and effective for our Company to comply with the applicable international sanctions laws.

Having taken the above advice of our International Sanctions Legal Advisers into account, our Directors are of the view that the above measures will provide a reasonably adequate and effective framework to assist us in identifying and monitoring any material risks relating to international sanctions and complying with our undertakings to the Hong Kong Stock Exchange.

After undertaking the relevant due diligence, and subject to the full implementation and enforcement of such measures, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective internal control framework to assist our Company in identifying and monitoring any material risk relating to sanction laws.

DEVELOPMENT IN GLOBAL POTASH SUPPLY AND PRICES

Overview

Potash mine production is very concentrated, with Canada, Russia and Belarus representing about 60% of global production, according to the statistics of the US Geological Survey ("**USGS**"). China has limited supply of high quality potash from domestic potash reserves and imported KCL of high grade is of significance to the potash fertiliser market in China. In 2022, approximately 50% of the total KCL sales volume in China was sourced from foreign countries, mainly Russia, Belarus and Canada.

However, the global supply of potash fertilisers and raw materials of potash fertilisers have been disturbed by a number of factors, such as the COVID-19 pandemic outbreak in 2020, the international sanctions targeting the Belarus Producer since August 2021, the conflict between Russia and Ukraine starting in February 2022 and the resulting sweeping sanctions against Russia by the Western countries, the rising costs in logistics and transportation as a result of high energy price and global inflation, to name a few. These factors have brought uncertainty to the global supply of KCL.

Due to the supply uncertainty, the global prices of potash have reportedly risen significantly in early 2022 to a record high of US$875 per tonne from the 2021 price level of US$481 per tonne. The price of fertiliser peaked in May 2022 and since that point, prices have slowly declined. In China, the Sea Import Master Contract Price has increased to US$590 per tonne in February 2022 from US$247 per tonne in February 2021 and subsequently decreased to US$307 per tonne in June 2023. Similar to the global price trend, the price of imported KCL in China has increased significantly in the first half of 2022, peaked in May and June 2022 at approximately US$770 per tonne, and has since recorded gradual decline, according to Frost & Sullivan.

To reduce the impact of fertiliser supply uncertainty on global food supplies and prices and ensure world food security, the U.S. Department of the Treasury has clarified on 14 July 2022 that agricultural commodities (including fertilisers) are not the targets of the U.S. sanctions against Russia and the U.S. has not imposed sanctions on the exportation of fertiliser from, to, transiting, or involving Russia. On the same day, the OFAC issued General License

No. 6B authorising among other activities, certain transactions related to the production, manufacturing, sale, or transport of Russian fertilisers. In addition, transactions involving insurance and reinsurance services related to the transportation or shipping of fertilisers from, to, transiting, or related to Russia are permitted under U.S. sanctions. Finally, U.S. financial institutions are authorised to process transactions authorised by the general license, and foreign financial institutions may engage in or facilitate transactions. The term "fertilizer" is used in a broad sense as defined in the U.S. Agricultural Trade Act of 1978 and therefore should include potash/KCL products. On 17 January 2023, the OFAC issued General License No. 6C, which replaced General License No. 6B by expanding the applicable scope to include the "provision" of agricultural commodities.

Similarly, the EU stated on 21 July 2022 that it is committed to avoiding all measures which might lead to food insecurity around the globe, and it had not adopted any measures targeting the trade in agricultural and food products (including fertilisers) between third countries and Russia. On 19 September 2022, the EU permitted transfer of certain fertilisers to third countries via EU operators or the EU territory and permitted the financing or financial assistance relating to such transfer. On 9 November 2022, the EU stated that it has essentially exempted the agri-food sector and fertilisers from its restrictive measures against Russia. Moreover, they allow the transfer of potash fertilisers, originating or exported from Russia to non-EU countries, to be carried out by EU operators or via EU territory. The financing or financial assistance associated with such transfers is allowed, as is the provision of insurance. In addition, EU sanctions also contain specific provisions to ensure that transactions for Russian agricultural products, including fertilisers, are able to proceed smoothly.

On 16 December 2022, in view of EU's stance to avoid and combat food insecurity around the world, and in order to avoid disruptions in the payment channels for agricultural products, it was decided to introduce a new derogation allowing to unfreeze assets of, and to make funds and economic resources available to, certain individuals who held a significant role in international trade in agricultural and food products, including wheat and fertilisers.

The UN has also stepped in and provided supports on exports of Russian agricultural products and fertilisers. The UN signed a memorandum of understanding with Russia on the full access of Russian food and fertiliser products to global markets on 22 July 2022. It has also been reported that the U.S. and the UN continue to work together to further facilitate and promote exports of Russian grains and fertilisers.

Measures Taken by Us to Address the Supply Uncertainty

Early Purchase of KCL

It is our general strategy to purchase KCL in advance where there is an anticipated price hike of KCL or supply shortage of KCL. As such, in anticipation of shortage of potash supply and increasing market price in latter of FY 2022 (i.e., late 2021 and early 2022), we started our potash purchase early in FY2022 (i.e., second quarter of 2021).

For example, in FY2021, the first half (which is a non-peak fertiliser season) of our total potash purchase volume only accounted for approximately 36.5% of total purchase volume in FY2021; while in the first half of FY2022, we purchased a total of approximately 661,000 tonnes of potash, which accounted for approximately 50.5% of our total purchase in FY2022. Our total purchase volume of potash in FY2022 was approximately 41.4% higher compared to FY2021.

Strengthen Strategic Cooperation with Existing Potash Suppliers

For FY2023, we increased potash purchase from other non-Belarus suppliers. To the best of our knowledge, our total aggregate purchase volume of KCL from Supplier D and domestic purchase of KCL with origin from Belarus was approximately 257,000 tonnes and 408,000 tonnes for FY2021 and FY2022, respectively. Such purchase could be fully replaced by our strategic cooperation with existing potash suppliers which source most of their potash from Russia. As at the Latest Practicable Date, we have signed memorandum of understanding for the supply of potash with the following existing suppliers:

- On 25 January 2022, we have signed a memorandum of understanding with Supplier A, (an international fertiliser trading company) and one of our top five suppliers during FY2021 and FY2022. Under the memorandum of understanding (as supplemented by an additional agreement to memorandum of understanding dated 16 May 2022) (the "**Supplier A Original MOU**"), Supplier A undertakes to supply 500,000 tonnes of potash originated from Russia or, where unavailable, from non-CIS countries through designated cross-border suppliers to us in 2022. The parties agreed that the specific quantity, price, quality, terms of delivery and payment of goods will be determined in separate purchase and sale contract to be signed by both parties for the relevant purchase. On 5 December 2022, the parties signed a further memorandum of understanding (the "**Supplier A Further MOU**") to extend the term of the Supplier A Original MOU to 25 January 2024 such that any unutilised potash under the Supplier A Original MOU can be utilised by us until 25 January 2024. As stated in the Supplier A Further MOU, the price shall be determined with reference to the prevailing market price at the time of the relevant purchase and sale contract. Further, although Supplier A is obliged to provide us with the unutilised KCL upon our request, we may purchase any quantity of the unutilised KCL we require and are not obliged to purchase all the unutilised KCL. As further stipulated in the Supplier A Further MOU, the Supplier A Original MOU and the Supplier A Further MOU shall be legally binding and enforceable. The parties may further renew the Supplier A Further MOU by agreement in writing for an additional year by advance written notice and neither party may terminate the Suppler A Original MOU and the Supplier A Further MOU unless with the written consent of the other party. In view of Supplier A was one of our largest suppliers during the Track Record Period and our stable and amicable relationship with them since 2018, we believe we can further renew the Supplier A Further MOU upon its expiry. We purchased approximately 60,000 tonnes of KCL with origin from Russia from Supplier A in 2022 and up to the Latest Practicable Date. We only utilised a minority of the amount of KCL stipulated in the Supplier A Original MOU and the Supplier A Further MOU as at the Latest Practicable Date because we were able to purchase sufficient amount of KCL from our other suppliers.

- In March 2022, we have signed a memorandum of understanding (the "**CNCCC Original MOU**") with CNCCC, a large Chinese SOE, principally engaged in the sales of chemical products and one of our top five suppliers for FY2023. Under the memorandum of understanding, CNCCC intends to import 500,000 tonnes of potash originated from Russia by sea for us during the period from March 2022 to February 2023. The import price will be determined by reference to the annual Sea Import Master Contract Price then in force. Both parties will stipulate the delivery quantity, product types, delivery time in separate purchase and sale contract for the relevant purchase. The parties signed a further memorandum of understanding (the "**CNCCC Further MOU**") to extend the term of the CNCCC Original MOU to 31 December 2023 such that any unutilised potash under the CNCCC Original MOU may be utilised by us until 31 December 2023. As stated in the CNCCC Further MOU, the parties, by agreement, may further renew the CNCCC Further MOU until the full utilisation of the 500,000 tonnes of potash in the CNCCC Original MOU. Neither party may terminate the CNCCC Further MOU without written consent of the other party. We purchased approximately 146,000 tonnes of KCL with origin from Russia from CNCCC in 2022 and up to 31 March 2023.

Alternative Sourcing from New Potash Suppliers or New Places of Origin

In addition to strengthening our business relationship with existing potash suppliers, we also proactively develop alternative sourcing from new potash suppliers, in particular new or existing suppliers with places of origin other than Russia. While it is unequivocally confirmed by the U.S. and EU that Russia's potash sector is not a target of their sanctions measures targeting Russia, out of abundance of caution, we decided to explore alternative sources of KCL purchases, with origin from places other than Russia and Belarus, for example, KCL originated from China and Germany.

We signed a memorandum of understanding with Southwest Salt Lake, an associate company of the largest domestic potash producer group in the PRC. Under the memorandum of understanding, Southwest Salt Lake intends to supply us with 300,000 tonnes of premium grade potash from September 2022 to August 2023. As advised by our PRC Legal Advisers, pursuant to the terms of the memorandum of understanding, we may continue to purchase potash from Southwest Salt Lake until the 300,000 tonnes of potash under the memorandum of understanding have been purchased. Both parties will stipulate the delivery quantity, product type, price and delivery time in separate purchase and sale contract for the relevant purchase. The terms of our purchases of KCL with Southwest Salt Lake are similar to the terms of our purchases of KCL with other domestic suppliers of KCL. As stipulated in the memorandum of understanding, the memorandum of understanding is legally binding on the parties. We purchased a total of approximately 2,000 tonnes of KCL from Southwest Salt Lake in 2022 and up to the Latest Practicable Date. We only utilised a minority of the amount of KCL stipulated in the memorandum of understanding as at the Latest Practicable Date because we were able to purchase sufficient amount of KCL from our other suppliers.

We have also started to discuss with Supplier A to engage in price inquiry with it on the supply of KCL with origins from non-CIS countries as part of the memorandum of understanding we signed with it in January 2022 as described above. In October 2022, we entered into purchase contract for the purchase of approximately 3,000 tonnes of KCL with origin from a non-CIS country, Germany, from Supplier A.

We plan to continue to develop other alternative sources of KCL. For example, we have historically purchased KCL from a Canadian supplier. We believe we have the capability to continue to purchase from them in the future should the need arises.

Our Directors believe that these alternative sourcing and new business relationships with domestic producer and other overseas suppliers will diversify our source of supplies, and reduce the risk of concentration on a number of existing suppliers.

Assessment on Cost of Purchase

Although we intend to expand our sourcing of potash to include new overseas suppliers, our Directors do not anticipate the purchase price of KCL with origin from Russia from these new overseas suppliers will have significant variance from sourcing from Supplier D (from Belarus) or Supplier A (whose potash is originated from Russia). This is due to the fact that potash import price by sea in China is generally determined by the market selling price in China with reference to the Sea Import Master Contract Price (on CFR basis). Please refer to the section headed "Business – Raw Materials Procurement – KCL" in this document for further information on the pricing of our major raw material, KCL.

With respect to additional costs which we may incur for overseas purchases of KCL with origin from Russia due to the different collaboration arrangements with new suppliers, such cost is not expected to be significant to our overall potash purchase price. Although during the Track Record Period our average purchase price of KCL from domestic purchase was generally higher than our average purchase price of KCL from overseas suppliers save for FY2022, our gross profit margin for FY2023 remained relatively stable where we purchased 93.2% of KCL by volume from domestic suppliers. We have recorded a similar gross profit margin for FY2022 and FY2023. Our gross profit margin was approximately 12.0%, 16.5%, and 16.3% for FY2021, FY2022 and FY2023, respectively.

During the Track Record Period, we were generally able to pass on most of the impact from the change in our purchase price of KCL to our customers. Our average purchase price per tonne of KCL increased by approximately RMB756.7 from FY2021 to FY2022 and increased by approximately RMB547.6 from FY2022 to FY2023; while our average selling price per tonne of KCL increased by approximately RMB1,143.9 from FY2021 to FY2022 and increased by approximately RMB903.9 from FY2022 to FY2023. We, therefore, witnessed a greater increase in our average selling price per tonne of KCL than our average purchase price per tonne of KCL during the Track Record Period.

As such, we have been generally able to pass on the increase in the cost of KCL to our customers during the Track Record Period when the global KCL price has experienced the most significant increase and we believe we will be able to continue to do so, taking into account of the fact that the global KCL price has stabilised since May 2022 and recorded gradual decline.

According to the data from the General Administration of Customs of the PRC, the average import price per tonne of KCL (CIF) from Canada was approximately 13.3% higher than that of Russia for FY2023. In the hypothetical scenario that if we had purchased all our KCL in FY2023 from Canada, it is estimated that our cost of raw materials would have increased by approximately 12.4% and our gross profit margin would have decreased from 16.3% to 5.9%, assuming no corresponding changes in selling price. However, we believe if the market supply of KCL originated from Russia is interrupted, the selling price of KCL in the PRC would likely be impacted as well given Russia is the third largest exporter of KCL to China in 2022 according to the Frost & Sullivan Report and the impact on our gross profit margin may, therefore, not be as significant as stated above.

Operational Impact

As mentioned above, the global supply of potash fertilisers and raw materials of potash fertilisers have been disturbed by a number of factors recently. To ensure our operation would not be materially impacted by the supply chain interruption, it is our strategy to attempt to, if necessary, stock up inventory of KCL to support the uninterrupted production at our factories. During FY2023, we purchased less than 10% of KCL by volume from overseas suppliers. Instead, we relied on third parties, domestic suppliers, to procure supply of KCL with origin from overseas. As such, there is minimal impact on our business operation in view of the temporary change of our procurement channel from a mix of overseas and domestic purchase of KCL to primarily domestic purchase of KCL during FY2023.

As such, we believe that our business and operations will not be materially and adversely impacted by the uncertainty of global supply of KCL and the associated increase in KCL price caused by COVID-19 outbreaks, international sanctions, supply chain interruptions, global inflation and other factors.

STORAGE AND WAREHOUSE

As at the Latest Practicable Date, we held interest in 26 storage warehouses and rented four storage warehouses for the storage of raw material, finished products, production equipment, spare parts, hardware and fuel. We leased out six warehouses to an Independent Third Party.

We have an efficient delivery system of our products to our customers. Once our customer services team receives a customer's request for delivery, our customer services team would contact the relevant production facilities who would then make appropriate delivery arrangements (including engaging third party transport companies) based on the nature of the products required, delivery distance and the requested delivery time by our customers. The close proximity with the majority of our customers and our efficient delivery system enable us to deliver our products to our customers in a timely and cost-efficient manner. Our customers may also elect to pick up the products from us and arrange their own delivery.

SEASONALITY

As our major products are fertilisers for agricultural use, our business is generally exposed to seasonal fluctuations in demand for potash fertiliser products, which varies depending on soil conditions, weather patterns and the types of crops planted. Farmers tend to apply crop nutrients during two short application periods, the strongest one in the spring, before planting, and the other in the fall, after harvest. As a result, the strongest demand for our products typically occurs during the spring planting season (January to March), with a second period of demand following the fall harvest (October to December). These two demand season falls into the second half of our financial year, with the non-peak season (April to September) falls into the first half of our financial year. Please refer to the sections headed "Risk Factors – Risks Relating to Our Business – Our business is subject to seasonality impact", "Business – Production Facilities and Capacities – Our Group's Production Facilities – Utilisation Rates – Utilisation Rate for Production Facilities Including Baoqing Production Facility and Anda Production Facility" and "Financial Information – Key Factors Affecting Our Results of Operations – Seasonality" in this document for details.

INVENTORY CONTROL

Our inventory comprised primarily of raw materials, finished goods, packaging and other materials and goods in transit. Our average inventory turnover days was approximately 24.5 days, 51.5 days and 41.2 days for FY2021, FY2022 and FY2023, respectively. Please refer to the section headed "Financial Information – Selected Balance Sheet Items – Inventories" in this document. We monitor the movement of our inventory monthly to ensure the availability of raw materials and our fertiliser products and manage our inventory levels generally based on the market demand and sale orders. With the construction of the Heilongjiang Logistics and Production Centre, we can centrally granulate, process, package, store and manage our KCL inventory which we believe will improve our supply efficiency. Further, with the increased storage capacity, it will give us greater flexibility to manage our inventory as we can purchase more KCL when its price is low for use in our production and operation when needed. For further information of the Heilongjiang Logistics and Production Centre, please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**] – Heilongjiang Logistics and Production Centre" in this document.

We did not experience any material impairment to our inventory, such as slow moving or otherwise obsolete inventory, during the Track Record Period.

INSURANCE AND PRODUCT LIABILITY

We have procured insurance policies that cover our production facilities, machinery and equipment. We also provide social welfare insurance and occupational accident damages insurance for our employees in accordance with the relevant PRC laws and regulations.

We have not maintained any product liability insurance for our products, as we are not legally required to have such insurance under the PRC laws. Our Directors believe that it is not a common practice to procure the product liability insurance in our industry in the PRC. During the Track Record Period, we did not experience any material claim relating to our product liability. After taking into consideration the costs and benefits of purchasing such insurance, our Directors are of the view that such product liability insurance is not necessary. We would consider procuring product liability insurance in the event that events or market practise are to deem such procurement appropriate. For risks relating to our insurance, please refer to the section headed "Risk Factors – Risks Relating to Our Business – We may have insufficient insurance coverage in certain situations" in this document.

IMPACT OF THE COVID-19 OUTBREAK ON OUR BUSINESS

An outbreak of a public health emergency of an infectious disease caused by a strain of coronavirus started in December 2019 and declared a pandemic by the World Health Organization in March 2020. The COVID-19 pandemic spread globally and caused severe disease and death, and therefore has significant impact on economy across the globe. Government authorities in the PRC imposed a series of restrictions and controls to better detect the COVID-19 infections and manage the COVID-19, including restricting mobility, mandatory quarantine of travelers from affected regions, compulsory face mask orders, social gathering restrictions and lock down measure such as temporary shutdown of public transportation and certain business. As a result, the economic activities in the PRC have been slowed down effectively. Other governments have also implemented strict policies around the border crossing movement of people, goods, and services.

We primarily operate in China, and we market and sell our products mainly to customers in China. Our production facilities, research and development centers, and offices are mostly located in China. We are subject to PRC regulations and laws in light of the COVID-19 pandemic.

Our Changchun Production Facility was temporarily suspended from mid-March 2022 to end of April 2022 following the guidance from the local government on COVID-19 protection measures. In view of the suspension, our Changchun Production Facility allocated 5,000 tonnes of SOP and 5,000 tonnes of KCL for production at the Baoqing Production Facility and the Anda Production Facility. The aggregated estimated SOP production capacity and KCL production capacity of the Baoqing Production Facility and the Anda Production Facility was 16,667 tonnes of SOP and 16,667 tonnes of KCL for the two months ended 30 April 2022, while the aggregate actual production volume of SOP and KCL at the Baoqing Production Facility and the Anda Production Facility was 10,956 tonnes and 30,783 tonnes, respectively, for the same period. The aggregate actual production volume of KCL at the Baoqing Production Facility and the Anda Production Facility for the period was higher than the aggregate estimated production capacity of KCL at the Baoqing Production Facility and the Anda Production Facility as we used the equipment of the idle SOP production lines at the two facilities to assist in the granulation of KCL allocated to them by our Changchun Production Facility. Given that we had the Baoqing Production Facility and the Anda Production Facility to take over the manufacturing of SOP products and the granulation of KCL, the temporary suspension of operation of our Changchun Production Facility did not have a material impact on our business operation as a whole.

However, the COVID-19 outbreak did lead to some disruption in logistics services leading to prolonged and delayed delivery in the supply of raw materials by our suppliers and sales of our products to our customers. There were delays in billing arrangements and delay in settlement of our trade receivables by our customers due to the impact of COVID-19. Please refer to the section headed "Financial Information" on the impact of COVID-19 to our financial performance.

Another round of COVID-19 outbreaks throughout October and November 2022 resulted in multiple cities across China under lock-down. Since late 2022 and early 2023, China has experienced a surge in COVID-19 confirmed cases. Some of our operations was temporarily affected. For example, due to the temporary travel restrictions and stay-at-home orders during the regional COVID-19 resurgence in Anda City, Heilongjiang Province in the second half of 2022, we experienced a temporary shortage of employees at our Anda Production Facility and there were also disruptions in the transport of raw materials and products to and from our Anda Production Facility during such period. However, as June to September was our non-peak season, we did not experience a material disruption to the operation of our Anda Production Facility as a result of the above. To maintain normal operation, some of our employees stayed in our Anda Production Facility to work on-site starting in October 2022 and vehicle drivers declared their health status in advance to government authorities so they can access our Anda Production Facility to transport raw materials and products.

In addition, due to the resurgence of COVID-19 in the PRC, we delayed our construction plan of our New Sichuan Production Facility and the Heilongjiang Logistics and Production Centre and the completion of the construction of phase II of our Baoqing Production Facility and phase II of our Anda Production Facility. We initially intended to commence construction of our New Sichuan Production Facility and the Heilongjiang Logistics and Production Centre in the second half of 2022. Given the various COVID-19 restrictions, we applied to the local authorities to delay construction of the Heilongjiang Logistics and Production Centre and they agreed to postpone the commencement of construction. We intend to postpone the commencement of construction of our New Sichuan Production Facility to the first half of 2024 and the Heilongjiang Logistics and Production Centre to the second half of 2023. As at the Latest Practicable Date, site formation and infrastructure works of the Heilongjiang Logistics and Production Centre have been commenced. As we did not commence construction of our New Sichuan Production Facility and the Heilongjiang Logistics and Production Centre during the period of resurgence of COVID-19 in the PRC, we did not experience any material adverse impact to our operation due to the delay in construction of our New Sichuan Production Facility and the Heilongjiang Logistics and Production Centre. Also, we initially intended to complete construction and obtain the construction completion approval for phase II of our Baoqing Production Facility and phase II of our Anda Production Facility in the second half of 2022. Due to the restriction measures on COVID-19, we had not received the construction completion approval of phase II of our two production facilities as anticipated. We received the construction completion approval for phase II of our Baoqing Production Facility in March 2023 and expect to receive the construction completion approval for phase II of our Anda Production Facility in the second half of 2023. As we were allowed to continue to operate phase II of our two production facilities prior to obtaining the relevant construction completion approval, we did not experience any material adverse impact to our operation due to the delay in receiving construction completion approval of the phase II construction of our Baoqing Production Facility and Anda Production Facility.

Given that the PRC government has substantially lifted its COVID-19 prevention and control policies at the Latest Practicable Date, our Directors are of the view that the COVID-19 pandemic is not expected to have a material adverse impact on our business in the long run. Nevertheless, if there are further waves of large-scale outbreaks of the pandemic in the PRC, the operations of our production facilities or the services provided by our logistics service providers may be adversely affected. The pandemic may also continue to affect the overall economy and demand for our products. In such circumstances, our operations and financial performance may be adversely affected. Please also refer to the section headed "Risk factors – We face risks related to force majeur events such as health epidemics, infectious diseases and other outbreak, including the COVID-19 outbreak" in this document.

ENVIRONMENT, CORPORATE SOCIAL RESPONSIBILITY AND SAFETY

ESG Policy

We take initiative on actions to protect the environment and are aware of our social responsibilities regarding climate-related issues for the benefit of our society and environment. We are determined to minimise the impact of our operations on the environment and promote social responsibility and environmental awareness across all levels of organisation. We are committed to comply with environmental, social, and governance ("**ESG**") reporting requirements upon [**REDACTED**]. Our ESG policy sets out our responsibility and authority in the process of meeting the standards of Appendix 27 to the Listing Rules.

Under our ESG Policy, we aim to build a sustainable communities with employees, customers and business partners. Through various activities (which may include corporate philanthropy activities, building community partnerships and mobilizing employees to participate in volunteer work), we aim to achieve practical and long-term benefits to the local area. Local activities in the community are supported. In addition, we are committed to energy conservation and sustainable development, and strive to reduce any negative impact on the environment. We will also focus on inclusive diversity within the organisation, so that all employees enjoy equal treatment and respect in hiring, training, benefits, and career and personal development.

Our Board has the collective and overall responsibility for formulating our ESG strategies and reporting, assessing and determining our ESG-related risks and ensuring we have effective ESG risk management and internal control systems. Our Board is required to oversee the management in the design, implementation and monitoring of these systems. Our Board may assess or engage independent third party(ies) to evaluate the ESG risks and review our existing strategy, target and internal controls. Relevant risk mitigation plans shall be established for all the key risks identified and the relevant risk owners are required to report the implementation status of the risk mitigation plans to the management and our Board periodically. Necessary improvement will then be implemented to mitigate the risks.

We undertake to establish an ESG committee prior to [**REDACTED**] to assist our Board to oversee ESG governance, ensure implementation of ESG policies, monitor ESG-related performance and targets, adjust ESG strategies as appropriate and oversee the preparation of the ESG report. Our ESG committee will consist of two executive Directors, Mr. Liu Guo Cai and Mr. Sun Pingfu, and a senior management, Mr. Liu Xuebin. All three of our ESG committee members have extensive experience in the fertiliser industry and Mr. Sun Pingfu also heads our professional research and development team. Under his leadership, our research and development department has developed various production processes to reduce pollution to the environment. For further information on the background of the three ESG committee members, please refer to the section headed "Directors and Senior Management" in this document.

Our management is in charge of implementing our environmental protection and management policies in our daily operations, including production safety, prevention of pollution, training and protection of employees' health. It is also assigned with monitoring materiality assessments conducted to identify material ESG issues, such as climate-related issues. Our Board then reviews the results from the materiality assessment and concludes on the issues that we shall focus on. Our ESG committee and management would report to our Board on a semi-annual basis via board meetings on the ESG performance of our Group, the effectiveness of these ESG risk management and internal control systems and any applicable recommendations and our management shall provide confirmation to our Board regarding the effectiveness of the ESG risk management and internal control systems. Our internal audit function will also assist in reviewing the adequacy and effectiveness of these ESG systems.

Furthermore, our Board will closely follow and monitor the latest requirements regarding ESG disclosure and regulatory compliance. For instance, we are highly aware of the Hong Kong Stock Exchange's ESG requirements, and in order to ensure compliance with said requirements, our Board shall review the content and quality of the ESG report after [**REDACTED**].

Environment

During our production process, waste water, waste gas and solid waste are regularly discharged. Our operations are therefore subject to numerous national and provincial environmental laws and regulations governing the discharge of waste water, gas emission, hazardous chemicals and waste management. For example, we are subject to, among others, the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) and Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》). Please refer to the section headed "Regulatory Overview – Law Supervision Over Environmental Protection" in this document for details of the applicable PRC laws and regulations.

During the Track Record Period, some of our Group companies were listed as key pollutant discharge units on the relevant local List of Key Pollutant Discharge Units (《重點排污單位名錄》) pursuant to the Measures for the Administration of the Directory of Key Environmental Supervision Units (《環境監管重點單位名錄管理辦法》) issued by the Ministry of Ecology and Environment of the PRC (中華人民共和國生態環境部) on 28 November 2022 and effective on 1 January 2023, which replaced the Administrative Provisions on the Catalogues of Major Pollutant Discharge Entities (for Trial Implementation) (《重點排污單位名錄管理規定(試行)》) that was abolished on 1 January 2023. Due to such listing, the relevant governmental authorities may come to our production facilities periodically to conduct an inspection to ensure our discharge of pollutants comply with the relevant pollutant discharge permits that we have obtained. We may also be required to periodically conduct self-inspection and report to them our amount of pollutants discharged. As advised by our PRC Legal Advisers, we had obtained all relevant pollutant discharged permits during the Track Record Period. Please refer to the section headed "Business – Licences and Approvals" in this document for details. As advised by our PRC Legal Advisers, based on the confirmations by the local authorities, we had not been found to be in breach of relevant environmental laws and regulations during the Track Record Period. If our Group fails to comply with the relevant laws and regulations, we would be subject to fines, suspension of business or cessation of operations. Please refer to the section headed "Risk Factors – Risks Relating to Our Business – Our business is required to comply with environmental protection laws and regulations and changes in social trend and political policies relating to ESG may have a material adverse impact on us" in this document for further information on our risks.

Our management focuses on ensuring that our production emissions, treatment of waste water, waste gas and solid waste are in compliance with the relevant regulations and policies of national and local governments.

We have a management system to reduce, treat and recycle waste water, waste gas and solid waste generated during our production process. For example, to ensure that we meet the national exhaust emission standards, we have added and upgraded our production process and equipment to reduce the emission of HCL gas. Also, for the production of our by-product liquid HCL, we have added environmental protection absorption devices to achieve high recycling and reuse rate of liquid HCL.

We also perform regular maintenance on our production facilities to ensure the equipment and systems are in good working condition. Further, we have developed a manual of safety code which specified operational procedures during production. As to our future environmental protection plan, we will continue to adopt advanced technology to upgrade our environmental protection standard.

As at the Latest Practicable Date, we did not receive any notifications or warnings and were not subject to any fines or penalties in relation to any breach of any applicable environmental laws or regulations that could have a material adverse effect on our production. We were in compliance in all material respects with the relevant PRC environmental laws or regulations during the Track Record Period. For risks relating to environmental protection, please refer to the section headed "Risk Factors – Risks Relating to Our Business – Our business is required to comply with environmental protection laws and regulations and changes in social trend and political policies relating to ESG may have a material adverse impact on us" in this document.

During the Track Record Period and up to the Latest Practicable Date, we had produced the following waste materials:

Waste Water

Waste water is generated during the production process in our production facilities. We have installed water treatment facilities to treat the waste water generated in our production facilities. Such treated waste water is discharged according to relevant regulatory standards.

Waste Gas

Waste gas is generated at our production facilities. Our waste gas can primarily be categorized as waste gas from combustion processes (i.e. waste gas generated from combustion of resources such as natural gas and heavy oil) and waste gas from production processes (i.e. waste gas generated from our other production processes such as the Mannheim process). The waste gas generated includes, among others, sulphur dioxide, nitrogen oxide, ammonia, HCL and smoke plumes.

To reduce the impact of our waste gas on the environment and the climate, we have adopted various measures to reduce and monitor our waste gas (including greenhouse gas) emission such as the following measures:

- The waste gas generated from our production process is purified by our desulphurisation or alkaline washing system before emission and we added two sets of comprehensive environmental protection absorption devices to our alkaline washing system at our Guangdong Production Facility in 2020 and 2021.

- We upgraded our natural gas system in 2019 at our Guangdong Production Facility which reduced our emission of sulphur dioxide.

- We also added eight sets of alkaline washing towers to our machinery at our Changchun Production Facility in 2019 to reduce emission of HCL gas.

- Dusts produced during NOP production are filtered out by our dust removal equipment.

- We are equipped with monitoring facilities to control gas emission to ensure compliance with the relevant discharge standards.

- During our production, we would engage third party companies to conduct onsite inspection and prepare relevant reports for submission to local authorities.

Solid Waste

We generate solid waste in our production process. The solid waste we generated can be further categorized as hazardous waste and non-hazardous waste. The primary hazardous waste we generated includes, among others, laboratory testing waste liquid, activated carbon and oil sludge and the primary non-hazardous waste we generated includes, among others, solid dust. We dispose our solid waste at waste disposal sites designated by the municipal government department. We also recycle certain of our solid waste. For example, the woven bags are recycled by its manufacturer and certain waste is recycled by the municipal government department. For hazardous waste, we engage qualified third party waste disposal service provider to handle such solid waste.

Physical and Transitional Risks

In addition, we acknowledge that climate-related matters pose a certain level of threat to us. Climate-related risks identified by us can be classified into two major categories: physical risk and transitional risk.

We define physical risks as risks that potentially cause physical impact to us. We believe that climate-related issues may bring about the risk of increasingly severe extreme weather events, such as more frequent storms, extreme cold weather, typhoons and flooding. Our business operations could be susceptible to the physical damages resulting from intense precipitation and floods and extreme cold weather. For instance, in January 2020, due to extreme weather at our Daxing Production Facility, some of our employees were unable to attend to work. Further, in August 2020, there was heavy rainstorm in the local area where our Guangdong Production Facility was situated. Due to the heavy rainstorm, the sewage system was not able to drain the water properly and a number of our properties were flooded including a production room, a power room, a maintenance room and a warehouse. We had to suspend production at the relevant production room to inspect and repair the relevant equipment and machinery.

Our Directors consider that physical damages resulting from extreme weather events could result in material adverse effect on our business operations, financial conditions and prospects. Our Group is principally engaged in the sourcing, manufacturing, processing and selling of potash fertiliser products and our potash fertiliser products are highly susceptible to water damage. Further, extreme weather conditions could result in damages to our production facility and machinery, resulting in increased maintenance and replacement cost and temporary suspension of production. In addition, the health and safety of employees may also be endangered.

Transitional risks represent risks arising from climate change and climate-related issues resulting in potential changes to our operational practices. Owing to the increasing public awareness on eco-friendliness, customers may shift their preferences for products that are more environmentally friendly, while regulators may require increasing disclosure on emission. Our research and development capability is crucial to the development of potash fertiliser products which utilise environmentally friendly production processes to meet the evolving requirements of our customers. For example, we have been developing a new production process for our SOP manufacturing to eliminate the production of HCL, a toxic substance, as a by-product in the production process. However, we cannot guarantee we can successfully commercialise the new SOP manufacturing process at our production facilities. Failing to enhance our research and development capabilities to meet the evolving demand of customers may result in a loss of sales and materially and adversely affect our business, results of operations and financial conditions.

Further, if we fail to comply with the relevant applicable environmental policies and laws and regulations, we may be involved in costly litigation or subject to penalties or other sanctions imposed by the relevant PRC judicial or governmental authorities. Our reputation may also be adversely affected, resulting in a loss of business as our customers may be less inclined to purchase from potash fertiliser company with environmental non-compliance. Regulatory development and changes in social trend in relation to ESG may potentially have significant impacts on our business operations and present transitional risks to us.

In view of the climate related risks, our management will take adequate steps to build resilience to climate change by identifying and managing climate related risks and opportunities and by development strategies which are in line with global best practices to adapt to and mitigate the impact of climate change on our operations.

In order to mitigate the impact of climate change, we intend to reduce our carbon footprint through the establishment and implementation of long-term carbon emissions reduction targets. We encourage our employees, suppliers and customers to reduce carbon emissions in their daily operations wherever practicable. We will adopt industry best practices to improve energy efficiency in our operations.

Corporate Social Responsibility

Caring for the Community

We are committed to the fulfillment of our corporate responsibility. For instance, we donated RMB400,000 to Red Cross in PRC in 2021 to support our communities. We also made donation to a local school.

Anti-corruption

We strictly abide by the laws and regulations related to anti-corruption, including but not limited to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and the Criminal Law of the PRC (《中華人民共和國刑法》). We uphold a high standard of integrity and have zero tolerance for corruption. We promote clear work ethics to employees, and strictly prohibit bribery, extortion, fraud, money laundering and other unethical behaviours, such as gambling, misappropriation of our Group's assets, provision or acceptance of gifts or other improper benefits.

Safety

We consider occupational health and safety as one of our important responsibilities. We have implemented a system of occupational health and safety measures, details of which are set forth as follows.

We have implemented various measures relating to occupational health and safety. Specifically, we have designated safety personnel at each production facility to oversee our production safety.

We have established our occupational health and safety management system with regular review. We have safety policies to record and handle accidents. We strengthen our employees' safety awareness by providing training programmes on occupational health and safety to our employees. We also regularly provide external professional trainings tailored to each job function to our employees. In addition, we provide our employees with regular body check in order to ensure their occupational health. We have implemented emergency measures to manage, report and investigate any potential incident and organise safety drills regularly.

We also review our production activities in weekly production report meetings. We have arranged personnel with professional qualifications such as registered safety engineers to continue to monitor the safety measures adopted by our production facilities. We have full-time safety management personnel at each production facility, and each production factory has a safety production management department.

In addition, we have arranged special personnel to keep abreast of the changes and updates in laws and regulations in relation to environmental protection, health and safety laws and regulations, and organise internal learning and trainings. In respect of our environmental and occupational safety matters, our expenses incurred for FY2021, FY2022 and FY2023 were approximately RMB8.6 million, RMB11.1 million and RMB25.9 million, respectively, which accounted for approximately 0.5%, 0.3% and 0.7% of our total cost of goods sold for the same years, respectively. We expect our annual cost of compliance with applicable environmental and occupational safety matters in the near future will not experience significant changes from that of the Track Record Period, subject to any future changes in applicable laws and regulations on environmental and occupational health and safety matters which may arise.

Save as disclosed in the sections headed "Risk Factors – Risk Relating to Our Business – Our production and operation are subject to various safety laws and personal injury may result in personal injury claims which may have a negative impact to our business reputation or result in civil and criminal penalties" in this document, during the Track Record Period and up to the Latest Practicable Date, we did not have any major accidents, claims or complaints relating to work safety which had materially and adversely affected our operation. Our Directors are of the view that we are in material compliance with the current applicable national and local health and safety laws and regulations of the PRC during the Track Record Period and up to the Latest Practicable Date. For risks relating to work accidents, please refer to the section headed "Risk Factors – Risks Relating to Our Business – Our production and operation are subject to various safety laws and personal injury may result in personal injury claims which may have a negative impact to our business reputation or result in civil and criminal penalties" in this document.

Identification, Assessment and Management of Environmental, Social and Climate related Risks and Opportunities

We identify the material ESG issues by means of materiality assessment which is performed with reference to the recommendations of Appendix 27 to the Listing Rules. The material assessment includes the consideration of business locations and operations and the following procedures:

i. stakeholder engagement – the engagement of internal (such as department heads and key staff) and external stakeholders (such as customers and suppliers) through interviews and periodic communications to identify any potential ESG issues that are relevant to our Group;

ii. ESG issues assessment – regarding the potential ESG issues from stakeholders, our management would discuss and assess the relevance and impact of these issues; and

iii. prioritisation of material ESG issues – the process where the results of identification and assessment are combined to generate the ESG materiality ranking. Then, our management would present the material ESG issues to our Board for further discussion, review and monitoring.

Based on our management's judgement, we have identified the material ESG issues highly related to our business. On top of the risks regarding environmental protection and climate-related issues, we have identified the following material ESG issues and their potential impacts.

Material Topics	Potential Risks, Opportunities and Impacts
Facilities enhancement	Facilities and equipment of our operation sites may provide space for us to enhance our environmental performance through selecting more energy efficient equipment. While this may potentially incur cost for new equipment and facilities in the short term and increased operational cost, our environmental performance may be enhanced.

Material Topics	Potential Risks, Opportunities and Impacts
Resources and energy management	Ineffective resources and energy management may potentially lead to excessive energy usage, which leads to increased operational cost. We intend to continue to promote energy conservation and environmentally friendly practices and review and account for greenhouse gas emissions and resource consumptions.
Impact of climate change	Climate change may lead to risks of more frequent extreme weather conditions. Such risks may lead to potential damage to our properties, disruption of our production, injuries to employees and increase in insurance premiums. We assess the energy consumption in our operation comprehensively and optimise production processes and operations to attempt to reduce energy consumption. We also provide work arrangements for bad weather and/or extreme conditions to mitigate potential injuries to employees.
Human capital development	Insufficient resources devoted towards the development of human capital, such as lack of training and promotion opportunities, may put our Group at risk of higher turnover rates and less competent workforce in medium and long term. Meanwhile, strong human capital development may lead to a stronger employee base and improve employee retention and dedication. We provide employees with competitive remuneration packages and career development opportunities.

Furthermore, we are willing to consult professional entities to improve our compliance and quality on emission disclosures, and regularly communicate with different stakeholders on their views on climate-related issues.

Metrics and targets on environmental, social and climate-related risks

We have taken into account the quantitative information that reflect our management for environmental, social and climate-related risks, which includes greenhouse gas emissions and resource consumption. Greenhouse gas emissions consists of Scope 1 and Scope 2 emissions. Scope 1 direct emissions include the greenhouse gas emissions from our production facilities and vehicles. Scope 2 energy indirect emissions include the greenhouse gas emissions from usage of purchased electricity. The following table sets forth the information of our greenhouse gas emissions and resource consumption for the periods indicated:

Emissions	**FY2021**	**FY2022**	**FY2023**
Greenhouse gas emissions (tonnes CO_2 equivalent)	115,775	56,138	85,749
• Scope 1 (direct emissions) (tonnes CO_2 equivalent)	106,688	48,091	73,270
• Scope 2 (indirect emissions) (tonnes CO_2 equivalent)	9,087	8,048	12,479

Resource consumption	**FY2021**	**FY2022**	**FY2023**
Water consumption (m^3)	368,936	220,076	204,809
Electricity consumption (MWh)	14,895	13,190	20,454
Natural gas consumption (m^3)	6,194,197	7,558,297	7,769,164
Heavy oil (tonnes)	4,214	–	–
Coal (tonnes)	573	251	290
Liquefied petroleum gas (tonnes)	–	–	2,489
Biofuels (tonnes)	1,449	1,213	1,840

Emission/consumption per unit(1)	**FY2021**	**FY2022**	**FY2023**
Greenhouse gas emissions per unit (tonne/RMB'000)	0.0531	0.0147	0.0182
Water consumption per unit (tonne/RMB'000)	0.16929	0.05729	0.04337
Electricity consumption per unit (MWh/RMB'000)	0.00683	0.00343	0.00433
Natural gas consumption per unit (m^3/RMB'000)	2.84231	1.96759	1.64505
Heavy oil (tonnes/RMB'000)	0.00193	–	–
Coal (tonnes/RMB'000)	0.00026	0.00007	0.00006
Liquefied petroleum gas (tonnes/RMB'000)	–	–	0.00053
Biofuels (tonnes/RMB'000)	0.00067	0.00032	0.00039

Note:

(1) Calculated by emissions/consumptions divided by revenue for the year.

For FY2022, our total greenhouse gas emission and water consumption decreased compared to FY2021 primarily due to the lower production volume of SOP and compound fertiliser products in FY2022. Our total natural gas consumption increased in FY2022 compared to FY2021 albeit the reduction in production volume of SOP and compound fertiliser products primarily as a result of our Guangdong Production Facility having fully replaced the use of heavy oil with natural gas in FY2022. We have replaced the use of heavy oil with natural gas as natural gas is a more environmentally friendly source of energy than heavy oil.

For FY2023, our total greenhouse gas emission, electricity consumption, and natural gas consumption increased compared to FY2022 primarily as a result of the consolidation of Baoqing Migao and Anda Migao to our Group since 31 March 2022 so we included the emission and consumption data of our Baoqing Production Facility and Anda Production Facility for FY2023. For FY2023, our water consumption decreased compared to FY2022 primarily due to decrease in the manufacturing of SOP products at our production facilities.

To better manage our environmental, social and climate-related risks, we aim to reduce our greenhouse gas emissions and resource consumption in the foreseeable future. We plan to reduce our greenhouse gas emissions and resource consumption by an average of 5% to 10% by production facility on an annual basis until we achieve our long-term goal of carbon neutrality. We set our targets based on our estimation of the reduction in greenhouse gas emissions and resource consumption brought by the replacement of the existing equipment and machinery in our older production facilities (e.g. Guangdong Production Facility, Changchun Production Facility and Daxing Production Facility), the upgrading of our productions facilities with automatic raw material feeding systems and enhancement of our SOP manufacturing processes. Please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**]" in this document on the details of the plan. Although we may incur additional operation costs in the short term in carrying out the above plans, we believe the long term environmental benefits justify the implementation of the plans. Our operation may also be impacted as we may need to temporarily suspend operation of certain of our production lines to replace or upgrade them, we intend to do so during the low season and in batches and therefore we do not expect our operations will be materially affected.

Further, we are actively developing water treatment and recycling operations in our factories. Recycled water will reduce the amount of waste water produced. Our total overall greenhouse gas emissions and resource consumption may increase in the future in view of the completion of our new production facilities, warehouse, logistics and warehousing centre and research development centre.

To better manage our environmental, social and climate-related risks, we aim to reduce our greenhouse gas emissions and resource consumption in the foreseeable future. Our management is responsible for setting plans and taking measures to reduce our greenhouse gas emissions and energy consumption. We plan to reduce our emission/consumption by increasing the use of clean energy.

EMPLOYEES

As at the Latest Practicable Date, we had 462 full-time employees. Most of our employees are based in the PRC. The following table sets forth the number of our employees by function as at the Latest Practicable Date:

Function	Number of employees	% of total
Manufacturing	206	44.6
Procurement	17	3.7
Research and Development	79	17.1
Sales and Marketing	18	3.9
Finance	42	9.1
General Administration	100	21.6
Total	**462**	**100.0**

Our success depends on our ability to attract, retain and motivate qualified personnel. We have generally been able to attract and retain qualified personnel and maintain a stable key employee team. As at the Latest Practicable Date, our employees consisted of 29 members who were at the manager level or above.

We recruit our employees based on a number of factors, including their work experience, educational background, and the needs of our vacancies. In our recruitment process, we strictly adhere to PRC's anti-discrimination regulations to ensure all applicants are evaluated based on their merit.

We provide our employees with a variety of trainings. We design and implement in-house training programmes tailored to each job function and a set of responsibilities to enhance performance. Specific training is provided during orientation for new employees to familiarise them with our working environment and operational procedures. We also regularly provide to our existing employees with professional trainings, such as trainings on production safety, equipment operation and storage management depending on which department the employee is in.

We compensate our employees with basic salaries and performance-based bonuses. We believe we offer our employees competitive compensation packages. As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance and unemployment insurance. During the Track Record Period and as of the Latest Practicable Date, we made contributions to employee benefit plans for our employees as required by local authorities in accordance with applicable PRC laws and regulations in all material respects.

To ensure equal opportunities for all our employees, we have implemented merit-based promotion mechanism. We examine our employees' performance regularly and promote our employees based on their job performance.

We have established a labour union for our employees. Each production facility has a labour union head to collect feedback from local employees. We also host activities on a regular basis to enhance the connections and relationships among employees across different departments. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any disruption to our business operations due to labour disputes. Our Directors consider that we have maintained good relationships with our employees.

COMPETITION

We face intense competition in the potash fertiliser industry in the PRC. According to the Frost & Sullivan Report, there were over 200 potash fertiliser producers in the PRC in 2022, which included SOEs, private-owned enterprises and foreign-invested enterprises.

For FY2023, our sales volume of KCL and SOP products was approximately 1,067,000 tonnes and 124,000 tonnes, respectively, and the sales volume of NOP and compound fertiliser products of Yunnan EuroChem for the same year was approximately 32,000 tonnes and 53,000 tonnes, respectively. As such, our Directors and Frost & Sullivan consider that we are in direct competition with large-scale potash fertiliser producers in the PRC. Please refer to the section headed "Industry Overview – Competitive Landscape Analysis" in this document for further information about the competitive landscape of the potash industry in the PRC.

Our Directors are of the view that we have distinguished ourselves in the competitive industry leveraging on our position as an integrated potash fertiliser producer with extensive and strategic market coverage. Our Directors believe that there are significant entry barriers as significant capital investment is required for establishing and maintaining large-scale potash fertiliser production facilities which complies with relevant environmental regulations in the PRC. However, some of our existing and potential competitors may have significantly greater financial, operational and marketing resources, a larger customer base, stronger relationships with customers and suppliers, a more diversified and higher quality products, greater development, or more advanced technology than we do. Please refer to the section headed "Risk Factors – Risks Relating to Our Industry – The fierce competition in the fertiliser business may materially and adversely affect our financial performance" in this document for more information on risks relating to competition.

AWARDS AND ACCREDITATIONS

We earned a number of awards and accreditations. The major awards and accreditations are set forth as follows:

Year awarded	Award/Accreditation	Awarding authority
2020	Meritorious Enterprise of China Potash Industry (中國鉀鹽鉀肥工業功勛企業)	China Inorganic Salts Industry Association Potash Industry Sub-Association* (中國無機鹽工業協會鉀鹽鉀肥行業分會)
2020	National Pilot Enterprise for the Production of Eco-friendly and Quality Agricultural Inputs (Fertiliser) (全國生態環保優質農業投入品(肥料)生產試點單位)	Quality and Safety of Agricultural Products Centre, Ministry of Agriculture and Rural Affairs* (農業農村部農產品質量安全中心)
2020	National Leading Manufacturer in Potassium Sulphate Industry (全國硫酸鉀行業質量領先企業)	China Quality Inspection Association* (中國質量檢驗協會)
2021	National Quality Integrity Leading Enterprise (全國質量誠信先進企業)	China Quality Inspection Association* (中國質量檢驗協會)
2016 – 2022	China Top 100 Chemical Fertiliser Enterprise (中國化肥企業100強)	China Chemical Information Centre (中國化工信息中心)(1) China Chemical Industry Information Association* (中國化工情報信息協會)
2016 – 2022	China Top 10 Potassic Fertiliser Enterprise (中國鉀肥企業10強)	China Chemical Information Centre (中國化工信息中心)(1) China Chemical Industry Information Association* (中國化工情報信息協會)

Year awarded	Award/Accreditation	Awarding authority
2021	National Leading Manufacturer in Chemical Industry (全國化工行業質量領先品牌)	China Quality Inspection Association* (中國質量檢驗協會)
2021	National Quality Leading Enterprise (全國質量先進企業)	China Quality Inspection Association* (中國質量檢驗協會)

Note:

(1) For 2016, the awarding authorities were Chemical Fertiliser Professional Committee of China Chemical Society* (中國化工學會化肥專業委員會) and China Chemical Industry Information Association* (中國化工情報信息協會)

LAND AND PROPERTIES

As at the Latest Practicable Date, we owned 12 parcels of land and held interest in 82 properties, leased one parcel of land and ten properties and had two sites under construction-in-progress in various regions of the PRC. The properties are mainly used for our production, warehouse, offices and employee residences.

As at the Latest Practicable Date, as none of our properties had a carrying amount of 15% or more of our total assets, pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, we are exempted from compliance with the requirements of section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, which requires a valuation report with respect to all of our Group's interests in land or buildings.

Land

As at the Latest Practicable Date, we owned 12 parcels of land in the PRC with an aggregate site area of approximately 898,501 sqm. As advised by our PRC Legal Advisers, we have obtained the land use right certificates for ten parcels of the land with an aggregate site area of approximately 444,087.9 sqm and are entitled to legally occupy, use, transfer, lease, mortgage or dispose of these parcels of land within the scope of use specified in the relevant land use right certificates and in accordance with the relevant PRC laws and regulations regarding the use of land, subject to existing mortgages of the relevant land.

We have also signed the state-owned construction land use right transfer contracts (國有建設用地使用權出讓合同) for two parcels of the land with an aggregate site area of approximately 454,413.1 sqm. On 22 June 2022, we signed a state-owned construction land use right transfer contract with the local authorities to acquire a parcel of land in Anda City, Heilongjiang Province with a site area of approximately 86,308.4 sqm, which is in close proximity to our Anda Production Facility. The acquisition price for the land use right is RMB13,810,000 and we paid a deposit in the amount of RMB2,770,000 under the agreement. In July 2022, we paid the rest of the acquisition price. We intend to construct warehouse and buildings on the land primarily for the storage of our raw materials and fertiliser products and other industrial purposes, and the construction plan of which shall be subject to approval from the government. We intend to commence construction of the warehouse and buildings in the second half of 2023.

On 21 September 2022, we signed a state-owned construction land use right transfer contract with the local authorities to acquire a parcel of land in Tongjiang City, Heilongjiang Province with a site area of approximately 368,104.7 sqm for the construction of the Heilongjiang Logistics and Production Centre. The acquisition price for the land use right is RMB60,210,000 and we had paid the acquisition price in September 2022. Please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**] – Heilongjiang Logistics and Production Centre" in this document for further information on the construction plan of the Heilongjiang Logistics and Production Centre. As advised by our PRC Legal Advisers, the two above state-owned construction land use right transfer contracts are legally valid and enforceable.

In relation to the Heilongjiang Logistics and Production Centre, we have signed a special designated railway connecting line agreement ("**Railway Cooperation Agreemen**t") with a local state-owned enterprise (the "**Railway SOE**") to connect our Heilongjiang Logistics and Production Centre to the railway track field of the Tongjiang North Station with designated railway lines. The material terms of the Railway Cooperation Agreement are as follows: (i) the designated railway lines will be used primarily for the transport of potash products; (ii) we shall be responsible for the construction of the railway and relevant facilities and the part of the railway and facilities towards the Tongjiang North Station shall belong to the Railway SOE upon construction; (iii) the Railway SOE shall lease to us the land (the "**Railway Land**") through which the designated railway lines will pass to connect to the railway track field of the Tongjiang North Station; (iv) the term of the agreement shall be long term; (v) if the parties decide to terminate the cooperation, a separate agreement shall be signed; and (vi) the Railway SOE may suspend or close off the designated railway lines if (a) there is material safety risks to the designated railway line; or (b) there is a breach of the relevant laws and regulations. Further to the Railway Cooperation Agreement, we have also entered into a lease agreement (the "**Railway Lease Agreement**") with the Railway SOE for lease of the Railway Land through which the designated railway lines will pass to connect to the railway track field of the Tongjiang North Station. The lease term of the Railway Land is 36 months commencing from

23 August 2022 to 22 August 2025. The total rental fee for entire lease term is approximately RMB252,000 (inclusive of tax) and payable within ten days from the date of the lease agreement. As at the Latest Practicable Date, we have paid the total rental fee to the Railway SOE.

According to our PRC Legal Advisers, the Railway Land is an allocated land (劃撥用地). Allocated land can only be leased upon obtaining the approval by the relevant land administrative authorities. Based on the interview with the Tongjiang Natural Resources Bureau (同江市自然資源局), which our PRC Legal Adviser has advised is the competent authority for this matter, confirming that it agrees to the lease of the Railway Land to us, our PRC Legal Adviser has advised us that the risk of the Railway Lease Agreement being deemed invalid is low. In relation to our risks of the usage of the Railway Land, please refer to the section headed "Risk Factors – Risks Relating to Our Business – We may face fines in relation to leased properties or may not be able to continue to use certain buildings on the leased properties or use the land we leased" in this document for further information.

Properties

Owned Properties

As at the Latest Practicable Date, we held interest in 82 properties in the PRC with an aggregate gross floor area of approximately 230,917 sqm used primarily for production, warehouse, offices and employee residences. As at the Latest Practicable Date, as advised by our PRC Legal Advisers, save as disclosed below, we held all building ownership certificates for our properties, according to which we are entitled to occupy, use, transfer, lease, mortgage or dispose of these properties, subject to existing mortages of the relevant properties. As at the Latest Practicable Date, we leased out six warehouses to an Independent Third Party.

Properties with defective titles

The table below summarises our properties with defective titles as at the Latest Practicable Date:

Properties and nature of title defect	Reasons for title defect	Legal impact	View of our PRC Legal Advisers	Relocation plan
1. Our Changchun Production Facility had not obtained the building ownership certificates for four properties with an aggregate gross floor area of approximately 22,176.32 sqm. Among them: i. one production room with an approximate gross floor area of 1,313 sqm did not obtain the construction work planning permit (建設工程規劃許可證), the construction work commencement permit (建築工程施工許可證) and the housing completion and acceptance documents (房屋竣工驗收文件); ii. one warehouse and one power room with an aggregate approximate gross floor area of 15,598.49 sqm did not obtain the construction work commencement permit and the housing completion and acceptance documents; and iii. one production room, warehouse and change room with an aggregate approximate gross floor area of 5,264.83 sqm did not obtain the housing completion and acceptance documents. Due to failure to obtain the construction work planning permit, the construction work commencement permit and/or the housing completion and acceptance documents, we had not obtained the building ownership certificates for these properties.	The reasons for the incidents were mainly due to (i) administrative oversight; (ii) our employees were unfamiliar with and misunderstood certain property-related laws and regulatory requirements and procedures; and (iii) our relevant employees did not seek proper advice from external advisers or our management team.	According to the PRC Urban and Rural Planning Law (《中華人民共和國城鄉規劃法》), for construction work that is carried out without a construction work planning permit, the competent authorities may order the construction to be ceased, and (i) impose a fine ranging from 5% to 10% of the construction cost and order rectification of the impact caused by such construction, if such impact can be rectified; or (ii) impose a fine of not more than 10% of the construction cost and the demolition of such construction, if such can be demolished, or confiscation of the property and/or any income illegally earned from such construction, if such construction cannot be demolished. According to the Measures for the Administration of Construction Licensing of Construction Projects (《建築工程施工許可管理辦法》), for construction work that is carried out without a construction work commencement permit, the competent authorities may (i) order the construction to be suspended; (ii) order rectification within a prescribed time limit; and (iii) impose a fine of not less than 1% and not more than 2% of the construction cost. According to the Construction Engineering Quality Management Regulations (《建設工程質量管理條例》), for construction projects that have put into use without passing the construction project completion acceptance check, the competent authorities may (i) order rectification and payment of compensation where any damage has been caused; and (ii) impose a fine of not less than 2% but not more than 4% of the construction cost. We estimated that the potential maximum penalty for the above incidents relating to our properties at our Changchun Production Facility is approximately RMB1.3 million.	According to the interviews with Changchun Economic and Technological Development Zone Planning and Natural Resource Management Service Centre (長春市經濟技術開發區規劃和自然資源管理服務中心) and Changchun Economic and Technological Development Zone Construction and Development Bureau (長春市經濟技術開發區建設發展局), which are the competent authorities as advised by our PRC Legal Advisers, the authorities advised that they will not require the demolition of the relevant properties and Changchun Migao may continue to operate in those properties. We had obtained written confirmation from Changchun City Economic and Technological Development Zone Construction and Development Bureau, which is the competent authority as advised by our PRC Legal Advisers, that no penalties had been imposed on Changchun Migao with respect to any breach of the Construction Engineering Quality Management Regulations during the Track Record Period. Our PRC Legal Advisers did not find any records of penalties against Changchun Migao on the websites of Changchun City Planning and Natural Resources Bureau (長春市規劃和自然資源局) and Changchun City Urban and Rural Construction Committee (長春市城鄉建設委員會) during the Track Record Period and up to the Latest Practicable Date. In view of the above, our PRC Legal Advisers are of the view that Changchun Migao may continue to use the properties amid the lack of construction work planning permit, the construction work commencement permit and/or the housing completion and acceptance documents and such would not have a material adverse impact to the business operation of Changchun Migao.	In the event that the relevant authorities order us to relocate from the properties, we will be able to relocate to our other buildings in the Changchun Production Facility. Our estimated cost of demolishing the properties and relocating from the properties is approximately RMB990,000 and the expected time required for the demolition and relocation is approximately one month.

Properties and nature of title defect	Reasons for title defect	Legal impact	View of our PRC Legal Advisers	Relocation plan
2. Our Guangdong Production Facility had not obtained the building ownership certificates for 15 properties with an aggregate gross floor area of approximately 38,759.2 sqm. Among them: i. two warehouses, one power room, one security room and one water pump room with an aggregate approximate gross floor area of 4,980.49 sqm did not obtain the construction work planning permit, the construction work commencement permit and the housing completion and acceptance documents; ii. security rooms with an aggregate approximate gross floor area of 63.2 sqm did not obtain the construction work commencement permit and the housing completion and acceptance documents; and iii. two production rooms, two warehouses, two comprehensive buildings, one testing building, one office building, and one power room with an aggregate approximate gross floor area of 33,715.46 sqm did not obtain the housing completion and acceptance documents. Due to failure to obtain the construction work planning permit, the construction work commencement permit and/or the housing completion and acceptance documents, we had not obtained the building ownership certificates for these properties.	The reasons for the incidents were mainly due to (i) administrative oversight; (ii) our employees were unfamiliar with and misunderstood certain property-related laws and regulatory requirements and procedures; and (iii) our relevant employees did not seek proper advice from external advisers or our management team.	According to the PRC Urban and Rural Planning Law (《中華人民共和國城鄉規劃法》), for construction work that is carried out without a construction work planning permit, the competent authorities may order the construction to be ceased, and (i) impose a fine ranging from 5% to 10% of the construction cost and order rectification of the impact caused by such construction, if such impact can be rectified; or (ii) impose a fine of not more than 10% of the construction cost and the demolition of such construction, if such can be demolished, or confiscation of the property and/or any income illegally earned from such construction, if such construction cannot be demolished. According to the Measures for the Administration of Construction Licensing of Construction Projects (《建築工程施工許可管理辦法》), for construction work that is carried out without a construction work commencement permit, the competent authorities may (i) order the construction to be suspended; (ii) order rectification within a prescribed time limit; and (iii) impose a fine of not less than 1% and not more than 2% of the construction cost. According to the Construction Engineering Quality Management Regulations (《建設工程質量管理條例》), for construction projects that have put into use without passing the construction project completion acceptance check, the competent authorities may (i) order rectification and payment of compensation where any damage has been caused; and (ii) impose a fine of not less than 2% but not more than 4% of the construction cost. We estimated that the potential maximum penalty for the above incidents relating to our properties at our Guangdong Production Facility is approximately RMB1.2 million.	According to the interview with Gaoming District Engineering Construction Completion Joint Acceptance Leading Group (高明區工程建設竣工聯合驗收領導小組), which is the competent authorities as advised by our PRC Legal Advisers, the authorities advised that they will not penalise Guangdong Migao and will not require the demolition of the relevant properties and the Guangdong Migao may continue to operate in those properties. We had obtained written confirmation from Foshan City Gaoming District Housing and Urban-Rural Development and Water Conservancy Bureau (佛山市高明區住房城鄉建設和水利局), which is the competent authority as advised by our PRC Legal Advisers, that Guangdong Migao has abided by PRC laws and regulations relating to construction and buildings management and no penalties or investigation had been imposed on Guangdong Migao with respect to any breach of such PRC laws and regulations during the Track Record Period. In view of the above, our PRC Legal Advisers are of the view that Guangdong Migao may continue to use the properties amid the lack of construction work planning permit, the construction work commencement permit, and/or the housing completion and acceptance documents and such would not have an material adverse impact to the business operations of Guangdong Migao.	In the event that the relevant authorities order us to relocate from the properties, we will be able to relocate to our other buildings in the Guangdong Production Facility. Our estimated cost of demolishing the properties and relocating from the properties is approximately RMB150,000 and the expected time required for the demolition and relocation is less than one month.

	Properties and nature of title defect	Reasons for title defect	Legal impact	View of our PRC Legal Advisers	Relocation plan
3.	Our Daxing Production Facility had not obtained the building ownership certificates for one production room with a gross floor area of approximately 5,760 sqm due to the lack of construction work planning permit, the construction work commencement permit and the housing completion and acceptance documents.	The reasons for the incident were mainly due to (i) administrative oversight; (ii) our employees were unfamiliar with and misunderstood certain property-related laws and regulatory requirements and procedures; and (iii) our relevant employees did not seek proper advice from external advisers or our management team.	According to the PRC Urban and Rural Planning Law (《中華人民共和國城鄉規劃法》), for construction work that is carried out without a construction work planning permit, the competent authorities may order the construction to be ceased, and (i) impose a fine ranging from 5% to 10% of the construction cost and order rectification of the impact caused by such construction, if such impact can be rectified; or (ii) impose a fine of not more than 10% of the construction cost and the demolition of such construction, if such can be demolished, or confiscation of the property and/or any income illegally earned from such construction, if such construction cannot be demolished. According to the Measures for the Administration of Construction Licensing of Construction Projects (《建築工程施工許可管理辦法》), for construction work that is carried out without a construction work commencement permit, the competent authorities may (i) order the construction to be suspended; (ii) order rectification within a prescribed time limit; and (iii) impose a fine of not less than 1% and not more than 2% of the construction cost. According to the Construction Engineering Quality Management Regulations (《建設工程質量管理條例》), for construction projects that have put into use without passing the construction project completion acceptance check, the competent authorities may (i) order rectification and payment of compensation where any damage has been caused; and (ii) impose a fine of not less than 2% but not more than 4% of the contract price of the construction cost. We estimated that the potential maximum penalty for the above incident relating to our properties at our Daxing Production Facility is approximately RMB1.0 million.	According to the interview with Planning Technology Service Centre of Zunyi Natural Resources Bureau (Bozhou) (遵義市自然資源局規劃技術服務中心(播州)) and Housing and Urban Rural Development Bureau of Bozhou District, Zunyi (遵義市播州區住房和城鄉建設局), which are the competent authorities as advised by our PRC Legal Advisers, the authorities advised that Daxing Migao may continue to operate in such property and they will not require Daxing Migao to demolish the relevant property and will not pursue any penalties against Daxing Migao in such regard. We had obtained written confirmation from Zunyi Real Estate Leasing (遵義房地產租賃), which is the competent authorities as advised by our PRC Legal Advisers, that they acknowledged the aforementioned title defect and confirmed Daxing Migao may continue its operations therein and they will not order Daxing Migao to suspend, restore or relocate from the relevant property nor impose any penalty in such regard. In view of the above, our PRC Legal Advisers are of the view that the likelihood of penalties being imposed by the relevant authorities for the lack of construction work planning permit, the construction work commencement permit and the housing completion and acceptance documents is low.	In the event that the relevant authorities order us to relocate from the properties, we will be able to relocate to our other buildings in the Daxing Production Facility. Our estimated cost of demolishing the properties and relocating from the properties is approximately RMB150,000 and the expected time required for the demolition and relocation is less than one month.

Considering (i) the total gross floor area of the properties with defective title only accounted approximately 28.9% of the total gross floor area of all our production facilities as at the Latest Practicable Date; (ii) majority of the properties with defective title were not directly required for our manufacturing operations; (iii) the revenue attributable to the properties with defective title directly required for our manufacturing operations only accounted for approximately 3.9%, 2.5% and 1.0% of our total revenue for FY2021, FY2022 and FY2023, respectively; (iv) the estimated cost and time for relocation; (v) for our properties with defective title only due to lack of housing completion and acceptance documents, the relevant PRC laws and regulations do not require the demolition of those properties and those properties accounted for the majority of our properties with defective title; (vi) for our properties with defective title only due to lack of housing completion and acceptance documents at our Guangdong Production Facility, we have already made the relevant filings for obtaining such documents; (vii) our Controlling Shareholders having entered into the Deed of Indemnity with and in favour of our Company and each of our subsidiaries to provide indemnities on a joint and several basis in respect of the aforementioned properties with defective title; and (viii) the views of our PRC Legal Advisers, our Directors are of the view that our properties with defective titles are, individually and collectively, not expected to have material adverse impact to our business operations. Our Directors also confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not received any notification from the government authorities requiring us to demolish and/or relocate from the properties with defective titles.

We have established and implemented entity-level control measures, including both preventive and remedial measures, to ensure its compliance with regulations in relation to obtaining building ownership certificates before occupying our future properties. We have established and implemented written policy and procedures, including:

i. before carrying out production and operation activities, the acquisition of building ownership certificates for purchased properties are monitored by a designated person, and upon all permits are obtained, approval is required prior to the commencement of production and operation activities in new premises;

ii. we have assigned a designated person to monitor the status of our permits and certificates of our properties with defective titles;

iii. we will engage external lawyer and external advisers to provide annual trainings to our relevant employees; and

iv. we will perform annual review on all existing property related certificates to ensure the completeness, validity and safekeeping of the permits and certificates.

During the Track Record Period and up to the Latest Practicable Date, we had not been penalised by any government authority over safety conditions concern in respect of our properties with defective titles for which we have not obtained the relevant building ownership certificates or construction work planning permits or construction work commencement permits or housing completion acceptance filing documents as required under the relevant PRC laws and regulations. We will continuously monitor and maintain safety conditions of our properties with reference to relevant national or local standards for evaluation of a property's safety condition. Where any safety issues are identified, we will immediately repair or take other measures. We have also obtained safety reports (安全鑒定報告) prepared by third party construction advisory company. In addition, our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, there had been no material incident to our knowledge that would raise questions as to the safety conditions of all properties we occupied with defective titles. Based on the above, our Directors are of the view that such properties are safe for occupation. Our Directors confirm that the safety condition of the properties with defective titles is in compliance with the relevant safety requirements in material respects during the Track Record Period and up to the Latest Practicable Date.

According to the relevant PRC laws and regulations and as advised by our PRC Legal Adviser, our rights as owner or occupant of these properties may be adversely affected due to the absence of the relevant building ownership certificates. Accordingly, certain rights including our rights to transfer or lease the properties and/or to mortgage the properties may be restricted.

Our Directors are of the view that the costs we incurred for our properties with defective titles would not materially differ from that we would have to pay if these properties did not have defective titles.

Please refer to the section headed "Risk Factors – Risks Relating to Our Business – Our rights to use the properties on our production facilities may be interfered" for further information in relation to the risks of our properties with defective titles.

Leased Properties

As at the Latest Practicable Date, we leased 12 properties, one located in Zunyi City, Guizhou Province, seven located in Tongjiang City, Heilongjiang Province, one located in Harbin City, Heilongjiang Province, one located in Chengdu City, Sichuan Province, one located in Hong Kong and one located in Singapore, with an aggregate gross floor area of approximately 47,493.45 sqm. The following table sets forth a summary of certain information regarding our material leased properties.

No.	Location		Approximate gross floor area	Use	Lease Period
1.	Gezhuang Village, Sanhe Town, Bozhou District, Zunyi City(1)	遵義市播州區三合鎮閣莊村	46,114.04 sqm	Production and operation	1 January 2022 to 31 December 2024
2.	Shop 5, Building 10, Tongjiang E-Commerce Industrial Park, Tongjiang City	同江市電商產業園內10號樓5號門市	136.19 sqm	Office	23 April 2022 to 23 April 2024
3.	Shop 4, Puxi Gardens, Tongjiang City	同江市浦西花園4號門市	121.5 sqm	Office	27 May 2023 to 27 May 2025
4.	Garage No. 113, Phase II, Building 10, Urban Mingyuan, Tongjiang City	同江市都市名苑10號樓二期113號車庫	21.89 sqm	Car park	17 March 2023 to 17 March 2024
5.	Room 601, 11-1, Urban Mingyuan, Tongjiang City	同江市都市名苑11-1-601室	109.78 sqm	Employee residence	17 March 2023 to 17 March 2024
6.	No. 602, Unit 2, Building 11, Lishe Community, Xiang Street, Tongjiang City	同江市香街麗舍社區11號樓2單元602號	70.31 sqm	Employee residence	23 July 2023 to 22 July 2024
7.	No. 403, Unit 4, Building 5, Lishe Community, Xiang Street, Tongjiang City	同江市香街麗舍社區5號樓4單元403號	81.91 sqm	Employee residence	29 July 2023 to 28 July 2024

No.	Location		Approximate gross floor area	Use	Lease Period
8.	No. 602, Unit 1, Building 2, Binjiang Shanshui Renjia Community, Tongjiang City	同江市濱江山水人家社區二號樓1單元602號	76.51 sqm	Employee residence	6 September 2023 to 5 September 2024
9.	No. 1, 11th Floor, Unit 4, Building B7, District 2, Shuimu Qinghua Community, No. 288, Wenhui Road, Songbei District, Harbin City	哈爾濱市松北區文匯路288號水木清華社區二區B7棟4單元11層1號	89.74 sqm	Employee residence	1 August 2023 to 31 July 2024
10.	No. 609, 6th Floor, Unit 1, Building 18, No. 266, Jitai 2nd Road, High-tech Zone, Chengdu City	成都市高新區吉泰二路266號 18棟1單元6樓609號	55.77 sqm	Office	1 August 2023 to 31 July 2024
11.	Room 801, 8th Floor, COFCO Tower, No. 262 Gloucester Road, Causeway Bay, Hong Kong	香港銅鑼灣告士打道262號中糧大廈8樓801室	2,958 sqf	Office	1 December 2022 to 30 November 2024
12.	8 Temasek Boulevard, #32-03 Suntec Tower Three, Singapore, 038988	–	341 sqm	Office	1 July 2019 to 30 June 2025

Note:

(1) The landlord is Zunyi Migao, a connected person of the Company. For details, please refer to the section headed "Connected Transactions – Connected Transaction – Daxing Lease Agreement" in this document.

As at the Latest Practicable Date, we had not filed the lease agreements in relation to our 10 leased properties in the PRC with the local housing administration authorities as required under the PRC law. As at the Latest Practicable Date, we had not received any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of the failure to file the lease agreements described above. As advised by our PRC Legal Advisers, the non-registration of lease agreements does not affect the validity of such lease agreements. However, we might be ordered to rectify this non-compliance by the competent authorities and if we fail to rectify within the prescribed period, a penalty of RMB1,000 to RMB10,000 per lease agreement may be imposed on us as a result of such non-filing.

During the Track Record Period and as at the Latest Practicable Date, the lessors of our three leased properties (No. 1 to No. 3) in the PRC could not provide us with valid building ownership certificates for some of the buildings with an aggregate gross floor area of 5,729.69 sqm. Such buildings were used by us as production room and offices. As advised by our PRC Legal Advisers, if the lessors do not have ownership or the right to lease these buildings, our leases may be rendered void and we may be required to vacate the buildings and relocate.

However, according to an interview conducted with Zunyi Natural Resources Bureau Planning Technology Service Centre (Bozhou) (遵義市自然資源局規劃技術服務中心(播州)), the current planning procedures for those buildings at our Daxing Production Facility are incomplete but the lessor can reapply after completing those procedures. Before the rectification is completed, the authorities advised that there will be no punishment or order to demolish the buildings, and the buildings can continue to be leased and used. Further, according to an interview conducted with the Housing and Urban-Rural Development Bureau of Bozhou District, Zunyi City (遵義市播州區住房和城鄉建設局), the authorities advised that they will not impose penalties or order demolition of the leased buildings, and those buildings can continue to be leased and used.

In relation to our two leased properties (No. 2 and No. 3) in Tongjiang City, Heilongjiang Province, if we are required to relocate to other locations, we believe relocation from such leased properties would not cause any material disruption to our operation since (i) such leased properties are only used as our offices; and (ii) there is sufficient supply of properties for office use in the neighboring area and we believe it will not incur significant time and costs to find and relocate to alternative properties in such area.

In view of the above, our PRC Legal Advisers are of the view that the lack of building ownership certificates of the above buildings would not have any material adverse impact on our business operation.

Construction In-progress

As at the Latest Practicable Date, we had two sites under construction in-progress, including the construction of phase II of our Anda Production Facility and the construction of the Heilongjiang Logistics and Production Centre in the Heilongjiang Province. For our Anda Production Facility, we completed phase I of our Anda Production Facility in February 2021 and commenced trial production in September 2021. We have commenced construction of phase II of our Anda Production Facility in June 2021 and we commenced trial production in December 2022. We expect to receive the construction completion approval from the relevant authorities in the second half of 2023. For the Heilongjiang Logistics and Production Centre, site formation and infrastructure works have been commenced and we expect to complete construction of the Heilongjiang Logistics and Production Centre in the second half of 2025. For further details of the Heilongjiang Logistics and Production Centre, please refer to the section headed "Future Plans and Use of [**REDACTED**] – Use of [**REDACTED**] – Heilongjiang Logistics and Production Centre" in this document for further information.

INTELLECTUAL PROPERTIES

We rely on a combination of trademarks and patents to protect our intellectual property, which are critical to our business operations. As at the Latest Practicable Date, we had registered 122 trademarks, ten patents and ten software copyrights in the PRC and three trademarks in Hong Kong and we had 19 pending patent applications in the PRC, which are material in relation to our business. Please refer to the section headed "Appendix IV – Statutory and General Information – B. Further Information About Our Business – 2. Intellectual Property Rights of Our Group" to this document for details of our material intellectual properties.

We had not been subject to any material dispute and claims for infringement of third-parties' trademarks, patents, copyrights and other intellectual property rights during the Track Record Period and up to the Latest Practicable Date. However, please refer to the section headed "Risk Factors – Risks Relating to Our Business – Third parties may claim that we infringe their intellectual property rights or proprietary rights, which could cause us to incur significant legal expense and prevent us from continuing using our existing production processes" in this document for more information.

LICENCES AND APPROVALS

The following table sets forth the details of our material licences, permits, registrations and approvals for our operation as at the Latest Practicable Date:

Licence and Permit	Issuing Authority	Date of Issue	Date of Expiry	Holder
The Safety Production Permit (安全生產許可證)	Changchun Emergency Management Bureau	9 June 2021	8 June 2024	Changchun Migao
	Heilongjiang Provincial Emergency Management Bureau	6 March 2023	29 September 2025	Baoqing Migao
	Heilongjiang Provincial Emergency Management Bureau	12 May 2022	11 May 2025	Anda Migao
Pollutant Discharge Permit (排污許可證)	Zunyi Environment Bureau	19 December 2022	18 December 2027	Daxing Migao
	Foshan Environment Bureau	12 May 2022	11 May 2027	Guangdong Migao
	Changchun City Ecological Environment Bureau	6 June 2022	5 June 2027	Changchun Migao
	Shuangyashan Environment Bureau	16 March 2023	15 March 2028	Baoqing Migao
	Suihua Environment Bureau	18 May 2021	17 May 2026	Anda Migao
The National Production Licence for Industrial Products (全國工業產品生產許可證)	Guangdong Provincial Market Supervision Administration Bureau	6 May 2021	5 May 2026	Guangdong Migao
	Heilongjiang Provincial Market Supervision Administration Bureau	3 December 2021	8 July 2024	Baoqing Migao
	Zunyi Municipal Market Supervision Administration Bureau	8 July 2019	7 July 2024	Daxing Migao
	Jilin Provincial Market Supervision Administration Bureau	7 July 2020	30 June 2025	Changchun Migao
	Sichuan Provincial Market Supervision Administration Bureau	22 January 2020	12 March 2025	Sichuan Migao
	Heilongjiang Provincial Market Supervision Administration Bureau	1 July 2022	30 June 2027	Anda Migao

Licence and Permit	Issuing Authority	Date of Issue	Date of Expiry	Holder
Registration Certificate of Hazardous Chemicals (危險化學品登記證)	Emergency Management Department Chemical Registration Centre and Guangdong Provincial Hazardous Chemicals Registration Office	23 March 2021	22 March 2024	Guangdong Migao
	Emergency Management Department Chemical Registration Centre and Heilongjiang Provincial Hazardous Chemicals Registration Management Centre	19 January 2022	24 February 2025	Baoqing Migao
	Emergency Management Department Chemical Registration Centre and Jilin Provincial Hazardous Chemicals Registration Management Centre	18 July 2022	17 July 2025	Changchun Migao
	Emergency Management Department Chemical Registration Centre and Heilongjiang Provincial Hazardous Chemicals Registration Management Centre	12 November 2020	11 November 2023	Anda Migao
Safety Production Licence for Hazardous Chemicals (危險化學品安全生產許可證)	Foshan Emergency Administration Bureau	30 July 2021	29 July 2024	Guangdong Migao
Production Record Certificate of Non-drug Chemicals (非藥品類易製毒化學品生產備案證明)	Foshan Emergency Management Bureau	3 August 2021	29 July 2024	Guangdong Migao
	Changchun Emergency Management Bureau	11 January 2023	10 January 2026	Changchun Migao
	Shuangyashan Emergency Management Bureau	7 December 2021	6 December 2024	Baoqing Migao
	Suihua Emergency Management Bureau	24 May 2022	23 May 2025	Anda Migao

Licence and Permit	Issuing Authority	Date of Issue	Date of Expiry	Holder
The Registration Certificate of the Customs Declaration Unit (海關報關單位註冊登記證書)/ Registration of Customs Declaration Unit (海關報關單位註冊登記)	Foshan Customs	10 July 2017	/	Guangdong Migao
	Changchun Customs	27 January 2016	/	Changchun Migao
	Chengdu Customs	9 August 2016	/	Sichuan Migao
	Chengdu Customs	/	31 July 2068	Migao Century (Chengdu)
Entry-exit Inspection and Quarantine Application Enterprise Record Form (出入境檢驗檢疫報檢企業備案表)	Guangdong Entry-Exit Inspection and Quarantine Bureau	11 July 2017	/	Guangdong Migao
	Jilin Entry-Exit Inspection and Quarantine Bureau	20 July 2016	/	Changchun Migao
Record Registration Form for Foreign Trade Operators (對外貿易經營者備案登記表)	Foshan Gaoming Foreign Trade Operator Registration Authority	19 November 2021	/	Guangdong Migao
	Foreign Trade Operator Registration Authority	22 January 2016	/	Changchun Migao
	Foreign Trade Operator Registration Authority	15 April 2022	/	Tongjiang Migao
Urban Drainage Permit (城市排水許可證)	Foshan Gaoming Housing and Urban-Rural Development and Water Conservancy Bureau	30 March 2021	29 March 2026	Guangdong Migao
Fertiliser Official Registration Certificate (肥料正式登記證)	Sichuan Provincial Department of Agriculture	12 October 2018	11 October 2023	Sichuan Migao
		24 December 2019	December 2024	
	Guizhou Province Department of Agriculture and Rural Affairs	3 September 2020	September 2025	Daxing Migao
		4 September 2019	September 2024	

In addition to the licenses, permits, registrations and approvals listed above, we also held automatic import licenses during the Track Record Period primarily for our import of KCL. The imports and exports of KCL are subject to control by the PRC government. The MOFCOM has implemented an automatic licensing system for imports and exports of KCL, under which the MOFCOM or its authorised agencies shall grant a licence to the consignee or consignor who applies for automatic licensing prior to completing customs clearance formalities for imports and exports subject to automatic licensing.

Each automatic import licence of KCL is for a single shipment only and a consignor or consignee is required to apply for another automatic import licence of KCL for each new shipment and is required to submit further documents (such as the relevant KCL purchase contract/order with each application). During the Track Record Period, as we purchased some of our KCL from overseas suppliers either through shipment by sea or transportation by railway through various purchase contracts/orders in various shipments under the framework supply agreements, we are required to apply for an automatic import licence of KCL for each shipment utilising our own automatic import licence. As at the Latest Practicable Date, Guangdong Migao had obtained two KCL automatic import licences for the import of an aggregate of approximately 31.5 million kg of KCL from overseas. The expiry date of the KCL automatic import licences is 31 December 2023. As advised by our PRC Legal advisers, according to their consultation with Trade Management Office of Guangdong Provincial Department of Commerce (廣東省商務廳貿易管理處), which is the competent authority, our business practice with respect to imported KCL are in compliance with the Administrative Measures on Automatic Import Licensing (《貨物自動進口許可管理辦法》).

As advised by our PRC Legal Advisers, save as disclosed in this document, we had obtained all necessary licences, permits, approvals and certificates for our business operations in the PRC during the Track Record Period and as at the Latest Practicable Date. We did not experience any difficulties in renewing the necessary licences, permits, approvals and certificates during the Track Record Period, and we do not expect to have any material difficulty in renewing them when they expire.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

Legal Proceedings

As at the Latest Practicable Date, our Directors confirmed that we were not engaged in any litigation, arbitration or claim of material importance, and there had been no litigation, arbitration, administrative proceedings or claim was known to our Directors to be pending or threatened by or against our Group or any of our Directors which could have a material adverse effect on our Group's financial condition or results of operations.

Our Directors, have confirmed that as at the Latest Practicable Date, there were no breaches or violations of PRC laws applicable to our Group that would have a material adverse effect on our Group's business or financial condition taken as a whole.

RISK MANAGEMENT AND INTERNAL CONTROL

We have implemented a series of measures to manage the various types of risks that we face in our operations, including the production and sales of products, daily operations, administration, financial reporting and recording, fund management, production safety and compliance with applicable environmental protection laws and regulations.

Our management team actively monitors and promptly reacts to changes in the industry's laws and regulations that impact our operations. Each of our manufacturing, research and development, sales and marketing and finance team members regularly report to our management with respect to any risks they identify, including product safety and quality risks, product liability risks and compliance risks. Where a potential risk or breach has been identified, responsible team members shall propose risk response plans if necessary for implementation and supervision, in order to minimise damage and prevent any further recurrence. Our Board supervises the implementation of our risk management policy at the corporate level by bringing together each operating department, to collaborate on risk issues among different business functions. We will consider whether measures against risk are being taken appropriately and revise our response plans or internal policies as appropriate.

In preparation for the [**REDACTED**], we engaged an internal control consultant to perform an internal control review of our Group's internal control system, including but not limited to the areas of financial, information technology, operation and compliance. Our internal control consultant would identify deficiencies in our internal control system, furnish recommendation on enhanced internal control measures established by us to prevent future violations and ensure on-going compliance with applicable laws and regulations, perform testing for the implementation status of such enhanced internal control measures and prepare a report in this regard.

Our Group has implemented or will implement the following internal control measures:

(i) we will formulate emergency preparation and response management procedures, safe production management system, occupational health management regulations and production safety accident emergency plan to standardise accident response, investigation and handling. We regularly arrange our safety management personnel to attend external training from a third-party organisation to ensure that we are up to date with industry-related health and safety information. Our safety management personnel will arrange regular trainings for our employees on health and safety and we will keep a training record. We will train at least one first aider for every 100 employees, who will be trained by a qualified third-party organisation trains and will obtain a first aid certificate;

(ii) we will regularly arrange for the identification and assessment of health and safety risks in each department by the responsible personnel of the safety department; establish and regularly update the files of major hazards according to the risk assessment methods of our Safety Risk Management System and Risk Assessment

Guidelines; and conduct risk assessment and develop risk control measures. We will give relevant support to the evaluation of the occupational disease hazards in our Group and arrange to commission a third-party organisation with appropriate qualifications to conduct an evaluation of the current occupational disease hazards at least once every three years and issue written records;

(iii) we will pay social security benefits for new employees within one month of their commencement date. The head of human resources will prepare the "Staff Housing Provident Fund Request Report" in accordance with the relevant regulations setting out the base level of the Housing Provident Fund, which will be approved by the general manager and the chairman of the Board;

(iv) we have adopted various enhanced internal control and risk management measures in relation to sanctions compliance. For details, please refer to the section headed "Business – Business Dealings with Third Parties Subject to International Sanctions – Sanctions Compliance Measures" in this document for further information;

(v) we have adopted various enhanced internal control measures in relation to tax return filing and payment. For details, please refer to the section headed "Financial Information – Key Components of Our Consolidated Statements of Comprehensive Income – Income Tax Expense – PRC Tax Re-filings" in this document;

(vi) we will engage external PRC legal adviser(s) to provide assistance in respect of any legal and compliance matters relating to our operations, where necessary;

(vii) our Directors have attended trainings conducted by our Company's legal advisers as to Hong Kong law on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules, and our Directors are aware of their duties and responsibilities as directors of a listed company in Hong Kong;

(viii) we will establish an audit committee which comprises three independent non-executive Directors. The audit committee will also adopt terms of reference which set out clearly its duties and obligations for ensuring compliance with the relevant regulatory requirements. In particular, the audit committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters; and

(ix) we have appointed Soochow Securities International Capital Limited as our Company's compliance adviser pursuant to the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines.

OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Migao BVI directly owned our entire issued share capital. Migao BVI is wholly-owned by Migao Barbados which in turn is wholly-owned by Mr. Liu. Accordingly, Mr. Liu, Migao Barbados and Migao BVI shall be regarded as our Controlling Shareholders under the Listing Rules.

Immediately following the completion of the [**REDACTED**], assuming the [**REDACTED**] is not exercised, Mr. Liu, Migao Barbados and Migao BVI will directly and indirectly hold [**REDACTED**]% of our issued share capital, and hence will remain as our Controlling Shareholders. For the background of Mr. Liu, please refer to the section headed "Directors and Senior Management" in this document.

NO COMPETITION AND CLEAR DELINEATION OF BUSINESS

Each of our Directors and Controlling Shareholders has confirmed that, as at the date of this document, none of them had any interest in any business, other than our business, which compete, or is likely to compete, either directly or indirectly, with our business and would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on its business independently of our Controlling Shareholders (including any associate thereof) after the [**REDACTED**] for the reasons set out below.

Management Independence

Our Directors are of the view that our Company is managed independently of our Controlling Shareholders for the following reasons:

(a) each of our Directors is aware of his/her fiduciary duties as a director which require, among others things, that he/she must act for the benefit of and in the best interests of our Company and our Shareholders as a whole and must not allow any conflict between his/her duties as a Director and his/her personal interest;

(b) at any meetings held to discuss a matter that gives rise to a conflict with any of our Directors and their respective associates, any conflicted Directors will abstain from voting and will not be counted in the quorum of the relevant Board meeting;

(c) our Board consists of six Directors and three of whom are independent non-executive Directors who have extensive experience in different industries and have been appointed in accordance with the requirements of the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinion; and

(d) connected transactions between our Group and our Controlling Shareholders or their respective associates, if any, are subject to the requirements under the Listing Rules, including the requirements of reporting, announcement and Shareholders' approval (where applicable).

Based on the above, our Directors are satisfied that they are able to perform their roles as Directors independently and manage our business independently from our Controlling Shareholders after the [**REDACTED**].

Operational Independence

Our Company makes business decisions independently. Our Company and our subsidiaries hold all relevant licences necessary to carry on our businesses and have sufficient capital, equipment and employees to operate its businesses independently.

Our Directors consider that our operations do not depend on the operation of our Controlling Shareholders for the following reasons:

(a) there is no competing business between our Group and any of our Controlling Shareholders;

(b) none of our Directors has an interest in any business which competes or is likely to compete, either directly or indirectly, with our business;

(c) we have our own independent operation capabilities and independent access to customers; and

(d) our Company has its own administrative and corporate governance infrastructure (including its own accounting, legal and human resources departments).

Based on the above, our Directors are satisfied that we are able to operate independently from our Controlling Shareholders and their respective associates.

Financial Independence

In addition, our Group is financially independent for the reasons set out below:

We have an independent financial system and finance team responsible for our own treasury functions and we have made, and will continue to make, financial decisions based on our own business needs.

We have sufficient working capital to operate our business independently, and have adequate resources to support our daily operations. In addition, our Group has an independent financial system and makes financial decision according to its own business needs. We are financially independent of our Controlling Shareholders and their respective associates.

For FY2021, FY2022 and FY2023, our Group received advances from related companies under financing activities of RMB93.4 million, RMB87.0 million and RMB243.1 million, respectively, among which amounts due to APPH of non-trade nature of RMB72.9 million, RMB158.5 million and RMB175.7 million were derived therefrom as at 31 March 2021, 2022 and 2023, respectively.

As at the Latest Practicable Date, the amounts due to APPH of non-trade nature was approximately RMB25.7 million. In addition, a related company owned by Mr. Liu has pledged certain land use rights and an associate of Mr. Liu has provided personal guarantee for banking facilities of RMB150.0 million granted to our Group, RMB80.0 million of which was utilised as at the Latest Practicable Date. We expect that the amount due to APPH of non-trade nature will be settled by the [**REDACTED**], and the abovementioned guarantee and pledge of assets will be released before the [**REDACTED**].

Save as disclosed above, at the Latest Practicable Date, our Company did not have any outstanding loans, advances and balances due to or from and guarantee provided by any of our Controlling Shareholders and their respective close associates and we do not intend to rely on any of our Controlling Shareholders in the future.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders.

CORPORATE GOVERNANCE

We have adopted the following measures in order to manage potential conflicts of interest:

(a) our Articles of Association provide that where a Director or a senior management officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement which are made or proposed by the Company (other than his/her service contract with the Company), he/she shall declare the nature and extent of his/her interests to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement is otherwise subject to the approval of the Board;

(b) our Articles of Association also provide that a Director shall not vote on any contract, transaction or arrangement in which such Director or any of his/her associates has a material interest, and such Director shall not be counted in the quorum of the relevant board meeting; and

(c) we have appointed Soochow Securities International Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

Based on the above, our Board is satisfied that there are sufficient and effective measures in place to manage conflicts of interest. We are committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong element on the Board which can effectively exercise independent judgement. We are also committed to the view that our independent non-executive Directors should be of sufficient calibre and number for their views to carry weight. Our independent non-executive Directors are free of any business or other relationships which could interfere in any material manner with the exercise of their independent judgement. Our Company is expected to comply with the Corporate Governance Code which sets our principles of good corporate governance in relation to, among others, Directors, the chairman, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Company will state in its interim and annual reports whether we have complied with the Corporate Governance Code, and will provide details of, and reasons for, any deviations from it in our corporate governance report which will be included in our annual report.

We have entered into certain agreements with parties that will be considered as our connected persons (as defined under Chapter 14A of the Listing Rules). Following the [**REDACTED**], the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules.

SUMMARY OF OUR CONNECTED PERSONS

Upon the [**REDACTED**], the following parties, which have entered into certain written agreements with our Group, will be connected persons of our Group:

Name	Connected Relationship
Zunyi Migao	an indirect wholly-owned subsidiary of Elegant Castle, which is in turn owned by Mr. Liu, one of our Controlling Shareholders
Heilongjiang Beidahuang	a substantial shareholder of Baoqing Migao and Anda Migao

CONNECTED TRANSACTION

We have entered into a transaction with a party who is our connected person and such transaction constitutes a connected transaction of our Group under Chapter 14A of the Listing Rules.

Daxing Lease Agreement

Principal Terms

Daxing Migao and Zunyi Migao entered into a lease agreement on 4 January 2022 (the "**Daxing Lease Agreement**"), pursuant to which Zunyi Migao agreed to lease the land and properties on it where the Daxing Production Facility is situated (the "**Daxing Lease Property**") to Daxing Migao and the terms of which are as follows:

Landlord	Tenant	Term	Leased area *(sqm)*	Rent per annum *(RMB)*
Zunyi Migao	Daxing Migao	1 January 2022 to 31 December 2024	land area of 156,049 and property area of 46,114.04	2.61 million for the first year; and a 3% increase in the rent for each subsequent year

The rent under the Daxing Lease Agreement is determined, with reference to a valuation report prepared by an independent valuer, at arm's length and reflects the market rents. As confirmed by our Directors, (i) the rent charged by Zunyi Migao under the Daxing Lease Agreement represents the prevailing market rent for comparable properties in neighbouring areas at which the Daxing Lease Property is located; (ii) the terms of the Daxing Lease Agreement is fair, reasonable and on normal commercial terms to our Group; and (iii) the Daxing Lease Agreement was entered into in the ordinary and usual course of business of our Group.

During the Track Record Period, the repayment of lease liabilities in relation to the Daxing Lease Property for FY2021, FY2022 and FY2023 were approximately RMB2.1 million, RMB2.2 million and RMB2.6 million, respectively.

Reasons for and benefits of the Transactions

As our Daxing Production Facility is situated on the Daxing Leased Property since January 2017, having considered (i) the use of the Daxing Lease Property as one of our production sites; (ii) the continuation of leasing Daxing Lease Property for our Daxing Production Facility will prevent the incurrance of any associated costs and occurrence of any unnecessary interruption of business caused by relocation, our Directors (including our independent non-executive Directors) are of the view that the Daxing Lease Agreement is beneficial to our Group as this would minimise the risk of potential disruption to our business operations. As such, the entering into of the Daxing Lease Agreement is fair and reasonable and in the best interest of our Group and our Shareholders as a whole.

Listing Rules Implications

In accordance with HKFRS 16 "Leases", our Group recognised a right-of-use assets on our balance sheet in relation to the fixed term leases in the form of an asset (representing the right to use the underlying assets during the lease term) and a liability (for the obligation to make lease payment). Therefore, the lease of the Daxing Lease Property from Zunyi Migao under the Daxing Lease Agreement is regarded as an acquisition of a capital asset of our Group and a one-off connected transaction entered into by our Group prior to the [**REDACTED**], rather than a continuing connected transaction, for the purposes of the Listing Rules. Accordingly, the reporting, announcement, annual review, circular and independent shareholders' approval requirements in Chapter 14A of the Listing Rules will not be applicable.

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Transaction	Applicable Listing Rules	Waiver Sought	Proposed annual caps for the year ending 31 March 2024	2025	2026
				(in RMB'000)	
Beidahuang Framework Sale Agreement	Rule 14A.101 of the Listing Rules	Waiver from strict compliance with the announcement requirement	1,082,000	1,136,000	1,193,000

Non-exempt Continuing Connected Transactions

We set out below a summary of the continuing connected transactions of our Group which are subject to reporting, annual review and announcement requirements, and are exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Beidahuang Framework Sale Agreement

Background and Historical Transaction Amount

In order to establish strategic cooperation with Heilongjiang Beidahuang, one of our major customers during the Track Record Period, we have two joint ventures with Heilongjiang Beidahuang where our Company is indirectly interested in 77% and 65% of the equity interest in Baoqing Migao and Anda Migao, respectively, and Heilongjiang Beidahuang is interested in 23% and 35% of the equity interest in Baoqing Migao and Anda Migao, respectively. Baoqing Migao and Anda Migao were consolidated and accounted for as our subsidiaries from 31 March 2022.

During the Track Record Period, the sale of our potash fertiliser products by our Group to Heilongjiang Beidahaung and its subsidiaries ("**Beidahuang Group**") amounted to approximately RMB580.1 million, RMB861.0 million and RMB945.4 million for FY2021, FY2022 and FY2023, respectively.

Principal Terms and Pricing Policies

On [●], our Company and Heilongjiang Beidahuang entered into a framework sale agreement ("**Beidahuang Framework Sale Agreement**"), pursuant to which, our Group will provide supply of our potash fertiliser products to Beidahuang Group. Major terms of such agreement are summarised below:

Term:	The Beidahuang Framework Sale Agreement shall commence from the [**REDACTED**] to 31 December 2025.
Supply of potash fertiliser products:	Our Group agrees to sell our potash fertiliser products to Beidahuang Group.
Pricing:	The price at which our Group will sell our potash fertiliser products shall be determined with reference to (i) our historical sale price of similar potash fertiliser products; (ii) our sale price of similar potash fertiliser products to independent third parties other than our Group and Beidahuang Group during the same period; (iii) the market price of similar potash fertiliser products; and (iv) the requirements of the applicable laws and regulations and the Listing Rules (if any). For the avoidance of doubt, the sale price of our potash fertiliser products shall be fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of our Group, and in the interests of our Group and our Shareholders as a whole.
Payment terms:	All payments in relation to the sale of our potash fertiliser products pursuant to the Beidahuang Framework Agreement shall be payable in accordance to terms of the individual contracts entered into for each transaction.

Termination:	The Beidahuang Framework Sale Agreement shall continue to be in force until (i) the expiry of the Beidahuang Framework Sale Agreement; (ii) termination by mutual agreement of the parties in writing; (iii) the determination of the relevant authorities to terminate the agreement; (iv) the waiver from the Hong Kong Stock Exchange in relation to the continuing connected transactions under the Beidahuang Framework Sale Agreement having been invalidated, withdrawn or revoked; or (v) the Beidahuang Framework Sale Agreement and the continuing connected transactions therein failed to satisfy the requirements under the Listing Rules.

Reasons for the Transactions

We consider that it is beneficial to enter into the Beidahuang Framework Sale Agreement as the transactions contemplated therein have facilitated, and will continue to facilitate, the overall operations and growth of our Group's business. It is also expected that the transactions contemplated under the Beidahuang Framework Sale Agreement will further deepen our collaboration and ensure efficient cooperation between the our Group and Beidahuang Group. A long-term framework sale arrangement with Beidahuang Group ensures a stable demand of our potash fertiliser products, which provides a great level of certainty in our business growth and future strategic and operational planning.

Estimated Annual Caps

Our Directors estimate that the total annual sale amount to Beidahuang Group by our Group under the Beidahuang Framework Sale Agreement will not exceed RMB1,082.0 million, RMB1,136.0 million and RMB1,193.0 million for each of the three years ending 31 March 2024, 2025 and 2026, respectively. In determining such annual caps, our Directors have considered the following factors:

(a) the historical and prevailing market price for potash fertiliser products. More specifically, according to the Frost & Sullivan Report, the Sea Import Master Contract Price increased significantly to US$590 per tonne in February 2022 (which represented the going price for FY2023) due to the recent global supply shortage of KCL and other factors, and subsequently decreased to US$307 per tonne in June 2023 mainly due to the decrease in uncertainties on the global supply of potash fertiliser. In view of such latest market price trend of imported KCL in China, and as we generally adopt a cost-plus approach when pricing our products, we expect the average selling price of KCL products and SOP products remains at a relatively stable level from FY2024 to FY2026 as compared to FY2023;

(b) the historical transaction volume of potash fertiliser products sold to Beidahuang Group by our Group during the Track Record Period, and the average selling price of potash fertiliser products sold to Beidahuang Group by our Group for FY2023 and 4MFY2024; and

(c) the expected rate of growth for both of the sales and overall business of Beidahuang Group. We expect the selling price of both KCL products and SOP products to remain stable for FY2024, FY2025 and FY2026, and the sales volume for both KCL products and SOP products to have a year-to-year growth rate of 5% for FY2025 and FY2026.

Listing Rule Implications

As at the Latest Practicable Date, Heilongjiang Beidahuang is a substantial shareholder of our subsidiaries, and is therefore a connected person of our Company under the Listing Rules. Accordingly, the transactions contemplated under the Beidahuang Framework Sale Agreement will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon [**REDACTED**].

As (i) Heilongjiang Beidahuang is a connected person of our Company at the subsidiary level; (ii) our Board has approved the Beidahuang Framework Sale Agreement and the transactions contemplated thereunder; and (iii) all the independent non-executive Directors have confirmed that the terms of the Beidahuang Framework Sale Agreement are fair and reasonable, on normal commercial terms or better and in the interests of our Company and the Shareholders as a whole, the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements but exempt from independent Shareholders' approval requirement pursuant to Rule 14A.101 of the Listing Rules.

Reasons for the Waiver Application

Our Directors (including our independent non-executive Directors) are of the view that the Beidahuang Framework Sale Agreement is fundamental to our businesses' development, given that Heilongjiang Beidahuang is one of our major customers during the Track Record Period.

In addition, given that the Beidahuang Framework Sale Agreement was entered into prior to the [**REDACTED**] and are disclosed in this document, and our potential investors will participate in the [**REDACTED**] on the basis of such disclosure, our Directors consider that compliance with the announcement requirement in respect thereof immediately after the [**REDACTED**] would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we [have] applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has] granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirement in respect of the Beidahuang Framework Sale Agreement.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions pursuant to the Beidahuang Framework Sale Agreement, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

SOLE SPONSOR'S AND DIRECTORS' VIEWS

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described in this section, including but not limited to terms and annual caps thereof, have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

The Sole Sponsor is of the view that all the continuing connected transactions described in this section, including but not limited to terms and annual caps thereof, have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

The table below sets forth certain information regarding our Directors:

Name	Age	Position/Title	Date of joining our Group	Date of appointment as Director	Principal responsibilities
Directors					
Mr. Liu Guocai (劉國才)	59	Chairman, chief executive officer and executive Director	June 2003	21 November 2017	Responsible for the overall strategic planning and day-to-day business operation of our Group
Mr. Sun Pingfu (孫平福)	58	Executive Director and research and development director	June 2007	23 March 2022	Responsible for the research & development aspects of our Group
Mr. Dong Benzi (董本梓)	34	Executive Director and internal control director	July 2010	23 March 2022	Responsible for the management of the internal controls of our Group
Mr. Chen Guofu (陳國福)	72	Independent non-executive Director	[●]	[●]	Responsible for supervising and providing independent judgement to our Board
Ms. Huang Shasha (黃莎莎)	46	Independent non-executive Director	[●]	[●]	Responsible for supervising and providing independent judgement to our Board
Ms. Wong Yee Man (黃綺汶)	35	Independent non-executive Director	[●]	[●]	Responsible for supervising and providing independent judgement to our Board

BOARD OF DIRECTORS

The Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors.

The functions and duties of the Board include, but not limited to, convening the general meetings, reporting on the performance of the Board at the general meetings, implementing the resolutions passed on at the general meetings, formulating business plans and investment plans, preparing the annual budget and final accounts, preparing proposals on profit distributions and change of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

We will enter into service contracts with each of our executive Directors and will issue letters of appointment to each of our independent non-executive Directors. Each of the service contracts and letters of appointment with our Directors is for a term of three years commencing from the [**REDACTED**].

Executive Directors

Mr. Liu Guo Cai (劉國才), aged 59, was appointed as our Director on 21 November 2017 and was re-designated as our chairman, chief executive officer and executive Director on 23 March 2022. Mr. Liu is primarily responsible for the overall strategic planning and day-to-day business operation of our Group and has also been serving as a director of Sichuan Migao since June 2003, a director of EuroChem Migao since February 2014 and a director of HK Migao since October 2005. He has been serving as a director and the chief executive officer of Singapore Migao since April 2010 and August 2014, respectively. From December 2006 to April 2020, he was a director of Changchun Migao. Mr. Liu has over 15 years of experience in the production, trading, research and development of chemical fertilisers and related projects. Prior to founding our Group in 2003, from September 1993 to June 2003, he served as the general manager of Liaoning Chemical Industry Import and Export Corporation of the Shenyang Branch* (遼寧省化學工業進出口公司瀋陽分公司), a company principally engaged in the import and export of chemical products. He obtained a university diploma in industrial and civil architecture from Jianghan Petroleum Institute (now known as Yangtze University) in July 1987, and a post-graduate diploma in economics from Liaoning University in June 1999. He also obtained a master of business administration at California American University in January 2002. He was certified as a construction engineer by the Personnel Department of Liaoning Province (遼寧省人事廳) of the PRC in August 1992.

Mr. Liu was the chairman of the board, a director and/or general manager of the following companies prior to their respective deregistration or revocation of business license:

Name of company	Place of incorporation	Position	Nature of business	Date of dissolution	Means of dissolution	Reason for dissolution
Ningxia Jiashi Huagong Co., Ltd* (寧夏佳石化工有限公司)	PRC	Executive director	Dormant	5 February 2007	Revocation of business license	The Company was inactive with no substantial business operation
Migao Huagong (Jiangsu) Co., Ltd* (米高化工(江蘇)有限公司)	PRC	Chairman of the board	Dormant	20 October 2008	Revocation of business license	The Company was inactive with no substantial business operation
Meize New Energy (Dandong) Co., Ltd.* (美澤新能源(丹東)有限公司)	PRC	Executive director	Dormant	5 November 2014	Deregistration	Had not commenced any substantial business
Dandong Border Economic Cooperation Zone Hengxin Trading Co., Ltd.* (丹東邊境經濟合作區恒鑫貿易有限公司)	PRC	Executive director	Dormant	9 May 2004	Deregistration	Had not commenced any substantial business
Dandong Border Economic Cooperation Zone Hengyuan Trading Co., Ltd.* (丹東邊境經濟合作區恒源貿易有限公司)	PRC	Executive director	Dormant	5 January 2000	Deregistration	Had not commenced any substantial business
Erlianhaote Fenghua Economic and Trade Co., Ltd.* (二連浩特豐華經貿有限責任公司)	PRC	Executive director and general manager	Dormant	5 July 2017	Deregistration	Had not commenced any substantial business
Migao New Energy (Sichuan) Co., Ltd.* (米高新能源(四川)有限公司)	PRC	Chairman of the board and general manager	Dormant	4 November 2015	Deregistration	Had not commenced any substantial business
Meize New Energy (Tieling) Co., Ltd.* (美澤新能源(鐵嶺)有限公司)	PRC	Chairman of the board	Dormant	12 November 2014	Deregistration	Had not commenced any substantial business
Meize New Energy (Tieling) Co., Ltd.* (美澤新能源(成都)有限公司)	PRC	Chairman of the board	Dormant	3 June 2011	Deregistration	Had not commenced any substantial business
Migao Real Estate (Jiangsu) Co., Ltd.* (米高置業(江蘇)有限公司)	PRC	Chairman of the board	Dormant	5 March 2007	Deregistration	Had not commenced any substantial business
Migao Century (Beijing) Chemical Trading Co., Ltd.* (米高世紀(北京)化工貿易有限公司)	PRC	Executive director and manager	Dormant	13 July 2018	Deregistration	Had not commenced any substantial business

Name of company	Place of incorporation	Position	Nature of business	Date of dissolution	Means of dissolution	Reason for dissolution
Sumit Trading (Foshan) Co., Ltd.* (蘇密特貿易(佛山)有限公司)	PRC	Executive director	Dormant	20 April 2017	Deregistration	Had not commenced any substantial business
Suifenhe Wancheng International Freight Forwarding Co., Ltd.* (綏芬河萬成國際貨運代理有限公司)	PRC	Executive director	Dormant	18 October 2016	Deregistration	Had not commenced any substantial business
Asia Pacific Potash Holdings Private Limited	Singapore	Director	Dormant	10 October 2017	Struck off	Had not commenced any substantial business
International Fertiliser Private Limited	Singapore	Director	Dormant	5 May 2014	Struck off	Had not commenced any substantial business

Mr. Liu confirmed that he has not been involved in any dispute with the above companies' creditors, shareholders and directors in respect of their respective deregistration, that the above companies have been deregistered with no outstanding liability or claim in relation thereto and were solvent at the time of their respective deregistration, that the deregistration of the above companies had not resulted in any liability or obligation being imposed against him, that his involvement in the above companies was in relation to his appointment as director and/or various positions of each entity, that no misconduct or misfeasance on his part had been involved in the deregistration and that each of the above companies was not a company held by our Group prior to its deregistration or revocation of business license.

Mr. Sun Pingfu (孫平福), aged 58, was appointed as our executive Director on 23 March 2022. Mr. Sun has been serving as the research and development director of our Group since December 2014 and is primarily responsible for supervising domestic and international research collaborations and leading technological development efforts. He served as the head of the technology research and development department of Sichuan Migao from September 2007 to December 2015. He has also been serving as the general manager of Sichuan Migao since January 2016, a director of EuroChem Migao since February 2014 and a director of Migao Century (Chengdu) since August 2022. Mr. Sun has over 30 years of experience in technology development, production management and project management in the chemical industry. Prior to joining our Group, from July 1984 to March 2007, he worked as a research analyst at the Luoyang Economic and Technological Research Centre* (洛陽市經濟技術研究中心), and has worked at chemical plants such as Sichuan General Chemical Plant* (四川化工總廠) and other companies principally engaged in the production of fertiliser products, including Chuanhua Weizhisu Co., Ltd.* (川化味之素有限公司) and Mianyang Vanetta Chemical Industrial Co., Ltd.* (綿陽崴尼達化工有限公司). He graduated from the University of Science and Technology of Chengdu (now known as Sichuan University) with an undergraduate degree in chemical engineering in July 1984. Mr. Sun obtained his chemical engineer qualification from the Personnel Department of Sichuan Province in January 1993.

Mr. Dong Benzi (董本梓), aged 34, was appointed as our executive Director on 23 March 2022. Mr. Dong has been serving as the internal control director of our Group since January 2019 and is primarily responsible for the management of the internal controls of our Group. He joined our group in July 2010, where he served as an accountant and internal control officer of Sichuan Migao. From May 2013 to September 2016, he served as the head of finance and internal control director at Zunyi Migao. Mr. Dong has been serving as the head of finance at Daxing Migao and internal control director at our Company since October 2016 and January 2019, respectively. He obtained a diploma in accounting from Xihua University in June 2011.

Independent Non-executive Directors

Mr. Chen Guofu (陳國福), aged 72, was appointed as our independent non-executive Director on [●] and is primarily responsible for supervising and providing independent judgement to our Board. Mr. Chen has over 40 years of experience in chemical industry. From November 1984 to September 1999, Mr. Chen served at several government departments and SOEs, including as the deputy director of the secretariat, the director of the general office of the Ministry of Chemical Industry of the PRC* (中華人民共和國化學工業部), now known as the State Bureau of Petroleum and Chemical Industry of the PRC* (中華人民共和國國家石油和化學工業局), the deputy secretary of the Committee of the Communist Party of China (the "**CPC Committee**") of China Chemical Engineering Corporation* (中國化學工程總公司), now known as China National Chemical Engineering Group Corporation Ltd.* (中國化學工程集團有限公司) and the deputy head of the Haixi Mongol Tibetan Autonomous Prefecture of Qinghai Province* (青海省海西蒙古族藏族自治州). From September 1999 to December 2009, he also served as the deputy secretary of the CPC Committee and the deputy general manager of the Sinopec Group Material Equipment Co., Ltd.* (中國石化集團物資裝備公司). Mr. Chen has been working in the China Inorganic Salts Industry Association* (中國無機鹽工業協會) ("**CISIA**") since August 2013. He was the vice president (協會駐會副會長) of the fourth council of CISIA's sub-council of Potassium Industry* (鉀鹽鉀肥行業分會) from September 2015 and was the vice president (協會副會長) and secretary general from July 2017 and was re-elected as the honorary president of CISIA in December 2021. Mr. Chen obtained a bachelor of engineering from the East China Institute of Chemical Engineering* (華東化工學院), now known as East China University of Science and Technology (華東理工大學) in January 1977. He is qualified as a senior engineer in December 1995 by the then Ministry of Chemical Industry of the PRC* (中華人民共和國化學工業部).

Mr. Chen served as an independent director of Ji Yao Holding Group Co., Ltd.* (吉藥控股集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300108), from August 2017 to June 2022. He has also been serving as an independent director of Kingenta Ecological Engineering Group Co., Ltd. (金正大生態工程集團股份有限公司) ("**Kingenta**"), a company listed on the Shenzhen Stock Exchange (stock code: 002470) since February 2020. In June 2020, a disclaimer of opinion was issued in relation to the 2019 financial report of Kingenta due to certain unresolved accounting issues, which constituted a breach of rules 1.4 and 3.1.5 of the listing rules of the Shenzhen Stock Exchange by the directors, supervisor and senior management of Kingenta. Eventually in January 2022, administrative penalties in the form of fine were imposed by the CSRC on Kingenta and certain of its directors and senior management, which did not include Mr. Chen, for the breach of applicable securities laws in the PRC as a result of misstatements in certain financial figures in its 2015, 2016, 2017, 2018 and 2019 annual reports and 2018 and 2019 interim reports. Mr. Chen confirmed that there was no wrongful act on his part leading to abovementioned breaches of the listing rules and securities laws, and no penalty was imposed on him in relation to such breaches.

Notwithstanding Kingenta had a historical non-compliance as disclosed above, our Directors are of the view, and the Sole Sponsor concurs that, such non-compliance does not affect the character, experience and integrity of Mr. Chen to act as a director of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules after taking into account the following:

(a) the non-compliance incident of Kingenta as disclosed above was not related to Mr. Chen's field of expertise. The 2019 annual report of Kingenta stated that Mr. Chen and other independent directors were unable to guarantee the truthfulness, accuracy and completeness of the 2019 annual report because Kingenta's performance materially deteriorated, material deficiencies existed in the internal control system, qualified matters from 2018 audit report remained unresolved and a disclaimer of opinion was issued by the auditor for the 2019 financial report;

(b) Mr. Chen was only appointed as an independent director of Kingenta after the issue which led to the disclaimer of opinion for the 2019 financial report arose. He did not involve in the issue leading to the abovementioned breaches of applicable listing rules and securities laws, nor any executive functions of Kingenta at the relevant time;

(c) Mr. Chen has not been disqualified, nor suspended from acting as a director of public companies in the PRC, and he remained as an independent director in two companies listed on the Shenzhen Stock Exchange (including Kingenta) as of the Latest Practicable Date; and

(d) Mr. Chen has over 40 years of experience in the chemical industry. The appointment of Mr. Chen as one of our independent non-executive Directors enables Mr. Chen to offer his distinctive industry insight to our Group in relation to our strategic development. As such, his appointment is beneficial to the long-term development of our Group.

Mr. Chen was the chairman of the board and the legal representative of the following company prior to its deregistration:

Name of Company	Place of incorporation	Position	Nature of business	Date of dissolution	Means of dissolution	Reason for dissolution
Zhongshihua Wuliu Zhunagbei Guijinshu Co., Ltd* (中石化物資裝備貴金屬有限公司)	PRC	Chairman of the board and legal representative	Dormant	20 August 2009	Deregistration	Cessation of business

Ms. Huang Shasha (黃莎莎), aged 46, was appointed as our independent non-executive Director on [●] and is primarily responsible for supervising and providing independent judgement to our Board. Ms. Huang has substantial experience in equity investments and capital markets. From November 2009 to October 2018, Ms. Huang was employed by ICBC International Holdings Limited and her last position was executive director in the equity capital markets department of the corporate finance and capital market services division. Since November 2018, Ms. Huang has been serving as the managing director of the investments bank department of Mirae Asset Securities. Ms. Huang obtained a bachelor of business administration at the Noordelijke Hogeschool Leeuwarden in the Netherlands in January 2003, a master of environmental business administration MBA at the University of Twente in the Netherlands in June 2004, and a master of business administration at the University of Oxford in June 2009.

Ms. Huang was a director and/or general manager of the following company prior to its dissolution:

Name of the company	Place of incorporation	Position	Nature of business	Date of dissolution	Means of dissolution	Reason for dissolution
Salience & Fortune International Limited (世楓國際有限公司)	Hong Kong	Director	Dormant	21 August 2015	Dissolved by deregistration pursuant to s.750 of the Companies Ordinance	Had not commenced any substantial operation

Ms. Huang confirmed that she has not been involved in any dispute with the above company's creditors, shareholders and directors in respect of the deregistration, that the above company has been deregistered with no outstanding liability or claim in relation thereto and was solvent at the time of deregistration, that the deregistration of the company had not resulted in any liability or obligation being imposed against her, that her involvement in the above company was in relation to her appointment as a director of the entity and that no misconduct or misfeasance on her part had been involved in the deregistration.

Ms. Wong Yee Man (黃綺汶), aged 35, was appointed as our independent non-executive Director on [●] and is primarily responsible for supervising and providing independent judgement to our Board. Ms. Wong has over 10 years of experience in accounting, forensic investigation and compliance matters. From December 2010 to February 2014 and from January 2015 to June 2016, Ms. Wong served as an assistant manager and manager at KPMG respectively. From July 2016 to November 2017, Ms. Wong served as a senior consultant at FTI Consulting (Hong Kong) Limited, a business advisory firm, where she was primarily responsible for the formulation and execution of forensic investigation procedures and on-site inspections. From November 2017 to October 2021, Ms. Wong served as a manager at the SFC, where she was primarily responsible for regulatory risk and compliance matters. Ms. Wong obtained a bachelor of business administration in accounting at Hong Kong Polytechnic

University in November 2010 and a bachelor of laws at University of London in August 2020. Ms. Wong has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since March 2014. Ms. Wong was awarded the title of certified environmental, social and governance analyst (CESGA) by The European Federation of Financial Analysts Societies in March 2022.

Save as disclosed above, each of our Directors has confirmed that he or she has not held any other directorships in listed companies during the three years immediately prior to the date of this document and that there is no other information in respect of our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention to our Shareholders.

SENIOR MANAGEMENT

The table below sets forth certain information regarding our senior management:

Name	Age	Position/Title	Date of joining our Group	Principal responsibilities
Ms. Liu Yaqin (劉雅琴)	69	Chief financial officer	June 2004	Responsible for the overall financial and capital management of the Group
Mr. Fu Yangmei (付揚美)	59	Sales Director	June 2004	Responsible for the domestic sales of the potash products of our Group
Mr. Liu Xuebin (劉學彬)	50	Head of Production (Northern Region of China)	January 2006	Responsible for the overall production management in the Northern region of China
Mr. Shi Wenguo (石聞國)	53	Head of Production (Southern Region of China)	January 2016	Responsible for the overall production management in the Southern region of China

Ms. Liu Yaqin (劉雅琴), aged 69, is the chief financial officer of our Group and is primarily responsible for the overall financial and capital management of our Group. Ms. Liu is also responsible for the financial reporting, internal audit and internal control management of the Group. She has been serving as a director of Changchun Migao since October 2015, supervisor of Anda Migao since May 2018 and supervisor of Baoqing Migao since May 2018. She joined our Group in June 2004 and participated in the establishment and development of Guangdong Migao and Changchun Migao. She has been serving as a deputy general manager and the head of finance of Guangdong Migao since June 2004. She has also been serving as a deputy general manager and the head of finance of Changchun Migao since April 2007. Ms. Liu has over 35 years of experience in accounting and financial management. Prior to joining our Group, Ms. Liu was the head of accounting of Liaoning Yongcheng Economy & Trade Development Co., Ltd.* (遼寧永成經貿發展有限公司), a company principally engaged in the import and export of chemicals and fertilisers, from June 2000 to May 2004. She also obtained an assistant accountant qualification certificate issued by the Liaoning Province of the Department of Finance and the Office of Personnel in April 1988.

Mr. Fu Yangmei (付揚美), aged 59, is the sales director of our Group and is primarily responsible for the domestic sales of the potash products of our Group. Mr. Fu is a director of Daxing Migao since October 2015. Mr. Fu joined our Group in June 2004 where he served as a deputy general manager of the sales department of Sichuan Migao. He has been serving as a vice chairman of the board at Daxing Migao since October 2015. From June 2010 to October 2021, he served as the general manager of Zunyi Migao. From August 2018 to June 2020, he served as a director of Yunnan EuroChem, where he was responsible for the product sales. Mr. Fu has over 11 years of experience in the fertiliser industry. Prior to joining our Group, Mr. Fu served various positions including manager of the sales department of Guizhou Zunyi Soda Plant Zhucheng Chemical Factory* (貴州省遵義鹼廠築城化工廠), a factory engaged in the production of chemical products, from September 1983 to December 2003 Mr. Fu obtained a diploma in administration management from Guizhou University in June 2000.

Mr. Liu Xuebin (劉學彬), aged 50, is the head of production (Northern region of China) of our Group and is responsible for the overall production management in the Northern region of China. Mr. Liu joined our Group in January 2006 as the head of production of Guangdong Migao and was the head of production of Changchun Migao from December 2007 to April 2008. He also has been serving as the general manager of Changchun Migao since November 2013. Mr. Liu has over 20 years of experience in the production, operation and project management of chemical fertilisers. Prior to joining our Group, he was a production workshop leader of Heilongjiang Qihua Chlor-alkali Plant* (黑龍江省齊化氯鹼廠) from August 1991 to July 2000, and a production workshop leader of Heilongjiang Qihua Potassium Sulphate Plant* (黑龍江省齊化硫酸鉀廠) from July 2000 to June 2006 where he participated in the construction of potassium sulphate plant and equipment installation, and was responsible for formulating the operational plan and procedures of potassium sulphate production. Mr. Liu obtained an instrument professional diploma (儀表專業文憑) in chemical instrument from Heilongjiang Qiqihar Labour Bureau Technical School* (黑龍江齊齊哈爾勞動局技校) in July 1992 and a professional diploma in chemical technology from Heilongjiang Qiqihar Television Broadcasting University* (黑龍江齊齊哈爾電視廣播大學) in August 1992.

Mr. Shi Wenguo (石聞國), aged 53, is the head of production (Southern region of China) of our Group and is responsible for the overall production management in the Southern region of China. Mr. Shi has over 19 years of experience in the production of fertiliser products. From September 1993 to December 2015, he served various position at Luliang Longhai Chemical Co., Ltd.* (陸良龍海化工有限責任公司) ("**Longhai Chemical**"), a company principally engaged in production and sale of fertiliser products, such as the plant manager of a nitrogen fertiliser plant, deputy general manager, general manager and deputy chief of the relocation and construction department. Mr. Shi joined our Group in January 2016 and was seconded to Yunnan EuroChem where he served as the chief engineer and later as the deputy manager of the manufacture department. Since July 2018, he was promoted to and has been working as the general manager in Yunnan EuroChem. Mr. Shi obtained a diploma in mechanical and electrical engineering from Yunnan Radio and Television University* (雲南廣播電視大學) (now known as Yunnan Open University (雲南開放大學)) in July 1993. He also obtained an engineer qualification from the Personnel Department of Qujing city in July 2004.

Each of our senior management members has confirmed that he/she has not held any directorships in any listed companies in the three years immediately prior to the date of this document.

COMPANY SECRETARY

Ms. Fung Wai Sum (馮慧森) was appointed as our company secretary on 23 March 2022. She is a senior manager of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. She has over 15 years of experience in the corporate secretarial field in providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

Ms. Fung is currently the company secretary of listed companies on the Hong Kong Stock Exchange, namely, FriendTimes Inc. 友誼時光股份有限公司 (stock code: 6820), Tongdao Liepin Group 同道獵聘集團 (stock code: 6100), Greenland Hong Kong Holdings Limited 綠地香港控股有限公司 (stock code: 337) and China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (stock code: 1728), and the joint company secretary of listed companies on the Hong Kong Stock Exchange, namely, Shenzhen Neptunus Interlong Bio-technique Company Limited 深圳市海王英特龍生物技術股份有限公司 (stock code: 8329), ClouDr Group Limited (stock code: 9955), YSB Inc. 藥師幫股份有限公司 (stock code: 9885) and Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd. 四川科倫博泰生物醫藥股份有限公司 (stock code 6990).

Ms. Fung is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute in the United Kingdom. Ms. Fung obtained her master's degree in professional accounting and corporate governance from City University of Hong Kong in November 2008.

OTHER INFORMATION IN RELATION TO OUR DIRECTORS AND SENIOR MANAGEMENT

Except as disclosed in this document, each of our Directors has confirmed that there are no other matters relating to his appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Except as disclosed in this document, none of our Directors and senior management hold any other positions within our Group.

None of our Directors and senior management is related to other Directors and senior management.

BOARD COMMITTEE

We have established the following committees in our Board: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with the terms of reference established by our Board.

Audit Committee

We [have] established an audit committee of our Company with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and approve our Group's financial reporting process and internal control and risk management system.

The audit committee consists of three members, namely Ms. Wong Yee Man (黃綺汶), Mr. Chen Guofu (陳國福) and Ms. Huang Shasha (黃莎莎), all of whom are independent non-executive Directors. The chairman of the audit committee is Ms. Wong Yee Man (黃綺汶).

Remuneration Committee

We [have] established a remuneration committee of our Company with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of our Group.

The remuneration committee consists of three members, namely Mr. Chen Guofu (陳國福), Ms. Huang Shasha (黃莎莎) and Mr. Dong Benzi (董本梓), two of whom are independent non-executive Directors. The chairman of the remuneration committee is Mr. Chen Guofu (陳國福).

Nomination Committee

We [have] established a nomination committee of our Company with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board on appointment of Directors and the management of the Board succession.

The nomination committee consists of three members, namely Mr. Liu, Mr. Chen Guofu (陳國福) and Ms. Huang Shasha (黃莎莎), two of whom are independent non-executive Directors. The chairman of the nomination committee is Mr. Liu.

BOARD DIVERSITY POLICY

Our Board [has adopted] a diversity policy which sets out the approach to achieve diversity on our Board. Our Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining our Company's competitive advantage. We seek to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. We will also take into consideration our business needs and our Board's succession planning from time to time. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on our Board.

After the [**REDACTED**], the nomination committee of our Company will review the board diversity policy on an annual basis to ensure its continued effectiveness and we will disclose in our corporate governance report details of the implementation of the board diversity policy on annual basis.

CORPORATE GOVERNANCE CODE

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

Pursuant to Code Provision C.2.1 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer as Mr. Liu currently performs these two roles. Our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively given that (i) decisions to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises three independent non-executive Directors out of six Directors and we believe there is sufficient check and balance on our Board; (ii) Mr. Liu and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he/she acts for the benefit and in the best interests of our Company and will make decisions of our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of our Board which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting the operations of our Group. Our Board will continue to review and consider splitting the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

Save as disclosed above, our Company expects to comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports upon the [**REDACTED**].

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors and members of the senior management receive, in their capacity as our employees, compensation in the form of salaries, bonuses, and other employee benefits.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid by our Group to our Directors for FY2021, FY2022 and FY2023 were, RMB2.6 million, RMB5.0 million and RMB5.1 million, respectively.

The aggregate amount of remuneration (including salaries, bonus, pension costs-defined contribution plan and other social security costs, housing benefits and other employee benefits) which were paid by our Group to our five highest paid individuals (excluding the remuneration paid to our Directors as disclosed above) for FY2021, FY2022 and FY2023 were RMB0.7 million, RMB0.5 million and RMB1.9 million, respectively.

No remuneration was paid by our Group to the Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period. No Director has waived or has agreed to waive any emoluments during the same period.

Under the arrangements currently in force, the aggregate remuneration (excluding discretionary bonuses) payable to and the benefits in kind receivable by our Directors for FY2024 is estimated to be approximately RMB5.0 million.

COMPLIANCE ADVISER

Pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed Soochow Securities International Capital Limited as our compliance adviser. The compliance adviser will advise us on the following matters pursuant to Rule 3A.23 of the Listing Rules:

i. before the publication of any regulatory announcement, circular or financial report;

ii. where a transaction, which might be a notifiable or connected transaction, is contemplated, including Share issues and Share repurchases;

iii. where we propose to use the [**REDACTED**] of the [**REDACTED**] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and

iv. where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares, the possible development of a false market in our securities, or any other matters.

The term of the appointment will commence on the [**REDACTED**] and end on the date on which we distribute the annual report of our financial results for the first full financial year commencing after the [**REDACTED**].

So far as our Directors are aware, immediately following the completion of the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised, the following persons will have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

(A) INTEREST IN THE SHARES OF OUR COMPANY

		Share held as at the Latest Practicable Date		Shares held immediately following the completion of the [REDACTED]	
Name of substantial Shareholder	**Nature of interest**	**Number of Shares(1)**	**Approximate percentage of interest in our Company**	**Number of Shares(1)**	**Approximate percentage of interest in our Company(2)**
Mr. Liu(3)	Interest in controlled corporation	10,000 (L)	100%	[**REDACTED**] (L)	[**REDACTED**]
Migao Barbados(3)	Interest in controlled corporation	10,000 (L)	100%	[**REDACTED**] (L)	[**REDACTED**]
Migao BVI(3)	Beneficial owner	10,000 (L)	100%	[**REDACTED**] (L)	[**REDACTED**]

Notes:

(1) The letter "L" denotes long position in the Shares.

(2) The calculation is based on the total number of [**REDACTED**] Shares in issue immediately following the completion of the [**REDACTED**] (without taking into account any Shares which may be issued upon the exercise of the [**REDACTED**]).

(3) As all the issued shares of Migao BVI are held by Migao Barbados which in turn is held by Mr. Liu, each of Mr. Liu and Migao Barbados is deemed to be interested in the Shares held by Migao BVI by virtue of the SFO.

(B) SUBSTANTIAL SHAREHOLDERS OF OTHER MEMBER OF OUR GROUP

Name of substantial shareholder	Name of member of our Group	Nature of interest	Approximate percentage of interest held by the substantial shareholders
Guizhou Tobacco Investment	Daxing Migao	Beneficial owner	49%
Heilongjiang Beidahuang	Anda Migao	Beneficial owner	35%
Heilongjiang Beidahuang	Baoqing Migao	Beneficial owner	23%

Save as disclosed above, our Directors are not aware of any persons who will, immediately following the completion of the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised, have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group.

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of our authorised and share capital in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (assuming the [**REDACTED**] is not exercised):

	Number of Shares	*US$*
Authorised share capital:		
Shares	[10,000,000,000]	[100,000,000]
Issued and to be issued, fully paid or credited as fully paid:		
Shares in issue as of the date of this document	[1,000,000]	[10,000]
Shares to be issued pursuant to the [**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Shares to be issued pursuant to the [**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Total	[**REDACTED**]	[**REDACTED**]

ASSUMPTIONS

The above table assumes that the [**REDACTED**] becomes unconditional and the Shares are issued pursuant to the [**REDACTED**] and the [**REDACTED**]. The above does not take into account any shares which may be issued pursuant to the exercise of the [**REDACTED**] or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The [**REDACTED**] that may be issued pursuant to the [**REDACTED**] will rank pari passu with all Shares currently in issue or to be issued, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this document.

MINIMUM PUBLIC FLOAT

According to Rule 8.08 of the Listing Rules, at the time of the [**REDACTED**] and at all times thereafter, at least 25% of the total issued share capital of our Company shall be held by the public (as defined in the Listing Rules).

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Act and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its unissued shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Act reduce its share capital or share capital redemption reserve by its shareholders passing a special resolution. For details, see "Appendix III – Summary of Our Constitution and the Cayman Companies Act – 2. Articles of Association – 2.1 Shares – (c) Alteration of Capital".

Pursuant to the Cayman Companies Act and the terms of the Memorandum and the Articles, all or any of the special rights attached to the shares or any class of shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-forth in nominal value of the issued shares of that class or with the sanction of special resolution passed at a separate general meeting of the holders of the shares of that class. For details, see "Appendix III – Summary of our Constitution and the Cayman Companies Act – 2. Articles of Association – 2.1 Shares – (b) Variation of rights of existing shares or classes of shares".

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the section headed "Appendix III – Summary of our Constitution and the Cayman Companies Act" to this document.

GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES

Subject to the [**REDACTED**] becoming unconditional, our Directors have been granted a general unconditional mandates to issue and repurchase our Shares.

For further details of the general mandates, please refer to the section headed "Appendix IV – Statutory and General Information – A. Further Information about Our Group – 3. Resolutions in Writing of Our Shareholder" to this document.

*You should read the following discussion and analysis in conjunction with our audited consolidated financial statements, including the notes thereto included in the Accountants' Report set out in Appendix I to this document. The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**"), which may differ in material aspects from generally accepted accounting principles in other jurisdictions.*

Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ from those anticipated in these forward-looking statements as a result of any of these factors, including those set out in "Forward-looking Statements" and "Risk Factors" in this document.

For the purpose of this section, unless the context otherwise requires, references to FY2021, FY2022 and FY2023 refer to our financial years ended 31 March 2021, 2022 and 2023, respectively; and references to 2021, 2022 and 2023 refer to the calendar years ended 31 December of such years.

OVERVIEW

We are one of the largest potash fertiliser companies in terms of sales volume of potash fertilisers in China in 2022 with comprehensive sourcing, manufacturing, processing and selling capabilities. During the Track Record Period, we provided various potash fertiliser products, including KCL, SOP, NOP and compound fertilisers. According to the Frost & Sullivan Report, we ranked the third among potash fertiliser companies in China in terms of sales volume of potash fertilisers in 2022, and we ranked the second among non reserve-based potash fertiliser companies in China by the same measure. We accounted for approximately 6.0% of the total sales revenue of potash fertilisers in China for the same year. In terms of sales volume of KCL, SOP and NOP in 2022, we ranked the third, the fourth and the fifth, respectively, among potash fertiliser companies in China, and accounted for approximately 7.0%, 4.0% and 0.3% of the total sales revenue of KCL, SOP and NOP, respectively, in China for the same year.

We have experienced steady growth in revenue and gross profit during the Track Record Period. For FY2021, FY2022 and FY2023, our revenue amounted to RMB2,081.6 million, RMB3,841.4 million and RMB4,722.7 million, respectively, and our gross profit amounted to RMB250.7 million, RMB633.4 million and RMB767.5 million, respectively.

BASIS OF PREPARATION

The business of our Group commenced in 2003 when our founder established Sichuan Migao, our first PRC operating subsidiary. For the purpose of the [**REDACTED**] of our Shares on the Main Board of the Hong Kong Stock Exchange, our Group underwent certain Reorganisation steps, including incorporating our Company in the Cayman Islands on 21 November 2017 as an exempted company with limited liability. For further details of our Reorganisation, please refer to the section headed "History, Reorganisation and Corporate Structure – The Reorganisation" in this document and Note 2 to the Accountants' Report in Appendix I to this document.

Upon completion of the Reorganisation, our Company has become the holding company of the companies now comprising our Group. Our Group comprising our Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity; accordingly, the historical financial information of our Group has been prepared as if our Company has always been the holding company of our Group.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial position and results of operations have been, or are expected to be in the future, significantly affected by a number of factors, many of which may be beyond our control. A discussion of certain of these key factors is set out below.

Price of Major Raw Material

KCL is our major raw material. Among our cost of goods sold, the cost of direct materials constituted approximately 95.9%, 97.9% and 97.5% of our total cost of goods sold, for FY2021, FY2022 and FY2023, respectively. Among all direct materials, the purchase costs of KCL accounted for approximately 77.7%, 86.6% and 90.4% of our total purchase of all direct materials for FY2021, FY2022 and FY2023, respectively. Therefore, our costs of KCL affect our gross profit margin.

The costs of KCL we purchased are subject to market conditions and price fluctuations. According to the Frost & Sullivan Report, the import price of KCL in China by sea is determined by market selling price in China with reference to the sea import master contract price ("**Sea Import Master Contract Price**") negotiated by a consortium of PRC state-owned enterprises with overseas KCL producers and suppliers usually each year in an annual master contract which specifies the price term. Our purchase price of KCL from overseas suppliers is set with reference to the Sea Import Master Contract Price for the relevant year. Our purchase price of KCL from domestic suppliers, on the other hand, is commercially negotiated between us and domestic KCL suppliers which is typically with reference to the Sea Import Master Contract Price. Such price under normal circumstances is generally higher than the price with overseas suppliers. The Sea Import Master Contract Price increased from US$220 per tonne in April 2020 to US$247 per tonne in February 2021, and further increased significantly to US$590 per tonne in February 2022, and subsequently decreased to US$307 per tonne in June

2023. The increase in 2022 was largely due to the supply shortage brought about by various factors, including the international sanctions targeting the Belarus Producer since mid-2021, the Russia-Ukraine conflict starting in February 2022 and the resulting sweeping sanctions imposed against Russia by the Western countries, the repeated COVID-19 outbreaks, the supply chain interruptions and the rising costs in logistics and transportation. Our historical operations and margins have been and will continue to be affected by price fluctuations of KCL. Please refer to the section headed "Risk Factors – Risk relating to our Business – We are exposed to global KCL supply uncertainty, as well as challenges in logistics and delivery; if we fail to effectively deal with these issues, our business and financial conditions could be adversely affected" of this document for further information.

For FY2021, FY2022 and FY2023, our unit cost of goods sold of KCL was RMB1,546.0 per tonne, RMB2,438.9 per tonne and RMB3,126.2 per tonne, respectively. Assuming all other variables remain constant, the following sensitivity analysis illustrates the impact of hypothetical fluctuations in the unit cost of goods sold of our KCL per tonne on our profit before tax for the years indicated. Based on the historical fluctuation of the unit cost of goods sold of our KCL and the Sea Import Master Contract Price during the Track Record Period up to the Latest Practicable Date, fluctuations are assumed to be 10%, 20% and 100% for the relevant indicated years:

	For the year ended 31 March		
	2021	**2022**	**2023**
		RMB'000	
Change in profit before tax if unit cost of goods sold of KCL increases/ (decreases) by 10%	(112,147)/ 112,147	(270,493)/ 270,493	(333,555)/ 333,555
Change in profit before tax if unit cost of goods sold of KCL increases/ (decreases) by 20%	(224,294)/ 224,294	(540,986)/ 540,986	(667,109)/ 667,109
Change in profit before tax if unit cost goods sold of KCL increases/ (decreases) by 100%.	(1,121,468)/ 1,121,468	(2,704,932)/ 2,704,932	(3,335,547)/ 3,335,547

Our Directors believe our purchase prices of KCL and thus our unit cost of goods sold of KCL will continue to fluctuate and we do not hedge our exposure to the fluctuation in the Sea Import Master Contract Price. In the event that the purchase price of KCL continues to rise due to external factors, which are out of our control and if we are not able to pass on the cost increase to our customers, our profits and financial performance could be materially and adversely affected.

Price of Products

Our major products are KCL and SOP. During FY2021, FY2022 and FY2023, KCL accounted for approximately 60.1% to 85.2% of our total revenue, whereas SOP accounted for approximately 10.1% to 25.1% of our total revenue. According to the Pricing Law of the PRC, the price of most of commodities and services (including fertiliser products) is subject to market conditions and decided by market participants. As a result, any changes in the market price of KCL products and SOP products, and to a less extent, the market price of our other products, will affect our revenue and financial performance. For example, the average selling price of our KCL products increased significantly by approximately 66.3% in FY2022 comparing to FY2021, which contributed to the significant increase in our total gross profit by RMB382.7 million, or approximately 152.6%, from RMB250.7 million for FY2021 to RMB633.4 million for FY2022, as well as the increase in our gross profit margin from approximately 12.0% for FY2021 to approximately 16.5% for FY2022.

According to the Frost & Sullivan Report, the average market selling price of KCL products in China increased from RMB1,785.7 per tonne in FY2021 to RMB3,339.4 per tonne in FY2022 and further to RMB3,914.9 per tonne in FY2023; whereas the average market selling price of SOP products in China increased from RMB2,399.5 per tonne in FY2021 to RMB3,653.7 per tonne in FY2022 and further to RMB4,141.9 per tonne in FY2023.

The following table sets forth the average selling prices per tonne of our products for the years indicated:

	For the year ended 31 March		
	2021	2022	2023
	RMB per tonne		
Average selling price(1)			
KCL	1,723.9	2,867.7	3,771.6
SOP	2,328.4	3,281.5	3,850.3
NOP	3,726.6	4,006.1	6,097.7
Compound Fertilisers	2,364.5	2,275.7	2,501.8
By-Products and Others(2)	310.7	430.5	674.6

Notes:

(1) Value added tax is excluded.

(2) Our other products include floating seed (漂盤), which we sold to our tobacco company customers by pieces (and not weight) since FY2021. Thus, we excluded the revenue contributed by the sales of floating seed and the sales volume of floating seed from the average selling price calculation of by-products and other products sold by us for FY2021, FY2022 and FY2023.

Since the fourth quarter of 2021, we adopted a new business arrangement with Guizhou Tobacco Investment (one of our overlapping customers and suppliers) with respect to certain compound fertiliser products. Under the new arrangement, Guizhou Tobacco Investment provides the principal raw materials to us for manufacturing into such compound fertiliser products; in return, we charge them production fees, as opposed to the old arrangement under which we sourced raw materials according to Guizhou Tobacco Investment's requirements, manufactured the raw materials into compound fertiliser products and then sold the products to Guizhou Tobacco Investment. In FY2022 and FY2023, the average production fee for compound fertiliser products under this new business arrangement was RMB454.4 per tonne and RMB519.5 per tonne, respectively.

The average selling prices of our KCL products and SOP products as set out in the table above during the Track Record Period generally correlated the fluctuations of the average market selling price. However, the average selling price of our KCL products and SOP products were below average market selling price of KCL products and SOP products in the PRC during the Track Record Period primarily due to the competitive pricing we offered to our key customers such as large agricultural reclamation companies and agribusiness companies for their relatively large sales orders, so as to develop and maintain a strategic cooperation network with these key customers.

Assuming all other variables remain constant, the following sensitivity analysis illustrates the impact of hypothetical fluctuations in the average selling price of our KCL products and SOP products on our profit before tax for the years indicated. Based on the historical fluctuation of our average selling price and the average market selling price of KCL products and SOP products during the Track Record Period and up to Latest Practicable Date, fluctuations are assumed to be 10%, 20% and 60% during the relevant years:

	For the year ended 31 March		
	2021	**2022**	**2023**
		RMB'000	
Change in profit before tax if average selling price of KCL products increases/(decreases) by 10%	125,049/ (125,049)	318,057/ (318,057)	402,409/ (402,409)
Change in profit before tax if average selling price of KCL products increases/(decreases) by 20%	250,098/ (250,098)	636,115/ (636,115)	804,818/ (804,818)
Change in profit before tax if average selling price of KCL products increases/(decreases) by 60%	750,293/ (750,293)	1,908,345/ (1,908,345)	2,414,453/ (2,414,453)

	For the year ended 31 March		
	2021	2022	2023
		RMB'000	
Change in profit before tax if average selling price of SOP products increases/(decreases) by 10%	52,204/ (52,204)	53,357/ (53,357)	47,606/ (47,606)
Change in profit before tax if average selling price of SOP products increases/(decreases) by 20%	104,408/ (104,408)	106,714/ (106,714)	95,212/ (95,212)
Change in profit before tax if average selling price of SOP products increases/(decreases) by 60%	313,223/ (313,223)	320,141/ (320,141)	285,635/ (285,635)

Product Mix

During the Track Record Period, we sold KCL products, SOP products, NOP products, compound fertiliser products, and by-products and other products which mainly consist of HCL and fertiliser additive. The sales of KCL products contributed the largest portion of our revenue, accounting for approximately 60.1%, 82.8% and 85.2% of our total revenue for FY2021, FY2022 and FY2023, respectively. The second largest portion of our revenue has been derived from the sales of SOP products, which accounted for approximately 25.1%, 13.9% and 10.1% of our total revenue for FY2021, FY2022 and FY2023, respectively.

The following table sets forth the sales volume of our products in absolute amount and as a percentage of our total sales volume for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	Tonnes	*%*	*Tonnes*	*%*	*Tonnes*	*%*
Sales volume						
KCL	725,405	58.1	1,109,099	74.5	1,066,950	73.9
SOP	224,201	18.0	162,599	10.9	123,642	8.6
NOP	13,167	1.1	2,230	0.1	2,520	0.2
Compound Fertilisers						
– By sales	81,892	6.6	10,982	0.7	19,085	1.3
– By provision of production services[1]	–	–	45,787	3.1	57,826	4.0
By-Products and Others[2]	204,137	16.3	158,633	10.7	173,605	12.0
Total	1,248,802	100.0	1,489,330	100.0	1,443,628	100.0

Notes:

(1) It represents the volume of compound fertiliser products we manufactured for Guizhou Tobacco Investment under the new business arrangement since the fourth quarter of 2021 for which we only charge production fees.

(2) Our other products include floating seed (漂盤), which we sold to our tobacco company customers by pieces (and not weight) since FY2021. Thus, we excluded floating seed from the volume calculation of by-products and others sold by us for FY2021, FY2022 and FY2023. Floating seed is a container used by our tobacco company customers for cultivating the seedlings of tobacco and is a non-fertiliser product of our Group. Floating seed was only sold together with our fertiliser products to tobacco companies as a value-added product. During FY2021, FY2022 and FY2023, revenue from sales of floating seed was RMB2.9 million, RMB4.2 million and RMB12.3 million, respectively, representing only approximately 0.1%, 0.1% and 0.3% of the total revenue for the same years.

The change in the product mix has had, and will continue to have, an impact on our financial performance. Generally, SOP products have higher average selling price than KCL products, and NOP products have higher average selling price than SOP products. Thus, historically NOP products commanded higher gross profit margin than SOP products, and SOP products had higher gross profit margin than KCL products. However, we recorded a lower gross profit margin for our NOP products during the Track Record Period as we purchased NOP from external suppliers following the cessation of NOP production at our own facility since 2019 which increased the unit cost of goods sold of NOP products. Under normal circumstance and after we resume NOP production to a normal commercial production scale when our New Sichuan Production Facility is completed, we expect that the higher proportion of SOP products and NOP products sold, the higher of the gross profit margin we might achieve. Please refer to the section headed "Business – Expansion Plan – New Sichuan Production Facility Plan" in this document for further details. In addition, in view of the relatively low demand of our SOP products during the non-peak season in FY2023, we adopted a temporary marketing strategy to offer competitive pricing to certain customers of our SOP products during such year so as to promote sales of our SOP products. As such, we recorded a lower gross profit margin for our SOP products for FY2023 as compared to the gross profit margin for our KCL products for the same year.

In FY2022, the average selling price of KCL products surged by approximately 66.3% compared to that in FY2021, which has the highest increase in average selling price among all of our other products for the same year. In such a case, the higher proportion of KCL products we sold in our product portfolio, the higher gross profit margin we can achieve. In FY2022, we sold a total of approximately 1,109,099 tonnes of KCL products compared to a total of approximately 725,405 tonnes in FY2021, representing an increase of approximately 52.9% in the sales volume of KCL products. Accordingly, the proportion of sales volume of KCL products to our total sales volume increased from approximately 58.1% for FY2021 to approximately 74.5% for FY2022. As a result, the increase in the proportion of KCL sales contributed to the increase of our gross profit margin from approximately 12.0% for FY2021 to approximately 16.5% for FY2022.

Production capacity, production volume and utilisation rate

Our results of operations depend on our production capacity, production volume and utilisation rate. As at the Latest Practicable Date, we had five key production facilities. We are planning to construct the New Sichuan Production Facility and plan to resume production of NOP products, SOP products and compound fertiliser products at the New Sichuan Production Facility. As at the Latest Practicable Date, we had 40 SOP production lines, three KCL granulating lines and three compound fertilisers production lines.

In general, higher our production capacity will enable us to have more products for sales to satisfy our customers' demand and therefore may achieve higher revenue. In addition, a higher production capacity and better utilisation of our production facilities will allow us to achieve a better economy of scale, resulting in the reduction of the fixed costs to be assigned to each unit of our products and increase in the profitability of our products. Following the inclusion of Baoqing Migao and Anda Migao as our subsidiaries on 31 March 2022, our annualised production capacity for SOP products increased by approximately 160,000 tonnes as at the Latest Practicable Date, which is expected to contribute to the expected increase in revenue in the near future.

Seasonality

The sales of our fertiliser products is seasonal because the use of crop nutrients is seasonal. Farmers tend to apply crop nutrients during two short application periods, the strongest one in the spring, before planting, and the other in the fall, after harvest. As a result, the strongest demand for our products typically occurs during the spring planting season (January to March), with a second period of demand following the fall harvest (October to December). These two demand seasons fall into the second half of our financial year, with the non-peak season (April to September) falling into the first half of our financial year. The seasonality of crop nutrient demand results in our sales volume and sales revenue typically being the highest during the second half of our fiscal year and our working capital requirements typically being the highest just prior to the start of the fall season.

Accordingly, our sales in the second half of our financial year are typically significantly higher than those in the first half of our financial year. In each of FY2021, FY2022 and FY2023, revenue generated from the first half of the financial year only accounted for approximately 33.6%, 41.6% and 35.7% of our total revenue, respectively. We recorded a higher proportion of revenue in the first half of FY2022 as compared to the first half of FY2021 and the first half of FY2023, as our customers had increased their potash fertiliser reserve in the first half of FY2022 for use in the upcoming harvest and planting seasons in view of the potential risk of adverse market price fluctuation of KCL due to the global supply uncertainty.

In addition, the degree of seasonality of our business can change significantly from year to year due to conditions in the agricultural industry and other factors, which makes it difficult for us to predict the level of demand with precision. If seasonal demand exceeds our expectation, we will not have enough products to sell to customers, which would affect our sales performance. If seasonal demand is less than what we expect, we will be left with excess inventory, higher working capital and liquidity requirements, as well as the risk of impairment losses on our inventory.

Market demand of Potash Fertiliser products

The demand for our product and services is primarily driven by the plantation activities of our customers.

Since the second half of 2020, domestic plantation activities recovered as a result of the governmental policy on promoting agricultural activities and stabilising agricultural products supplies, such as the Notice of the Central Leading Group against COVID-19 on Printing and Distributing the Current Spring Ploughing Production Guidelines (中央應對新型冠狀病毒感染肺炎疫情工作領導小組關於印發當前春耕生產工作指南的通知), the Notice on Effectively Supporting the Stable Production and Supply of Agricultural Products During the Prevention and Control of the New Coronary Pneumonia Epidemic (關於切實支持做好新冠肺炎疫情防控期間農產品穩產保供工作的通知) and the Notice on Doing a Good Job in the Production, Supply and Price Stabilisation of Fertilisers for Spring Ploughing in 2021 (關於做好2021年春耕化肥生產供應和價格穩定工作的通知) implemented. As a result, our sales volume increased from approximately 1,248,802 tonnes for FY2021 to approximately 1,489,330 tonnes for FY2022, resulting in the profit after tax of RMB206.5 million for FY2021 and RMB396.6 million for FY2022.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Results may differ from these estimates under different assumptions and conditions.

Our management continually evaluates such estimates, assumptions and judgments based on historical experience and other assumptions which our management believes to be reasonable under the circumstances.

We set forth below the accounting policies that we believe involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, as well as our key source of estimation uncertainties, which are important for understanding our financial condition and results of operations, are set forth in Notes 4 and 5 of Appendix I to this document.

Impairment of Financial Assets

We perform impairment assessment under expected credit loss ("**ECL**") model on financial assets, which include trade and other receivables, amount due from a related company, amounts due from joint ventures, loans to joint ventures, amount due from a shareholder, and restricted cash and bank balances. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. Assessment are done based on our Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

We use both lifetime ECL model and 12-month ECL ("**12m ECL**") model to recognise our financial assets. Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

The provision of ECL is sensitive to changes in estimates. We recognises lifetime ECL for trade receivables and trade related balances with related parties. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings. For all other instruments, our Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case we recognise lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

For trade receivables which are individually insignificant, we use collective assessment to calculate ECL. The ECL rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The collective assessment is based on our Group's historical default rates, taking into consideration forward-looking information that is reasonable, supportable, and available without undue costs or effort. At every reporting date, our management also reassessed the historical observed default rates and considered changes in the forward-looking information.

For the non-trade related balances with related parties, our Directors have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of these balances. Accordingly, the loss allowance for non-trade related balances with related parties are measured at an amount equal to 12-month ECL. Assessment are done based on our Group's historical credit loss experience, adjusted for factors that are specific to the related parties, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Impairment on Plant and Equipment, and Right-of-Use Assets

We have a number of product facilities hosting various plants and equipment. At the end of each reporting year, we review the carrying amounts of our plant and equipment, and right-of-use assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, our Group estimates the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. In testing a CGU for impairment, we allocated assets to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not to exceed the carrying amount determined in prior years. An impairment loss or a reversal of an impairment loss is recognised immediately in profit or loss. During the Track Record Period, no impairment loss was recognised for our plant and equipment and right-of-use assets.

Impairment on Goodwill

Our goodwill was arising from our acquisition of Daxing Migao during the year ended 31 March 2017 and our acquisition of Baoqing Migao on 31 March 2022. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, our goodwill is allocated to Daxing Migao and Baoqing Migao, i.e. our CGUs that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting year. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). The recoverable amounts of our relevant CGUs, namely, Daxing Migao and Baoqing Migao, have been determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by our management covering a 5-year period, and pre-tax discount rate of 18%. The cash flows beyond the 5-year period are extrapolated using a steady 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, and such estimation is based on the CGU's past performance and our management's expectations for the market development. During the Track Record Period, our Directors determine that there is no impairment on our relevant CGUs.

Our Group performed sensitivity test by increasing 1% of pre-tax discount rate or decreasing 1% of long-term growth rate or decreasing 5% of budgeted sales or decreasing 1% of budgeted gross margin, which are the key assumptions for determining the recoverable amount of the CGU, with all other variables held constant.

Based on the sensitivity test performed, no material impairment issue was noted for the Track Record Period. The headroom of our CGUs at the end of each reporting year is not less than 26% for the Track Record Period.

Our Directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of a CGU to exceed the recoverable amount of that CGU.

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Ownership Interests in Leasehold Land and Building

When we purchase properties which includes both leasehold land and building elements, we allocate the consideration between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets". When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as plant and equipment. During the Track Record Period, all of our interest in leasehold land was presented as "right-of-use assets".

We recognise depreciation so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting year, with the effect of any changes in estimate accounted for on a prospective basis.

Investments in Joint Ventures

We have a 50%-50% joint venture with EuroChem International, namely, EuroChem Migao, which in turn holds 70% of equity interest in Yunnan EuroChem. In addition, since the establishment of Baoqing Migao and Anda Migao and up to 31 March 2022, our Group was able to exercise joint control over them as decisions on certain matters would require consent of all shareholders of Baoqing Migao and Anda Migao under their respective articles of association, and accordingly, Baoqing Migao and Anda Migao were treated as joint ventures of our Group. Our investments in joint ventures are accounted for using the equity method from the respective date on which each investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over our share of the net fair value of the identifiable assets and liabilities of the investee are recognised as goodwill, which is included within the carrying amount of the investment. Any excess of our share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the year in which each relevant investment is acquired.

Following the amendments to the respective articles of association of Baoqing Migao and Anda Migao by removing specific terms which would require consent of all shareholders of Baoqing Migao and Anda Migao on certain matters, our Group has obtained control over Baoqing Migao and Anda Migao and they have become our subsidiaries since 31 March 2022. When our Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. In addition, our Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, our Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

We assess whether there is an objective evidence that the interest in the joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases. During the Track Record Period, no impairment loss was recognised for our investments in joint ventures. In particular, although our Group had shared loss from EuroChem Migao in FY2021, no impairment loss was recognised for our investment in EuroChem Migao for the same year. Our Directors considered that the loss incurred by EuroChem Migao for FY2021 was temporary, as it was primarily due to the outbreak of COVID-19 and the adverse changes in the economic environment during the same year. As such, there was no objective evidence that our investment in EuroChem Migao as at 31 March 2021 may be impaired and no impairment assessment was carried out.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which our Group must incur to make the sales. During the Track Record Period, no impairment loss was recorded for our inventories.

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated statements of profit or loss data and each item as a percentage of our total revenue for the years indicated, which is derived from our consolidated statements of profit or loss set out in the Accountants' Report included in Appendix I to this document:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue	2,081,579	100.0	3,841,400	100.0	4,722,749	100.0
Cost of goods sold	(1,830,838)	(88.0)	(3,207,977)	(83.5)	(3,955,216)	(83.7)
Gross profit	250,741	12.0	633,423	16.5	767,533	16.3
Other income	15,545	0.7	17,416	0.5	6,847	0.1
Other gains and losses	126,982	6.1	12,055	0.3	(16,908)	(0.4)
Impairment losses, net of reversal	2,954	0.1	(11,181)	(0.3)	1,655	0.0
Distribution and selling expenses	(28,304)	(1.4)	(74,768)	(1.9)	(61,716)	(1.3)
General and administrative expenses	(62,800)	(3.0)	(63,607)	(1.7)	(105,689)	(2.2)
Research and development expenses	(24,515)	(1.2)	(38,854)	(1.0)	(31,037)	(0.7)
[**REDACTED**] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other expenses	(1,424)	(0.1)	–	–	–	–
Share of results of joint ventures	(2,038)	(0.1)	28,287	0.7	11,267	0.2
Finance costs	(10,471)	(0.5)	(9,661)	(0.3)	(17,651)	(0.4)

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
PROFIT BEFORE TAX	264,926	12.7	471,044	12.3	533,414	11.3
Income tax expense	(58,401)	(2.8)	(74,464)	(1.9)	(111,900)	(2.4)
PROFIT FOR THE YEAR	206,525	9.9	396,580	10.3	421,514	8.9
Profit for the year attributable to:						
Owners of our Company	202,294	9.7	396,337	10.3	405,089	8.6
Non-controlling interests	4,231	0.2	243	0.0	16,425	0.3
	206,525	9.9	396,580	10.3	421,514	8.9

KEY COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue mainly consists of sales of our products. Since the fourth quarter of 2021, we started to generate production fees through the provision of production services. For FY2021, FY2022 and FY2023, our revenue amounted to RMB2,081.6 million, RMB3,841.4 million and RMB4,722.7 million, respectively. The major source of our revenue during the Track Record Period was generated from the sales of KCL products, and secondly from the sales of SOP products. The following table sets forth the breakdown of our total revenue by source for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sales of products	2,081,579	100.0	3,820,596	99.5	4,692,708	99.4
Provision of production services	–	–	20,804	0.5	30,041	0.6
Total	2,081,579	100.0	3,841,400	100.0	4,722,749	100.0

Revenue from Sales of Products

The following table sets forth the breakdown of our revenue by sales of each type of products and each type as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue from sales of products						
– KCL	1,250,489	60.1	3,180,575	82.8	4,024,088	85.2
– SOP	522,039	25.1	533,569	13.9	476,058	10.1
– NOP	49,068	2.4	8,933	0.2	15,366	0.3
– Compound Fertilisers	193,629	9.3	24,992	0.7	47,747	1.0
– By-Products and Others[1]	66,354	3.2	72,527	1.9	129,449	2.7
Total	2,081,579	100.0	3,820,596	99.5	4,692,708	99.4

Note:

(1) By-products and others mainly consists of HCL and fertiliser additive.

Sales of KCL Products

KCL products are the products from which we derived most of our revenue. For FY2021, FY2022 and FY2023, revenue from our sales of KCL products was RMB1,250.5 million, RMB3,180.6 million and RMB4,024.1 million, respectively, which contributed to approximately 60.1%, 82.8% and 85.2% of our total revenue during the same years, respectively.

Our revenue from the sale of KCL products increased by RMB1,930.0 million or approximately 154.3% from RMB1,250.5 million for FY2021 to RMB3,180.6 million for FY2022 primarily due to (i) the significant increase in the average selling price of KCL products by approximately 66.3% from RMB1,723.9 per tonne in FY2021 to RMB2,867.7 per tonne in FY2022 as a result of the shortage in supply of KCL in China, as well as globally, due to the uncertainty in global potash supply; and (ii) the substantial increase in sales volume of our KCL products by approximately 52.9% from approximately 725,405 tonnes in FY2021 to approximately 1,109,099 tonnes in FY2022 driven by the increased demand in China due to increasing plantation and agricultural activities as the economic and market conditions in China continued to recover from COVID-19.

Our revenue from the sale of KCL products increased by RMB843.5 million or approximately 26.5% from RMB3,180.6 million for FY2022 to RMB4,024.1 million for FY2023, primarily due to the significant increase in the average selling price of our KCL products by approximately 31.5% from RMB2,867.7 per tonne in FY2022 to RMB3,771.6 per tonne in FY2023 as a result of the uncertainty in global potash supply, partially offset by the decrease in sales volume of our KCL products by approximately 3.8% from approximately 1,109,099 tonnes in FY2022 to approximately 1,066,950 tonnes in FY2023 due to the additional demand of our KCL products in FY2022 as our agricultural reclamation customers had increased their potash fertiliser reserve for use in the upcoming harvest and planting seasons in view of the potential risk of adverse market price fluctuation of KCL due to the global supply uncertainty, while a general decreasing trend was recorded for the average market selling price of KCL by month in China within FY2023.

Our Group recorded a significant revenue growth for the sales of our KCL products as compared to the industry average during the Track Record Period, primarily due to the product mix of our Group and the customer portfolio for our KCL products. First of all, the sales of our KCL products is the primary source of our revenue, and its sales volume contributed approximately 58.1% to 74.5% of our total sales volume during Track Record Period. As such, the significant increase in average selling price of our KCL products from RMB1,723.9 per tonne for FY2021 to RMB3,771.6 per tonne for FY2023 as a result of factors as highlighted in the paragraph headed "Key Factors Affecting our Results of Operations – Price of Major Raw Material" above had led to the higher revenue growth as compared to the industry average during the Track Record Period. In addition, in response to government policies on promoting agricultural activities and stabilising agricultural products supplies implemented since FY2021, our SOE customers, who were the major customers for our KCL products and contributed more than a majority of our revenue during the Track Record Period, had significantly increased their demands in our KCL products in FY2022. As such, our revenue derived from SOE customers increased from RMB1,212.8 million for FY2021 to RMB2,608.4 million for FY2022, which also led to the higher growth in our revenue as compared to the industry average during the Track Record Period.

Sales of SOP Products

For FY2021, FY2022 and FY2023, revenue from our sale of SOP products amounted to RMB522.0 million, RMB533.6 million and RMB476.1 million, respectively, which contributed to approximately 25.1%, 13.9% and 10.1% of our total revenue during the same years, respectively.

Our revenue from the sale of SOP products increased by RMB11.5 million or approximately 2.2% from RMB522.0 million for FY2021 to RMB533.6 million for FY2022, mainly due to the substantial increase in the average selling price of our SOP products by approximately 40.9%, partially offset by the decrease in the sales volume of our SOP products by approximately 27.5%. The potash fertiliser market was relatively volatile in FY2022 due to the shortage in supply of KCL, which led to a substantial increase in market selling price of SOP, as KCL is the principal raw material for manufacturing SOP. In addition, SOP products as crop nutrients can be replaced by KCL products to some extent. As such, when the price of SOP products continued to increase, as an alternative, customers are inclined to purchase KCL products, which has a lower price generally. As a result, the demand of our SOP products decreased in FY2022.

Our revenue from the sale of SOP products decreased by RMB57.5 million or approximately 10.8% from RMB533.6 million for FY2022 to RMB476.1 million for FY2023, primarily due to the decrease in sales volume of our SOP products by approximately 24.0% from approximately 162,599 tonnes in FY2022 to approximately 123,642 tonnes in FY2023 due to the negative impact of the increase in the average selling price of our SOP products on the demand of our SOP products, partially offset by the increase in the average selling price of our SOP products by approximately 17.3% from RMB3,281.5 per tonne in FY2022 to RMB3,850.3 per tonne in FY2023 as a result of the increase in the purchase costs of KCL for use as raw material for manufacturing our SOP products.

Sales of NOP Products

For FY2021, FY2022 and FY2023, revenue from our sale of NOP products amounted to RMB49.1 million, RMB8.9 million and RMB15.4 million, respectively, which contributed to approximately 2.4%, 0.2% and 0.3% of our total revenue during the same years, respectively.

Our revenue from the sale of NOP products remained low during the Track Record Period because we ceased production of NOP products since January 2019 in our Chengdu Production Facility, which was the only production line of NOP products within our Group, as a result of change of zoning policy by the local government. Since then, we purchased finished NOP products mostly from Yunnan EuroChem, an indirect joint venture of our Company, at market price, leaving us with little or no profits on our sales of NOP products. As a result, we mainly sold NOP products during the Track Record Period to satisfy long-term customers' ad hoc demand. For example, in FY2021, we secured a relatively large order from a tobacco company for NOP products, which led to the higher revenue for the sales of our NOP products of RMB49.1 million for FY2021 as compared to FY2022 and FY2023.

Sales of Compound Fertiliser Products

For FY2021, FY2022 and FY2023, revenue from our sale of compound fertiliser products amounted to RMB193.6 million, RMB25.0 million and RMB47.7 million, respectively, which contributed to approximately 9.3%, 0.7% and 1.0% of our total revenue during the same years, respectively.

Most of our compound fertilisers are customised based on tobacco companies' requests, and therefore the volume of sales order could vary from time to time based on the annual soil nutrition testing results and other factors taken into account by tobacco companies.

In addition, we began to adopt a new type of business arrangement with Guizhou Tobacco Investment for the tobacco compound fertiliser products we manufacture for them since the fourth quarter of 2021, under which we derived production fees, as opposed to revenue from sales of compound fertiliser products under the old arrangement. As such, such new arrangement contributed further to the lower proportion of revenue from sales of compound fertiliser products in FY2022 and FY2023 as compared to FY2021. For details, please refer to the paragraph headed "Revenue from Provision of Production Services" below.

Sales of By-products and Other Products

Our by-products and other products mainly consist of HCL, which is a by-product from the manufacturing process of SOP, and fertiliser additive. For FY2021, FY2022, and FY2023, revenue from our sale of by-products and other products was RMB66.4 million, RMB72.5 million and RMB129.4 million, respectively, which contributed to approximately 3.2%, 1.9% and 2.7% of our total revenue during the same years, respectively.

The sales of our by-products and other products are primarily relating to the production volume of our SOP. Our revenue from the sale of by-products and other products increased by RMB6.2 million, or approximately 9.3% from RMB66.4 million for FY2021 to RMB72.5 million for FY2022 primarily due to the increase in sales of HCL which contributed RMB59.2 million and RMB63.1 million of revenue for the years ended 31 March 2021 and 2022, respectively. The increase in revenue contributed by sales of HCL was mainly due to the increase in selling price of HCL driven by the increasing demand in South China region. In addition, we recorded a slight increase in revenue contributed by sales of floating seed and other processing fees of RMB4.2 million and RMB5.0 million respectively in FY2022, as compared to RMB2.9 million and RMB2.7 million in FY2021, which, to a lesser extent, led to the increase in revenue from sales of by-products and other products in FY2022. Our revenue from the sale of by-products and other products increased by RMB56.9 million, or approximately 78.5%, from RMB72.5 million for FY2022 to RMB129.4 million for FY2023, primarily due to (i) the additional revenue derived from the sales of our new fertiliser additive introduced in FY2023 of RMB54.6 million; and (ii) the additional revenue derived from the disposal of unused auxiliary raw materials for the manufacturing of compound fertiliser products of RMB15.5 million to Guizhou Tobacco Investment in FY2023 as a result of the change in our business arrangement with Guizhou Tobacco Investment regarding tobacco compound fertiliser products, partially offset by the decrease in sales of HCL from RMB63.1 million for FY2022 to RMB46.7 million for FY2023 as a result of the decrease in sales volume of HCL from approximately 147,362 tonnes for FY2022 to approximately 128,434 tonnes for FY2023 due to the decrease in production and sales volume of our SOP products in FY2023 as well as the decrease in average selling price of HCL from RMB428.0 per tonne for FY2022 to RMB363.9 per tonne for FY2023.

Revenue from Provision of Production Services

Since the fourth quarter of 2021, we began to adopt a new type of business arrangement with Guizhou Tobacco Investment for certain tobacco compound fertiliser products we manufacture for them. Under the new arrangement, Guizhou Tobacco Investment would provide us with the principal raw materials and we would only charge them a production fee for manufacturing certain tobacco compound fertiliser products.

The following table sets forth the breakdown of our revenue derived from Guizhou Tobacco Investment by source of revenue and each item as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue from Guizhou Tobacco Investment[(1)]						
– Sales of tobacco compound fertiliser products	158,728	7.6	1,161	0.0	18,121	0.4
– Provision of production services	–	–	20,804	0.5	30,041	0.6
Total	158,728	7.6	21,965	0.6	48,161	1.0

Note:

(1) During the Track Record Period, value-added tax rate of 13% was applicable to the sales of our tobacco compound fertiliser products to Guizhou Tobacco Investment and value-added tax rate of 6% to 13% was applicable to our provision of production services to Guizhou Tobacco Investment.

The decrease in revenue derived from Guizhou Tobacco Investment from RMB158.7 million in FY2021 to RMB22.0 million in FY2022 was primarily due to (i) the lower average production fees in FY2022 of RMB454.4 per tonne, as compared to the average selling price for the sales of tobacco compound fertiliser products to Guizhou Tobacco Investment in FY2021 of RMB2,496.0 per tonne, as it is not necessary to take into account the costs of raw materials as well as the labour costs for raw material sourcing for the determination of production fees under the new business arrangement; and (ii) the decrease in volume of tobacco compound fertiliser products supplied to Guizhou Tobacco Investment from approximately 63,593 tonnes for FY2021 to approximately 46,127 tonnes in FY2022. The revenue contributed by Guizhou Tobacco Investment increased by RMB26.2 million, or approximately 119.3%, from RMB22.0 million for FY2022 to RMB48.2 million for FY2023, primarily due to the (i) increase in revenue from our sales of compound fertiliser products to Guizhou Tobacco Investment from RMB1.2 million for FY2022 to RMB18.1 million for FY2023 as a result of the increase in sales volume of compound fertiliser products to Guizhou Tobacco Investment from approximately 340 tonnes for FY2022 to approximately 8,170 tonnes for FY2023; and (ii) the increase in revenue from our provision of production services from RMB20.8 million for FY2022 to RMB30.0 million for FY2023 as a result of the increase in production service volume from approximately 45,787 tonnes for FY2022 to approximately 57,826 tonnes for FY2023 as well as the increase in average production fee from RMB454.4 per tonne for FY2022 to RMB519.5 per tonne for FY2023.

Revenue by Types of Customers

A majority of our customers are state-owned enterprises. The following table sets forth the breakdown of our revenue by types of customers and each item as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue by types of customers						
– State-owned enterprise ("**SOE**")	1,212,761	58.3	2,608,427	67.9	2,660,983	56.3
– Non-SOE	868,818	41.7	1,232,973	32.1	2,061,766	43.7
Total	2,081,579	100.0	3,841,400	100.0	4,722,749	100.0

SOE customers

Our customers from SOE customers primarily consist of agricultural reclamation companies, agribusiness companies and tobacco companies.

Our revenue from SOE customers increased by RMB1,395.7 million or approximately 115.1% from RMB1,212.8 million for FY2021 to RMB2,608.4 million for FY2022 and accounted for approximately 58.3% and 67.9% of our total revenue during the same year, respectively. Our revenue from SOE customers remained stable for FY2023, and accounted for approximately 56.3% of our total revenue during the same year, respectively.

Non-SOE

Our customers from non-SOE primarily consist of fertiliser production and supply companies.

Our revenue from non-SOE increased by approximately 41.9% and 67.2% for FY2022 and FY2023, respectively, and accounted for approximately 41.7%, 32.1% and 43.7% of our total revenue during FY2021, FY2022 and FY2023, respectively.

Cost of Goods Sold

Our cost of goods sold primarily consists of direct materials, direct labour and manufacturing overhead. The following table sets forth a breakdown of our cost of goods sold by amount and their corresponding percentage to our cost of goods sold and our total revenue for the years indicated:

	For the year ended 31 March								
	2021			2022			2023		
	RMB'000	*% of cost of goods sold*	*% of total revenue*	*RMB'000*	*% of cost of goods sold*	*% of total revenue*	*RMB'000*	*% of cost of goods sold*	*% of total revenue*
					(unaudited)				
Cost of goods sold									
Direct materials	1,755,059	95.9	84.3	3,141,276	97.9	81.8	3,857,343	97.5	81.7
Direct labour	14,021	0.8	0.7	12,418	0.4	0.3	16,381	0.4	0.3
Manufacturing overhead	61,758	3.3	3.0	54,283	1.7	1.4	81,492	2.1	1.7
Total	1,830,838	100.0	88.0	3,207,977	100.0	83.5	3,955,216	100.0	83.7

Direct materials consist primarily of the purchase costs of raw materials, such as KCL, SOP and NOP, and ancillary costs incurred in purchase of these raw materials, such as transport and storage costs. Among all direct materials, the purchase costs of KCL accounted for approximately 77.7%, 86.6%, and 90.4% of our total purchase of all direct materials for FY2021, FY2022 and FY2023, respectively.

Our costs of direct materials increased substantially by approximately 79.0% from RMB1,755.1 million for FY2021 to RMB3,141.3 million for FY2022 primarily due to the increase in our overall sales volume by approximately 19.3% and the substantial increase in the purchase price of KCL as a result of the increase in the Sea Import Master Contract Price from US$220 per tonne and US$247 per tonne as applied to FY2021 to US$247 per tonnes as primarily applied to FY2022. Our costs of direct materials increased by RMB716.1 million, or approximately 22.8%, from RMB3,141.3 million for FY2022 to RMB3,857.3 million for FY2023, primarily due to the substantial increase in purchase price of KCL as a result of the increase in the Sea Import Master Contract Price from US$247 per tonne as primarily applied to FY2022 to US$590 per tonne as applied to FY2023, partially offset by the decrease in our overall sales volume by approximately 3.1%.

Costs of direct labour primarily consist of wages, salaries and social welfare for our employees directly involved in our production process. Such costs only accounted for approximately less than 1% of our total cost of goods sold during the Track Record Period.

Manufacturing overhead primarily consists of certain fixed costs directly attributable to the production and sales of our products such as depreciation expenses. Our manufacturing overhead accounted for approximately between 1.7% to 3.3% of our total cost of goods sold during the Track Record Period.

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of goods sold. Our gross profit margin represents our gross profit as a percentage of our revenue.

The following table sets out the gross profit/(loss) by source of revenue for the years indicated:

	For the year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Gross profit (loss)			
Sales of products			
– KCL	129,021	475,643	688,541
– SOP	81,552	125,576	49,848
– NOP	1,399	(102)	1,311
– Compound Fertilisers	22,814	423	7,278
– By-Products and Others	15,955	25,899	10,634
Provision of production services	–	5,984	9,921
Overall	250,741	633,423	767,533

For FY2021, FY2022 and FY2023, our gross profit was RMB250.7 million, RMB633.4 million and RMB767.5 million, respectively.

The following table sets out the gross profit/(loss) margin by source of revenue for the years indicated:

	For the year ended 31 March		
	2021	**2022**	**2023**
	%	%	%
Gross profit (loss) margin			
Sales of products			
– KCL	10.3	15.0	17.1
– SOP	15.6	23.5	10.5
– NOP	2.9	(1.1)	8.5
– Compound Fertilisers	11.8	1.7	15.2
– By-Products and Others	24.0	35.7	8.2
Provision of production services	–	28.8	33.0
Overall	12.0	16.5	16.3

Sales of KCL Products

We recorded a significant increase in gross profit for sales of KCL products by approximately 268.7% from RMB129.0 million in FY2021 to RMB475.7 million in FY2022 due to the significant increase in sales volume by approximately 52.9%. The increase in gross profit margin for sales of KCL products from approximately 10.3% for FY2021 to approximately 15.0% for FY2022 was primarily due to the significant increase in selling price of our KCL products of approximately 66.3%, which outpaced the increase in unit cost of goods sold of KCL products of approximately 57.8% during FY2022 as a result of the substantial increase in the average purchase price of KCL.

We recorded an increase in gross profit for sales of KCL products by RMB212.8 million, or approximately 44.7%, from RMB475.7 million in FY2022 to RMB688.5 million in FY2023, primarily due to the increase in revenue from sales of KCL products of approximately 26.5% in FY2023. We recorded an increase in gross profit margin for sales of KCL products from approximately 15.0% for FY2022 to approximately 17.1% for FY2023, primarily due to the increase in average selling price of our KCL products of approximately 31.5% from RMB2,867.7 per tonne in FY2022 to RMB3,771.6 per tonne in FY2023 as a result of the uncertainty in global potash supply, which outpaced the increase in unit cost of goods sold of our KCL products of approximately 28.2% as a result of the increase in average purchase price of KCL in FY2023.

Sales of SOP Products

We recorded an increase in gross profit for sales of SOP products by approximately 54.0% from RMB81.6 million in FY2021 to RMB125.6 million in FY2022 and an increase in gross profit margin for sales of SOP products from approximately 15.6% for FY2021 to approximately 23.5% for FY2022. These are primarily due to the higher increase in the average selling price of our SOP products by approximately 40.9% than the increase in the unit cost of goods sold for SOP of approximately 27.7% as a result of the increase in average purchase price of KCL, in spite of the decrease in sales volume of SOP products in the same period.

We recorded a decrease in gross profit for sales of SOP products by approximately 60.3% from RMB125.6 million in FY2022 to RMB49.8 million in FY2023, primarily due to the significant decrease in sales volume of our SOP products by approximately 24.0% in FY2023 as a result of the negative impact of our increase in average selling price of SOP products on the demand of our SOP products during the same year . We recorded a decrease in gross profit margin for sales of SOP products from approximately 23.5% for FY2022 to approximately 10.5% for FY2023, primarily due to the higher increase in the unit cost of goods sold of our SOP products by approximately 37.4% as a result of the increase in average purchase price of KCL in the same year than the increase in the average selling price of our SOP products of approximately 17.3%.

Sales of NOP Products

We kept offering NOP products to our customers despite recording a gross loss margin in FY2022, because we considered it is important to maintain our diversified product portfolio, as well as to retain our long-term customers and maintain good relationship with them. We planned to construct the New Sichuan Production Facility to resume self-production of NOP products, which is expected to enable us to regain profitability for this product. For further information of the New Sichuan Production Facility, please refer to the section headed "Business – Expansion Plan – New Sichuan Production Facility Plan" in this document.

Sales of Compound Fertiliser Products

The decrease in gross profit for sales of compound fertiliser products from RMB22.8 million for FY2021 to RMB0.4 million for FY2022 and gross profit margin for sales of compound fertiliser products from approximately 11.8% for FY2021 to approximately 1.7% for FY2022 was primarily due to the decrease in revenue derived under the new type of business arrangement with Guizhou Tobacco Investment, our major customer for compound fertiliser products, since the fourth quarter of 2021 under which we derive production fees, instead of revenue from sales of compound fertiliser products.

Under the new business arrangement, we shall provide production services to Guizhou Tobacco Investment and produce compound fertiliser products with principal raw materials provided by them. As such, the working capital requirement under this arrangement is lower. For FY2022 and FY2023, the gross profit and gross profit margin for such provision of production services was RMB6.0 million and RMB9.9 million and approximately 28.8% and 33.0%, respectively.

The following table sets forth the breakdown of our gross profit derived from Guizhou Tobacco Investment by source of revenue and the corresponding gross profit margin for the years indicated:

	For the year ended 31 March					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Gross profit and gross profit margin from Guizhou Tobacco Investment						
– Sales of tobacco compound fertiliser products	26,081	16.4	450	38.8	2,392	13.2
– Provision of production services	–	–	5,985	28.8	9,921	33.0
Overall	26,081	16.4	6,435	29.3	12,313	25.6

Generally speaking, the provision of production services is more profitable than the sales of relevant tobacco compound fertiliser products to Guizhou Tobacco Investment, as evidenced by the higher gross profit margin for the provision of production services in FY2022 and FY2023 as compared to the gross profit margin for the sales of tobacco compound fertiliser products to Guizhou Tobacco Investment in FY2021, primarily because the working capital requirement of and the inventory risk associated with the provision of production services are lower. A relatively higher gross profit margin for the sales of tobacco compound fertiliser products to Guizhou Tobacco Investment of approximately 38.8% was recorded in FY2022, as it was derived from the sales of our remaining tobacco compound fertiliser reserve of an insignificant amount to Guizhou Tobacco Investment during the non-peak season before the change of business arrangement in FY2022, which was non-recurring in nature.

We recorded an increase in gross profit for sales of compound fertiliser products from a gross profit of RMB0.4 million in FY2022 to a gross profit of RMB7.3 million in FY2023, primarily due to the significant increase in sales volume of compound fertiliser products by approximately 73.8% in FY2023. The increase in gross profit margin for the sales of our compound fertiliser products from approximately 1.7% for FY2022 to approximately 15.2% for FY2023 was primarily due to the combined effect of the increase in average selling price of our compound fertiliser products of approximately 9.9% and the decrease in unit cost of goods sold of our compound fertiliser products of approximately 5.2% for FY2023.

Sales of By-Products and Other Products

The increase in gross profit for sales of our by-products and other products from RMB16.0 million in FY2021 to RMB25.9 million in FY2022, with gross profit margin of approximately 24.0% and 35.7% recorded respectively, was mainly due to the increase in average selling price of HCL from RMB299.3 per tonne in FY2021 to RMB428.0 per tonne in FY2022, driven by the market demand in South China region, slightly offset by the increase in production costs for SOP products driven by the increase in the purchase price of KCL in FY2022. We recorded a decrease in gross profit for sales of by-products and other products by approximately 58.9% from RMB25.9 million in FY2022 to RMB10.6 million in FY2023 and a decrease in gross profit margin for sales of by-products and other products from approximately 35.7% for FY2022 to approximately 8.2% for FY2023, primarily due to (i) the increase in the unit cost of goods sold of HCL from RMB276.0 per tonne in FY2022 to RMB369.6 per tonne in FY2023 due to the increase in purchase costs of KCL, while the average selling price of our HCL products decreased from RMB428.0 per tonne in FY2022 to RMB363.9 per tonne in FY2023; and (ii) the gross loss derived from our disposal of unused auxiliary raw materials for the manufacturing of compound fertiliser products to Guizhou Tobacco Investment in FY2023 as a result of the change in our business arrangement with Guizhou Tobacco Investment.

Other Income

Our other income consists of bank interest income, interest income from joint ventures, government grants, rental income and others. Bank interest income refers to the interest derived from our bank deposits. Interest income from joint ventures was derived from our loans to Anda Migao and Baoqing Migao, our joint ventures during the Track Record Period up to 31 March 2022, in support of their working capital requirements.

Government grants have been received from local government (i) as subsidies towards the cost of construction of Anda Production Facility and Baoqing Production Facility; and (ii) as a support to the manufacturing industry during the impact of COVID-19. Rental income refers to the rent derived primarily from our renting out of warehouses located in our Sichuan Production Facility and Daxing Production Facility.

The following table sets forth the breakdown of our other income by amount and as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Other Income						
Bank interest income	4,691	0.2	2,916	0.1	3,539	0.1
Interest income from joint ventures	7,160	0.3	12,729	0.3	–	–
Government grants	415	0.0	249	0.0	2,007	0.0
Rental income	2,799	0.1	1,473	0.0	1,127	0.0
Others	480	0.0	49	0.0	174	0.0
Total	15,545	0.7	17,416	0.5	6,847	0.1

Other Gains and Losses

Our other gains and losses consist of gain or loss on disposal of plant and equipment, gain on disposal of right-of-use assets, net foreign exchange gains or losses, gain on deemed disposal of joint ventures, surcharges and others, and others. Gain or loss on disposal of plant and equipment refers to the gain or loss on disposal of buildings, production machinery and equipment. Gain on disposal of right-of-use assets was primarily derived from the sum received from the PRC government for its resumption of our land held by Sichuan Migao and constituted the primary other gain item in FY2021. Gain on deemed disposal of joint ventures represents the gain derived from the acquisition of subsidiaries through obtaining control over two former joint ventures of our Group, namely, Anda Migao and Baoqing Migao, on 31 March 2022. Surcharges and others represent the provision for the surcharges and others for late tax filings of the PRC subsidiaries of our Group.

The following table sets forth the breakdown of our other gains and losses by amount and as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Other Gains and (Losses)						
Gain (loss) on disposal of plant and equipment	30,319	1.5	(117)	(0.0)	(12)	(0.0)
Gain on disposal of right-of-use assets	94,363	4.5	–	–	–	–
Net foreign exchange gains (losses)	11,630	0.6	(485)	(0.0)	(16,357)	(0.3)
Gain on deemed disposal of joint ventures	–	–	12,962	0.3	–	–
Surcharges and others	(9,330)	(0.4)	(10)	(0.0)	(88)	(0.0)
Others	–	–	(295)	(0.0)	(451)	(0.0)
Total	126,982	6.1	12,055	0.3	(16,908)	(0.4)

Impairment Losses, Net of Reversal

Our impairment losses net of reversal consist of impairment losses recognised on trade receivables.

The following table sets forth the breakdown of our impairment losses, net of reversal, by amount and as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Impairment Losses, Net of Reversal						
Impairment losses recognised on:						
– Trade receivables	(2,954)	(0.1)	11,181	0.3	(1,655)	(0.0)
Total	(2,954)	(0.1)	11,181	0.3	(1,655)	(0.0)

Distribution and Selling Expenses

Our distribution and selling expenses primarily consist of transportation charge, and other distribution and selling expenses. The following table sets forth a breakdown of our distribution and selling expenses, by amount and as a percentage of our total revenue, for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Distribution and Selling Expenses						
Transportation charge	26,722	1.3	69,049	1.8	57,666	1.2
Other distribution and selling expenses	1,582	0.1	5,719	0.1	4,049	0.1
Total	28,304	1.4	74,768	1.9	61,716	1.3

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) payroll and welfare for administrative employees; (ii) depreciation and amortisation, which primarily consist of depreciation of office buildings and office equipment and amortisation of right-of-use assets; (iii) other taxes; (iv) travelling and entertainment expense; (v) professional fees mainly for our subsidiaries' local audits and legal fees; (vi) office supplies; and (vii) others which primarily consist of miscellaneous office expense, employees' training, insurance, maintenance and other expenses.

The following table sets forth a breakdown of our general and administrative expenses, by amount and as a percentage of our total revenue, for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
General and Administrative Expenses						
Payroll and welfare	19,049	0.9	22,314	0.6	29,897	0.6
Depreciation and amortisation	13,489	0.6	13,158	0.3	15,753	0.3
Other taxes	5,191	0.2	5,314	0.1	8,670	0.2
Travelling and entertainment expense	6,285	0.3	7,702	0.2	14,208	0.3

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Professional fees	9,271	0.4	1,131	0.0	9,865	0.2
Office supplies	3,202	0.2	3,724	0.1	4,741	0.1
Other	6,313	0.3	10,264	0.3	22,555	0.5
Total	62,800	3.0	63,607	1.7	105,689	2.2

Research and Development Expenses

Our research and development expenses are derived from our research and development activities to improve our production processes. For details of our research and development activities, please refer to the section headed "Business – Research and Development" in this document. For FY2021, FY2022 and FY2023, our research and development expenses amounted to RMB24.5 million, RMB38.9 million and RMB31.0 million, respectively.

Other Expenses

Our other expenses mainly consist of professional service fees incurred in relation to a previous potential [**REDACTED**] exercise that has fully expensed during the Track Record Period. For FY2021, FY2022 and FY2023, our other expenses amounted to RMB1.4 million, nil and nil, respectively.

Share of Results of Joint Ventures

Our share of results of joint ventures relates to our share of profit or loss from our joint ventures during the Track Record Period, namely, EuroChem Migao, Baoqing Migao and Anda Migao. EuroChem Migao invests in a joint venture, Yunnan EuroChem, which is primarily involved in operating the business of production and sale of fertilisers and related chemical product. Baoqing Migao and Anda Migao, our joint ventures during the Track Record Period and up to 31 March 2022, hold and operate our Baoqing Production Facility and Anda Production Facility, respectively. For FY2021, FY2022 and FY2023, our share of results of joint ventures amounted to a loss of RMB2.0 million, a gain of RMB28.3 million and a gain of RMB11.3 million, respectively. For details of the financial position and profitability of each of our joint ventures, please refer to Note 19 to the Accountants' Report included in Appendix I to this document.

Finance Costs

Our finance costs primarily consist of (i) interest expenses on bank borrowings; (ii) interest expenses on loans from related companies, namely, a related company of Heilongjiang Beidahuang and the immediate holding company of Heilongjiang Beidahuang, to Anda Migao. For details, please refer to the paragraph headed "Indebtedness – Loans from Related Companies" below; and (iii) interest expenses on lease liabilities representing the present value of the lease payments correspond to our right-of-use assets (i.e. our leased properties primarily used as office or production facility during the Track Record Period).

The following table sets forth a breakdown of our finance costs and each item as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Finance Costs						
Interest expenses on bank borrowings	10,197	0.5	9,362	0.2	11,203	0.2
Interest expenses on loans from related companies	–	–	–	–	5,825	0.1
Interest expenses on lease liabilities	274	0.0	299	0.0	623	0.0
Total	10,471	0.5	9,661	0.3	17,651	0.4

Income Tax Expense

Our income tax expense consist of PRC enterprise income tax ("**EIT**") and deferred income tax. We are subject to income tax or profit tax at various rates under different jurisdictions.

The following table sets forth the breakdown of our income tax expense and each item as a percentage of our total revenue for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Income tax expense comprised:						
Current tax						
EIT	50,286	2.4	77,783	2.0	111,785	2.4
Deferred tax	8,115	0.4	(3,319)	(0.1)	115	0.0
Total	58,401	2.8	74,464	1.9	111,900	2.4

The following summarises certain tax laws and regulations applicable to us in the Cayman Islands, Hong Kong and the PRC.

Cayman Islands

Our Company is incorporated in the Cayman Islands. Our Group is not subject to any income tax in the Cayman Islands pursuant to the rules and regulations in the jurisdiction.

Hong Kong

We have a Hong Kong subsidiary within our Group. Hong Kong currently adopts a two-tiered profits tax rates regime, under which the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%.

No provision for Hong Kong profits tax was made for the Track Record Period as our Hong Kong subsidiary did not record assessable profit subject to Hong Kong profits tax for the relevant years.

PRC

We have a number of PRC subsidiaries that are subject to EIT. EIT is calculated at the applicable rates of tax prevailing in the areas in which our Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the PRC EIT law and its detailed implementation rules, the tax rate is at 25%. Besides, if the subsidiaries are qualified as high-technology companies (under the applicable PRC EIT law), the subsidiaries are entitled to a reduced rate of 15% and such qualification is subject to renewal every three years. Certain of our group entities in the PRC are entitled to the reduced tax rate of 15% during the Track Record Period.

According to the PRC EIT Law and its implementation rules, withholding income tax at a rate of 10% would be imposed on dividends to foreign investors for companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise; otherwise, the withholding rate remains at 10%.

PRC Tax Re-filings

Two of our operating subsidiaries in the PRC had voluntarily re-filed their tax filings involving prior year adjustments with the PRC tax authorities in 2022. Specifically, Guangdong Migao adjusted its profit for calendar years prior to 2019 as well as its profit by RMB24.6 million, RMB69.8 million and RMB210.8 million in its EIT annual settlement returns for 2019, 2020 and 2021, respectively, due to (i) the timing difference in recognising rebates from suppliers of RMB24.6 million, RMB42.0 million and RMB51.5 million for 2019, 2020 and 2021, respectively; (ii) the timing difference in recognising profits generated from consignment sales of RMB27.9 million and RMB61.9 million for 2020 and 2021, respectively; and (iii) the over-provision of transportation and operating expenses of RMB97.5 million for 2021, primarily due to the provision for transportation costs in connection with the purchases, internal transfers and sales of certain batches of shipments expected to be arrived in 2021, but the actual transfers and delivery were delayed and only completed in early 2022 or cancelled due to the impact of the global supply uncertainty of KCL during the relevant time (the "**Accounting Treatment**"); whereas Sichuan Migao adjusted its profits for RMB17.3 million in its EIT annual settlement returns for 2019 due to the timing difference in recognising rebates from suppliers based on the Accounting Treatment of the same nature as aforementioned.

We became aware of the possible historical shortfall relating to the Accounting Treatment during the preparation for the [**REDACTED**]. We then sought to gain a better understanding of the relevant tax regulations and practices, with an aim to rectify and discharge any possible tax obligations. As a result, we engaged a tax consultant, which is an international accounting firm, to review our tax filings and took the appropriate rectification actions.

To rectify the EIT positions of Guangdong Migao due to the Accounting Treatment for the relevant years, Guangdong Migao submitted revised EIT annual settlement returns for 2019, 2020 and 2021 (as well as the relevant prior years) to the competent PRC tax authority on a voluntarily and proactive basis, and the competent PRC tax authority had duly accepted the EIT re-filings by means of issuing the tax demand notes to Guangdong Migao. As a result, Guangdong Migao paid additional EIT for the relevant prior years, as well as RMB3.8 million, RMB14.9 million and RMB27.1 million for 2019, 2020 and 2021, respectively, to the competent PRC tax authority. In compliance with the Detailed Rules for the Implementation of Law on Administration of Taxation of the People's Republic of China (《中華人民共和國稅收徵收管理法實施細則》) (the "**Collection Rules**"), Guangdong Migao settled late payment surcharges of RMB1.3 million, RMB2.3 million and RMB0.5 million for the late payments of additional EIT for 2019, 2020 and 2021, respectively.

To rectify the EIT positions of Sichuan Migao due to the Accounting Treatment in 2019, Sichuan Migao submitted revised EIT annual settlement returns for 2019 and 2020 to the competent PRC tax authority on a voluntarily and proactive basis, and the competent PRC tax authority had duly accepted the EIT re-filings by means of issuing tax demand notes to Sichuan Migao. As a result, Sichuan Migao paid additional EIT amounted to nil and RMB5.4 million, for 2019 and 2020, respectively. As Sichuan Migao had been in loss position prior to 2019, it did not incur any additional taxes due to the Accounting Treatment. Similarly, in compliance with the Collection Rules, Sichuan Migao settled late payment surcharges of RMB0.8 million for 2020.

As at the Latest Practicable Date, Guangdong Migao and Sichuan Migao had already paid the above additional EIT and the late payment surcharge in full to the competent PRC tax authorities. Our Directors confirm that the competent authority only imposed late payment surcharge in accordance with Article 32 the Collection Rules, without imposing any penalty. Our Directors are of the view that the chance for the competent PRC tax authority to institute penalty action against Guangdong Migao and Sichuan Migao for the Track Record Period is remote based on their discussions with our tax consultant and on the ground that:

(i) Guangdong Migao and Sichuan Migao had re-prepared and re-submitted its respective EIT annual settlement returns to the competent PRC tax authorities, and such EIT annual settlement returns had all been duly accepted by the competent PRC tax authorities. The competent PRC tax authorities did not challenge the Accounting Treatment as well as the basis for re-calculating the additional EIT;

(ii) all additional EIT payables derived from the tax re-filings had been accepted and settled by the competent PRC tax authorities, and Guangdong Migao and Sichuan Migao have obtained valid tax payment certificates from the competent PRC tax authorities with respect to the additional EIT after the settlement of such additional EIT payables;

(iii) the competent PRC tax authorities had only imposed late payment surcharges in accordance with the Collection Rules on Guangdong Migao and Sichuan Migao with respect to the additional EIT payables for the relevant period. As if the competent PRC tax authorities had intended to impose penalty on Guangdong Migao and Sichuan Migao, it would have issued penalty notices before it issued the valid tax payment certificates to these two subsidiaries. Guangdong Migao and Sichuan Migao did not receive any penalty notices up to the Latest Practicable Date; and

(iv) the Accounting Treatment was solely represented by audit treatments of the Reporting Accountants under the HKFRS. There is no objective evidence of our Group that had engaged in actions of tax evasion.

We have adopted certain internal control measures to prevent recurrence of similar incidents. For example:

- we have designated employees to periodically check and review government's latest tax laws, regulation and policies to ensure our compliance with them. We will also arrange trainings for relevant employees to ensure they are aware of the relevant tax laws, regulations and policies;

- we have established internal procedure whereby the accounting departments of our subsidiaries will prepare tax settlement returns, which shall only be uploaded to the tax system after review by the local financial controllers of our respective subsidiaries;

- we have adopted a tax management policy covering areas such as tax provision, and other tax-related matters;

- we have established internal procedures in relation to the selection and engagement of external tax consultancy service providers to enhance our communications with them to avoid recurrence of similar incidents; and

- we have prepared a compliance checklist and designated one of our Directors to monitor and review our compliance with the items on the checklist, and update such checklist in accordance with the applicable laws and regulations on a quarterly basis. Our chief financial officer shall also review such checklist on a quarterly basis.

We have conducted follow-up internal control reviews from December 2021 to October 2022 and from June 2023 to July 2023, which covered the review of the above internal control measures. Based on the confirmation and interview with the competent PRC tax authorities, our PRC Legal Advisers are of the view that: (a) the competent PRC tax authorities will not impose any administrative penalty on Guangdong Migao and Sichuan Migao for the over-provision of transportation and operating expenses, the non-inclusion of the consignment sales and/or the non-inclusion of rebates entitled (the "**Adjustment Items**") in their original tax filings, as the tax liabilities in connection with the Adjustment Items had been paid in full; (b) the likelihood for higher level of authorities to challenge the relevant tax payment certificates issued by the competent PRC tax authorities is low; and (c) the competent PRC tax authorities had full knowledge of the details of the Accounting Treatment when issuing the relevant tax payment certificates. Further, based on the confirmation of the competent PRC tax authority, our PRC Legal Advisers are of the view that the over-provision of transportation costs and operating expenses by Guangdong Migao in its tax filing in January 2021 would not constitute any tax evasion or refusal to pay tax or fraud in tax payment under applicable PRC tax laws and regulations.

Please refer to the section headed "Risk Factors – Risks Relating to Our Business – Tax authorities could challenge our allocation of taxable income or adoption of different accounting principles which could increase our overall tax liability or penalty" in this document for further details about the risks and uncertainties associated with our PRC tax re-filings.

Other jurisdictions

We have subsidiaries incorporated in Singapore and Malaysia. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. We did not record any assessable profit subject to any income tax in other jurisdictions during the Track Record Period.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Year Ended 31 March 2022 Compared to Year Ended 31 March 2021

Revenue

Our total revenue increased by RMB1,759.8 million, or approximately 84.5%, from RMB2,081.6 million for FY2021 to RMB3,841.4 million for FY2022, primarily due to the increase in revenue from the sale of KCL products driven by its substantial increase in both (i) sales volume by approximately 52.9% due to the increased demand in China caused by increasing plantation and agricultural activities as the economic and market conditions in China continued to recover from COVID-19, and (ii) average selling price by approximately 66.3% in the same year as a result of the shortage in supply of KCL products in China due to the uncertainty in global potash supply, which was partially offset by a decrease in revenue from the sale of compound fertiliser products due to the new business arrangement with Guizhou Tobacco Investment for the tobacco fertiliser products we manufacture for them since the fourth quarter of 2021.

Cost of Goods Sold

Our total cost of goods sold increased by RMB1,377.1 million, or approximately 75.2%, from RMB1,830.8 million for FY2021 to RMB3,208.0 million for FY2022, which was broadly in line with our revenue growth largely attributable to the significant increase in the costs of direct materials as a result of the increase in amount of KCL used to support the substantial increase in our overall sales volume, as well as an increase of approximately 57.8% in the unit cost of goods sold for KCL products comparing to FY2021.

Gross Profit and Gross Profit Margins

Our total gross profit increased by RMB382.7 million, or approximately 152.6%, from RMB250.7 million for FY2021 to RMB633.4 million for FY2022, and our gross profit margin increased from approximately 12.0% for FY2021 to approximately 16.5% for FY2022. The increase in gross profit was primarily due to the increase in gross profit from sales of KCL products by RMB346.6 million or approximately 268.7% from RMB129.0 million for FY2021 to RMB475.6 million for FY2022. The increase in gross profit margin was mainly due to (i) an increase in gross profit contributed by sales of our SOP products from RMB81.6 million for FY2021 to RMB125.6 million for FY2022; (ii) an increase in gross profit margin of SOP products from approximately 15.6% for FY2021 to approximately 23.5% for FY2022; and (iii) the said increase in gross profit contributed by our KCL products in FY2022 and the corresponding increase in gross profit margin from approximately 10.3% for FY2021 to approximately 15.0% for FY2022.

Other Income

Our other income increased by RMB1.9 million or approximately 12.0% from RMB15.5 million for the FY2021 to RMB17.4 million for FY2022, primarily due to the increase in interest income from joint ventures of RMB5.6 million primarily due to the increase in interest income derived from the loans to Anda Migao and Baoqing Migao in support of their working capital requirements in FY2022, offset by the decrease in bank interest income derived from our bank deposit of RMB1.8 million and the decrease in rental income derived from our renting out a warehouse in our Daxing Production Facility in FY2022 of RMB1.3 million.

Other Gains and Losses

Our other gains and losses decreased by RMB114.9 million, from a gain of RMB127.0 million for FY2021 to a gain of RMB12.1 million for FY2022, primarily due to the one-off gain on (i) disposal of plant and equipment of RMB30.3 million as a result of our disposal of buildings owned by Sichuan Migao; and (ii) disposal of right-of-use assets of RMB94.4 million recorded in FY2021 for the sum of RMB96.9 million received from the local PRC government for its resumption of our leasehold land held by Sichuan Migao, in FY2021. The gains of RMB12.1 million recorded in FY2022 was mainly attributable to the gain on deemed disposal of joint ventures of RMB13.0 million derived from the acquisition of subsidiaries through obtaining control over two former joint ventures of our Group, namely, Anda Migao and Baoqing Migao.

Impairment Losses, Net of Reversal

We recorded impairment losses of RMB11.2 million for FY2022 as compared to the net reversal of impairment losses of RMB3.0 million for FY2021 mainly due to the net impairment allowance of RMB11.0 million recognised for trade receivables based on collective assessment.

Distribution and Selling Expenses

Our distribution and selling expenses increased by RMB46.5 million, or approximately 164.2%, from RMB28.3 million for FY2021 to RMB74.8 million for FY2022, primarily due to the increase in transportation charge as a result of the increase in the sales volume of our KCL products by approximately 52.9% in FY2022. As a percentage of revenue, our distribution and selling expenses increased from approximately 1.4% for FY2021 to approximately 1.9% for FY2022.

General and Administrative Expenses

Our general and administrative expenses increased slightly by RMB0.8 million, or approximately 1.3%, from RMB62.8 million for FY2021 to RMB63.6 million for FY2022, primarily due to (i) the increase in payroll and welfare paid to our employees of RMB3.3 million; (ii) the increase in travelling and entertainment expenses of RMB1.4 million due to the increase in numbers of business trips attended by our management team; and (iii) the increase in others of RMB4.0 million due to the increase in miscellaneous office expense, employees' training, insurance, maintenance and other expenses in FY2022, partially offset by (iv) the decrease in professional expenses of RMB8.1 million in FY2022 mainly due to the aggregated additional accounting and consulting fees of RMB7.4 million incurred for application of preferential tax treatment and other financing matters in FY2021, which were one-off in nature. As a percentage of revenue, our general and administrative expenses decreased from approximately 3.0% for FY2021 to approximately 1.7% for FY2022.

Research and Development Expenses

Our research and development expenses increased by RMB14.3 million, or approximately 58.5%, from RMB24.5 million for FY2021 to RMB38.9 million for FY2022, primarily due to the increase in expenses in relation to testing material consumption from RMB15.4 million for FY2021 to RMB30.4 million for FY2022 as a result of increase in costs of potash fertilisers for testing purposes. As a percentage of revenue, our research and development expenses decreased from approximately 1.2% for FY2021 to approximately 1.0% to FY2022.

[**REDACTED**] ***Expenses***

Our [**REDACTED**] expenses increased from RMB[**REDACTED**] million for FY2021 to RMB[**REDACTED**] million for FY2022 mainly due to the increase in professional fees paid to professional parties in connection with the application for the [**REDACTED**] of our Shares on the Main Board.

Share of Results of Joint Ventures

Our share of results of joint ventures increased from a loss of RMB2.0 million for FY2021 to a gain of RMB28.3 million for FY2022, primarily as a result of the profit and total comprehensive income recognised by EuroChem Migao of RMB6.1 million in FY2022, as compared to the loss and total comprehensive expense of RMB11.8 million in FY2021, due to the increase in profitability of the sales of NOP products attributable to the increase in selling price.

Finance Costs

Our finance costs decreased by RMB0.8 million, or approximately 7.7%, from RMB10.5 million for FY2021 to RMB9.7 million for FY2022, primarily due to a decrease of RMB0.8 million in interest expense incurred on bank borrowings for FY2022 as the decrease in effective interest rate from 5.4% in FY2021 to 4.9% in FY2022 as a result of the lower interest rate of several new loans obtained by our Group in late FY2022 ranging from 3.3% to 4.1%.

Income Tax Expense

Our income tax expense increased by RMB16.1 million, or approximately 27.5%, from RMB58.4 million for FY2021 to RMB74.4 million for FY2022, primarily as a result of an increase in EIT from RMB50.3 million for FY2021 to RMB77.8 million for FY2022 due to the increase in profit before tax from RMB264.9 million for FY2021 to RMB471.0 million for FY2022, partially offset by the decrease in deferred tax assets charged to profit or loss in FY2022 as most of the tax losses previously recognised had been utilised in FY2021.

Profit for the Year

As a result of the foregoing, our profit for the year increased by RMB190.1 million, or approximately 92.0%, from RMB206.5 million for FY2021 to RMB396.6 million for FY2022.

Year Ended 31 March 2023 Compared to Year Ended 31 March 2022

Revenue

Our total revenue increased by RMB881.3 million, or approximately 22.9%, from RMB3,841.4 million for FY2022 to RMB4,722.7 million for FY2023, primarily due to the substantial increase in the average selling price of our KCL products by approximately 31.5% in FY2023, partially offset by the decrease in overall sales volume of our products by approximately 3.1%.

Cost of Goods Sold

Our total cost of goods sold increased by RMB747.2 million, or approximately 23.3%, from RMB3,208.0 million for FY2022 to RMB3,955.2 million for FY2023, primarily due to the increase in costs of direct materials in FY2023 due to the increase in the average purchase price of KCL as a result of the increase in the Sea Import Master Contract Price from US$247 per tonne as applied to FY2022 to US$590 per tonne as applied to FY2023, partially offset by the decrease in overall sales volume of our products by approximately 3.1%.

Gross Profit and Gross Profit Margins

Our total gross profit increased by RMB134.1 million, or approximately 21.2%, from RMB633.4 million for FY2022 to RMB767.5 million for FY2023, primarily due to the increase in gross profit from sales of KCL products by RMB212.9 million from RMB475.6 million for FY2022 to RMB688.5 million for FY2023, partially offset by the decrease in gross profit from sales of SOP products by RMB75.7 million from RMB125.6 million for FY2022 to RMB49.8 million for FY2023. Our gross profit margin remained stable at approximately 16.5% and 16.3% for FY2022 and FY2023, respectively.

Other Income

Our other income decreased by RMB10.6 million or approximately 60.7% from RMB17.4 million for FY2022 to RMB6.8 million for FY2023, primarily due to the decrease in interest income derived from our loans to our then joint ventures, namely, Baoqing Migao and Anda Migao from RMB12.7 million for FY2022 to nil for FY2023, as Baoqing Migao and Anda Migao have become our subsidiaries since 31 March 2022.

Other Gains and Losses

Our other gains and losses decreased by RMB29.0 million from a gain of RMB12.1 million for FY2022 to a loss of RMB16.9 million for FY2023, primarily due to (i) the increase in net foreign exchange losses from net foreign exchange losses of RMB0.5 million for FY2022 to net foreign exchange losses of RMB16.4 million for FY2023 as a result of the foreign exchange losses derived from our settlements of monetary liabilities denominated in US dollar in FY2023, and (ii) the decrease in gain on deemed disposal of joint ventures from a gain of RMB13.0 million for FY2022 to nil for FY2023 as a result of the acquisition of subsidiaries of Anda Migao and Baoqing Migao in FY2022 which was one-off in nature.

Impairment Losses, Net of reversal

We recorded a net reversal of impairment losses of RMB1.7 million for FY2023 as compared to the impairment losses of RMB11.2 million for FY2022 as a result of the improvement in our trade receivables turnover for FY2023.

Distribution and Selling Expenses

Our distribution and selling expenses decreased by RMB13.1 million or approximately 17.5% from RMB74.8 million for FY2022 to RMB61.7 million for FY2023, primarily due to the decrease in sales volume of our products in FY2023. As a percentage of revenue, our distribution and selling expenses decreased from approximately 1.9% for FY2022 to approximately 1.3% for FY2023.

General and Administrative Expenses

Our general and administrative expenses increased by RMB42.1 million or approximately 66.2% from RMB63.6 million for FY2022 to RMB105.7 million for FY2023, primarily due to (i) the inclusion of the general and administrative expenses of Baoqing Migao and Anda Migao in our total general and administrative expenses for FY2023 as they have become our subsidiaries since 31 March 2022 following the amendments to their respective articles of association; and (ii) the increase in travelling and entertainment expense in late FY2023 as the PRC government substantially lifted its COVID-19 prevention and control policies. As a percentage of revenue, our general and administrative expenses increased from approximately 1.7% for FY2022 to approximately 2.2% for FY2023.

Research and Development Expenses

Our research and development expenses decreased by RMB7.8 million or approximately 20.1% from RMB38.9 million for FY2022 to RMB31.0 million for FY2023, primarily due to the decrease in expenses in relation to testing material consumption from RMB30.4 million for FY2022 to RMB22.7 million for FY2023, as a result of a decrease in the number of research and development projects, partially offset by the inclusion of research and development expenses incurred by Baoqing Migao for FY2023 as it has become our subsidiary since 31 March 2022 following the amendments to its articles of association. As a percentage of revenue, our research and development expenses decreased from approximately 1.0% for FY2022 to approximately 0.7% for FY2023.

[**REDACTED**] ***Expenses***

Our [**REDACTED**] expenses remained stable at RMB[**REDACTED**] million for FY2023 compared to RMB[**REDACTED**] million for FY2022.

Share of Results of Joint Ventures

Our share of results of joint ventures decreased by RMB17.0 million from a gain of RMB28.3 million for FY2022 to a gain of RMB11.3 million for FY2023, primarily due to the recognition of Baoqing Migao and Anda Migao as our subsidiaries since 31 March 2022, which ceased to share their results as our joint ventures on the same date.

Finance Costs

Our finance costs increased by RMB8.0 million or approximately 82.7% from RMB9.7 million for FY2022 to RMB17.7 million for FY2023, primarily due to (i) the increase in interest expenses on bank borrowings from RMB9.4 million for FY2022 to RMB11.2 million for FY2023, as a result of the additional interest expenses in FY2023 derived from the outstanding advance from banks on discounted bills receivables with full recourse of RMB153.2 million as at 31 March 2022 as compared to the outstanding advance of RMB12.0 million as at 31 March 2021; and (ii) the increase in interest expenses on loans from related companies from nil for FY2022 to RMB5.8 million for FY2023, as a result of Anda Migao becoming our subsidiary since 31 March 2022 and its interest expenses on loans from a related company of Heilongjiang Beidahuang and the immediate holding company of Heilongjiang Beidahuang became our interest expenses on loans from related companies for FY2023.

Income Tax Expense

Our income tax expense increased by RMB37.4 million or approximately 50.3% from RMB74.5 million for FY2022 to RMB111.9 million for FY2023, primarily as a result of an increase in EIT from RMB77.8 million for FY2022 to RMB111.8 million for FY2023 due to the increase in profit before tax from RMB471.0 million for FY2022 to RMB533.4 million for FY2023.

Profit for the Year

As a result of the foregoing, our profit for the year increased by RMB24.9 million or approximately 6.3% from RMB396.6 million for FY2022 to RMB421.5 million for FY2023.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally from cash generated from our operating activities and, to a lesser extent, we raised bank borrowings to support our general working capital needs.

Cash Flow

The following table is a condensed summary of our consolidated statements of cash flows and analysis of balances of cash and cash equivalents for the years indicated:

	For the year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Operating cash flows before movements in working capital	152,030	448,978	552,370
Decrease (increase) in trade and other receivables and prepayments	68,187	(535,338)	(154,662)
(Increase) decrease in inventories	(68,750)	(522,668)	625,271
(Decrease) increase in trade and other payables	(246,513)	256,630	(504,437)
Increase (decrease) in contract liabilities	271,656	189,658	(275,995)
(Increase) decrease in amount due from a related company	(21,575)	21,575	–
Increase (decrease) in amounts due to related companies	1,790	(14,575)	(421)
Increase (decrease) in amounts due to joint ventures	101,852	227,262	(33,061)
Decrease (increase) in amounts due from joint ventures	25,665	(15,187)	929
Decrease in amount due to a non-controlling interest	(23,409)	(22,951)	(6,168)
Cash generated from operations	260,933	33,384	203,826
Income taxes refunded (paid)	303	(33,716)	(69,771)
Net cash from (used in) operating activities	261,236	(332)	134,055
Net cash used in investing activities	(79,655)	(6,243)	(91,270)
Net cash (used in) from financing activities	(132,118)	232,393	37,548

	For the year ended 31 March		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Net increase in cash and cash equivalents	49,463	225,818	80,333
Cash and cash equivalents at the beginning of the year	6,049	54,707	283,456
Effect of foreign exchange rate changes.	(805)	2,931	1,942
Cash and cash equivalents at end of the year represented by bank balances and cash	54,707	283,456	365,731

Net cash from/(used in) operating activities

Our primary source of cash generated from operating activities consists of revenue from our sales of fertiliser products. Our net cash used in operating activities are mainly used to fund the costs directly incurred for our principal operating activities, such as the purchase of raw materials, labour costs and manufacturing costs. Our net cash generated from (used in) operating activities primarily reflects (i) our profit before tax, as adjusted for depreciation of plant and equipment, amortisation of intangible asset, depreciation of right-of-use assets, share of results of joint ventures, gain on deemed disposal of joint ventures, impairment losses net of reversal, finance costs, interest income, gain (loss) on disposal of plant and equipment, and gain on disposal of right-of-use assets; (ii) the effects of changes in working capital; and (iii) income tax paid (refunded).

For FY2021, our net cash generated from operating activities was RMB261.2 million. This amount was primarily attributable to RMB264.9 million in profit before tax, adjusted for certain non-cash items, principally (i) gain on disposal of right-of-use assets of RMB94.4 million and (ii) gain on disposal of plant and equipment of RMB30.3 million, and further adjusted by changes in certain working capital accounts that affected operating cash flow, primarily (i) the increase in contract liabilities of RMB271.7 million due to increase in deposit received from customers as a result of the increase in sales of KCL products because of increasing plantation and agricultural activities as the economic and market conditions in China; (ii) the increase in amounts due to joint ventures of RMB101.9 million due to the increased purchases of raw materials and finished goods from Baoqing Migao and Anda Migao; (iii) the decrease in trade and other receivables and prepayments of RMB68.2 million mainly due to the combined effect of (a) the decrease in trade and bills receivables by RMB557.4 million as a result of the faster payment made by our customers as the general economic conditions improved after COVID-19 restrictions have been lifted in FY2021 and our more stringent requirement on customers' deposit/prepayment before we sold the products to them; and (b) the increase in inventories prepayment by RMB415.7 million due to the increase in prepayment made by us for the purchases of raw materials to satisfy the upcoming seasonal demand of our products, offset by (iv) the decrease in trade and other payables of RMB246.5

million due to the decrease in bills payables of RMB217.7 million due to our less use of bills for settlement of account payables to suppliers and the increase in amount of inventories prepayment made by us to the suppliers for the purchase of raw materials in FY2021; and (v) the increase in inventories of RMB68.8 million as a result of the increased purchasing of raw materials in FY2021 in anticipation of the expected increase in seasonal demand of our products in the second half of FY2022.

For FY2022, our net cash used in operating activities was RMB0.3 million. This amount was primarily attributable to RMB471.0 million profit before tax, adjusted for certain non-cash items, principally share of profit of joint ventures of RMB28.3 million, further adjusted by changes in certain working capital accounts that affected operating cash flow, principally (i) the increase in trade and other receivables and prepayments of RMB535.3 million due to the increase in trade and bills receivables of RMB160.3 million and inventories prepayment of RMB453.2 million, which is in line with our sales growth and our strategy to maintain higher inventory reserve; (ii) the increase in inventories of RMB522.7 million due to the higher inventory reserve maintained by our Group as at 31 March 2022 in view of the potential risk of adverse market price changes in KCL under the global supply uncertainty, partially offset by (iii) the increase in trade and other payables of RMB256.6 million mainly due to the increase in trade payable of RMB250.8 million derived from the increase in domestic raw material purchases to satisfy additional demands of our products in FY2022 and to maintain higher inventory reserve; (iv) the increase in amounts due to joint ventures of RMB227.3 million mainly due to increase in outstanding amount payable to Guizhou Tobacco Investment for our purchases of raw materials and finished goods from them and the increase in deposits received from Guizhou Tobacco Investment for our sales of raw materials and finished goods to them; and (v) the increase in contract liabilities of RMB189.7 million due to the increase in deposits made by our customers for sales orders in late FY2022, as well as the income tax paid of RMB33.7 million which included the payment for additional EIT and surcharges in the total amount of RMB28.5 million resulted from the re-filings of revised EIT annual settlement returns for 2019 and 2020 by Guangdong Migao and Sichuan Migao. For details, please refer to the paragraph headed "Key Components of Our Consolidated Statements of Comprehensive Income – Income Tax Expense – PRC Tax Re-filings" in this section.

For FY2023, our net cash generated from operating activities was RMB134.1 million. This amount was primarily attributable to RMB533.4 million profit before tax, adjusted for changes in certain working capital accounts that affected operating cash flow, principally (i) the decrease in inventories of RMB625.3 million due to our Group's plan to reduce our KCL reserve during late FY2023 in view of the stabilised market selling price of KCL products in the PRC during the same period, partially offset by (ii) the decrease in trade and other payables of RMB504.4 million, primarily due to the decrease in trade and bills payables by RMB462.6 million as a result of the increase in the proportion of prepayments made to our suppliers and our settlements of outstanding trade payables and the settlement of bills payables at maturity in FY2023. During FY2023, certain amount of trade payables of our Group were settled by way of setting off against equivalent amounts of our supplier rebate receivables and inventories prepayment. For details, please refer to the paragraph headed "Selected Balance Sheet Items – Trade and Other Payables – Trade and Bills Payables" in this section; (iii) the decrease in contract liabilities of RMB276.0 million, primarily due to the decrease in deposits made by our customers for purchases of our potash fertiliser products during late FY2023 in view of the stabilised market selling price of KCL products in the PRC during the same period; (iv) the increase in trade and other receivables and prepayments of RMB154.7 million, primarily due to (x) the increase in inventory prepayments of RMB266.1 million as a result of the prepayments made to our suppliers in late FY2023 to secure sources of KCL for our production and sales in FY2024, partially offset by (y) the decrease in trade and bills receivables of RMB100.3 million because of our effort to collect such receivables in FY2023 and to a lesser extent, the decrease in sales in March 2023; and (v) the decrease in amounts due to joint ventures of RMB33.1 million, primarily due to the decrease in amount due to Yunnan EuroChem from RMB34.7 million as at 31 March 2022 to nil as at 31 March 2023 as a result of the decrease in our purchases of raw materials and finished goods from Yunnan EuroChem during FY2023, as well as the income tax paid of RMB69.8 million which included the payment for additional EIT and surcharges in total amount of RMB27.5 million in July 2022 resulted from the re-filing of revised EIT annual settlement returns for 2021 by Guangdong Migao. For details, please refer to the paragraph headed "Key Components of Our Consolidated Statements of Comprehensive Income – Income Tax Expense – PRC Tax Re-filings" in this section.

Net cash used in investing activities

Net cash used in investing activities mainly consists of (i) placement of restricted cash pledged for our credit facilities, namely, bills payables and deposits for letter of credits mostly in relation to our purchase of KCL from suppliers; (ii) purchase of plant and equipment in support of our business operation; (iii) upfront payments for right-of-use assets mainly representing our leasehold land; (iv) loans to joint ventures, namely, Anda Migao and Baoqing Migao, in support of their working capital requirements; and (v) capital injection to joint ventures. Net cash from investing activities mainly consists of (i) withdrawal of restricted cash when the pledge for our credit facilities is released; and (ii) repayment of aforementioned loans from joint ventures.

For FY2021, our net cash used in investing activities was RMB79.7 million, which primarily consisted of RMB1,007.7 million of placement of restricted cash, RMB342.7 million of loans to joint ventures, RMB52.0 million of capital injection to a joint venture, namely, Anda Migao, partially offset by RMB1,036.8 million of withdrawal of restricted cash, RMB121.1 million of repayment of loans from joint ventures, RMB96.9 million of proceeds from disposal of right-of-use assets representing the sum received from the PRC government for the resumption of the leasehold land held by Sichuan Migao and RMB81.8 million of proceeds from disposal of plant and equipment which is a building owned by Sichuan Migao.

For FY2022, our net cash used in investing activities was RMB6.2 million, which primarily consisted of RMB1,384.3 million of placement of restricted cash, RMB256.3 million of loans to joint ventures, and RMB39.0 million of capital injection to a joint venture, namely, Anda Migao, partially offset by RMB1,439.6 million of withdrawal of restricted cash, RMB197.5 million of repayment of loans from joint ventures, and RMB28.4 million of net cash inflow on acquisition of subsidiaries.

For FY2023, our net cash used in investing activities was RMB91.3 million, which primarily consisted of RMB436.4 million of placement of restricted cash, RMB83.3 million of upfront payments for right-of-use assets, RMB46.8 million of purchase of plant and equipment, RMB24.4 million of advances to joint ventures, and RMB20.5 million of advance to a third party, namely, Liaoning Migao, for its possible ad hoc short-term working capital needs with a view to facilitating the smooth transition of its business operation after its disposal by APPH in June 2022, which was subsequently fully repaid in August 2022, partially offset by RMB456.2 million of withdrawal of restricted cash and RMB26.4 million of repayments from joint ventures.

Net cash from/(used in) financing activities

Net cash generated from financing activities mainly consists of (i) new bank borrowings raised; and (ii) advance from related companies. Net cash used in financing activities mainly consists of (i) repayment of bank borrowings; and (ii) repayments to related companies.

For FY2021, our net cash used in financing activities was RMB132.1 million, primarily as a result of repayments of bank borrowings of RMB306.3 million and repayments to related companies of RMB174.2 million, partially offset by new bank borrowings raised of RMB273.1 million and advances from related companies of RMB93.4 million.

For FY2022, our net cash from financing activities was RMB232.4 million, which primarily consisted of new borrowing raised of RMB509.2 million and advances from related companies of RMB87.0 million, partially offset by repayments of bank borrowings of RMB343.8 million.

For FY2023, our net cash from financing activities was RMB37.5 million, which primarily consisted of RMB298.7 million of new bank borrowings raised, RMB243.1 million of advances from related companies and RMB105.0 million of new loan from a related company, representing the loan from the immediate holding company of Heilongjiang Beidahuang to Anda Migao, partially offset by RMB240.4 million of repayments to related companies, RMB233.9 million of repayments of bank borrowings and RMB95.0 million of repayment of loan from a related party, representing the loan from a related company of Heilongjiang Beidahuang to Anda Migao.

SELECTED BALANCE SHEET ITEMS

The following table sets forth our current assets and current liabilities as at the dates indicated:

	As at 31 March			As at 31 August
	2021	2022	2023	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
Current Assets				
Inventories	164,392	740,470	151,589	446,041
Trade and other receivables and prepayments	1,090,922	1,737,514	1,730,694	1,833,938
Amount due from a related company	21,575	–	–	–
Amounts due from joint ventures	29,801	30,417	27,490	25,183
Loans to joint ventures	237,249	–	–	–
Amount due from a shareholder	2,234	1,838	3,535	3,819
Tax recoverable	–	–	1,029	1,029
Restricted cash	245,570	190,298	170,484	126,060
Bank balances and cash	54,707	283,456	365,731	302,042
	1,846,450	2,983,993	2,450,552	2,738,112
Current Liabilities				
Trade and other payables	860,120	1,152,972	630,630	742,099
Contract liabilities	408,775	611,973	335,978	551,484
Amounts due to joint ventures	111,794	34,709	–	–
Amounts due to related companies	89,836	178,901	175,716	25,713
Amount due to a non-controlling interest	29,119	6,168	–	1,960
Loans from related companies	–	95,020	105,817	107,975
Tax liabilities	62,504	112,770	155,813	145,851
Bank borrowings	129,018	292,427	164,738	210,000
Lease liabilities	4,406	3,770	5,681	5,810
	1,695,572	2,488,710	1,574,373	1,790,892
Net Current Assets	150,878	495,283	876,179	947,220

Inventories

Our Group's inventories comprise raw materials, finished goods, packing and other materials and goods in transit. The following table sets out our inventories as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	55,936	668,355	121,553
Finished goods	17,304	40,605	19,773
Packing and other materials	6,228	7,608	4,698
Goods in transit	84,924	23,902	5,565
	164,392	740,470	151,589

Raw materials represent KCL, SOP, NOP, sulphuric acid, ammonium nitrate and other raw materials we purchased from suppliers. Finished goods represent the granulated KCL, the finished SOP, compound fertilisers, by-products and other products after the manufacturing process in our production facilities. Packing and other materials represent woven bags for packaging of our finished goods. Goods in transit mainly represent raw materials in transit from our suppliers. Our goods in transit are delivered through shipment on a cost and freight (CFR) basis whereby risk is transferred to us as the buyer once the goods are on board the vessel.

The increasing trend of our inventories from RMB164.4 million as at 31 March 2021 to RMB740.5 million as at 31 March 2022 was primarily due to the increase in our inventory reserve in view of the growth in sales volume as well as the increase in inventory costs in FY2022 due to the global supply uncertainty of KCL. The decrease in our inventories from RMB740.5 million as at 31 March 2022 to RMB151.6 million as at 31 March 2023 was primarily due to our Group's plan to reduce our KCL reserve in late FY2023 in view of the stabilised market selling price of KCL products in the PRC during the same period. During the Track Record Period, we did not have any inventory write down due to the nature of the high turnover of our raw materials, and the expected realisable value of our inventories remained higher than the price of raw materials during the Track Record Period.

The following table sets forth the aging analysis of our inventories as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Inventories			
Within 90 days	148,779	717,815	138,262
91-180 days	4,614	10,183	5,719
181-365 days	7,355	7,823	5,235
Over 1 year	3,644	4,649	2,373
	164,392	740,470	151,589

The following table sets out a summary of our Group's average inventory turnover days for the years indicated:

	For the year ended 31 March		
	2021	**2022**	**2023**
Inventory turnover days(1)	24.5	51.5	41.2

Note:

(1) The calculation of inventory turnover days is based on the average of the opening balance and closing balance of inventories divided by cost of goods sold for the relevant year and multiplied by 365 days.

Our Group recorded an increase in average inventory turnover days from approximately 24.5 days for FY2021 to approximately 51.5 days for FY2022. The higher average inventory turnover days for FY2022 was primarily due to higher inventories balance maintained by our Group as at 31 March 2022 in view of the potential risk for adverse changes in purchase price of KCL under the global supply uncertainly, so as to maintain our market leading position and to satisfy the expected demand of our products in the year ending 31 March 2023. As at 31 March 2022, we had inventories of approximately 4,416,847 tonnes, as compared to approximately 3,619,541 tonnes as at 31 March 2021. In addition, Anda Migao and Baoqing Migao became our subsidiaries on 31 March 2022, and, therefore, the inventories held by them have been taken into account for the calculation of inventory turnover days for FY2022, which, to a lesser extent, led to the increase in inventory turnover days for FY2022. As at 31 March 2022, inventories held by Anda Migao and Baoqing Migao aggregated RMB39.2 million.

Our Group recorded a decrease in average inventory turnover days from approximately 51.5 days for FY2022 to approximately 41.2 days for FY2023, mainly due to the significant decrease in purchase of KCL through shipment by sea in FY2023.

As at 31 August 2023, an unaudited amount of RMB137.9 million, or approximately 91.0%, of our inventories as at 31 March 2023, were subsequently utilised or sold. Given our level of inventories, we are subject to inventory risks. For further details, please refer to the section headed "Risk Factors – Risks Relating to Our Business – We are exposed to inventory risks" in this document.

Trade and Other Receivables and Prepayments

Our trade and other receivables and prepayments primarily consist of trade receivables, bills receivables, supplier rebate receivables, inventories prepayment, deferred issue costs representing the accrued expenses for professional services in connection with the preparation for the [**REDACTED**], and other receivables, deposits and prepayments.

The following table sets forth our trade and other receivables and prepayments as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade and other receivables and prepayments			
Trade receivables[1]	230,910	308,305	200,370
Less: Allowance for credit losses	(7,877)	(19,058)	(17,403)
	223,033	289,247	182,967
Bills receivables	208,601	302,713	140,886
	431,634	591,960	323,853
Other receivables and prepayments			
Supplier rebate receivables	9,607	39,216	–
Inventories prepayment	589,332	1,042,565	1,308,636
Deferred issue costs	1,424	8,496	14,739
Other receivables, deposits and prepayments	58,925	55,277	83,466
	659,288	1,145,554	1,406,841
	1,090,922	1,737,514	1,730,694

Note:

(1) As at 31 March 2021, 2022 and 2023, our trade receivables included unbilled receivables of RMB190.7 million, RMB203.6 million and RMB90.9 million, respectively, which represent accrued sales for goods delivered by our Group but yet to bill. For such amount of unbilled receivables, nil, nil and RMB35.9 million remained unbilled as at the Latest Practicable Date. The following table sets out an analysis of our unbilled receivables by age, presented based on the date of delivery, as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Unbilled receivables			
Within 90 days	138,579	67,415	76,028
91-180 days	16,967	10,824	14,640
181-365 days	14,667	68,861	133
Over 1 year	20,530	56,464	57
	190,743	203,564	90,858

In general, we will communicate with our customers with unbilled sales orders from time to time after the delivery of our fertiliser products to confirm and agree the amount of unbilled sales before issuing sales invoices. As such, the length of our billing process will be subject to our customers' responses, and our customers with wider geographical coverage of sales network will generally require more time to confirm the amount of unbilled sales with us. Some of them may take more time to confirm and agree the amount of unbilled sales with us for the preceding peak season, and the confirmation of unbilled sales and billing arrangement with these customers will generally have to take place from April to September of the following financial year. Our Group has relatively long term and stable business relationships with these customers, and was generally able to receive payments from them within the credit period after issuing invoices during the Track Record Period.

Our unbilled receivables as at 31 March 2021 and 2022 included unbilled receivables from Supplier B of RMB55.6 million and RMB97.8 million which were derived from our appointment of Supplier B as our designated agent to purchase raw materials from oversea suppliers and sell them to domestic customers of our Group under the instructions of our Group during the Track Record Period. Under such arrangement, Supplier B shall collect the sales proceeds and settle the purchase costs on behalf of our Group, and our Group has unconditional right to the payment. Such arrangement has been terminated since October 2021, and the related outstanding receivables from Supplier B have been fully settled as at 31 January 2023. For details in relation to the appointment of Supplier B as our designated agent, please refer to the section headed "Business – Raw Materials Procurement – KCL – Purchases through Designated Agent" in this document. RMB52.2 million and RMB136.1 million of our unbilled receivables as at 31 March 2021 and 2022 had been aged for more than 90 days, mainly due to (i) the unbilled receivables from Supplier B under the arrangement as discussed above; and (ii) the delays in billing arrangements for the sales to certain customers with operational difficulties and financial illiquidities as a result of the impact of COVID-19, and the relevant unbilled receivables from these customers had been billed and fully settled as at the Latest Practicable Date.

Trade receivables, net of loss allowance, and bills receivables

Our trade receivables and bills receivable represent amounts in connection with the sales of our products due from our customers. More specifically, our trade receivables primarily represent receivables from our customers; whereas bills receivables represent outstanding amounts due from certain customers who settle our payment with bank's acceptance bills. Allowance for credit losses represent the impairment on trade receivables for overdue payments by our customers. For details, please refer to the paragraph headed "Critical Accounting Policies, Estimates and Judgements – Impairment of Financial Assets" in this section for our Group's policy on impairment of trade receivables.

Based on our assessment and reassessment process for trade receivables impairment, we made allowance for credit losses of approximately 3.4%, 6.2% and 8.7% of our ending balance of trade receivables as at 31 March 2021, 2022 and 2023.

Our credit period to our customers generally ranges from zero to 180 days and in some cases, we require our customers to make prepayment to us before we deliver goods to them. In determining the credit period to be granted to our customers, we would assess their credibility and our business relationships with them. Credit period granted to our customers are reviewed regularly and we seek to maintain strict control over our outstanding receivables to help monitor our credit risk. Our credit control personnel regularly review overdue balances.

The following table sets forth an analysis of our trade receivables (excluding our unbilled receivables) by age, net of allowance for credit losses, presented based on the invoice date as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
Within 90 days	7,866	43,594	26,129
91-180 days	1,998	38,412	56,203
181-365 days	827	5,281	8,893
Over 1 year	22,656	6,312	3,302
	33,347	93,599	94,527

RMB22.7 million of our trade receivables as at 31 March 2021 had been aged for more than 1 year, which was mainly due to the delays in settlements by certain customers as a result of their short term liquidity issues, which were further exacerbated by the outbreak of COVID-19 in late 2019. As at the Latest Practicable Date, the relevant outstanding amounts had been fully settled.

The following table sets forth our trade and bills receivables turnover days for the years indicated:

	For the year ended 31 March		
	2021	**2022**	**2023**
Trade and bills receivables turnover days(1)	104.4	48.6	35.4

Note:

(1) We calculate the trade and bills receivables turnover days using the average of the opening balance and closing balance of the sum of trade receivables, net of loss allowance, and bills receivables for the relevant year, divided by revenue for the relevant year, multiplied by 365 days.

For FY2021, FY2022 and FY2023, our trade and bills receivables turnover days were approximately 104.4 days, 48.6 days and 35.4 days, respectively. The decreasing trend of our trade and bills receivables turnover days was primarily due to (i) our stringent requirement on customers' deposit in FY2022 in view of the significant increase in the demand of our KCL products during the same year; (ii) the decrease in our trade and bills receivables as at 31 March 2023 as a result of our efforts to collect our receivables in FY2023; and (iii) to a lesser extent, the decrease in sales in March 2023.

As at 31 August 2023, an unaudited amount of RMB106.9 million, or approximately 58.4%, of our trade receivables as at 31 March 2023 were subsequently settled.

Supplier rebate receivables

Our supplier rebate receivables primarily represents rebate on our inventory purchase which our Group is entitled to when our inventory purchase achieved the specified level of purchase volume. Our supplier rebate receivables as at 31 March 2021 and 2022 and 2023 were RMB9.6 million, RMB39.2 million and nil, respectively.

Inventories prepayment

Our inventories prepayment primarily represents the prepayment made by us to the suppliers for the purchase of raw materials. Our inventories prepayment as at 31 March 2021, 2022 and 2023 were RMB589.3 million, RMB1,042.6 million and RMB1,308.6 million, respectively.

Our inventories prepayment increased from RMB589.3 million as at 31 March 2021 to RMB1,042.6 million as at 31 March 2022, which is generally in line with our sales growth and our strategy to maintain higher inventory reserve for the same years. The increase in our inventories prepayment from RMB1,042.6 million as at 31 March 2022 to RMB1,308.6 million as at 31 March 2023 as a result of the prepayments made to our suppliers in late FY2023 to secure sources of KCL for our production and sales in FY2024.

The following table sets forth the aging analysis of our inventories prepayment as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Inventories Prepayment			
Within 90 days	560,059	659,891	1,089,087
91-180 days	22,925	176,181	123,636
181-365 days	626	190,420	5,422
Over 1 year	5,722	16,073	90,491
	589,332	1,042,565	1,308,636

As at 31 August 2023, an unaudited amount of RMB828.9 million, or approximately 63.3%, of our inventories prepayment as at 31 March 2023 were subsequently utilised.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments primarily represents value-added tax receivables, and prepayments for transportation costs and other miscellaneous expenses. Our other receivables, deposits and prepayments as at 31 March 2021, 2022 and 2023 were RMB58.6 million, RMB55.3 million and RMB83.5 million, respectively.

Restricted Cash

Our restricted cash primarily represents (i) restricted cash pledged for our bills payables. According to the bills payables agreement with the bank, a sum representing certain percentage of the amount of bills payables is required to be deposited at the bank as securities for bills payables; and (ii) cash deposited to the banks for applying letter of credits for our overseas purchases. Our restricted cash as at 31 March 2021, 2022 and 2023 were RMB245.6 million, RMB190.3 million and RMB170.5 million, respectively. The changes in our restricted cash as at 31 March 2021, 2022 and 2023 is generally in line with the changes in our outstanding bills payables and letter of credits as at the relevant dates.

Trade and Other Payables

Our trade and other payables primarily consist of trade payables, bills payables, other tax payables, accrued employee expense (including social insurance and housing fund contributions), accrued issue costs and [**REDACTED**] expenses, payables for transportation costs, payables for construction in progress and plant and equipment, which mainly represents the amount payable for plant and equipment and construction in progress for our production facilities, and others.

The following table sets forth our trade and other payables based as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables			
Trade payables	358,433	609,255	215,153
Bills payables	338,801	350,209	281,722
Other tax payables	107,306	87,710	97,455
Accrued employee expense	2,824	5,211	4,561
Accrued issue costs and [**REDACTED**] expenses	1,963	16,449	8,043
Payables for transportation costs	13,568	24,263	2,798
Payables for construction in progress and plant and equipment	3,680	34,488	–
Others	33,545	25,387	20,898
	860,120	1,152,972	630,630

Trade and bills payables

Our trade and bills payables primarily represent the amounts payable to our raw material suppliers. In particular, our trade payable primarily represent payment to our suppliers for our credit purchase; whereas bills payables represent outstanding amounts due to certain suppliers with whom we settle through banks' acceptance bills.

Our trade and bills payables increased by RMB262.2 million, or approximately 37.6% from RMB697.3 million as at 31 March 2021 to RMB959.5 million as at 31 March 2022, primarily due to the increase in trade payables of RMB250.8 million derived from the increase in our domestic raw material purchases in support of the revenue growth in FY2022. Our trade and bills payables decreased by RMB462.6 million, or approximately 48.2%, from RMB959.5 million as at 31 March 2022 to RMB496.9 million as at 31 March 2023, primarily due to (i) our settlement of outstanding trade payables as at 31 March 2022 during FY2023 when we received payments from our customers for sales; (ii) our settlement of outstanding trade payables as at 31 March 2022 to Supplier D by (x) setting off against the outstanding rebate receivables to which we are entitled pursuant to our purchase contracts with Supplier D, and (y) tripartite settlements with Supplier A and two fertiliser trading companies respectively. For further information on such tripartite settlement arrangement, please refer to the section headed "Business – Business Dealings with Third Parties subject to International Sanctions – International Sanctions Applicable to Belarus – Relates from Supplier D and related set off arrangement" in this document; and (iii) increase in the proportion of prepayments to our suppliers for our purchase of raw materials. Our payment term with our suppliers generally ranges from zero to 180 days and in some cases, we are required to make prepayment to suppliers for our inventory purchase.

The following table sets forth the number of turnover days for our trade and bills payables for the years indicated:

	For the year ended 31 March		
	2021	**2022**	**2023**
Trade and bills payables turnover days[(1)]	153.2	94.2	67.2

Note:

(1) We calculate the trade and bills payables turnover days using the average of the opening balance and closing balance of trade payables and bills payable for the relevant year, divided by cost of goods sold for the relevant year, multiplied by 365 days for a full-year period.

For FY2021, FY2022 and FY2023, our trade and bills payables turnover days were approximately 153.2 days, 94.2 days and 67.2 days, respectively. Our Group recorded a decreasing trend in trade and bills payables turnover days in FY2021 and FY2022 as we had settled our outstanding payables with our suppliers in a more promptly manner, so that we could be able to place new purchase orders with them more frequently, to satisfy the increase in market demand of our products. Our trade and bills payables turnover days further decreased in FY2023 primarily due to the decrease in trade and bills payables as a result of our settlements of outstanding trade payables and the settlement of bill payables at maturity in FY2023.

As at 31 August 2023, an unaudited amount of RMB382.2 million, or approximately 76.9%, of our trade and bills payables as at 31 March 2023 were subsequently settled.

Other tax payables

Our other tax payables primarily represents value-added tax and additional tax payable. Our other tax payables as at 31 March 2021, 2022 and 2023 were RMB107.3 million, RMB87.7 million and RMB97.5 million, respectively.

Contract Liabilities

Our contract liabilities primarily represents deposits received from customers. We typically receives a deposit of 30% to 100% of total consideration of the goods from certain customers when they enter into contracts with us. Our contract liabilities were RMB408.8 million, RMB612.0 million and RMB336.0 million as at 31 March 2021, 2022 and 2023, respectively.

As at 31 August 2023, an unaudited amount of RMB180.6 million, or approximately 53.8%, of our contract liabilities as at 31 March 2023 were subsequently recognised as revenue.

Related Party Transactions

During the Track Record Period, we had various related party transactions as we conducted transaction with our related companies, joint ventures and a non-controlling interest, in our ordinary course of business (including sales of finished goods and purchases of raw materials). For details on the amount of related party transactions carried out during the Track Record Period, please refer to Note 23 to the Accountants' Report in Appendix I to this document. Our Directors confirm that these transactions were conducted in accordance with terms as agreed between us and the respective related parties.

(a) Amounts Due from (to) Related Companies

Our amount due from a related company of trade nature was derived from the sales of finished goods to Liaoning Migao, a then wholly-owned subsidiary of APPH which was in turn ultimately wholly owned by Mr. Liu, and had been disposed of to an Independent Third Party on 15 June 2022. We had amount due from a related company of trade nature of RMB21.6 million, nil and nil as at 31 March 2021 and 2022 and 2023, respectively.

Our amounts due to related companies of trade nature consist of the amounts payable to Liaoning Migao, Shanghai Migao and Zunyi Migao derived from our purchases of raw materials and finished goods from them. Shanghai Migao and Zunyi Migao are wholly-owned subsidiaries of APPH. We had amounts due to related companies of trade nature of RMB16.9 million, RMB20.4 million and nil as at 31 March 2021, 2022 and 2023, respectively.

Our amount due to a related company of non-trade nature consist of the amount due to APPH of non-trade nature. We had amount due to a related company of non-trade nature of RMB72.9 million, RMB158.5 million and RMB175.7 million as at 31 March 2021, 2022 and 2023, respectively. Such amount is unsecured and interest-free. In FY2023, as part of a payment arrangement with APPH, our Group had repaid certain amount due to APPH by way of transferring the same amount to a supplier of APPH, which is an Independent Third Party. Such arrangement had been completed in FY2023, and we expect to settle the outstanding amount due to a related company of non-trade nature before the [**REDACTED**].

(b) Amounts Due from (to) Joint Ventures/Loans to Joint Ventures

Our amounts due from joint ventures of trade nature represent the amount receivable from Yunnan EuroChem, a joint venture invested by EuroChem Migao, for the sales of raw materials and/or finished goods. We had amounts due from joint ventures of trade nature of nil, RMB15.2 million and RMB14.3 million as at 31 March 2021, 2022 and 2023, respectively. For FY2021, FY2022 and FY2023, the sales of raw materials and/or finished goods to our joint ventures amounted to RMB135.2 million, RMB90.6 million and RMB156.5 million, respectively, representing approximately 6.5%, 2.4% and 3.3% of our total revenue for the respective financial year.

Our amounts due from joint ventures of non-trade nature represents the general and administrative expenses that our Group paid on behalf of EuroChem Migao. Our amounts due from joint ventures of non-trade nature as at 31 March 2021, 2022 and 2023 were RMB29.8 million, RMB15.2 million and RMB13.2 million, respectively. We expect that the amounts due from joint ventures of non-trade nature will be settled before the [**REDACTED**].

Our amounts due to joint ventures of trade nature represents the amount payable to Yunnan EuroChem, Baoqing Migao and Anda Migao derived from our purchases of raw materials and finished goods from them. We had amounts due to joint ventures of trade nature of RMB111.8 million, RMB34.7 million and nil as at 31 March 2021, 2022 and 2023, respectively. For FY2021, FY2022 and FY2023, our purchases of raw materials and finished goods from our joint ventures amounted to RMB173.7 million, RMB313.6 million and RMB3.0 million, respectively, representing approximately 8.6%, 8.5% and 0.1% of our total purchases for the respective financial year.

Loans to joint ventures consist of loans of non-trade nature made by our Group to Baoqing Migao and Anda Migao. These loans are unsecured, carry interest at fixed rate of 6% per annum and repayable within one year from the dates of draw down of respective loans. We had loans to joint ventures of RMB237.2 million, nil and nil as at 31 March 2021, 2022 and 2023, respectively.

Since the respective establishment of Baoqing Migao and Anda Migao, we were able to exercise joint control over them as decisions on certain matters would require consent of all of their shareholders under their respective articles of association, and accordingly, Baoqing Migao and Anda Migao were treated as joint ventures of our Group. Following the amendments to the respective articles of association of Baoqing Migao and Anda Migao by removing the specific terms which would require consent of all of their shareholders certain matters, we have obtained control over Baoqing Migao and Anda Migao and they became our subsidiaries and ceased to be related parties of our Group from 31 March 2022.

The pricing and other material terms of our Group's sales to, and purchases from, Yunnan EuroChem were comparable to that of other independent customers/suppliers. For the pricing and other material terms for our sales, please refer to the section headed "Business – Customers, Sales and Marketing – Customers and Sales Terms" in this document. For materials terms for our purchases, please refer to the section headed "Business – Raw Materials Procurement" in this document. During the Track Record Period, the amounts of raw materials and finished goods supplied by us to Yunnan EuroChem for each financial year represented approximately 11.1% to 38.4% of the total purchases of Yunnan EuroChem for the respective financial year. As such, more than a majority of the raw materials and finished goods purchased by Yunnan EuroChem during the Track Record Period were sourced from suppliers other than the members of our Group. In addition, more than 85% of the suppliers of Yunnan EuroChem was independent from our Group during the Track Record Period. As such, our Directors are of the view that Yunnan EuroChem has no significant reliance on our Group for the supply of its raw materials and finished goods. The following table sets forth the breakdown of the revenue from the sales of raw materials and finished goods to Yunnan EuroChem by each type of products and each item as a percentage of the total purchases of Yunnan EuroChem for the years indicated:

	For the year ended 31 March					
	2021		**2022**		**2023**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Revenue from sales to Yunnan EuroChem by types of products						
– KCL	19,446	7.1	75,378	29.2	138,360	33.9
– SOP	9,098	3.3	14,678	5.7	18,156	4.5
– Compound fertilisers.	1,846	0.7	–	–	–	–
– By-Products and Others	324	0.1	147	0.1	–	–
Total	30,713	11.1	90,202	35.0	156,515	38.4

During the Track Record Period, the amounts of raw materials and finished goods purchased by us from Yunnan EuroChem for each financial year represented approximately 0.6% to 14.7% of the total revenue of Yunnan EuroChem for the respective financial year. As such, more than a majority of the revenue recorded by Yunnan EuroChem during the Track Record Period was sourced from customers other than the members of our Group. In addition, more than 85% of the customers of Yunnan EuroChem was independent from our Group during the Track Record Period. As such, our Directors are of the view that Yunnan EuroChem has no significant reliance on our Group for the sales of its raw materials and finished goods. The following table sets forth the breakdown of our purchases of raw materials and finished goods from Yunnan EuroChem by each type of products and each item as a percentage of the total revenue of Yunnan EuroChem for the years indicated:

	For the year ended 31 March					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Purchases from Yunnan EuroChem by types of products						
– KCL	–	–	41,914	11.3	–	–
– SOP	534	0.1	–	–	–	–
– NOP	42,447	11.9	8,683	2.3	2,994	0.6
– Compound fertilisers	7,767	2.0	3,772	1.0	–	–
– By-Products and Others	73	0.0	–	–	–	–
Total	50,821	14.2	54,369	14.7	2,994	0.6

(c) Amount Due to a Non-controlling Interest

Our amount due to a non-controlling interest of trade nature were derived from our business transaction with Guizhou Tobacco Investment, a non-controlling interest of our Group by virtue of its being a substantial shareholder of Daxing Migao, namely, sales of finished goods and purchases of raw materials. We had amount due to Guizhou Tobacco Investment of RMB29.1 million, RMB6.2 million and nil as at 31 March 2021, 2022 and 2023, respectively.

(d) Amount Due from a shareholder

Our amount due from a shareholder was RMB2.2 million, RMB1.8 million and RMB3.5 million as at 31 March 2021, 2022 and 2023, respectively, which primarily represents the advanced payments of non-trade nature made to Mr. Liu for his travelling expenses and other business disbursements. The amount due from a shareholder will be settled before the [**REDACTED**].

(e) Deemed Distribution to Mr. Liu

As part of Reorganisation, we had disposed of certain subsidiaries, namely, Liaoning Migao, Shanghai Migao, Tianjin Migao and Zunyi Migao (collectively, the "**Disposed Companies**") to APPH, as disclosed in the section headed "History, Reorganisation and Corporate Structure – The Reorganisation" in this document. During the Track Record Period, certain deemed distributions to Mr. Liu were made in relation to (i) the settlement of consideration in relation to such disposal of Disposed Companies; and (ii) the initial recognition and the settlement of the abovementioned advances to the Disposed Companies.

For the disposal of the Disposed Companies, the initial aggregate consideration was approximately RMB346.8 million, which was determined with reference to the net asset value of the Disposed Companies on the respective disposal dates as per the management accounts of the Disposed Companies prepared in accordance with the PRC GAAP. For details of the disposal of the Disposed Companies, please refer to the section headed "History, Reorganisation and Corporate Structure – The Reorganisation" in this document. On 8 March 2019, our Group entered into four supplemental agreements to re-determine the consideration for the disposal at a total consideration of approximately RMB78.6 million, which was determined on the respective disposal dates as per the management accounts of the Disposal Group prepared in accordance with HKFRSs. The difference in consideration of approximately RMB268.2 million is accounted for as deemed distribution to Mr. Liu in the year ended 31 March 2019, who was the then ultimate shareholder of both of our Group and the Disposed Companies.

On 26 April 2022, Changchun Migao acquired the entire issued share capital of Tongjiang Migao from Liaoning Migao at a consideration of RMB1. The difference between the consideration for the acquisition of Tongjiang Migao and the net liabilities of Tongjiang Migao at the date of acquisition, namely, RMB1.5 million, was accounted for as the deemed distribution to Mr. Liu in FY2023.

(f) Loans from Related Companies

Loans from related companies represent loans of non-trade nature made by a related company of Heilongjiang Beidahuang and the immediate holding company of Heilongjiang Beidahuang to Anda Migao to support the development of Anda Production Facility. For details, please refer to the paragraph headed "Indebtedness – Loans from Related Companies" below.

(g) Financial Guarantees

As at 31 March 2021, 2022 and 2023, our Group provided financial guarantees in respect of bank facilities granted to a related company and a joint venture, namely, Liaoning Migao and Baoqing Migao amounted to RMB191.0 million, nil and nil, respectively. For details, please refer to the paragraphs headed "Indebtedness – Contingent Liabilities and Guarantees" below.

As at 31 March 2021, 2022 and 2023, certain related parties of our Company provided financial guarantees in respect of bank facilities granted to our Group amounted to RMB547.0 million, RMB374.0 million and RMB280.0 million, respectively.

Our Directors confirm that all guarantees provided to/by the related parties of our Group will be fully released before the [**REDACTED**].

For FY2021, FY2022 and FY2023, the sales of finished goods to related parties contributed only approximately 9.9%, 2.4% and 3.9% of our total revenue and the purchases of raw materials from related parties contributed only approximately 14.5%, 11.1% and 0.1% of our total purchase. In addition, our Directors have confirmed that all related party transactions during the Track Record Period were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were reasonable and in the interest of our Group as a whole. As such, our Directors confirmed that these related party transactions would not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance.

During the Track Record Period, except for the transactions disclosed herein and in Note 23 to the Accountants' Report in Appendix I to this document, we had no other related party transactions that had material transaction amounts or balances with us. We are able to obtain alternative financings if and when needed. Our Directors confirm that all non-trade related amounts due from and to related companies will be fully settled before the [**REDACTED**]. In addition, our Directors further confirm that all non-trade related amounts due to or from, and loans or guarantees provided by, our Controlling Shareholders and their respective close associates, will be fully repaid or released before the [**REDACTED**]. As such, there is no financial reliance on our related parties.

INDEBTEDNESS

The following table sets forth our Group's borrowings, other indebtedness, and contingent liabilities and guarantees as at the dates indicated:

	As at 31 March			As at 31 August
	2021	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current:				
Amounts due to related companies	72,896	158,530	175,716	25,713
Amount due to a non-controlling interest	29,119	6,168	–	1,960
Loan from related companies	–	95,020	105,817	107,975
Bank borrowings	129,018	292,427	164,738	210,000
Lease liabilities	4,406	3,770	5,681	5,810
	235,439	555,915	451,952	351,458
Non-current:				
Bank borrowings	50,000	40,000	80,000	70,000
Lease liabilities	1,360	4,548	5,376	2,921
	51,360	44,548	85,376	72,921
Total	286,799	600,463	537,328	424,379

	As at 31 March			As at 31 August
	2021	**2022**	**2023**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Contingent liabilities and guarantees				
Financial guarantees granted to a related company and a joint venture.	191,000	–	–	–

Bank Borrowings

As at 31 March 2021, 2022 and 2023, we had total outstanding bank borrowings of RMB179.0 million, RMB332.4 million and RMB244.7 million, respectively, amongst which RMB167.0 million, RMB179.3 million and RMB244.7 million were secured bank loans which were secured by our plant and equipment and right-of-use assets, while the rest were advance from banks on discounted bills receivables with recourse.

During the Track Record Period, our bank loans interest rate ranged from 1.9% to 6.2%. As at 31 August 2023, which is the latest practicable date for determining our indebtedness, the unaudited total outstanding amount of our bank borrowings was RMB280.0 million.

As at 31 August 2023, we had an unaudited aggregate committed banking facilities of RMB1,170.0 million, of which RMB560.2 million was utilised and the remaining RMB609.8 million was unutilised.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not breached any financial covenant or defaulted in repayment of trade and other payables and bank borrowings or other loan facilities that were due. Except for the bank borrowing under the credit facility discussed above, we currently do not have any plans for other material external debt financing. Our bank borrowings amount fluctuated during the Track Record Period in accordance with our internal financial resources and the financing needs in that year.

Lease Liabilities

Our lease liabilities primarily represents the lease payments payable by us under the leases in relation to the leasing of office premises and leasehold land for our production facilities. For details of our leased properties and their corresponding lease period, please refer to the section headed "Business – Land and Properties – Properties – Leased Properties" in this document.

The following table sets forth a breakdown of our lease liabilities by current and non-current portions as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Non-current	1,360	4,548	5,376
Current	4,406	3,770	5,681
Lease liabilities	5,766	8,318	11,057

During the Track Record Period, the weighted average incremental borrowing rates applied by our Group for the lease liabilities ranged from 5.4% to 6.3%.

Loans from Related Companies

During the Track Record Period, a related company of Heilongjiang Beidahuang and the immediate holding company of Heilongjiang Beidahuang provided loans to Anda Migao to support the development of Anda Production Facility, with a fixed interest rate of 6% and 5% per annum, respectively, and repayable within one year from the date of draw down of the respective loan. As Anda Migao and Baoqing Migao became our subsidiaries on 31 March 2022, such loans constitute loans from related companies of our Group under applicable accounting standards. As at 31 March 2021, 2022 and 2023 and 31 August 2023, such loans amounted to nil, RMB95.0 million, RMB105.8 million and RMB108.0 million (unaudited), respectively. The loan from a related company of Heilongjiang Beidahuang was fully repaid in January 2023 and the loan from the immediate holding company of Heilongjiang Beidahuang is expected to be fully repaid before [**REDACTED**].

Contingent Liabilities and Guarantees

As at 31 March 2021, 2022 and 2023 and 31 August 2023, we had financial guarantee contracts not recognised in the financial statements amounted to RMB191.0 million, nil and nil and nil (unaudited), respectively, which represented the amount of guarantee given to the banks in connection with the bank facilities granted to a related company and a joint venture, namely, Liaoning Migao and Baoqing Migao. As at 31 March 2021, 2022 and 2023 and 31 August 2023, the outstanding amount of the relevant bank facilities amounted to RMB123.6 million, nil, nil and nil (unaudited), respectively, which were guaranteed by Guangdong Migao and/or Changchun Migao, both of which are subsidiaries of our Group. The relevant bank facilities had been fully repaid by Liaoning Migao and Baoqing Migao during FY2021.

As at 31 August 2023, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation against us.

Save as disclosed above, as at 31 August 2023, we did not have any outstanding mortgage, charges, debentures or other loan capital (issued or agreed to issue), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness and hire purchase agreement.

Working Capital Sufficiency

Taking into account cash from operating activities, borrowings available to our Group and the net [**REDACTED**] from the [**REDACTED**], our Directors are of the opinion that we will have sufficient funds to meet our working capital requirements and financial requirements for capital expenditure for at least the next 12 months from the date of this document.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

CAPITAL EXPENDITURES AND COMMITMENTS

Our capital expenditures during the Track Record Period primarily consisted of expenditures on (i) plant and equipment in our production facilities in support of our production processes; (ii) right-of-use assets, which primarily consisted of acquisition of the leasehold rights for our land and office premises.

The following table sets forth our capital expenditures for the years indicated:

	For the year ended 31 March		
	2021	**2022**	**2023**
Plant and equipment	18,822	13,104	46,788
Right-of-use assets	5,219	5,328	89,721
Total	24,041	18,432	136,509

The following table sets forth our capital expenditure commitment as at the dates indicated:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Commitments for capital expenditure	1,567	19,449	231

KEY FINANCIAL RATIOS

The following table sets forth certain key financial ratios for the dates/years indicated:

	As at or for the year ended 31 March		
	2021	2022	2023
Return on equity[(1)]	32.3%	38.6%	28.5%
Return on total assets[(2)]	8.4%	10.7%	12.5%
Current ratio (times)[(3)]	1.1	1.2	1.6
Gearing ratio[(4)]	22.2%	29.4%	19.8%
Interest coverage ratio (times)[(5)]	26.3	49.8	31.2
Net profit margin[(6)]	9.9%	10.3%	8.9%

Notes:

(1) For the years ended 31 March 2021, 2022 and 2023, return on equity ratio is calculated by dividing profit for the year attributable to the owners of our Company by total equity attributable to the owners of our Company as at each relevant year end and multiplying 100%.

(2) For 31 March 2021, 2022 and 2023, return on total assets ratio is calculated by dividing profit for the year attributable to the owners of our Company by total assets as at each relevant year end and multiplying 100%.

(3) Current ratio is total current assets as at each relevant year end as a percentage of total current liabilities as at each relevant year end.

(4) Gearing ratio is total debt divided by the sum of total capital plus total debt and multiplying 100%. Total debt is calculated as the sum of bank borrowings and loans from related companies. Capital includes equity attributable to owners of our Company.

(5) Interest coverage ratio is profit before finance costs and income tax expense for the relevant year divided by finance costs for the relevant year.

(6) Net profit margin is profit for the year divided by revenue for the year and multiplied by 100%.

Return on Equity

Our Group's return on equity increased from 32.3% for FY2021 to 38.6% for FY2022, primarily due to the increase in net profit from RMB206.5 million for FY2021 to RMB396.6 million for FY2022. Our return on equity then decreased to 28.5% for FY2023 subsequently, primarily because the increase in total equity attributable to owners of our Company of approximately 38.3% from RMB1,027.3 million as at 31 March 2022 to RMB1,420.8 million as at 31 March 2023, which was mainly due to the net profit of RMB411.4 million recorded for FY2023, had outpaced the growth rate of our profit for the year attributable to the owners of our Company of approximately 2.2% for the same years. For detailed analysis on the increase in net profit during the Track Record Period, please refer to the paragraphs headed "Review of Historical Results of Operations in this section.

Return on Total Assets

Our Group's return on total assets was 8.4%, 10.7% and 12.5% for FY2021 and FY2022 and FY2023, respectively, which was generally in line with the increase in net profit during the Track Record Period. The increase in return on total assets in FY2023 can also be attributed to the decrease in inventories of our Group as at 31 March 2023 due to our plan to reduce KCL reserve in view of the stabilised market price of potash fertiliser in the PRC in late FY2023.

Current Ratio

The current ratio of our Group increased from 1.1 as at 31 March 2021 to 1.2 as at 31 March 2022, primarily due to the increase in current assets which was mainly driven by our Group's net profit recorded during the respective year. The current ratio of our Group increased further to 1.6 as at 31 March 2023, primarily due to the decrease in current liabilities by RMB914.3 million due to the decrease in trade and other payables as a result of our Group's settlements of outstanding trade payables and the settlement of bill payables at maturity during FY2023, partially offset by the decrease in current assets of RMB533.4 million mainly as a result of the significant decrease in inventories as at 31 March 2023.

Gearing ratio

The increase in gearing ratio from 22.2% for FY2021 to 29.4% for FY2022 was primarily due to an increase in total debt mainly attributable to (i) the increase in short-term bank borrowings by RMB163.4 million, or approximately 126.7%; and (ii) the new short-term loan raised from a related company, namely, Heilongjiang Beidahuang, of RMB95.0 million, partially offset by (iii) an increase in equity attributable to owners of our Group which was mainly driven by our Group's increase in net profit.

The decrease in gearing ratio from 29.4% for FY2022 to 19.8% for FY2023 was primarily due to (i) the decrease in bank borrowings from RMB332.4 million as at 31 March 2022 to RMB244.7 million as at 31 March 2023; and (ii) the increase in equity attributable to owners of our Group as at 31 March 2023 which was mainly driven by net profit recorded by our Group during FY2023.

Interest coverage ratio

For FY2021 and FY2022, our Group's interest coverage ratio was 26.3 and 49.8, respectively. Such increasing trend of interest coverage ratio was primarily due to (i) the increase in net profit before interest and tax for FY2021 and FY2022, which was generally in line with the increase in net profit for the same years. For detailed analysis on our net profit, please refer to the paragraph headed "Review of Historical Results of Operations" in this section; and (ii) the decreasing finance cost mainly due to a decrease in average outstanding bank borrowings for FY2021 and a decrease in effective interest rate from 5.4% for FY2021 to 4.9% for FY2022 as a result of the lower interest rate of several new loans obtained by our Group in late FY2022 ranging from 3.3% to 4.1%. The decrease in interest coverage ratio from 49.8 for FY2022 to 31.2 for FY2023 was primarily due to the increase in interest expenses on bank borrowings as a result of the increase in our average bank borrowings for FY2023 and the additional interest expenses derived from loans from related companies for FY2023.

Net profit margin

The net profit margin increased slightly from 9.9% for FY2021 to 10.3% for FY2022, primarily due to the increase in income tax expense of our Group by RMB16.1 million, or 27.5%, from RMB58.4 million for FY2021 to RMB74.4 million for FY2022, primarily as a result of an increase in EIT from RMB50.3 million for FY2021 to RMB77.8 million for FY2022 due to the increase in profit before tax, partially offset by the decrease in deferred tax assets charged to profit or loss in FY2022 as most of the tax losses previously recognised had been utilised in FY2021. The decrease in net profit margin from 10.3% for FY2022 to 8.9% for FY2023 was primarily due to the decrease in gross profit margin for FY2023 and the increase in our general and administrative expenses in FY2023 mainly as a result of the inclusion of the general and administrative expenses incurred by Baoqing Migao and Anda Migao for the same year. For detailed analysis on our gross profit margin, please refer to the paragraph headed "Review of Historical Result of Operations" in this section.

QUALITATIVE AND QUANTITATIVE DISCLOSURE OF MARKET RISKS

We are exposed to various types of financial and market risks, including foreign currency risk, credit risk and liquidity risk. Our Directors review and agree on financial management policies and practices for managing each of these risks.

Currency Risk

We primarily operate in the PRC and use RMB as our reporting currency. Certain proportion of our raw material KCL was sourced from overseas suppliers, most of which were settled in US$ during the Track Record Period. Therefore, we have foreign-currency denominated bank balances, amount due from a related company, trade and other receivables, bank borrowings and amounts due to related companies, which expose us to foreign currency risk in fluctuation of US$ against RMB.

We had a foreign exchange gain of RMB11.6 million in FY2021, a foreign exchange loss of RMB0.5 million in FY2022 and a foreign exchange loss of RMB16.4 million in FY2023.

We do not believe that we currently have any significant direct foreign exchange risk arising from our operating activities. We currently do not have a foreign exchange hedging policy. However, our Directors monitor foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

Interest Rate Risk

Our Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings, loans to joint ventures and loans from related companies. Our Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, restricted cash and bank balances. Our Group's policy is to maintain short-term borrowings at prevailing market rates so as to minimise the fair value interest rate risk. The cash flow interest rate risk is mainly concentrated on the fluctuation in prime rate in China arising from our Group's bank borrowings.

Our Group currently does not have an interest rate hedging policy. However, the management monitors interest rate risk exposure and will consider interest rate hedging should the need arises.

Credit Risk

Our credit risk is primarily attributable to trade receivables. The credit risks on bills receivables, restricted cash and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

As part of our credit risk management, we applies internal credit rating for our customers. Our debtors with significant outstanding balances or credit-impaired with gross carrying amounts of RMB114.0 million, RMB137.5 million and RMB82.1 million as at 31 March 2021, 2022 and 2023, respectively, were assessed individually. The average loss rates for our debtors with significant outstanding balances are assessed to be ranging from approximately 1% to 3%. The following table sets forth information about the exposure to credit risk for trade receivables which are assessed based on collective assessment as at 31 March 2021, 2022 and 2023 within lifetime ECL (not credit impaired):

Internal credit rating	Trade and unbilled receivables As at 31 March					
	Average loss rate	2021	Average loss rate	2022	Average loss rate	2023
		RMB'000		*RMB'000*		*RMB'000*
Low risk	0.47%	28,482	3.05%	127,454	1.90%	36,792
Watch list	0.68%	88,452	10.13%	43,372	3.85%	81,454
		116,934		170,826		118,246

The estimated loss rates are estimated based on historical observed default rates over the expected life of our debtors and are adjusted for forward-looking information (for example, the macroeconomic conditions affecting the industry and the impact that may affect debtor ability to make payments) that is available without undue cost or effort. The fluctuation of expected credit loss rate during the Track Record Period was primarily due to (i) the fluctuation of historical observed default rates over the expected life of our debtors; and (ii) the fluctuation of forward-looking rates as affected by the macroeconomic conditions affecting the industries and the impact that may affect debtors' ability to make payments.

During FY2021, FY2022 and FY2023, our Group recognised reversed net impairment allowance of RMB2.0 million, recognised net impairment allowance of RMB7.5 million and reversed net impairment allowance of RMB4.0 million for trade receivables, based on the collective assessment, respectively; our Group reversed net impairment allowance of RMB7.6 million, recognised net impairment allowance of RMB3.5 million and reversed net impairment allowance of RMB2.7 million for debtors with significant balances and not credit-impaired, for the same years, respectively; and our Group also recognised net impairment allowance of RMB6.6 million, RMB149,000 and RMB5.0 million for debtors with significant balances and credit impaired debtors, for the same years, respectively.

In addition, our Group is exposed to concentration of credit risk as at 31 March 2021, 2022 and 2023 on the trade and bills receivables from one of our Group's largest customers amounting to RMB4.8 million, RMB15.4 million and RMB26.2 million, respectively and accounted for 1%, 3% and 8%, respectively, of our Group's trade and bills receivables as at the relevant date. In the opinion of the management of our Group, this customer is reputable organisation in the market. The management of our Group considers that the credit risk is limited in this regard. Please refer to the section headed "Risk Factors – Risk Relating to Our Business – We are exposed to credit risks with respect to the settlement by our customers" in this document for further information.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to the section headed "Appendix II – Unaudited Pro Forma Financial Information" for details.

DIVIDEND POLICY

No dividend was paid or declared by our Company since its incorporation. However, the group entities comprising our Group has paid or declared dividends during the Track Record Period, which included (i) a final dividend in an aggregate amount of RMB4.0 million, RMB4.5 million and RMB4.0 million has been declared by Daxing Migao during the years ended 31 March 2021, 2022 and 2023, respectively, each of which has been paid by Daxing Migao during the years ended 31 March 2021, 2022 and 2023, respectively; (ii) a final dividend in an aggregate amount of RMB6.4 million has been declared and paid by Baoqing Migao during FY2023; and (iii) a final dividend of RMB15.9 million has been declared and paid by Anda Migao during FY2023.

After completion of the [**REDACTED**], our Company's Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. In addition, any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the relevant laws. Please refer to a summary of the constitution of our Company set out in Appendix III to this document. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

We currently do not have any pre-determined dividend pay-out ratio. As we are a holding company, our ability to declare and pay dividends will depend on the availability of dividends received from our subsidiaries, particularly those in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign-invested enterprises, such as all of our subsidiaries in the PRC, to set aside part of their net profit as statutory reserves, and such statutory reserves are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

As at 31 March 2023, we did not have any distributable reserves.

[REDACTED] EXPENSES

Our [**REDACTED**] expenses primarily consist of [**REDACTED**] commissions and professional fees paid to the professional advisers for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. The total estimated [**REDACTED**] expenses (based on the midpoint of our indicative price range for the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised, including [**REDACTED**] commissions and excluding any discretionary incentive fee which may be payable by us) in relation to the [**REDACTED**] are RMB[**REDACTED**] million (equivalent to approximately HK$[**REDACTED**] million), representing approximately [**REDACTED**]% of the gross [**REDACTED**] from the [**REDACTED**], of which (i) RMB[**REDACTED**] million, RMB[**REDACTED**] million, RMB[**REDACTED**] million and RMB[**REDACTED**] million has been charged to our consolidated statements of profit or loss for the period before the Track Record Period, FY2021, FY2022 and FY2023, respectively; (ii) RMB[**REDACTED**] million is expected to be charged to our consolidated statements of profit or loss for FY2024; and (iii) RMB[**REDACTED**] million is expected to be accounted for as a deduction from equity upon the [**REDACTED**]. The aforementioned estimated [**REDACTED**] expenses of approximately HK$[**REDACTED**] million include (i) [**REDACTED**] related expenses of approximately HK$[**REDACTED**] million; (ii) non-[**REDACTED**] related fees and expenses paid and payable to legal advisers and reporting accountants, of approximately HK$[**REDACTED**] million; and (iii) other non-[**REDACTED**] related fees and expenses of HK$[**REDACTED**] million.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial, operational or trading positions or prospects since 31 March 2023, being the latest date of our consolidated financial statements as set forth in the Accountants' Report included in Appendix I to this document.

FUTURE PLANS

Please refer to the section headed "Business – Business Strategies" in this document for a detailed discussion of our future plans.

USE OF [REDACTED]

We estimate that we will receive net [**REDACTED**] of approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million) from the [**REDACTED**], assuming that the [**REDACTED**] is not exercised, after deducting the [**REDACTED**] commissions and other estimated [**REDACTED**] expenses payable by us and assuming the initial [**REDACTED**] of HK$[**REDACTED**] per Share, being the mid-point of the indicative [**REDACTED**] range.

The following table sets forth the timeline for our use of net [**REDACTED**] from the [**REDACTED**]:

	For the year ending 31 March				Approximate percentage of net [REDACTED]
	2024	**2025**	**2026**	**Total**	
	HK$ (RMB) million	*HK$ (RMB) million*	*HK$ (RMB) million*	*HK$ (RMB) million*	*%*
Heilongjiang Logistics and Production Centre	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED]	[REDACTED] [REDACTED]	[REDACTED]
New Sichuan Production Facility	[REDACTED]	[REDACTED] [REDACTED]	[REDACTED]	[REDACTED] [REDACTED]	[REDACTED]
Upgrading and Replacement of Equipment and Machinery	[REDACTED]	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED]
Research and Development Centre	[REDACTED]	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED]
General Working Capital	[REDACTED] [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED] [REDACTED]	[REDACTED]
Total	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED]

We currently intend to apply the net [**REDACTED**] from the [**REDACTED**] for the purposes and in the amounts as set out below:

Heilongjiang Logistics and Production Centre

- approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**], is intended to be used to construct the Heilongjiang Logistics and Production Centre, of which

  o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for acquisition of land;

  o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for the construction of the designated railway lines;

  o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for construction costs;

  o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for purchasing of equipment and machinery; and

  o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for installation and miscellaneous costs.

Background and Geographic Importance

According to the Frost & Sullivan Report, the imported KCL is of significance to the potash fertiliser market in China due to the limited supply from domestic potash reserves. In 2022, approximately 50% of the total KCL sales volume in China is sourced from foreign countries. Given that the high domestic demand in the PRC for imported KCL and the experience we have accumulated at our production facilities in the granulating, processing, packaging and storage of KCL, we intend to construct the Heilongjiang Logistics and Production Centre in Tongjiang City, Heilongjiang Province primarily for the granulating, processing, packaging and storage of KCL for our KCL and other KCL importers.

Tongjiang City is located in the northern part of the Heilongjiang Province and south of the Songhua Rivers. It is one of the 63 key commodity grain and animal husbandry bases identified by the PRC government. Specially, we intend to construct the Heilongjiang Logistics and Production Centre in the Tongjiang Economic Development Zone, which is a provincial economic development zone approved by the provincial government and approved by the NDRC. It is located to the east of the Tongsan Expressway* (同三高速公路) and to the south of the Tongfu Highway* (同撫公路), with a planned area of approximately 31.6 square kilometers and a construction land area of approximately 10.6 square kilometers. To facilitate the development of Tongjiang City, a cross border bridge (the "**Tongjiang China-Russia Heilongjiang Railway Bridge**") is constructed. The Tongjiang China-Russia Heilongjiang Railway Bridge connects the Tongjiang port with the Nizhneleninskoye port in Russia and to the Russian Far Eastern Railway. The Tongjiang China-Russia Heilongjiang Railway Bridge opens up a new railway transportation channel to Russia and a new border connecting China to Russia (the "**Tongjiang Border**"). The railway distance from Heilongjiang to Moscow via Tongjiang is shortened by several hundred kilometers compared with the Suifenhe port, thereby saving transportation time and easing the transportation loads of Manzhouli and Suifenhe railway ports. It is expected that the Tongjiang China-Russia Heilongjiang Railway Bridge will assist in the development of the Northeast region of the PRC. Given the importance of the Tongjiang China-Russia Heilongjiang Railway Bridge, as part of the construction of the Heilongjiang Logistics and Production Centre, we will also construct two designated railways to connect the Heilongjiang Logistics and Production Centre to the railway track field of the Tongjiang North Station which allows imported KCL to be transported to the Heilongjiang Logistics and Production Centre directly.

Investment Steps and Terms

On 26 April 2022, our Group acquired 100% equity interest in Tongjiang Migao at a consideration of RMB1 from Liaoning Migao to support our development plan to build the Heilongjiang Logistics and Production Centre to enhance the product supply efficiency and capability. Tongjiang Migao became our indirect wholly-owned subsidiary after the acquisition.

In May 2022, we have entered into a project investment agreement with the local authorities in respect of our investment in the Heilongjiang Logistics and Production Centre. Below are certain key terms of the project investment agreement:

- Investment Amount: The total investment amount will be RMB1,600 million with a total site area of 530,000 sqm. The total investment amount is inclusive of the working capital and purchase of inventory for the operations of the Heilongjiang Logistics and Production Centre for three years from the commencement of its construction. The total investment amount will be funded from internal resources, external borrowings, net [**REDACTED**] from the [**REDACTED**] and cashflow from the operations of the Heilongjiang Logistics and Production Centre.

- Production and Storage: Granulating lines with a total of one million tonnes capacity; packaging line with a total of three million tonnes capacity; and storage space with a total of 500,000 tonnes capacity.

- Land Acquisition: The land will be offered for sale through public listing in accordance with the laws and the price will be determined in accordance with land usage sale contract.

- Land Use: The land is used for the construction of the project only.

- Rights and Obligations: We are required to comply with the relevant laws and regulations in relation to environment protection and safety provisions and ensure completion of project in accordance with the agreement. We also agree to continue to pay relevant taxes to the local authorities and not to relocate for the next 10 years.

- Preferential Policy: The local government will offer various preferential policies to us.

On 21 September 2022, we entered into a land use right acquisition agreement with the local authorities to acquired a parcel of land in Tongjiang City, Heilongjiang Province with a site area of approximately 368,104.7 sqm for the construction of the Heilongjiang Logistics and Production Centre. The acquisition price for the land use right is RMB60,210,000 and we had paid the acquisition price as at the Latest Practicable Date.

We also entered into (i) a special designated railway connecting line agreement with a local state-owned enterprise (the "**Railway SOE**") to connect our Heilongjiang Logistics and Production Centre to the railway track field of the Tongjiang North Station with designated railway lines; and (ii) a lease agreement with the Railway SOE to lease the land through which the designated railway lines will pass to connect to the railway track field of the Tongjiang North Station. The designated railway lines will be used primarily for the transport of potash products. Please refer to the sections headed "Risk Factors – Risks Relating to Our Business – We may face fines in relation to leased properties or may not be able to continue to use certain buildings on the leased properties or use the land we leased" and "Business – Land and Properties – Land" in this document for further information.

Construction Plan and Investment Costs

For the Heilongjiang Logistics and Production Centre, it will consist of facilities for the granulating, processing, packaging and storage of KCL. The estimated capacity for KCL granulation is expected to be around one million tonnes, the estimated capacity for KCL processing is expected to be around two million tonnes and the storage capacity is expected to be around 500,000 tonnes. 35 lines of automatic conveyor and processing and packaging lines are expected to be constructed. We also expect to construct 10 KCL granulating lines. The construction of the designated railway is also included in the construction plan of the Heilongjiang Logistics and Production Centre. Site formation and infrastructure works have been commenced and we expect to complete construction of the Heilongjiang Logistics and Production Centre in the second half of 2025. The total site area of the Heilongjiang Logistics and Production Centre (including the railway) is expected to be approximately 530,000 sqm.

Upon completion of the construction of the Heilongjiang Logistics and Production Centre, our estimated production capacity of KCL will increase to approximately 1,390,000 tonnes from 390,000 tonnes as at the Latest Practicable Date and our storage capacity will increase by 500,000 tonnes.

We expect that the investment costs for the Heilongjiang Logistics and Production Centre to be approximately RMB[**REDACTED**] million, of which approximately (i) RMB[**REDACTED**] million is the land acquisition costs; (ii) RMB[**REDACTED**] million is the designated railway lines construction costs; (iii) RMB[**REDACTED**] million is the construction costs; (iv) RMB[**REDACTED**] million is for purchasing of equipment and machinery; and (v) RMB[**REDACTED**] million is installation and miscellaneous costs. We plan to use our internal resources, external borrowings, and the net [**REDACTED**] from the [**REDACTED**] as set out above to fund the investment of the Heilongjiang Logistics and Production Centre.

Assuming that, among others, (i) total hiring of an additional 62 employees; (ii) property, railway and buildings with 20 years depreciation period; (iii) equipment and machinery with 10 years depreciation period; (iv) maintenance fees of 2% of the fixed assets; (v) other manufacturing fees of 2% of the fixed assets; (vi) other management fees of 50% of salary and staff benefits; (vii) other sale expenses of 3.0% of revenue; (viii) utilisation rate of KCL granulating lines and processing lines to reach 70% for the first year of operation, 90% for the second year of operation and 100% for the third year of operation and onwards; (ix) KCL processing service fee of RMB75 per tonne, KCL granulating service fee of RMB150 per tonne and storage fee of RMB360 per tonne; (x) other operation expenses of 6.0% of revenue; and (xi) corporate income tax rate of 25% with no preferential tax treatment, the breakeven point of the Heilongjiang Logistics and Production Centre, i.e., the amount of sales required to cover its costs and expenses, is approximately within three years from the commencement date of its construction. The expected time required for the Heilongjiang Logistics and Production Centre to recover the investment costs, i.e., the payback period, is approximately 7.5 years from the commencement date of its construction. As atthe Latest Practicable Date, we had incurred approximately RMB69.1 million for land acquisition and RMB0.9 million for construction of the Heilongjiang Logistics and Production Centre.

The following table sets out a breakdown of our main investment amount with respect to (i) land acquisition, (ii) construction of designated railway lines, (iii) construction, (iv) equipment and machinery acquisition, and (v) installation and miscellaneous costs of the Heilongjiang Logistics and Production Centre for the years specified.

	For the year ended/ending 31 March		
	2023	**2024**	**2025**
	RMB'000	*RMB'000*	*RMB'000*
Land acquisition	69,721	33,674	–
Construction of designated railway lines	–	119,855	–

	For the year ended/ending 31 March		
	2023	2024	2025
	RMB'000	*RMB'000*	*RMB'000*
Construction	–	162,856	40,714
Equipment and machinery	–	44,256	69,544
Installation and miscellaneous costs	–	19,892	31,258
Total	**69,721**	**380,532**	**141,517**

Justification for Construction of the Heilongjiang Logistics and Production Centre

By having the Heilongjiang Logistics and Production Centre, we can transport the KCL from ports/stations to the Heilongjiang Logistics and Production Centre and granulate, process, package and store the KCL ourselves, which will facilitate our upstream integration of our supply chain to enhance operational efficiency. More specifically, there are five main advantages to have the Heilongjiang Logistics and Production Centre: (i) expand import channel of KCL; (ii) improve the efficiency of our supply of KCL to our customers; (iii) improve our own production at our production facilities; (iv) alleviate the over utilisation of our KCL granulating lines; and (v) generate additional revenue by providing other KCL importers with professional storage management solutions.

(i) Expand import channel of KCL

According to the Frost & Sullivan Report, in 2022, around 50% of potash fertiliser sales volume in China needs to be imported from abroad. In 2022, potash fertiliser imported by sea accounted for approximately 85% of the total imported potash fertiliser in China, while potash fertiliser imported by ground transportation accounted for approximately 15% of the total imported potash fertiliser in China. Substantially all of the potash fertiliser imported by ground transportation were imported from Russia through railway. The existing potash fertiliser import ports mainly include Manzhouli and Erenhot in the Inner Mongolia Autonomous Region, and Suifenhe in Heilongjiang Province. The Tongjiang Border where the Heilongjiang Logistics and Production Centre will be situated in its vicinity will become a new border for importing KCL from Russia by railway.

There is a growing trend of importing KCL from Russia through ground transportation by railway than by sea. From 2019 to 2022, the import of KCL from Russia by sea as a percentage of total import volume of KCL from Russia decreased from approximately 75% to 33%, while the import of KCL from Russia by ground transportation through railway as a percentage of total import volume of KCL from Russia increased from approximately 25% to 67%.

With the opening of the new border (the Tongjiang Border) for importing KCL from Russia by railway, the Heilongjiang Logistics and Production Centre will be able to take advantage of the Tongjiang Border and provide customers with railway transport services for KCL imported through the Tongjiang Border and also to provide KCL granulating, processing, packaging and storage services to them, which is expected to have a positive growth given the growing trend of importing KCL from Russia through ground transportation by railway. Further, we will also concentrate our import of KCL from Russia through the Tongjiang Border which will lower our own transportation costs as we no longer would need to transport the KCL from the other borders to our Changchun Production Facility and Anda Production Facility for granulation and processing.

(ii) Improve the efficiency of our supply of KCL to our customers

For imports of KCL from overseas suppliers directly or through our designated agent, the imports usually come in several batches with limited volume per batch. Due to the seasonal factors of planting, our customers generally make the majority of their purchases during our busy season and may place orders on large volume of KCL. Given that our current system which is to process, package and store majority of our KCL from overseas at ports/stations and/or at our production facilities, our customers with large orders need to arrange multiple pick ups of our KCL from the ports/stations and/or our production facilities, which reduces the efficiency of our supply management and increases our customers' logistics cost. With the establishment of the Heilongjiang Logistics and Production Centre to centrally granulate, process, package, store and manage our KCL inventory, we believe this will improve our supply efficiency and ultimately enhance our customers' satisfactions.

In addition, our agricultural reclamation company customers or agribusiness company customers have their agricultural sites or fertiliser production facilities located in different planting zones in China and their order of fertiliser products need to be delivered to those sites or production facilities on a timely basis. Given that our long term relationship with some of our customers and our familiarity with their needs, we intend to establish a supply chain data management system at the Heilongjiang Logistics and Production Centre which can connect to our customers' supply chain management systems to ensure timely delivery of products to our customers according to their needs and demand. We believe this is not a service currently offered by port/station operators or port/station service companies and our customers would appreciate the additional supply chain management services we can offer them. The expected cost for the development of the supply chain data management system is approximately RMB20.6 million and it is included as part of the investment costs of the Heilongjiang Logistics and Production Centre.

(iii) Improve our own production at our production facilities

KCL is an essential raw material for our manufacturing of our other potash fertiliser products. During our busy season, it is important that we have accurate records of our KCL inventory in order to ensure our production schedule would not be delayed. Currently, we have to constantly communicate with the various port/station operators or port/station service companies to monitor our KCL inventory. With the establishment of the Heilongjiang Logistics and Production Centre, we can easily manage and coordinate our distribution of KCL to our various production facilities to ensure timely delivery of KCL to our production facilities for production and to effectively manage the sale of our fertiliser products to our customers as well. Therefore, we believe this would further strengthen our production plan and sales arrangement and enhance operational efficiency. Further, with the increased storage capacity, it will give us greater flexibility to manage our inventory as we can purchase more KCL when its price is low for use in our production and operation when needed.

(iv) Alleviate the over utilisation of our KCL granulating lines

During the Track Record Period, the utilisation rate of KCL at our production facilities were constantly over 95%. For FY2021, FY2022 and FY2023, the utilisation rate of KCL even exceeded 100% and this created constraint on our capability to satisfy our customers' demand for granulated KCL. With the addition of 10 KCL granulating lines with a total estimated annual production capacity of 1,000,000 tonnes of granulated KCL at the Heilongjiang Logistics and Production Centre, it could help to alleviate the over utilisation of our KCL granulating lines at our Changchun Production Facility and Anda Production Facility. If we do not have the existing constraint on our KCL granulating lines utilisation, we can increase our sales of granulated KCL to our existing customers and also explore new cooperation opportunities with potential customers and thereby increase our revenue and gross profit.

(v) Generate additional revenue by providing other KCL importers with professional storage management solutions

KCL is soluble and easily dissolved in water. The higher the purity of KCL, the easier for it to absorb moisture and agglomerate. KCL is also easy to react with active metal powders and alkali alcohols. Therefore, proper storage of KCL require a dry and clean environment. Based on our years of experience in the management of our warehouses, we can provide other KCL importers with professional potash fertiliser storage management solutions including real-time warehouse data sharing, integration of supply chain management systems and automated packaging.

New Sichuan Production Facility

- approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for the investment and construction of our New Sichuan Production Facility, among which:

    - o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for acquisition of land;

    - o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for construction costs;

    - o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for purchasing of equipment and machinery; and

    - o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for installation and miscellaneous costs.

For further details, please refer to the section headed "Business – Expansion Plan" in this document.

Upgrading and Replacement of Equipment and Machinery

- approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used to purchase new equipment and machinery for replacement of existing equipment and machinery and to purchase new environmental and automatic equipment and machinery for our Guangdong Production Facility, Changchun Production Facility and Daxing Production Facility. Most of the major equipment and machinery we intend to replace are equipment and machinery with less than three years of remaining useful life. The total original cost of these pieces of equipment and machinery was approximately RMB91.1 million which accounted for approximately 18.9% of our total original cost of equipment and machinery as at 31 March 2023. These pieces of equipment and machinery mainly include equipment and machinery for our production lines, equipment for cooling and HCL acid making, Mannheim reacting furnaces, and related power and energy supply equipment. It is estimated that the total purchase costs of new equipment and machinery is approximately RMB[**REDACTED**] million, which will be funded by the net [**REDACTED**] from the [**REDACTED**] and our internal resources. We intend to begin the replacement from April 2024 and complete the replacement by September 2025. As we intend to carry the replacement during the low season of our production, we do not expect that the temporary suspension of certain of our production lines due to replacement of equipment and machinery will have any material adverse impact to our operations. During the Track

Record Period, our total capital expenditure on equipment and machinery upgrade and replacement for these three production facilities were in aggregate approximately RMB12.8 million. The upgrading and replacement of equipment and machinery at our Guangdong Production Facility and Changchun Production Facility will enhance and improve the environmental standards of our production in those facilities, which is invaluable to our operations and our compliance with relevant environmental laws and regulations. The upgrading and replacement of equipment and machinery at our Daxing Production Facility will allow us to adopt automatic production processes at the facility which will thereby increase our production efficiency and lower relevant work safety risks.

Research and Development Centre

- approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used to fund the construction of a research development centre (the "**Sichuan R&D Centre**"), of which
    - o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for construction costs of the Sichuan R&D Centre; and
    - o approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for purchasing of equipment and machinery.

Through our research and development of production processes and advanced technologies, we believe we have increased our production efficiency by enhancing our production capacity, reducing labours, decreasing energy consumption and lowering our production costs. To further facilitate our research and development, we intend to construct the Sichuan R&D Centre in Chengdu City, Sichuan Province to centralise our research and development team to enhance its efficiency.

Under our existing SOP manufacturing process, SOP is manufactured as the main product while HCL is manufactured as the by-product. HCL is a toxic substance and is highly corrosive. It is required to be stored in specific closed tanks in separate storage space, and the storage of HCL has taken a large amount of our warehouse storage space. To improve our SOP manufacturing process, we have been developing a new process which will allow us to manufacture SOP as the main product and compound fertilisers, instead of HCL, as the by-product. This will improve our SOP production lines utilisation as our SOP manufacturing has historically been limited by the storage and sale of HCL, its by-product. Further, the new manufacturing process will also enhance our revenue generating capability since compound fertiliser products are sold for a much higher price than HCL and has less stringent storage requirements. For FY2023, our average selling price of compound fertiliser products was approximately RMB2,501.8 per tonne, while our average selling price of HCL was only approximately RMB363.9 per tonne.

We intend to complete the testing and development of the new SOP manufacturing process at the Sichuan R&D Centre so we can begin commercialisation of the new SOP manufacturing process at our production facilities as soon as possible. We will also build testing units for the research and development of individual processes such as evaporation, crystallisation and drying processes.

On 11 August 2022, we incorporated Migao Century (Chengdu) to support the centralisation of our research and development and to build and operate the Sichuan R&D Centre for the testing and development of the new SOP manufacturing process and other processes.

Construction Plan and Investment Costs

For the Sichuan R&D Centre, it will consist of, among others, a research and development office building, a research and development facility, a testing SOP manufacturing line utilising the new SOP manufacturing process, and three testing materials and products warehouses. The total site area of the Sichuan R&D Centre is expected to be approximately 202,000 sqm to 243,000 sqm. We expect to commence construction of the Sichuan R&D Centre in the second half of 2024 and complete construction in the second half of 2025.

We expect that the investment costs for the Sichuan R&D Centre to be approximately RMB[**REDACTED**] million, of which approximately (i) RMB[**REDACTED**] million is the land acquisition cost; (ii) RMB[**REDACTED**] million is the construction costs; and (iii) RMB[**REDACTED**] million is the for purchasing of equipment and machinery. We plan to use our internal resources, external borrowings, and the net [**REDACTED**] from the [**REDACTED**] as set out above to fund the construction of the investment of the Sichuan R&D Centre.

The following table sets out a breakdown of our main investment amount with respect to the land acquisition, construction, and purchase of equipment and machinery of the Sichuan R&D Centre for the years specified.

	For the year ending 31 March	
	2025	**2026**
	RMB'000	*RMB'000*
Land acquisition	15,000	–
Construction	11,250	11,250
Equipment and machinery	41,250	41,250
Total	**67,500**	**52,500**

General Working Capital

- approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), representing approximately [**REDACTED**]% of the net [**REDACTED**] from the [**REDACTED**] will be used for additional working capital and other general corporate purposes.

If the [**REDACTED**] is fixed at the high-end of the indicative [**REDACTED**] range, being HK$[**REDACTED**] per Share, and assuming the [**REDACTED**] is not exercised, the net [**REDACTED**] we receive from the [**REDACTED**] will increase by approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million). We intend to apply the additional net [**REDACTED**] for the above purposes on a pro-rata basis. If the [**REDACTED**] is set at the low-end of the indicative [**REDACTED**] range, being HK$[**REDACTED**] per Share, and assuming the [**REDACTED**] is not exercised, the net [**REDACTED**] we receive from the [**REDACTED**] will decrease by approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million). We intend to reduce the net [**REDACTED**] for the above purposes on a pro-rata basis.

If the [**REDACTED**] is exercised in full, we estimate that we will receive additional net [**REDACTED**] of approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million), assuming an [**REDACTED**] of HK$[**REDACTED**] per Share, being the midpoint of the indicative [**REDACTED**] range. If the [**REDACTED**] is set at the high-end of the indicative [**REDACTED**] range, the additional estimated net [**REDACTED**] upon full exercise of the [**REDACTED**] will be approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million). If the [**REDACTED**] is set at the low-end of the indicative [**REDACTED**] range, the additional estimated net [**REDACTED**] upon full exercise of the [**REDACTED**] will be approximately HK$[**REDACTED**] million (equivalent to approximately RMB[**REDACTED**] million). In the event the [**REDACTED**] is exercised in full, we intend to apply the additional net [**REDACTED**] for the above purposes on a pro-rata basis.

To the extent that the net [**REDACTED**] are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net [**REDACTED**] into short-term demand deposits with authorised financial institutions and/or licenced banks in the PRC or Hong Kong.

We will issue an announcement in the event that there is any material change in the use of [**REDACTED**] from the [**REDACTED**] as set out above.

[REDACTED]

[REDACTED]

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The following is the text of a report, prepared for inclusion in this document, received from the independent reporting accountants of the Company, [Deloitte Touche Tohmatsu], Certified Public Accountants, Hong Kong.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF MIGAO GROUP HOLDINGS LIMITED AND GF CAPITAL (HONG KONG) LIMITED

Introduction

We report on the historical financial information of Migao Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-[●], which comprises the consolidated statements of financial position of the Group as at 31 March 2021, 2022 and 2023, the statements of financial position of the Company as at 31 March 2021, 2022 and 2023, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 March 2023 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-[●] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the "Document") in connection with the initial [**REDACTED**] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Director's responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 March 2021, 2022 and 2023, of the Company's financial position as at 31 March 2021, 2022 and 2023, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing of the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which states that no dividend was declared or paid by the Company since its incorporation.

[**Deloitte Touche Tohmatsu**]
Certified Public Accountants
Hong Kong
[Date]

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi (RMB), which is also the functional currency of the Company, and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 March 2021	2022	2023
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*6*	2,081,579	3,841,400	4,722,749
Cost of goods sold		(1,830,838)	(3,207,977)	(3,955,216)
Gross profit		250,741	633,423	767,533
Other income	*7*	15,545	17,416	6,847
Other gains and losses	*8*	126,982	12,055	(16,908)
Impairment losses, net of reversal	*35*	2,954	(11,181)	1,655
Distribution and selling expenses		(28,304)	(74,768)	(61,716)
General and administrative expenses		(62,800)	(63,607)	(105,689)
Research and development expenses		(24,515)	(38,854)	(31,037)
[**REDACTED**] expenses		[REDACTED]	[REDACTED]	[REDACTED]
Other expenses	*11*	(1,424)	–	–
Share of results of joint ventures	*19*	(2,038)	28,287	11,267
Finance costs	*9*	(10,471)	(9,661)	(17,651)
Profit before tax		264,926	471,044	533,414
Income tax expense	*10*	(58,401)	(74,464)	(111,900)
Profit for the year	*11*	206,525	396,580	421,514
Other comprehensive income (expense)				
Item that may be reclassified subsequently to profit or loss:				
– Exchange difference arising on translation of a foreign operation		9,456	4,258	(10,097)
Total comprehensive income for the year		215,981	400,838	411,417
Profit for the year attributable to:				
– Owners of the Company		202,294	396,337	405,089
– Non-controlling interests		4,231	243	16,425
		206,525	396,580	421,514
Total comprehensive income for the year attributable to:				
– Owners of the Company		211,750	400,595	394,992
– Non-controlling interests		4,231	243	16,425
		215,981	400,838	411,417
Earnings per Share				
– Basic (RMB)	*14*	[0.30]	[0.59]	[0.60]

STATEMENTS OF FINANCIAL POSITION

		The Group		
		As at 31 March		
	NOTES	**2021**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Plant and equipment	*15*	195,262	487,945	486,442
Right-of-use assets	*16*	47,495	68,984	153,077
Prepayments for plant and equipment		958	35,628	4,378
Goodwill	*17*	2,606	12,069	12,069
Intangible asset	*18*	8,717	7,132	5,547
Interests in joint ventures	*19*	302,482	111,032	122,299
Deferred tax assets	*20*	2,070	4,974	4,451
		559,590	727,764	788,263
Current assets				
Inventories	*21*	164,392	740,470	151,589
Trade and other receivables and prepayments	*22*	1,090,922	1,737,514	1,730,694
Amount due from a related company	*23*	21,575	–	–
Amounts due from joint ventures	*23*	29,801	30,417	27,490
Loans to joint ventures	*23*	237,249	–	–
Amount due from a shareholder	*23*	2,234	1,838	3,535
Tax recoverable		–	–	1,029
Restricted cash	*24*	245,570	190,298	170,484
Bank balances and cash	*24*	54,707	283,456	365,731
		1,846,450	2,983,993	2,450,552
Current liabilities				
Trade and other payables	*25*	860,120	1,152,972	630,630
Contract liabilities	*26*	408,775	611,973	335,978
Amounts due to joint ventures	*23*	111,794	34,709	–
Amounts due to related companies	*23*	89,836	178,901	175,716
Amount due to a non-controlling interest	*23*	29,119	6,168	–
Loans from related companies	*23*	–	95,020	105,817
Tax liabilities		62,504	112,770	155,813
Bank borrowings	*27*	129,018	292,427	164,738
Lease liabilities	*28*	4,406	3,770	5,681
		1,695,572	2,488,710	1,574,373
Net current assets		150,878	495,283	876,179
Total assets less current liabilities		710,468	1,223,047	1,664,442

		The Group		
		As at 31 March		
	NOTES	**2021**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000*
Capital and reserves				
Share capital	*29*	66	66	66
Reserves		626,624	1,027,219	1,420,746
Equity attributable to owners of the Company		626,690	1,027,285	1,420,812
Non-controlling interests		29,067	147,633	155,081
Total equity		655,757	1,174,918	1,575,893
Non-current liabilities				
Deferred tax liabilities	*20*	3,351	3,581	3,173
Bank borrowings	*27*	50,000	40,000	80,000
Lease liabilities	*28*	1,360	4,548	5,376
		54,711	48,129	88,549
		710,468	1,223,047	1,664,442

		The Company		
		As at 31 March		
	NOTES	**2021**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000*
Non-current asset				
Investments in subsidiaries	*38*	–	–	–
Current assets				
Other receivables and prepayments	*22*	1,756	8,883	17,069
Amount due from a subsidiary	*23*	–	–	830
Bank balances and cash	*24*	10	13	21
		1,766	8,896	17,920
Current liabilities				
Other payables	*25*	3,031	21,875	12,475
Amounts due to subsidiaries	*23*	14,507	24,537	63,415
		17,538	46,412	75,890
Net liabilities		(15,772)	(37,516)	(57,970)
Capital and deficits				
Share capital	*29*	66	66	66
Accumulated losses		(15,838)	(37,582)	(58,036)
		(15,772)	(37,516)	(57,970)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital	**Statutory reserve**	**Translation reserve**	**Other reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note a)		*(note b)*				
At 1 April 2020	66	119,242	(6,554)	(1,165,933)	1,468,119	414,940	26,796	441,736
Profit for the year	–	–	–	–	202,294	202,294	4,231	206,525
Other comprehensive income for the year	–	–	9,456	–	–	9,456	–	9,456
Total comprehensive income for the year	–	–	9,456	–	202,294	211,750	4,231	215,981
Transfer to statutory reserve	–	393	–	–	(393)	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	(1,960)	(1,960)
At 31 March 2021	66	119,635	2,902	(1,165,933)	1,670,020	626,690	29,067	655,757
Profit for the year	–	–	–	–	396,337	396,337	243	396,580
Other comprehensive income for the year	–	–	4,258	–	–	4,258	–	4,258
Total comprehensive income for the year	–	–	4,258	–	396,337	400,595	243	400,838
Transfer to statutory reserve	–	9,131	–	–	(9,131)	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	(2,205)	(2,205)
Arising on acquisition of subsidiaries (note 37)	–	–	–	–	–	–	120,528	120,528
At 31 March 2022	66	128,766	7,160	(1,165,933)	2,057,226	1,027,285	147,633	1,174,918

	Attributable to owners of the Company							
	Share capital	**Statutory reserve**	**Translation reserve**	**Other reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000* *(note a)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 March 2022	66	128,766	7,160	(1,165,933)	2,057,226	1,027,285	147,633	1,174,918
Profit for the year	–	–	–	–	405,089	405,089	16,425	421,514
Other comprehensive expense for the year	–	–	(10,097)	–	–	(10,097)	–	(10,097)
Total comprehensive (expense) income for the year	–	–	(10,097)	–	405,089	394,992	16,425	411,417
Transfer to statutory reserve	–	13,280	–	–	(13,280)	–	–	–
Deemed distribution to a shareholder *(note c)*	–	–	–	(1,465)	–	(1,465)	–	(1,465)
Dividend paid to non-controlling interests	–	–	–	–	–	–	(8,977)	(8,977)
At 31 March 2023	66	142,046	(2,937)	(1,167,398)	2,449,035	1,420,812	155,081	1,575,893

Notes:

(a) As stipulated by the relevant laws and regulations for enterprises established in the People's Republic of China ("PRC"), the Group's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of at least 10% of profit after taxation as reflected in the statutory financial statements of the relevant PRC subsidiaries while the amounts and appropriation are decided by their board of directors annually. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the relevant PRC subsidiaries' registered capital. The statutory surplus reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

(b) Other reserve as at 1 April 2020 mainly represented (i) deemed distribution to Mr. Liu Guocai ("Mr. Liu"), the controlling shareholder of the Company, arising from interest-free amounts due from related companies controlled by Mr. Liu, (ii) deemed distribution to Mr. Liu arising from re-determination of consideration in relation to the Group's previous disposal of its entire equity interest in four wholly-owned subsidiaries, namely Liaoning Migao Chemical Co., Ltd. ("Liaoning Migao"), Migao Chemical Industry (Shanghai) Co., Ltd. ("Shanghai Migao"), Migao (Zunyi) Real Estate Leasing Co., Ltd. (formerly known as Migao (Zunyi) Technology Fertiliser Co., Ltd. ("Zunyi Migao") and Migao Chemical (Tianjin) Co., Ltd. ("Tianjin Migao") (collectively as the "Disposal Group") to Asia Pacific Potash Holdings Limited ("APPH"), a related company wholly-owned by Mr. Liu, (iii) deemed distribution to Mr. Liu arising from the waive of net amount of approximately RMB773,715,000 due from related companies controlled by Mr. Liu as at 31 March 2020 and (iv) difference between the acquisition considerations of H.K. Migao Industry Limited ("H.K. Migao") under group reorganisation and the paid-up capital of H.K. Migao at the date of acquisition.

(c) On 26 April 2022, the Group acquired 100% equity interest in Migao Agricultural Technology (Tongjiang) Co. Ltd. ("Tongjiang Migao") from Liaoning Migao at a consideration of RMB1. The difference between the consideration and the net liabilities of Tongjiang Migao at the date of acquisition was accounted for as deemed distribution to Mr. Liu as set out in Note 37.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit before tax	264,926	471,044	533,414
Adjustments for:			
Depreciation of plant and equipment	6,933	7,152	8,425
Amortisation of intangible asset	1,585	1,585	1,585
Depreciation of right-of-use assets	5,564	5,132	7,744
Share of results of joint ventures	2,038	(28,287)	(11,267)
Gain on deemed disposal of joint ventures	–	(12,962)	–
Impairment losses, net of reversal	(2,954)	11,181	(1,655)
Finance costs	10,471	9,661	17,651
Interest income	(11,851)	(15,645)	(3,539)
(Gain) loss on disposal of plant and equipment	(30,319)	117	12
Gain on disposal of right-of-use assets	(94,363)	–	–
Operating cash flows before movements in working capital	152,030	448,978	552,370
Decrease (increase) in trade and other receivables and prepayments	68,187	(535,338)	(154,662)
(Increase) decrease in inventories	(68,750)	(522,668)	625,271
(Decrease) increase in trade and other payables	(246,513)	256,630	(504,437)
Increase (decrease) in contract liabilities	271,656	189,658	(275,995)
(Increase) decrease in amount due from a related company	(21,575)	21,575	–
Increase (decrease) in amounts due to related companies	1,790	(14,575)	(421)
Increase (decrease) in amounts due to joint ventures	101,852	227,262	(33,061)
Decrease (increase) in amounts due from joint ventures	25,665	(15,187)	929
Decrease in amount due to a non-controlling interest	(23,409)	(22,951)	(6,168)
Cash generated from operations	260,933	33,384	203,826
Income taxes refunded (paid)	303	(33,716)	(69,771)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	261,236	(332)	134,055

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
INVESTING ACTIVITIES			
Placement of restricted cash	(1,007,698)	(1,384,299)	(436,395)
Advance to a shareholder	(2,234)	–	(2,097)
Repayment from a shareholder	–	396	400
Purchase of plant and equipment	(18,822)	(13,104)	(46,788)
Upfront payments for right-of-use assets	–	–	(83,330)
Withdrawal of restricted cash	1,036,836	1,439,571	456,209
Return of prepayment of plant and machinery from a related company	–	–	13,206
Interest income received	3,587	4,857	3,539
Advances to joint ventures	(647)	–	(24,449)
Repayments from joint ventures	–	14,571	26,447
Loans to joint ventures	(342,698)	(256,335)	–
Repayment of loans from joint ventures	121,066	197,487	–
Capital injection to joint ventures	(52,000)	(39,000)	–
Proceeds from disposal of right-of-use assets	96,947	–	–
Dividend received from a joint venture	4,201	1,001	–
Advance to a third party *(note 23(a))*	–	–	(20,450)
Repayment from a third party *(note 23(a))*	–	–	20,450
Net cash inflow on acquisition of subsidiaries *(note 37)*	–	28,381	1,702
Proceeds from disposal of plant and equipment	81,807	231	286
NET CASH USED IN INVESTING ACTIVITIES	(79,655)	(6,243)	(91,270)
FINANCING ACTIVITIES			
Repayments of bank borrowings	(306,297)	(343,786)	(233,946)
Interest paid	(10,471)	(9,661)	(16,834)
Repayments of lease liabilities	(4,945)	(5,029)	(5,768)
Dividend paid to non-controlling interests	(1,960)	(2,205)	(8,977)
Repayments to related companies	(174,166)	–	(240,449)
Repayment of loan from a related company	–	–	(95,020)
Repayment to a shareholder	(2,948)	–	–
New bank borrowings raised	273,117	509,195	298,660
Advances from related companies	93,352	86,994	243,071
Advance from a shareholder	2,948	–	–
New loan from a related company	–	–	105,000
Share issue cost paid	(748)	(3,115)	(8,189)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(132,118)	232,393	37,548
NET INCREASE IN CASH AND CASH EQUIVALENTS	49,463	225,818	80,333
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	6,049	54,707	283,456
Effect of foreign exchange rate changes	(805)	2,931	1,942
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	54,707	283,456	365,731

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 November 2017 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its immediate holding company is Migao Holdings Limited ("Migao Holdings"), a company incorporated in the British Virgin Islands (the "BVI") on 17 November 2017. Its ultimate holding company is Migao International Holding Limited ("Migao Barbados"), a company incorporated under the laws of the BVI with limited liability on 19 August 2005 and was discontinued as a company under the laws of the BVI and continuing as a company under the laws of Barbados on 25 January 2010. The controlling shareholder of the Company is Mr. Liu Guocai ("Mr. Liu"). The addresses of the registered office of the Company and principal places of business of the Company are disclosed in the section headed Corporate Information of the Document.

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and trading of specialty potash-based fertilizers in the PRC.

The Historical Financial Information is presented in RMB, which is the currency of the primary economic environment in which most the group entities operate.

2. BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

No statutory audited financial statements have been prepared for the Company since its date of incorporation as it was incorporated in a jurisdiction where there are no statutory audit requirements.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with HKFRSs, which includes HKFRSs Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(IFRIC) – Int") issued by the HKICPA that are effective for the accounting period beginning on 1 April 2022, throughout the Track Record Period.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after 1 January 2023

[2] Effective for annual periods beginning on or after a date to be determined

[3] Effective for annual periods beginning on or after 1 January 2024

The directors of the Company anticipate that the application of all the new and amendments to HKFRSs will have no material impact on the Group's consolidated financial statements in the future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Business combinations or asset acquisitions

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

The identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") except for transactions and events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date;

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in the Historical Financial Information using the equity method of accounting. The financial statements of the joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not account for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of the joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's Historical Financial Information only to the extent of interest in the joint venture that are not related to the Group.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Supplier rebates

Volume rebates provided by a supplier are recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to relevant purchase contracts. Volume rebates relating to inventories purchased and sold are deducted from cost of goods sold, while volume rebates relating to inventories purchased but still held as inventories at the reporting date are deducted from the carrying value of the inventories so that the cost of inventories is recorded net of applicable rebates.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Right-of-use assets

Except for leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statements of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurates with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's foreign operations are translated into the functional and presentation currency of the Company (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Retirement benefit costs

Payments to defined contribution retirement benefit plans including state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRSs requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Plant and equipment

Plant and equipment are tangible assets that are held for use in production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Such construction in progress are classified to the appropriate categories of plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statements of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as plant and equipment.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment on plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Cash and cash equivalents

Bank balances and cash presented on the consolidated statements of financial position include:

(a) cash, which comprises of cash on hand and demand deposits; and

(b) cash equivalents, which comprises of short-term deposits (generally with original maturity of three months or less). Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables and trade related balances with related parties arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, amount due from a related company, amounts due from joint ventures, loans to joint ventures, amount due from a shareholder, restricted cash and bank balances) and financial guarantee contracts which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and trade related balances with related parties.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities including trade and other payables, amounts due to joint ventures, amounts due to related companies, amount due to a non-controlling interest, loans from related companies and bank borrowings are subsequently measured at amortised costs, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade and unbilled receivables and amounts due from related parties

The Group uses collective assessment to calculate ECL for the trade and unbilled receivables which are individually insignificant. The ECL rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The collective assessment is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade and unbilled receivables with significant balances and credit impaired and trade related balances with related parties are assessed for ECL individually.

For the non-trade related balances with related parties, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of these balances. Accordingly, the loss allowance for non-trade related balances with related parties are measured at an amount equal to 12m ECL. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The provision of ECL is sensitive to changes in estimates. The information about the Group's trade and unbilled receivables and amounts due from related parties and the ECL are disclosed in notes 22, 23 and 35, respectively.

As at 31 March 2021, 2022 and 2023, the carrying amounts of trade and unbilled receivables are approximately RMB223,033,000, RMB289,247,000 and RMB182,967,000, net of allowance for credit losses of approximately RMB7,877,000, RMB19,058,000 and RMB17,403,000, respectively.

As at 31 March 2021, 2022 and 2023, the carrying amounts of amounts due from related parties are approximately RMB290,859,000, RMB32,255,000 and RMB31,025,000, respectively.

6. REVENUE AND SEGMENT INFORMATION

The Group recognises revenue from sales of specialty potash-based fertilizers in the PRC and recognises at a point of time. The Group purchases Potassium Chloride ("KCL") from both overseas and domestic suppliers. Part of the KCL are sold directly to customers and most of them are arranged for pick up from the ports or the railway stations; and part of the KCL are transported to the Group's processing facilities for processing into granular form in size as specifically required by customers. Besides, part of the purchased KCL, together with other raw materials, are used to manufacture into Potassium Sulphate ("SOP") and compound fertilizers for sales to customers. In addition, the Group also sources and resells SOP, Potassium Nitrate ("NOP") and compound fertilizers to customers without further manufacturing or processing.

During the years ended 31 March 2022 and 2023, the Group also provides production services to its customers for processing the principal raw materials provided by customers into compound fertilizers accordance with their product specifications. Revenue from provision of production services is recognised over time.

(i) Disaggregation of revenue from contracts with customers

Revenue by types of products or service

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Sales of products			
KCL	1,250,489	3,180,575	4,024,088
SOP	522,039	533,569	476,058
NOP	49,068	8,933	15,366
Compound fertilizers	193,629	24,992	47,747
Others	66,354	72,527	129,449
	2,081,579	3,820,596	4,692,708
Provision of production services	–	20,804	30,041
Total	2,081,579	3,841,400	4,722,749

Timing of revenue recognition

At a point in time	2,081,579	3,820,596	4,692,708
Over-time	–	20,804	30,041
Total	2,081,579	3,841,400	4,722,749

Revenue by types of customers

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
State-owned enterprise ("SOE")	1,212,761	2,608,427	2,660,983
Non-SOE	868,818	1,232,973	2,061,766
Total	2,081,579	3,841,400	4,722,749

(ii) Performance obligations for contracts with customers

The Group sells specialty potash-based fertilizers directly to its customers. Revenue is recognised at a point in time when control of the goods has transferred, being when the goods have been collected by customers or delivered from the Group's warehouses.

The Group provides production services to customers. Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for these production services based on the stage of completion of the contract using output method.

The normal credit term is 30 to 180 days upon delivery.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All contracts with customers are for period of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(iv) Segment information

Information reported to the directors of the Company, being the chief operating decision maker (the "CODM"), for the purpose of resources allocation and performance assessment, is the consolidated results of the Group as a whole. No other discrete financial information is provided. Accordingly, the directors of the Company consider there is only one operating segment under the requirements of HKFRS 8 *Operating Segments*. In this regard, only entity-wide disclosures are presented.

No geographic information is presented as the revenue, non-current assets and operations of the Group are primarily derived from its activities located in the PRC.

Information about major customers

During the Track Record Period, revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	580,059	861,044	945,404
Customer B	260,945	N/A[1]	N/A[1]
Customer C	N/A[1]	847,338	646,657

1 The corresponding revenue did not contribute over 10% of total revenue of the Group for the relevant year.

7. OTHER INCOME

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	4,691	2,916	3,539
Interest income from joint ventures *(note 23(b))*	7,160	12,729	–
Government grants *(note i)*	415	249	2,007
Rental income	2,799	1,473	1,127
Others	480	49	174
	15,545	17,416	6,847

Note:

(i) The amounts mainly represented the incentive subsidies provided by the PRC government to encourage business operation in the PRC. There were no unfulfilled conditions attached to these grants and the Group has recognised the grants upon receipts.

8. OTHER GAINS AND LOSSES

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Gain (loss) on disposal of plant and equipment	30,319	(117)	(12)
Gain on disposal of right-of-use assets *(note 16)*	94,363	–	–
Net foreign exchange gains (losses)	11,630	(485)	(16,357)
Gain on deemed disposal of joint ventures *(note 37)*	–	12,962	–
Surcharges and others *(note i)*	(9,330)	(10)	(88)
Others	–	(295)	(451)
	126,982	12,055	(16,908)

Note:

(i) The amounts represent the provision for surcharges and others on late tax filings.

9. FINANCE COSTS

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on bank borrowings	10,197	9,362	11,203
Interest expenses on loans from related companies *(note 23 (b))*	–	–	5,825
Interest expenses on lease liabilities	274	299	623
	10,471	9,661	17,651

10. INCOME TAX EXPENSE

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Income tax expense comprised of:			
Current tax:			
PRC Enterprise Income Tax ("EIT")	50,286	77,783	111,785
Deferred tax *(note 20)*	8,115	(3,319)	115
	58,401	74,464	111,900

The Group is not subject to any income tax in the Cayman Islands pursuant to the rules and regulations in the jurisdiction.

No provision for Hong Kong Profits Tax for the Track Record Period as there is no assessable profit subject to Hong Kong Profits Tax for all years.

PRC EIT is calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the PRC EIT law and its detailed implementation rules, the tax rate is at 25%. Besides, if the subsidiaries are qualified as high-technology companies (under the PRC EIT law), the subsidiaries are entitled to a reduced rate of 15% and such qualification is subject to renewal every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for the Track Record Period.

According to the EIT Law and Implementation Regulation of the EIT Law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise, and remains at 10% otherwise. Deferred taxation has not been provided for in the Historical Financial Information in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB1,272,159,000, RMB1,684,084,000 and RMB2,110,183,000 as at 31 March 2021, 2022 and 2023 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The income tax expense for the Track Record Period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	264,926	471,044	533,414
Tax at PRC EIT rate of 25%	66,232	117,761	133,354
Tax effect of expenses not deductible for tax purpose	6,646	13,821	13,581
Tax effect of income not taxable for tax purpose	–	(3,241)	–
Tax effect of super deduction for research and development expenses *(Note)*	–	(5,584)	(3,768)
Tax effect of share of results of joint ventures	510	(7,072)	(2,817)
Effect of tax concessionary rates granted to the PRC subsidiaries	(14,949)	(41,301)	(28,291)
Others	(38)	80	(159)
	58,401	74,464	111,900

Note: The eligible expenditures represent research and development costs incurred in the PRC and charged to profit or loss, which is subject to an additional 100% tax deduction in the calculation of income tax expense for the year ended 31 March 2022 and 2023.

11. PROFIT FOR THE YEAR

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year has been arrived at after charging			
Cost of inventories recognised as an expense	1,830,838	3,193,158	3,935,097
Amortisation of intangible asset	1,585	1,585	1,585
Depreciation of plant and equipment	21,326	21,354	44,815
Depreciation of right-of-use assets	5,564	5,132	7,744
Total depreciation and amortisation	28,475	28,071	54,144
Less: capitalised as cost of inventories	(14,393)	(14,202)	(36,390)
	14,082	13,869	17,754

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Auditor's remuneration	401	240	288
[**REDACTED**] expenses	[REDACTED]	[REDACTED]	[REDACTED]
Other expenses *(note)*	1,424	–	–
Staff costs (including directors' emoluments)			
– Directors' emoluments *(note 13)*	2,633	4,997	5,137
– Salaries and other benefits	33,058	30,114	52,485
– Retirement benefit scheme contributions (excluding directors)	849	2,708	4,038
	36,540	37,819	61,660
Less: capitalised as cost of inventories	(12,709)	(11,381)	(24,254)
	23,831	26,438	37,406

Note: Amounts represented professional service fees incurred in relation to a previous potential [**REDACTED**] exercise that were expensed during the Track Record Period.

12. DIVIDENDS

No dividend was paid or declared by the Company since its incorporation.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and chief executive's emoluments

Details of the emoluments paid to the individuals including emoluments for services as senior management of the group entities prior to becoming the directors of the Company, during the Track Record Period, are as follows:

	Fee	**Salaries and other allowances**	**Retirement benefit scheme contributions**	**Performance related bonuses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(note iii)*	*RMB'000*
Year ended 31 March 2021					
Executive directors:					
Mr. Liu *(note i)*	–	2,224	46	–	2,270
Mr. Sun Pingfu *(note ii)*	–	213	22	–	235
Mr. Dong Benzi *(note ii)*	–	112	16	–	128
Total	–	2,549	84	–	2,633

	Fee	Salaries and other allowances	Retirement benefit scheme contributions	Performance related bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(note iii)*	*RMB'000*
Year ended 31 March 2022					
Executive directors:					
Mr. Liu *(note i)*	–	4,412	56	–	4,468
Mr. Sun Pingfu *(note ii)*	–	320	53	–	373
Mr. Dong Benzi *(note ii)*	–	108	48	–	156
Total	–	4,840	157	–	4,997

	Fee	Salaries and other allowances	Retirement benefit scheme contributions	Performance related bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(note iii)*	*RMB'000*
Year ended 31 March 2023					
Executive directors:					
Mr. Liu *(note i)*	–	4,493	78	–	4,571
Mr. Sun Pingfu *(note ii)*	–	342	80	–	422
Mr. Dong Benzi *(note ii)*	–	111	33	–	144
Total	–	4,946	191	–	5,137

Notes:

(i) Mr. Liu served as the chief executive of the Company throughout the Track Record Period and his emoluments disclosed above include those for services rendered by him as the chief executive.

(ii) Mr. Sun Pingfu and Mr. Dong Benzi were appointed as executive directors of the Company on 23 March 2022.

(iii) Performance related bonuses are determined based on the Group's performance and performance of the relevant individual within the Group.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Track Record Period.

(b) Five highest paid employees

The five highest paid individuals of the Group included two, two and two directors whose emoluments are included in the disclosure above for the Track Record Period. The remuneration of the remaining three, three and three individuals for the Track Record Period were as follows:

	Year ended 31 March		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other allowances	605	472	1,814
Performance related bonuses	–	–	–
Retirement benefit scheme contributions	55	44	67
	660	516	1,881

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Year ended 31 March		
	2021	2022	2023
Nil to HK$1,000,000	3	3	2
HK$1,000,001 to HK$1,500,000	–	–	1
	3	3	3

During the Track Record Period, no emolument was paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. EARNINGS PER SHARE

	Year ended 31 March		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Earnings for the purpose of calculating basic earnings per share for the year attributable to the owners of the Company	202,294	396,337	405,089
	No. of Shares *'000*	**No. of Shares** *'000*	**No. of Shares** *'000*
Number of ordinary shares for the purpose of calculating basic earnings per share	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined based on the assumption that [the [**REDACTED**] as described in note 39 and Appendix IV to the Document] had been effective on 1 April 2020.

No diluted earnings per share is presented for the Track Record Period as there was no potential ordinary share in issue.

15. PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Vehicles	Office equipment	Construction in progress ("CIP")	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 April 2020	348,499	266,695	10,762	7,168	627	633,751
Additions	648	6,454	456	661	8,343	16,562
Transfer from CIP	5,367	3,551	–	–	(8,918)	–
Disposals	(71,049)	(248)	(1,503)	(365)	(52)	(73,217)
Exchange realignment	(56)	–	(177)	(33)	–	(266)
At 31 March 2021	283,409	276,452	9,538	7,431	–	576,830
Additions	4,978	3,879	392	917	–	10,166
Acquired on acquisition of subsidaries *(note 37)*	123,908	164,733	1,435	503	13,673	304,252
Disposals	–	(1,416)	(1,693)	–	–	(3,109)
Exchange realignment	(23)	–	(77)	(16)	–	(116)
At 31 March 2022	412,272	443,648	9,595	8,835	13,673	888,023
Additions	4,040	26,748	696	219	11,847	43,550
Transfer from CIP	24,708	169	–	–	(24,877)	–
Disposals	–	(536)	(430)	(8)	–	(974)
Exchange realignment	57	–	180	38	–	275
At 31 March 2023	441,077	470,029	10,041	9,084	643	930,874
DEPRECIATION						
At 1 April 2020	145,511	222,103	8,458	6,076	–	382,148
Provided for the year	12,320	8,350	342	314	–	21,326
Eliminated on disposals	(19,849)	(210)	(1,305)	(365)	–	(21,729)
Exchange realignment	(48)	–	(96)	(33)	–	(177)
At 31 March 2021	137,934	230,243	7,399	5,992	–	381,568
Provided for the year	13,082	7,559	387	326	–	21,354
Eliminated on disposals	–	(1,237)	(1,524)	–	–	(2,761)
Exchange realignment	(22)	–	(49)	(12)	–	(83)
At 31 March 2022	150,994	236,565	6,213	6,306	–	400,078
Provided for the year	19,992	23,763	804	256	–	44,815
Eliminated on disposals	–	(281)	(387)	(8)	–	(676)
Exchange realignment	57	–	127	31	–	215
At 31 March 2023	171,043	260,047	6,757	6,585	–	444,432
CARRYING VALUES						
At 31 March 2021	145,475	46,209	2,139	1,439	–	195,262
At 31 March 2022	261,278	207,083	3,382	2,529	13,673	487,945
At 31 March 2023	270,034	209,982	3,284	2,499	643	486,442

The above items of plant and equipment, except for CIP, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Shorter of the term of the lease, or 20 years
Machinery and equipment	10 years
Vehicles	5 years
Office equipment	5 years

16. RIGHT-OF-USE ASSETS

The Group leases various offices for its operations. The average lease term of the Group's office premises is 2 years, 2 years and 2 years during the years ended 31 March 2021, 2022 and 2023, respectively.

In addition, lump sum payments were made upfront to acquire the land use rights in the PRC, where its manufacturing facilities are primarily located.

The carrying amounts of rights-of-use assets at end of each reporting period and the depreciation by classes of rights-of-use assets are set out as below:

Analysed for reporting purposes as:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amounts			
Leasehold land	42,008	60,070	141,085
Office premises	5,487	8,914	11,992
	47,495	68,984	153,077

As at 31 March 2021, 2022 and 2023, lease liabilities of approximately RMB5,766,000, RMB8,318,000 and RMB11,057,000 are recognised with related right-of-use assets of approximately RMB5,487,000, RMB8,040,000 and RMB11,117,000, respectively. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The consolidated statements of profit or loss and other comprehensive income contain the following amounts relating to leases:

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation recognised in profit or loss			
Leasehold land	742	977	2,315
Office premises	4,822	4,155	5,429
	5,564	5,132	7,744

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Total cash outflow for leases	5,219	5,328	89,721
Additions to right-of-use assets	4,323	7,581	91,837
Additions to right-of-use assets through acquisition of business *(note 37)*	–	19,040	–

During the year ended 31 March 2021, the Group disposed of leasehold land with carrying amount of approximately RMB2,584,000 to PRC Government at a consideration of approximately of RMB96,947,000. As a result, gain on disposal of approximately RMB94,363,000 was recognised in profit or loss.

17. GOODWILL

	Acquisition of Daxing Migao *(Note a)* *RMB'000*	**Acquisition of Baoqing Migao** *(Note b)* *RMB'000*	**Total** *RMB'000*
COST			
At 1 April 2020 and 31 March 2021	2,606	–	2,606
Arising on acquisition of a subsidiary (note 37)	–	9,463	9,463
At 31 March 2022 and 2023	2,606	9,463	12,069

Notes:

(a) The goodwill was arising from acquisition of Zunyi Daxing Compound Fertiliser Co., Ltd. ("Daxing Migao") during the year ended 31 March 2017.

(b) The goodwill was arising from acquisition of Baoqing Migao Agricultural Technology Co., Ltd. ("Baoqing Migao") on 31 March 2022 as set out in note 37.

For the purposes of impairment testing, goodwill have been allocated to two individual CGUs, comprising two subsidiaries, Daxing Migao and Baoqing Migao. The carrying amounts of goodwill allocated to these two subsidiaries as follows:

		As at 31 March	
	2021 *RMB'000*	**2022** *RMB'000*	**2023** *RMB'000*
Daxing Migao	2,606	2,606	2,606
Baoqing Migao	–	9,463	9,463
	2,606	12,069	12,069

The recoverable amounts of the two CGUs have been determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and pre-tax discount rate of 18%. The cash flows beyond the 5-year period are extrapolated using a steady 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. During the Track Record Period, the directors of the Company determine that there is no impairment on the CGUs.

The Group performed sensitivity test by increasing 1% of pre-tax discount rate or decreasing 1% of long-term growth rate or decreasing 5% of budgeted sales or decreasing 1% of budgeted gross margin, which are the key assumptions determine the recoverable amount of the CGU, with all other variables held constant.

Based on the sensitivity test performed, no material impairment issue was noted for the Track Record Period. The headroom of the CGUs at the end of each reporting period is not less than 26% for the Track Record Period.

The directors of the Company believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of a CGU to exceed the recoverable amount of that CGU.

18. INTANGIBLE ASSET

	Customer relationship *RMB'000*
COST	
At 1 April 2020, 31 March 2021, 2022 and 2023	15,850
AMORTISATION	
At 1 April 2020	5,548
Provided for the year	1,585
At 31 March 2021	7,133
Provided for the year	1,585
At 31 March 2022	8,718
Provided for the year	1,585
At 31 March 2023	10,303
CARRYING VALUES	
At 31 March 2021	8,717
At 31 March 2022	7,132
At 31 March 2023	5,547

Customer relationship acquired in the business combination of Daxing Migao is identified and recognised as an intangible asset. The aggregate amount of customer relationship is amortised over the period of the useful lives of the customer relationship. With reference to experience in the industry, customer bases and operation of Daxing Migao, the directors of the Company assessed the useful life of the customer relationship to be 10 years.

19. INTERESTS IN JOINT VENTURES

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Cost of unlisted interests in joint ventures	273,847	79,847	79,847
Share of post-acquisition, profits and other comprehensive income, net of dividends received	28,635	31,185	42,452
	302,482	111,032	122,299

Details of the Group's joint ventures during the Track Record Period and at the date of the report are as follows:

Name of entities	Place of incorporation/ establishment	Principal place of operation	Proportion of registered capital/ nominal value of issued share capital held by the Group				Proportion of voting rights held by the Group				Principal activities
			At 31 March 2021	At 31 March 2022	At 31 March 2023	Date of the report	At 31 March 2021	At 31 March 2022	At 31 March 2023	Date of the report	
Eurochem Migao Limited ("Eurochem JV")	Hong Kong	The PRC	50%	50%	50%	50%	50%	50%	50%	50%	Investment holding
Baoqing Migao *(Note)*	The PRC	The PRC	77%	N/A	N/A	N/A	50%	N/A	N/A	N/A	Manufacturing and trading of specialty potash-based fertilizer
Anda Beidahuang Migao Agricultural Technology Co., Ltd. ("Anda Migao") *(Note)*	The PRC	The PRC	65%	N/A	N/A	N/A	50%	N/A	N/A	N/A	Manufacturing and trading of specialty potash-based fertilizer

Note: Prior to 31 March 2022, the Group exercised joint control over Baoqing Migao and Anda Migao because decisions on relevant activities require unanimous consent with the other joint venturer under the Articles of Associations of Baoqing Migao and Anda Migao. On 31 March 2022, the Group obtained control over Baoqing Migao and Anda Migao as set out in note 37. Baoqing Migao and Anda Migao became the Group's subsidiaries since 31 March 2022.

Summarised financial information in respect of the Group's joint ventures which are accounted for using equity method is set out below. The financial information is prepared in accordance with HKFRSs.

Eurochem JV

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Current assets	21,848	189	2,125
Non-current assets	197,847	221,875	242,473
Current liabilities	(3,761)	–	–
Net assets	215,934	222,064	244,598

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	–	–	–
(Loss) profit and total comprehensive (expense) income for the year	(11,760)	6,130	22,534

Reconciliation of the above summarised financial information to the carrying amount of the interest in Eurochem JV recognised in the Historical Financial Information:

	As at 31 March		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Net assets of Eurochem JV	215,934	222,064	244,598
Proportion of the Group's ownership interest in Eurochem JV	50%	50%	50%
Carrying amount of the Group's interest in Eurochem JV	107,967	111,032	122,299

Baoqing Migao

	As at 31 March		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Current assets	260,315	N/A	N/A
Non-current assets	94,308	N/A	N/A
Current liabilities	(248,697)	N/A	N/A
Net assets	105,926	N/A	N/A

	Year ended 31 March		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Revenue	196,462	225,205	N/A
Profit and total comprehensive income for the year	10,247	13,668	N/A
Dividends paid or payable during the year	5,456	5,529	N/A
Dividends received or receivables from Baoqing Migao during the year	4,201	4,258	N/A
The above profit for the year include the following:			
Depreciation of plant and equipment	6,384	6,833	N/A
Depreciation of right-of-use assets	92	92	N/A
Interest expense	8,815	4,468	N/A
Income tax expense	3,314	2,347	N/A

Reconciliation of the above summarised financial information to the carrying amount of the interest in Baoqing Migao recognised in the Historical Financial Information:

	As at 31 March
	2021
	RMB'000
Net assets of Baoqing Migao	105,926
Proportion of the Group's ownership interest in Baoqing Migao	77%
Carrying amount of the Group's interest in Baoqing Migao	81,563

Anda Migao

		As at 31 March	
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Current assets	329,021	N/A	N/A
Non-current assets	134,480	N/A	N/A
Current liabilities	(285,329)	N/A	N/A
Non-current liabilities	(4,400)	N/A	N/A
Net assets	173,772	N/A	N/A

		Year ended 31 March	
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	42,210	603,761	N/A
(Loss) profit and total comprehensive (expense) income for the year	(6,228)	22,612	N/A
The above (loss) profit for the year include the following:			
Depreciation of plant and equipment	1,073	8,690	N/A
Depreciation of right-of-use assets	274	274	N/A
Interest expense	2,503	14,287	N/A
Income tax expense	–	7,537	N/A

Reconciliation of the above summarised financial information to the carrying amount of the interest in Anda Migao recognised in the Historical Financial Information:

	As at 31 March
	2021
	RMB'000
Net assets of Anda Migao	173,772
Proportion of the Group's ownership interest in Anda Migao	65%
Carrying amount of the Group's interest in Anda Migao	112,952

20. DEFERRED TAXATION

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax liabilities	3,351	3,581	3,173
Deferred tax assets	(2,070)	(4,974)	(4,451)
	1,281	(1,393)	(1,278)

Deferred tax liabilities (assets) recognised by the Group and the movements thereon during the Track Record Period are as follows:

	Tax losses	**ECL provision**	**Fair value adjustment in business consolidation**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 April 2020	(8,055)	(2,707)	3,928	(6,834)
Charged (credited) to profit or loss *(note 10)*	7,953	739	(577)	8,115
At 31 March 2021	(102)	(1,968)	3,351	1,281
Credited to profit or loss *(note 10)*	(109)	(2,795)	(415)	(3,319)
Acquisition of subsidiaries *(note 37)*	–	–	645	645
At 31 March 2022	(211)	(4,763)	3,581	(1,393)
Charged (credited) to profit or loss *(note 10)*	109	414	(408)	115
At 31 March 2023	(102)	(4,349)	3,173	(1,278)

21. INVENTORIES

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	55,936	668,355	121,553
Finished goods	17,304	40,605	19,773
Packing and other materials	6,228	7,608	4,698
Goods in transit	84,924	23,902	5,565
	164,392	740,470	151,589

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	The Group		
	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	40,167	104,741	109,512
Unbilled receivables *(Note a)*	190,743	203,564	90,858
Less: allowance for credit losses	(7,877)	(19,058)	(17,403)
	223,033	289,247	182,967
Bills receivables	208,601	302,713	140,886
	431,634	591,960	323,853
Inventories prepayment			
– third parties	589,332	1,042,565	1,278,116
– a joint venture	–	–	30,520
	589,332	1,042,565	1,308,636
Supplier rebate receivables	9,607	39,216	–
Deferred issue costs	1,424	8,496	14,739
Value-added tax receivables	279	9,350	30,016
Other receivables, deposits and prepayments	58,646	45,927	53,450
	659,288	1,145,554	1,406,841
	1,090,922	1,737,514	1,730,694

	The Company		
	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Deferred issue costs	1,424	8,496	14,739
Other receivables	332	387	2,330
	1,756	8,883	17,069

Note:

(a) Unbilled receivables represents accrued sales for goods delivered by the Group but yet to bill. The Group has unconditional right to the payment of the unbilled receivables which is expected to be billed within 180 days and received within 12 months from the end of respective reporting period.

During the Track Record Period, the Group engaged an independent third party as its designated agent (the "Agent") to purchase raw materials from overseas suppliers and sell them to domestic customers of the Group under the Group's instruction. The Agent will collect the sales proceed and settle the purchase costs on behalf of the Group. Such arrangement has been terminated since October 2021. Included in the unbilled receivables as at 31 March 2021, 2022 and 2023, approximately RMB55,614,000, RMB97,846,000 and nil was arising from the above arrangement. During the year ended 31 March 2023, the Group issued an invoice amounted to approximately RMB97,846,000 to the Agent, and received full settlement from the Agent.

As at 1 April 2020, gross trade receivables and unbilled receivables from contracts with customers amount to RMB665,736,000 in aggregate.

The Group generally allows credit period ranging from 0 to 180 days. The Group will assess the credit quality of each potential customer and define rating and credit limit for each customer.

The following is an analysis of trade receivables by age, net of allowance for credit losses, presented based on the invoice date at the end of each reporting period:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
Within 90 days	7,866	43,594	26,129
91-180 days	1,998	38,412	56,203
181-365 days	827	5,281	8,893
Over 1 year	22,656	6,312	3,302
	33,347	93,599	94,527

The maturity dates of bills receivables at the end of the reporting period are analysed as follows:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Bills receivables			
Within 90 days	133,140	111,502	32,042
91-180 days	74,141	184,068	104,744
181-365 days	1,320	7,143	4,100
	208,601	302,713	140,886

As at 31 March 2021, 2022 and 2023, total bills received amounting to approximately RMB208,601,000, RMB301,103,000 and RMB130,185,000, respectively, were further discounted or endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of each reporting period and details are disclosed in note 33. All bills received by the Group are with a maturity period of less than one year.

As at 31 March 2021, 2022 and 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB25,481,000, RMB50,005,000 and RMB68,398,000 which are past due as at the reporting date. Out of the past due balances, RMB23,483,000, RMB11,593,000 and RMB12,195,000 has been past due for 90 days or more and is not considered as in default based on good repayment records for those customers. The Group does not hold any collateral over these balances.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9 as disclosed in note 35. For trade receivables with significant amounts, they are assessed individually for impairment allowance and collectively for remaining trade receivables based on the Group's internal credit rating, historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Details of impairment assessment of trade and other receivables are set out in note 35.

23. RELATED PARTY BALANCES AND TRANSACTIONS

The Group

(a) The Group had the following related party balances:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Amount due from a related company *(Note (a))*:			
Trade nature			
– Liaoning Migao *(Note (b))*	21,575	–	N/A
Amounts due from joint ventures:			
Trade nature *(Note (c))*			
– Yunnan EuroChem Fertiliser Technology Co., Ltd. ("Yunnan Eurochem")	–	15,187	14,258
Non-trade nature *(Note (d))*			
– Eurochem JV	29,801	15,230	13,232
	29,801	30,417	27,490
Loans to joint ventures *(Note (j))*			
Non-trade nature	237,249	–	–
Amount due from a shareholder			
Non-trade nature			
Mr. Liu *(Note (g))*	2,234	1,838	3,535
Amounts due to related companies *(Note (a))*:			
Trade nature *(Note (e))*			
– Shanghai Migao	(1,724)	–	–
– Zunyi Migao	(66)	(621)	–
– Liaoning Migao	(15,150)	(19,750)	N/A
	(16,940)	(20,371)	–
Non-trade nature			
– APPH *(Note (f))*	(72,896)	(158,530)	(175,716)
	(89,836)	(178,901)	(175,716)

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to joint ventures:			
Trade nature *(Note (h))*			
– Anda Migao	(4,017)	–	N/A
– Baoqing Migao	(48,657)	–	N/A
– Yunnan Eurochem	(59,120)	(34,709)	–
	(111,794)	(34,709)	–
Amount due to a non-controlling interest			
Trade nature			
Guizhou Tobacco Investment Co., Ltd. ("Guizhou Tobacco") *(Note (i))*	(29,119)	(6,168)	–
Loans from related companies *(Note (k))*			
Non-trade nature	–	(95,020)	(105,817)

Notes:

(a) These entities have been identified as related parties of the Group as they are controlled by Mr. Liu or his close family member.

(b) Trade related balance with Liaoning Migao arose from sales of finished goods. In general, 90 days credit period is allowed. This balance was unsecured and interest-free.

The following is an aged analysis of the Group's trade related balance with Liaoning Migao at the end of each reporting period presented based on invoice date:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
90-180 days	21,575	–	N/A

On 15 June 2022, Mr. Liu disposed of all his equity interest in Liaoning Migao to an independent third party and Liaoning Migao became a third party of the Group since 15 June 2022.

The Group made an unsecured and interest-free advance of approximately RMB20,450,000 to Liaoning Migao in July 2022 for short-term working capital purpose. The advance has been fully repaid in August 2022.

(c) Yunnan Eurochem is the joint venture of Eurochem JV. Trade related balances with joint ventures arose from sales of finished goods. In general, 90 days credit period is allowed. These balances were unsecured and interest-free.

The following is an aged analysis of the Group's trade related balances with joint ventures at the end of each reporting period presented based on invoice date:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
0-90 days	–	15,187	14,258

(d) The amount due from Eurochem JV mainly represents the general and administrative expenses that the Group paid on behalf of Eurochem JV. The amounts are non-trade nature, interest-free, unsecured and repayable on demand. As represented by the directors of the Company, the balance will be fully settled prior to the proposed [**REDACTED**] of the Company's shares on the Main Board of the Stock Exchange (the "[**REDACTED**]").

	Maximum amount during the Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Eurochem JV	29,801	29,801	15,378

(e) Trade related balances with these related companies arose from purchase of raw materials and finished goods. In general, 30 to 180 days credit period is allowed. These balances were unsecured and interest-free.

The following is an aged analysis of the Group's trade related balances with related companies at the end of each reporting period presented based on invoice date:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	(15,216)	(20,371)	–
91-180 days	(1,724)	–	–
	(16,940)	(20,371)	–

Included in the amount due to related companies, amounts of nil, RMB19,950,000 and nil, respectively, were settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at 31 March 2021, 2022 and 2023 (see note 33).

As at 31 March 2021 and 2022, the Group made prepayments for purchase of raw materials to Liaoning Migao of RMB15,150,000 and nil, respectively, by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of each reporting period (see note 33).

As at 31 March 2021, 2022 and 2023, the Group made prepayments for purchase of equipment to Chengdu Migao Engineering Technology Corporation Ltd ("Chengdu Migao") of nil, RMB13,206,000 and nil, respectively, by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of each reporting period (see note 33).

(f) The amount due to APPH is non-trade nature, interest-free, unsecured and repayable on demand. As represented by the directors of the Company, the balance will be fully settled prior to the [**REDACTED**].

During the year ended 31 March 2023, the Group received and paid the cash on behalf of APPH for a transaction entered into between APPH and a supplier. As part of the arrangement, the Group repaid certain amount due to APPH by transferring the same amount to that supplier. The arrangement had been completed during the year.

(g) The amount due from Mr. Liu is non-trade nature, interest-free, unsecured and repayable on demand. As represented by the directors of the Company, the balance will be fully settled prior to the [**REDACTED**].

	Maximum amount during the Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Liu	2,234	2,234	3,535

(h) Trade related balances with joint ventures arose from purchase of raw materials and finished goods. In general, 30 to 180 days credit period is allowed. These balances were unsecured and interest-free.

The following is an aged analysis of the Group's trade related balances with joint ventures at the end of each reporting period presented based on invoice date:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	(62,381)	(22,451)	–
91-180 days	(40,413)	(12,258)	–
Over 1 year	(9,000)	–	–
	(111,794)	(34,709)	–

Included in the amounts due to joint ventures, amounts of RMB67,937,000, RMB34,709,000 and nil, respectively, were settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at 31 March 2021, 2022 and 2023 (see note 33).

As at 31 March 2021, 2022 and 2023, the Group made prepayment for purchase of raw materials and finished goods to the joint venture of nil, nil and RMB33,061,000, respectively, by endorsed billed for which the maturity dates of the bills receivables have not yet fallen due as at the end of each reporting period (see note 33).

(i) Guizhou Tobacco is a non-controlling shareholder of Daxing Migao. Trade related balances with Guizhou Tobacco arose from sale of finished goods to Guizhou Tobacco and purchase of raw materials from Guizhou Tobacco. In general, 180 days credit period is allowed. These balances were unsecured and interest-free.

The following is an aged analysis of the Group's trade related balances with Guizhou Tobacco at the end of each reporting period presented based on invoice date:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	(29,119)	–	–
Over 1 year	–	(6,168)	–
	(29,119)	(6,168)	–

(j) During the Track Record Period, the Group made several loans to its joint ventures, Baoqing Migao and Anda Migao. The loans are non-trade nature, unsecured, carry interest at fixed rate of 6% per annum and repayable within one year from the dates of draw down of respective loans.

(k) In January 2022, Anda Migao obtained a loan from a related company of Heilongjiang Beidahuang Modern Agricultural Services Group Agricultural Materials Co., Ltd. (formerly known as Heilongjiang Beidahuang Seed Industry Group Agricultural Production Materials Co., Ltd.) ("Heilongjiang Beidahuang"), a non-controlling shareholder. The loan is non-trade nature, unsecured, carries interest at fixed rate of 6% per annum and fully repaid in January 2023.

In February 2023, Anda Migao obtained a new loan of RMB105,000,000 from the immediate holding company of Heilongjiang Beidahuang. The loan is non-trade nature, unsecured, carries interest at fixed rate of 5% per annum and repayable on 31 December 2023. As represented by the directors of the Company, the balance will be fully settled prior to the [**REDACTED**].

(b) The Group entered into the following transactions with related parties during the Track Record Period:

Name of related companies	Nature of transactions	Year ended 31 March 2021	2022	2023
		RMB'000	*RMB'000*	*RMB'000*
Joint ventures				
Baoqing Migao	Sales of finished goods	104,502	–	N/A
	Purchases of raw materials and finished goods	119,152	114,111	N/A
	Interest income	6,354	3,718	N/A
Anda Migao	Sales of finished goods	–	385	N/A
	Purchases of raw materials and finished goods	3,686	145,097	N/A
	Interest income	806	9,011	N/A
Yunnan Eurochem	Sales of raw materials and finished goods	30,713	90,202	156,515
	Purchases of raw materials and finished goods	50,821	54,369	2,994
Related companies				
Liaoning Migao	Sales of finished goods	39,021	–	N/A
	Purchases of raw materials	4,615	87,627	N/A
Shanghai Migao	Purchases of raw materials	3,650	3,438	410
	Purchases of equipment	–	221	–
Zunyi Migao	Sales of finished goods	–	–	–
	Purchases of raw materials	544	3,374	–
	Purchases of equipment	–	–	–
	Repayment of lease liabilities	2,066	2,162	2,626
Chengdu Migao	Purchase of raw materials	–	200	–
Beijing Weidesen International Trade Co., Ltd.*	Sales of finished goods	107	–	–
Twin Castle International Limited ("Twin Castle")**	Sales of finished goods	–	–	27,000
A related company of Heilongjiang BeidaHuang	Interest expense	–	–	5,008
The immediate holding company of Heilongjiang Beidahuang	Interest expense	–	–	817
Non-controlling interest				
Guizhou Tobacco	Sales of finished goods	31,023	1,604	–
	Purchase of raw materials	107,148	–	–

* This entity has been identified as a related party of the Group as it is controlled by Mr. Liu and his spouse.

** Twin Castle has been identified as a related party of the Group as they are controlled by Mr. Liu's close family member. Twin Castle has been disposed of by Mr. Liu's close family member to an independent third party on 6 February 2023 and became a third party of the Group since 6 February 2023.

As at 31 March 2021, 2022 and 2023, the Group provided financial guarantees in respect of bank facilities granted to a related company and a joint venture amounted to RMB191,000,000, nil and nil, respectively.

As at 31 March 2021, 2022 and 2023, related parties of the Company provided financial guarantees in respect of bank facilities granted to the Group amounted to RMB547,000,000, RMB374,010,000 and RMB280,000,000, respectively. As represented by the directors of the Company, the related financial guarantees will be released prior to the [**REDACTED**].

As at 31 March 2021, 2022 and 2023, some independent third parties provided financial guarantees in respect of bank facilities granted to the Group amounted to RMB7,000,000, nil and nil, respectively.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the Track Record Period is set out in note 13.

The Company

Amounts due from (to) subsidiaries

The amounts are non-trade nature, interest-free, unsecured and repayable on demand.

24. RESTRICTED CASH/BANK BALANCES AND CASH

As of 31 March 2021, 2022 and 2023, the Group had restricted cash pledged for credit facilities as follows:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Bills payables	161,035	185,226	148,775
Deposits for letter of credits	84,535	5,072	21,709
	245,570	190,298	170,484

A bills payable is a draft issued by a bank for payments in future, which defers the payment until the due date for redeeming the bill. According to the bills payables agreement with the bank, a certain percentage of the payable amount is required to be deposited at the bank as security for bills payables which total of approximately RMB338,801,000, RMB350,209,000 and RMB281,722,000 as at 31 March 2021, 2022 and 2023. The interest rate of restricted cash ranged from 0.01% to 2.25%, 0.01% to 2.25% and 0.01% to 2.25% as at 31 March 2021, 2022 and 2023.

Bank balances of the Group and the Company carry interest at prevailing market interest rates.

25. TRADE AND OTHER PAYABLES

	The Group		
	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	358,433	609,255	215,153
Bills payables	338,801	350,209	281,722
Other tax payables	107,306	87,710	97,455
Accrued employee expense	2,824	5,211	4,561
Accrued issue costs and [**REDACTED**] expenses	1,963	16,449	8,043
Payables for transportation costs	13,568	24,263	2,798
Payables for CIP and PPE	3,680	34,488	–
Others	33,545	25,387	20,898
	860,120	1,152,972	630,630

	The Company		
	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Accrued issue costs and [**REDACTED**] expenses	1,963	16,449	8,043
Others	1,068	5,426	4,432
	3,031	21,875	12,475

The Group normally receives credit terms of 90 to 180 days from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of each reporting period:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
0 – 90 days	232,346	529,988	66,221
91 – 180 days	45,621	70,148	104,101
181 – 360 days	2,720	5,626	41,075
Over 1 year	77,746	3,493	3,756
	358,433	609,255	215,153

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Bills payables			
0 – 90 days	27,741	75,999	88,714
91 – 180 days	60,940	82,809	28,728
181 – 360 days	250,120	191,401	164,280
	338,801	350,209	281,722

During the year ended 31 March 2023, the Group had tripartite settlement arrangement in respect of the outstanding payable and prepayment amongst four suppliers to set off the amount due to/from between them. After the tripartite settlement arrangement, the outstanding payable to a supplier was reduced to approximately RMB2,508,000.

Included in the trade payables, are RMB113,514,000, RMB78,617,000 and RMB97,124,000, respectively, which had been settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of each reporting period (see note 33).

26. CONTRACT LIABILITIES

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Contract liabilities			
– third parties	373,705	611,973	335,978
– a joint venture	35,070	–	–
	408,775	611,973	335,978

As at 1 April 2020, contract liabilities from contracts with customers amounted to RMB137,119,000.

Contract liabilities are recognised when the Group receives an amount from customers before goods are delivered, this will give rise to contract liabilities at the beginning of a contract, until the revenue recognised on the relevant contract exceeds the amount received. The Group typically receives a deposit of 30% - 100% of total consideration from certain customers when they enter into the contracts with the Group.

Revenue recognised during each reporting period included the whole amount of contract liabilities at the beginning of the respective reporting period. There was no revenue recognised during the Track Record Period that related to performance obligations that were satisfied in prior years.

27. BANK BORROWINGS

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Secured bank loans	167,018	179,265	244,738
Advance from banks on discounted bills receivables with recourse *(note 33)*	12,000	153,162	–
	179,018	332,427	244,738
Analysed as:			
Current	129,018	292,427	164,738
Non-current	50,000	40,000	80,000
	179,018	332,427	244,738
Carrying amount repayable within one year and shown under current liabilities	129,018	292,427	164,738
Carrying amount repayable within a period of more than one year but not exceeding two years and shown under non-current liabilities	50,000	40,000	80,000
	179,018	332,427	244,738

The Group had pledged the following assets to banks as securities against the banking facilities granted to the Group at the end of each reporting period:

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Plant and equipment	31,652	29,489	30,484
Right-of-use assets	5,928	5,759	18,278
	37,580	35,248	48,762

The ranges of effective interest rates per annum (which are also equal to contractual interest rates) on the Group's bank borrowings and their carrying values are as follow:

	THE GROUP As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Fixed-rate borrowings:			
Denominated in RMB (ranging from 2.85% to 5.00%, 1.90% to 6.15% and 3.40% to 5.00% as at 31 March 2021, 2022 and 2023 respectively)	86,000	242,427	90,000
Denominated in USD (3.60%, nil and 4.05% as at 31 March 2021, 2022 and 2023, respectively)	43,018	–	24,738
	129,018	242,427	114,738
Variable-rate borrowings:			
Denominated in RMB (5.10%, 5.10% and ranging from 3.25% to 4.95% as at 31 March 2021, 2022 and 2023, respectively) *(Note)*	50,000	90,000	130,000
	179,018	332,427	244,738

Note: For variable-rate bank borrowings denominated in RMB, the variable rates at 134% of Prime, 134% of Prime and range from 89% of Prime to 136% of Prime as at 31 March 2021, 2022 and 2023, respectively. Prime is the prime rate in China, which is determined and announced by the People Bank of China.

28. LEASE LIABILITIES

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Maturity analysis:			
Less than one year	4,582	4,142	6,151
1 to 2 years	1,376	2,775	4,977
2 to 5 years	–	2,012	536
	5,958	8,929	11,664
Less: Future finance charges	(192)	(611)	(607)
Present value of lease obligations	5,766	8,318	11,057
Analysed as:			
Current	4,406	3,770	5,681
Non-current	1,360	4,548	5,376
	5,766	8,318	11,057

The weighted average incremental borrowing rates applied by the relevant group entities range from 5.35% to 6.30%.

29. SHARE CAPITAL

The Group

The share capital of the Group as at 1 April 2020, 31 March 2021, 2022 and 2023 represented the share capital of the Company of approximately RMB66,000.

The Company

	Number of shares	**Share capital**	**Presented as**
		USD	*RMB'000*
Ordinary shares of USD1 each			
Authorised			
At 31 March 2021, 2022 and 2023	50,000	50,000	330
Issued and fully paid			
At 31 March 2021, 2022 and 2023	10,000	10,000	66

The Company was incorporated in the Cayman Islands on 21 November 2017 with authorised share capital of USD50,000 divided into 50,000 shares of USD1 each. Upon incorporation, (i) one share was allotted and issued to the initial subscriber, which was in turn transferred to Migao Holdings on the same day and (ii) 9,999 shares were allotted and issued to Migao Holdings. The Company has not carried on any business since the date of incorporation except for the group reorganisation.

30. RETIREMENT BENEFIT SCHEME

The employees of the Company's subsidiaries are members of a state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost of state-managed retirement benefits charged to profit or loss for the years ended 31 March 2021, 2022 and 2023 amounted to approximately RMB933,000, RMB2,865,000 and RMB4,229,000, respectively.

31. OPERATING LEASES

The Group as lessor

Property rental income earned during the Track Record Period was RMB2,799,000, RMB1,473,000 and RMB1,127,000. The properties held have committed tenants for the next 5 years.

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments:

		As at 31 March	
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,586	970	977
In the second year	970	970	347
In the third year	970	347	–
In the fourth year	347	–	–
	3,873	2,287	1,324

32. CAPITAL COMMITMENTS

		As at 31 March	
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Commitments for capital expenditure	1,567	19,449	231

33. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 March 2021, 2022 and 2023 that were transferred to banks or suppliers by discounting or endorsing those bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as a secured borrowing (see note 27) for discounted bills receivables or it continues to recognise the full carrying amount of the bills receivables and the full carrying amount of the trade payables (see note 25), the amount due from a related company and amounts due to joint ventures (see note 23) for endorsed bills receivables. These financial assets are carried at amortised cost in the Group's consolidated statements of financial position.

As at 31 March 2021

	Bills receivables discounted to banks with full recourse	Bills receivables endorsed to suppliers with full recourse	Bills receivables endorsed to related companies with full recourse	Bills receivables endorsed to joint ventures with full recourse	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	12,000	113,514	15,150	67,937	208,601
Carrying amount of associated liabilities	(12,000)	(113,514)	–	(67,937)	(193,451)
	–	–	15,150	–	15,150

As at 31 March 2022

	Bills receivables discounted to banks with full recourse	Bills receivables endorsed to suppliers with full recourse	Bills receivables endorsed to related companies with full recourse	Bills receivables endorsed to a joint venture with full recourse	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	154,621	78,617	33,156	34,709	301,103
Carrying amount of associated liabilities	(153,162)	(78,617)	(19,950)	(34,709)	(286,438)
	1,459	–	13,206	–	14,665

As at 31 March 2023

	Bills receivables discounted to banks with full recourse	Bills receivables endorsed to suppliers with full recourse	Bills receivables endorsed to related companies with full recourse	Bills receivables endorsed to a joint venture with full recourse	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	–	97,124	–	33,061	130,185
Carrying amount of associated liabilities	–	(97,124)	–	–	(97,124)
	–	–	–	33,061	33,061

34. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to be continued as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of bank borrowings disclosed in note 27, non-trade amounts due to related companies and loans from related companies, disclosed in note 23, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of the review, the directors of the Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through payment of dividends, new share issues, raising of new debts and repayment of existing debts.

35. FINANCIAL INSTRUMENTS

a. Categories of the financial instruments

The Group

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets:			
Financial assets at amortised cost (including bank balances and cash)	1,080,677	1,166,733	918,646
Financial liabilities:			
Amortised cost	1,159,757	1,707,276	1,054,885

The Company

	As at 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets:			
Financial assets at amortised cost (including bank balances and cash)	342	400	3,181
Financial liabilities:			
Amortised cost	17,538	46,412	75,890

b. Financial risk management objectives and policies

The major financial instruments of the Group and the Company include trade and other receivables, amount due from a related company, amounts due from joint ventures, loans to joint ventures, amount due from a shareholder, restricted cash, bank balances and cash, trade and other payables, amounts due to joint ventures, amounts due to related companies, amount due to a non-controlling interest, loans from related companies, amounts due to subsidiaries, bank borrowings and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

Currency risk

The Group has foreign-currency bank balances, amount due from a related company, trade and other receivables, bank borrowings and amounts due to related companies, which expose the Group to foreign currency risk. The Group currently does not have a foreign exchange hedging policy. However, the directors of the Group monitor foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

The carrying amounts of the Group's major foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

	Assets			**Liabilities**		
	As at 31 March			**As at 31 March**		
	2021	**2022**	**2023**	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
United States Dollar ("USD")	2,309	2,675	34	43,875	–	27,247

Sensitivity analysis

The Group is exposed to fluctuation in USD against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD for each of the years ended 31 March 2021, 2022 and 2023. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the years ended 31 March 2021, 2022 and 2023 where RMB strengthen 5% against the USD. For a 5% weakening of RMB against USD, there would be an equal and opposite impact on the post-tax profit for the years ended 31 March 2021, 2022 and 2023.

	Year ended 31 March		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
USD	1,767	(114)	1,157

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings, loans to joint ventures and loans from related companies.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, restricted cash and bank balances. The Group's policy is to maintain short-term borrowings at prevailing market rates so as to minimise the fair value interest rate risk. The cash flow interest rate risk is mainly concentrated on the fluctuation in Prime arising from the Group's bank borrowings.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate risk exposure and will consider interest rate hedging should the need arises.

The management of the Group considers the exposure of the restricted cash and bank balances to interest rate risk is insignificant as these balances are within short maturity period and the fluctuation of market interest rate is not expected to be significant.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rate risk for variable-rate bank borrowings as at 31 March 2021, 2022 and 2023. The analysis is prepared assuming the amount of bank borrowings outstanding at 31 March 2021, 2022 and 2023 was outstanding for the whole year. A 50 basis points increase or decrease representing management's assessment of the reasonably possible change in interest rate is used.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 March 2021, 2022 and 2023 would be decreased/increased by approximately RMB188,000, RMB338,000 and RMB488,000, respectively.

(ii) Credit risk and impairment assessment

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position and financial guarantee contracts.

In order to minimise the credit risk, the directors of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual significant trade debt at the end of each reporting period to ensure that adequate impairment loss is recognised for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group is exposed to concentration of credit risk as at 31 March 2021, 2022 and 2023 on the trade and bills receivables from one of the Group's largest customers amounting to approximately RMB4,756,000, RMB15,433,000 and RMB26,164,000, respectively and accounted for 1%, 3% and 8%, respectively, of the Group's trade and bills receivables. In the opinion of the management of the Group, the customer is reputable organisation in the market and have good repayment records. The management of the Group considers that the credit risk is limited in this regard.

The Group also has concentration of credit risk on trade and bills receivables as at 31 March 2021, 2022 and 2023, 25%, 7% and 29% of the total trade and bills receivables was due from the Group's top five customers, respectively. In addition, the Group also has concentration of credit risk on unbilled receivables due from the designated agent and amounts due from joint ventures and loans to joint ventures as at 31 March 2021, 2022 and 2023.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	**Description**	**Trade receivables**	**Other financial assets/other items**
Low risk	The counterparty has a low risk of default who does not have past due amounts and does not have material long aged unbilled receivables	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle in full or have long aged unbilled receivables but usually settle in full after billed	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

In determining the ECL for other receivables, amount due from a related company, amounts due from joint ventures, loans to joint ventures and amount due from a shareholder, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding receivables is insignificant.

For financial guarantee contracts, the aggregate amount of outstanding financial guarantees issued to banks in respect of bank facilities granted to a related company and a joint venture that the Group could be required to pay amounted to RMB191,000,000, nil and nil as at 31 March 2021, 2022 and 2023. The outstanding financial guarantees of RMB123,630,000, nil and nil has been utilised by the related company and the joint venture as at 31 March 2021, 2022 and 2023. The fair value of these financial guarantee, as at dates of initial recognition, were considered insignificant. As at 31 March 2021, 2022 and 2023, the management has performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12m ECL. No loss allowance was recognised in the profit or loss.

The credit risks on bills receivables, restricted cash and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The tables below detail the credit risk exposures of the Group's financial assets and financial guarantee contracts as at 31 March 2021, 2022 and 2023, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount As at 31 March		
					2021	**2022**	**2023**
					RMB'000	*RMB'000*	*RMB'000*
Financial assets at amortised cost							
Trade and unbilled receivables	*22*	N/A	*(Note 1)*	Lifetime ECL (collective assessment)	116,934	170,826	118,246
			Low risk	Lifetime ECL (individual assessment)	107,339	130,693	70,384
			Loss	Credit-impaired	6,637	6,786	11,740
					230,910	308,305	200,370
Bills receivables	*22*	N/A	Low risk	12-month ECL	208,601	302,713	140,886
Other receivables	*22*	N/A	Low risk	12-month ECL	57,907	68,764	27,553
Amounts due from joint ventures	*23*	N/A	Low risk	12-month ECL	29,801	30,417	27,490
Amount due from a related company	*23*	N/A	Low risk	Lifetime ECL (individual assessment)	21,575	–	–
Loans to joint ventures	*23*	N/A	Low risk	12-month ECL	237,249	–	–

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount As at 31 March		
					2021	2022	2023
					RMB'000	*RMB'000*	*RMB'000*
Amount due from a shareholder	*23*	N/A	Low risk	12-month ECL	2,234	1,838	3,535
Restricted cash	*24*	Baa3 – Aa3	N/A	12-month ECL	245,570	190,298	170,484
Bank balances	*24*	Baa3 – Aa3	N/A	12-month ECL	54,707	283,456	365,731
Other item							
Financial guarantee contracts *(Note 2)*	*23*	N/A	Low risk	12-month ECL	191,000	–	–

Notes:

(1) For trade and unbilled receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using collective assessment, grouped by internal credit rating.

(2) For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

Collective assessment – internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on collective assessment as at 31 March 2021, 2022 and 2023 within lifetime ECL (not credit impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of RMB113,976,000, RMB137,479,000 and RMB82,124,000 respectively as at 31 March 2021, 2022 and 2023 were assessed individually. The average loss rates for debtors with significant outstanding balances are assessed to be ranging from approximately 1% to 3%.

Gross carrying amount

Internal credit rating	Trade and unbilled receivables As at 31 March					
	Average loss rate	2021	Average loss rate	2022	Average loss rate	2023
		RMB'000		*RMB'000*		*RMB'000*
Low risk	0.47%	28,482	3.05%	127,454	1.90%	36,792
Watch list	0.68%	88,452	10.13%	43,372	3.85%	81,454
		116,934		170,826		118,246

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information (for example, the macroeconomic conditions affecting the industry and the impact that may affect debtor ability to make payments) that is available without undue cost or effort. The Group rebutted the presumption of default under ECL model for trade receivables over 90 days past due based on good repayment records for those customers and long-term/continuous business with the Group. Large number of small customers are assessed collectively based on historical credit loss experience adjusted by forward looking estimates. Individual customers with significant balances are assessed individually for the credit risk based on their probability of default and exposure of default. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

During the year ended 31 March 2022, the Group recognised net impairment allowance of approximately RMB7,549,000 for trade and unbilled receivables, based on the collective assessment, respectively. During the year ended 31 March 2021 and 2023, the Group reversed net impairment allowance of approximately RMB2,037,000 and RMB3,958,000 for trade and unbilled receivables, based on the collective assessment.

During the year ended 31 March 2022, the Group recognised net impairment allowance of approximately RMB3,483,000 for debtors with significant balances and not credit-impaired. During the year ended 31 March 2021 and 2023, the Group reversed net impairment allowance of approximately RMB7,554,000 and RMB2,651,000 for debtors with significant balances and not credit-impaired.

During the years ended 31 March 2021, 2022 and 2023, the Group recognised net impairment allowance of approximately RMB6,637,000, RMB149,000 and RMB4,954,000 for debtors with significant balances and credit impaired debtors, respectively.

The following table shows the movement in lifetime ECL that has been recognised for trade and unbilled receivables under the simplified approach.

	Lifetime ECL (not credit-impaired)	**Lifetime ECL (credit-impaired)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 April 2020	10,831	–	10,831
Impairment loss recognised	536	6,637	7,173
Impairment loss reversed	(10,127)	–	(10,127)
As at 31 March 2021	1,240	6,637	7,877
Impairment loss recognised	11,381	149	11,530
Impairment loss reversed	(349)	–	(349)
As at 31 March 2022	12,272	6,786	19,058
Impairment loss recognised	4,255	4,954	9,209
Impairment loss reversed	(10,864)	–	(10,864)
As at 31 March 2023	5,663	11,740	17,403

None of the trade receivables that have been written off is subject to enforcement activities.

(iii) Liquidity risk

In managing the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on cash generated from/used in operations and banking facilities to finance its operation. As at 31 March 2021, 2022 and 2023, the Group had available unutilised aggregate banking facilities of approximately RMB425,341,000, RMB395,926,000 and RMB643,540,000, respectively.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

The Group

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 March 2021							
Financial liabilities							
Trade payables	–	126,086	232,347	–	–	358,433	358,433
Bills payables	–	2,727	25,015	311,059	–	338,801	338,801
Other payables	–	52,756	–	–	–	52,756	52,756
Bank borrowings	4.31	–	74,390	56,052	53,400	183,842	179,018
Amounts due to joint ventures	–	111,794	–	–	–	111,794	111,794
Amounts due to related companies	–	89,836	–	–	–	89,836	89,836
Amount due to a non-controlling interest	–	29,119	–	–	–	29,119	29,119
Lease liabilities	5.58	419	838	3,325	1,376	5,958	5,766
Financial guarantee contracts *(Note)*	–	–	–	–	191,000	191,000	–
Total		412,737	332,590	370,436	245,776	1,361,539	1,165,523
As at 31 March 2022							
Financial liabilities							
Trade payables	–	79,267	529,988	–	–	609,255	609,255
Bills payables	–	–	76,000	274,209	–	350,209	350,209
Other payables	–	100,587	–	–	–	100,587	100,587
Bank borrowings	4.16	–	35,200	259,616	42,669	337,485	332,427
Amount due to a joint venture	–	34,709	–	–	–	34,709	34,709
Amounts due to related companies	–	178,901	–	–	–	178,901	178,901
Amount due to a non-controlling interest	–	6,168	–	–	–	6,168	6,168
Loan from a related company	6.00	–	–	95,020	–	95,020	95,020
Lease liabilities	5.60	499	998	2,645	4,787	8,929	8,318
Total		400,131	642,186	631,490	47,456	1,721,263	1,715,594
As at 31 March 2023							
Financial liabilities							
Trade payables	–	148,931	66,222	–	–	215,153	215,153
Bills payables	–	25,085	63,629	193,008	–	281,722	281,722
Other payables	–	31,739	–	–	–	31,739	31,739
Bank borrowings	4.60	20,083	24,988	122,141	83,258	250,470	244,738
Amount due to a related company	–	175,716	–	–	–	175,716	175,716
Loan from a related company	5.00	–	–	109,755	–	109,755	105,817
Lease liabilities	5.92	513	1,025	4,613	5,513	11,664	11,057
Total		402,067	155,864	429,517	88,771	1,076,219	1,065,942

Note: The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of each reporting period, the management considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The Company

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 March 2021							
Financial liabilities							
Other payables	–	3,031	–	–	–	3,031	3,031
Amounts due to subsidiaries	–	14,507	–	–	–	14,507	14,507
Total		17,538	–	–	–	17,538	17,538
As at 31 March 2022							
Financial liabilities							
Other payables	–	21,875	–	–	–	21,875	21,875
Amounts due to subsidiaries	–	24,537	–	–	–	24,537	24,537
Total		46,412	–	–	–	46,412	46,412
As at 31 March 2023							
Financial liabilities							
Other payables	–	12,475	–	–	–	12,475	12,475
Amounts due to subsidiaries	–	63,415	–	–	–	63,415	63,415
Total		75,890	–	–	–	75,890	75,890

c. Fair value measurements of financial instruments

Fair value of the Group's and the Company's financial assets and financial liabilities that are not measured at fair value on recurring basis

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities of the Group and the Company recorded at amortised cost in the Historical Financial Information approximate to their fair value based on discounted cash flows analysis.

d. Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statements of financial position.

The amounts recognised for the restricted cash and bills payable do not meet the criteria for offsetting in the Group's consolidated statements of financial position since the offset of the recognised amounts will only occur upon default of payment by the Group.

As at 31 March 2021

	Gross amounts presented on consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	
		Financial instruments	Net amount
	RMB'000	*RMB'000*	*RMB'000*
Financial asset			
Restricted cash	245,570	(161,035)	84,535
Financial liability			
Bills payables	(338,801)	161,035	(177,766)

As at 31 March 2022

	Gross amounts presented on consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	
		Financial instruments	Net amount
	RMB'000	*RMB'000*	*RMB'000*
Financial asset			
Restricted cash	190,298	(185,226)	5,072
Financial liability			
Bills payables	(350,209)	185,226	(164,983)

As at 31 March 2023

	Gross amounts presented on consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	
		Financial instruments	Net amount
	RMB'000	*RMB'000*	*RMB'000*
Financial asset			
Restricted cash	170,484	(148,775)	21,709
Financial liability			
Bills payables	(281,722)	148,775	(132,947)

The gross amounts of the recognised financial asset and financial liability as presented in the Group's consolidated statements of financial position, both of which have been disclosed in the above tables, are measured at amortised cost.

36(i). RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Bank borrowings	Amounts due to related companies	Loans from related companies	Lease liabilities	Dividend payable	Accrued issue cost	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 April 2020	289,198	164,059	–	6,388	–	685	460,330
Finance costs	10,197	–	–	274	–	–	10,471
Financing cash flow	(43,377)	(80,814)	–	(5,219)	(1,960)	(748)	(132,118)
Dividend declared	–	–	–	–	1,960	–	1,960
Issue cost accruals	–	–	–	–	–	554	554
Exchange adjustments	–	(10,349)	–	–	–	–	(10,349)
New leases entered	–	–	–	4,323	–	–	4,323
Offset with bills receivables *(Note)*	(77,000)	–	–	–	–	–	(77,000)
At 31 March 2021	179,018	72,896	–	5,766	–	491	258,171
Finance costs	9,362	–	–	299	–	–	9,661
Financing cash flow	156,047	86,994	–	(5,328)	(2,205)	(3,115)	232,393
Dividend declared	–	–	–	–	2,205	–	2,205
Issue cost accruals	–	–	–	–	–	7,072	7,072
Exchange adjustments	–	(1,360)	–	–	–	–	(1,360)
New leases entered	–	–	–	7,581	–	–	7,581
Offset with bills receivables *(Note)*	(12,000)	–	–	–	–	–	(12,000)
Acquired on acquisition of subsidiaries *(note 37)*	–	–	95,020	–	–	–	95,020
At 31 March 2022	332,427	158,530	95,020	8,318	–	4,448	598,743
Finance costs	11,203	–	5,825	623	–	–	17,651
Financing cash flow	53,511	2,622	4,972	(6,391)	(8,977)	(8,189)	37,548
Dividend declared	–	–	–	–	8,977	–	8,977
Issue cost accruals	–	–	–	–	–	6,243	6,243
Exchange adjustments	759	11,340	–	–	–	–	12,099
New leases entered	–	–	–	8,507	–	–	8,507
Offset with bills receivables *(Note)*	(153,162)	–	–	–	–	–	(153,162)
Acquired on acquisition of a subsidiary *(note 37)*	–	3,224	–	–	–	–	3,224
At 31 March 2023	244,738	175,716	105,817	11,057	–	2,502	539,830

Note: Amounts represented bank borrowings derecognised when the related discounted bills receivables were matured.

36(ii) NON-CASH TRANSACTION

As at 31 March 2021, 2022 and 2023, the Group offset the amounts due to joint ventures with loans to joint ventures amounted to approximately RMB72,301,000, RMB189,986,000 and nil, respectively.

As at 31 March 2021, 2022 and 2023, the Group made prepayments for purchase of equipment to Chengdu Migao of nil, RMB13,206,000 and nil, respectively, by endorsed bills.

During the year ended 31 March 2022, the Group received dividends of approximately RMB4,258,000 from a joint venture, in which RMB3,257,000 was settled through current account.

37. ACQUISITION OF SUBSIDIARIES

On 31 March 2022, the Group entered into supplementary agreements with Heilongjiang Beidahuang Seed Industry Group Agricultural Production Materials Co., Ltd., an independent investor of Baoqing Migao and Anda Migao, to amend certain shareholders and directors' rights in Baoqing Migao and Anda Migao by removing the specific terms which would require consent of all shareholders of Baoqing Migao and Anda Migao in directing certain relevant activities. Thereafter, the decision making on relevant activities of Baoqing Migao and Anda Migao will be passed by simple majority. The Group has 77% and 65% of voting power in Baoqing Migao and Anda Migao and has obtained control over them since 31 March 2022. The acquisitions have been accounted for as acquisition of business using the acquisition method.

Acquisition of Baoqing Migao

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
Plant and equipment	131,760
Right-of-use assets	8,560
Inventories	17,419
Trade and other receivables and prepayments	22,387
Amounts due from the Group	25,603
Bank balances and cash	24,600
Trade and other payables	(65,223)
Contract liabilities	(10,244)
Loans from the Group	(10,858)
Amount due to a related company	(21,213)
Amounts due to the Group	(3,257)
Tax liabilities	(1,167)
Deferred tax liabilities	(645)
Total	117,722

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB1,819,000 at the date of acquisition had gross contractual amounts of RMB1,819,000. The fair value of receivables acquired at the date of acquisition approximated to their gross contractual amounts.

Non-controlling interests:

The non-controlling interests (23%) in Baoqing Migao recognised at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to approximately RMB29,253,000.

Goodwill arising on acquisition:

	RMB'000
Interest in Baoqing Migao as joint venture remeasured at fair value immediately before obtaining control *(Note)*	97,932
Plus: non-controlling interests (23% in Baoqing Migao)	29,253
Less: recognised amounts of net assets acquired	(117,722)
Goodwill arising on acquisition	9,463

Note: A gain on deemed disposal of interest in Baoqing Migao as joint venture amounted to approximately RMB10,103,000, being the difference of fair value of interest in Baoqing Migao of approximately RMB97,932,000 and carrying amount of interest in Baoqing Migao of approximately RMB87,829,000 as at 31 March 2022, was recognised in profit or loss in the year ended 31 March 2022.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash inflow on acquisition of Baoqing Migao:

	RMB'000
Cash consideration paid	–
Less: cash and cash equivalents balances acquired	24,600
	24,600

Impact of acquisition on the results of the Group:

Included in the profit for the year ended 31 March 2022 is nil attributable to the additional business generated by Baoqing Migao. Revenue for the year ended 31 March 2022 includes nil generated from Baoqing Migao.

Had the acquisition of Baoqing Migao been completed on 1 April 2021, revenue for the year ended 31 March 2022 of the Group would have been RMB3,952,494,000, and profit for the year would have been RMB399,724,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2021, nor is it intended to be a projection of future results. In determining the 'pro-forma' revenue and profit of the Group had Baoqing Migao been acquired on 1 April 2021, the directors of the Company calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

Acquisition of Anda Migao

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
Plant and equipment	172,492
Right-of-use assets	10,480
Prepayment for plant and equipment	35,412
Inventories	21,789
Trade and other receivables and prepayments	155,095
Amounts due from the Group	55,530
Amount due from a related company	21,213
Bank balances and cash	3,781
Trade and other payables	(5,619)

	RMB'000
Contract liabilities	(3,296)
Loan from a related company	(95,020)
Loan from the Group	(106,041)
Tax liabilities	(5,032)
Total	260,784

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB143,209,000 at the date of acquisition had gross contractual amounts of RMB143,209,000. The fair value of receivables acquired at the date of acquisition approximated to their gross contractual amounts.

Non-controlling interests:

The non-controlling interests (35%) in Anda Migao recognised at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to RMB91,275,000.

Goodwill arising on acquisition:

	RMB'000
Interest in Anda Migao as joint venture remeasured at fair value immediately before obtaining control *(Note)*	169,509
Plus: non-controlling interests (35% in Anda Migao)	91,275
Less: recognised amounts of net assets acquired	(260,784)
Goodwill arising on acquisition	–

Note: A gain on deemed disposal of interest in Anda Migao as joint venture amounted to approximately RMB2,859,000, being the difference of fair value of interest in Anda Migao of approximately RMB169,509,000 and carrying amount of interest in Anda Migao of approximately RMB166,650,000 as at 31 March 2022, was recognised in profit or loss in the year ended 31 March 2022.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash inflow on acquisition of Anda Migao:

	RMB'000
Cash consideration paid	–
Less: cash and cash equivalents balances acquired	3,781
	3,781

Impact of acquisition on the results of the Group:

Included in the profit for the year ended 31 March 2022 is nil attributable to the additional business generated by Anda Migao. Revenue for the year ended 31 March 2022 includes nil generated from Anda Migao.

Had the acquisition of Anda Migao been completed on 1 April 2021, revenue for the year ended 31 March 2022 of the Group would have been RMB4,299,679,000, and profit for the year would have been RMB404,494,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2021, nor is it intended to be a projection of future results. In determining the 'pro-forma' revenue and profit of the Group had Anda Migao been acquired on 1 April 2021, the directors of the Company calculated depreciation and amortisation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

Acquisition of Tongjiang Migao

On 26 April 2022, the Group acquired 100% equity interest in Tongjiang Migao to support its development plan to build a logistics and warehousing centre in Tongjiang City, Heilongjiang Province to enhance the product supply efficiency and capability at a cash consideration of RMB1 from Liaoning Migao. The acquisition is accounted for as asset acquisition.

At the date of acquisition, Tongjiang Migao has net liabilities of approximately RMB1,465,000, the difference between the consideration and the net liabilities of Tongjiang Migao at the date of acquisition was accounted for as deemed distribution to Mr. Liu.

Assets acquired and liabilities recognised at the date of acquisition.

	RMB'000
Other receivables	79
Bank balances	1,702
Other payables	(22)
Amount due to a related company	(3,224)
Total	(1,465)

Net cash inflow on acquisition of Tongjiang Migao:

	RMB'000
Cash consideration paid	–
Less: cash and cash equivalents balances acquired	1,702
	1,702

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company during the Track Record Period and at the date of this report are set out below:

Name of subsidiaries	Place and date of incorporation/ establishment/ operation	Registered capital	Issued and fully paid ordinary share	Proportion of equity interest attributable to the Group As at 31 March 2021 %	2022 %	2023 %	Date of the report %	Principal activities
H.K. Migao Industry Limited *(note i)**	Hong Kong 24 August 2005	N/A	HK$60,878,463	100	100	100	100	Investment holding
Migao International* (Singapore) Pte Ltd. *(note ii)*	Singapore 31 March 2010	SGD2,800,000	SGD2,800,000	100	100	100	100	Trading of specialty potash-based fertilizers
Guangdong Migao Chemical Co., Ltd. *(notes iii & x)*	The PRC 30 April 2004	CAD17,000,000	N/A	100	100	100	100	Manufacturing and trading of specialty potash-based fertilizers
Sichuan Migao Chemical Fertiliser Co., Ltd. *(notes iv & x)*	The PRC 6 June 2003	RMB116,480,000	N/A	100	100	100	100	Manufacturing and trading of specialty potash-based fertilizers
Migao Chemical (Changchun) Co., Ltd. *(notes v & x)*	The PRC 5 December 2006	CAD13,160,000	N/A	100	100	100	100	Manufacturing and trading of specialty potash-based fertilizers

Name of subsidiaries	Place and date of incorporation/ establishment/ operation	Registered capital	Issued and fully paid ordinary share	Proportion of equity interest attributable to the Group As at 31 March 2021 %	2022 %	2023 %	Date of the report %	Principal activities
Daxing Migao *(notes vi & xi)*	The PRC 5 November 1996	RMB50,000,000	N/A	51	51	51	51	Manufacturing and trading of specialty potash-based fertilizers
Baoqing Migao *(notes vii & xi & xii)*	The PRC 14 May 2018	RMB100,000,000	N/A	N/A	77	77	77	Manufacturing and trading of specialty potash-based fertilizers
Anda Migao *(notes viii & xi & xii)*	The PRC 19 June 2018	RMB240,000,000	N/A	N/A	65	65	65	Manufacturing and trading of specialty potash-based fertilizers
Malaysia Holding (Malaysia) Sdn. Bhd. *(note ix)*	Malaysia 24 November 2017	RM2	RM2	100	100	100	100	Investment holding
Migao International (Malaysia) Sdn. Bhd. *(note ix)*	Malaysia 10 July 2017	RM2	RM2	100	100	100	100	Investment holding
Tongjiang Migao *(notes xiii and xv)*	The PRC 27 May 2021	RMB200,000,000	N/A	N/A	N/A	100	100	Logistics and warehousing centre; production and sales of fertilizers
Migao Century Engineering Technology (Chengdu) Co., Ltd *(notes x, xiv & xv)*	The PRC 11 August 2022	USD20,000,000	N/A	N/A	N/A	100	100	Research and development related activities; provision of technical and project management services; sales of fertilizers

* Directly held by the Company.

Notes:

(i) The statutory financial statements of this subsidiary were prepared in accordance with HKFRSs and were audited by us for the years ended 31 March 2021, 2022 and [2023].

(ii) The statutory financial statements of this subsidiary were prepared in accordance with Financial Reporting Standards in Singapore and were audited by Lee & Hew Public Accounting Corporation for the years ended 31 March 2021, 2022 and [2023].

(iii) The statutory financial statements of this subsidiary established in the PRC were prepared in accordance with the relevant accounting principles and regulation in the PRC and were audited by 佛山市順鑫會計師事務所 for the years ended 31 December 2020, 2021 and 2022.

(iv) The statutory financial statements of this subsidiary established in the PRC were prepared in accordance with the relevant accounting principles and regulation in the PRC and were audited by 四川蜀華會計師事務所 for the years ended 31 December 2020, 2021 and 2022.

(v) The statutory financial statements of this subsidiary established in the PRC were prepared in accordance with the relevant accounting principles and regulation in the PRC and were audited by 長春中凡會計師事務所有限公司 for the years ended 31 December 2020 and 2021 and was audited by 吉林光大會計師事務所有限公司 for the year ended 31 December 2022.

(vi) The statutory financial statements of this subsidiary established in the PRC were prepared in accordance with the relevant accounting principles and regulation in the PRC and were audited by 遼寧奉達會計師事務所有限責任公司 for the years ended 31 December 2020, 2021 and 2022.

(vii) The statutory financial statements of this subsidiary established in the PRC were prepared in accordance with the relevant accounting principles and regulation in the PRC and were audited by 寶清誠信會計師事務所 for the year ended 31 December 2021 and 2022.

(viii) The statutory financial statements of this subsidiary established in the PRC were prepared in accordance with the relevant accounting principles and regulation in the PRC and was audited by 大慶鑫百湖會計師事務所 for the year ended 31 December 2021 and was audited by 黑龍江恒天會計師事務所(普通合夥) for the year ended 31 December 2022.

(ix) The statutory financial statements of these subsidiaries established in the Malaysia were prepared in accordance with Malaysian Financial Reporting Standards and were audited by KL Associates for the years ended 31 March 2021, 2022 and [2023].

(x) These entities are wholly-owned foreign subsidiaries.

(xi) These entities are non-wholly owned domestic subsidiaries.

(xii) These entities were acquired by the Group on 31 March 2022.

(xiii) This subsidiary was acquired by the Group on 26 April 2022.

(xiv) This subsidiary was established on 11 August 2022.

(xv) No statutory financial statements have been prepared for these subsidiaries since their respective dates of incorporation as they were incorporated in jurisdictions where there is no statutory audit requirement.

None of the subsidiaries had issued any debt securities at the end of each reporting period.

39. EVENTS AFTER THE REPORTING PERIOD

On [●], the authorised share capital of the Company of US$50,000 was subdivided from 50,000 shares of US$1 each to [5,000,000] shares of US$[0.01] each. As a result, the number of issued and fully paid share capital of the Company was increased from 10,000 shares of US$1 each to [1,000,000] shares of US$[0.01] each. On [●], the authorised share capital was increased from US$50,000 divided into [5,000,000] shares of US$[0.01] each to US$100,000,000 divided into [10,000,000,000] shares of US$[0.01] each.

Pursuant to the written resolutions of the shareholder passed on [●], conditional on the share premium account of the Company being credited as a result of the initial [**REDACTED**] of shares of the Company, the directors are authorised to capitalise an amount of USD[**REDACTED**] standing to the credit of the share premium account of the Company by applying such sum towards the paying up in full at par a total of [**REDACTED**] Shares for allotment and issue to the person(s) of Shares whose name(s) appear on the register of members of the Company, on a pro rate basis at the close of business on the date preceeding the date the shares of the Company that are [**REDACTED**] on the Hong Kong Stock Exchange (or as they may direct).

[●]

40. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to the end of the Track Record Period.

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the company laws of the Cayman Islands.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 November 2017 under the Cayman Companies Act. The Company's constitutional documents consist of its Memorandum and Articles of Association.

1. MEMORANDUM OF ASSOCIATION

1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on [●] and will become effective on the [**REDACTED**] Date. A summary of certain provisions of the Articles is set out below.

2.1 Shares

(a) Classes of shares

The share capital of the Company consists of ordinary shares.

(b) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated with the consent in writing of the holders of at least three-fourths of the issued Shares of that class, or with the approval of a resolution passed by at least three-fourths of the votes cast by the holders of the shares of that class present and voting in person or by proxy at a separate meeting of such holders. The provisions of the Articles relating to general meetings shall apply *mutatis mutandis* to every such separate general meeting, provided that the necessary quorum shall be two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy at least one-third of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(c) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of a larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

(d) Transfer of shares

Subject to the Cayman Companies Act and the requirements of the Hong Kong Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien, or a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders. It may also decline to recognise any instrument of transfer if the proposed transfer does not comply with the Articles or any requirements of the Listing Rules.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Hong Kong Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules and the relevant section of the Companies Ordinance, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Hong Kong Stock Exchange) and shall also be free from all liens.

(e) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Hong Kong Stock Exchange and/or the SFC.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(f) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(g) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

2.2 Directors

(a) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting or the Articles. Any Director so appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. Every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The Company shall include the particulars of such proposed person for election as a Director in its announcement or supplementary circular, and shall give the shareholders at least seven days to consider the relevant information disclosed in such announcement or supplementary circular prior to the date of the meeting of the election.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the members of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(i) resigns;

(ii) dies;

(iii) is declared to be of unsound mind and the Board resolves that his office be vacated;

(iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) he is prohibited from being or ceases to be a director by operation of law;

(vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(viii) is removed from office by no less than three-fourths in number of the Directors pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(b) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Act, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Act, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, doing so is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Act to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(d) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Act, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(e) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(f) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(g) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(h) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

2.3 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.4 Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under the Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

2.5 Meetings of members

(a) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the voting rights held by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(b) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the

Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

(i) at least two members;

(ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, it may appoint proxies or authorise such person or persons as it thinks fit to act as its representative(s), who enjoy rights equivalent to the rights of other members, at any meeting of the Company (including but not limited to general meetings and creditors meetings) or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member, including the right to speak and vote individually on a show of hands or on a poll.

All Shareholders of the Company (including a Shareholder which is a Clearing House (or its nominee(s))) shall have the right to (a) speak at a general meeting and (b) vote at a general meeting except where a Shareholder is required by the Listing Rules to abstain from voting to approve the matter under consideration. Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, in which case any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(c) Annual general meetings

The Company must hold an annual general meeting in each financial year. Such meeting must be held within six months after the end of the Company's financial year.

(d) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Act and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, if permitted by the Listing Rules, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(e) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(f) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A corporation which is a member may execute a form of proxy under the hand of a duly authorised officer. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member present in person at any general meeting. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(g) Members' requisition for meetings

One or more members holding, as at the date of deposit of the requisition, in aggregate not less than one-tenth of the voting rights (on a one vote per share basis) in the share capital of the Company may also make a requisition to convene an extraordinary general meeting and/or add resolutions to the agenda of a meeting. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

2.6 Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Act (which include all sales and purchases of goods by the Company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Act or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The members shall appoint auditor(s) to hold office by an ordinary resolution of the members until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the members in general meeting by an ordinary resolution of the members or by the Board if authority is so delegated by the members. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by ordinary resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Hong Kong Stock Exchange.

2.7 Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(b) all dividends shall be apportioned and paid *pro rata* in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.8 Inspection of corporate records

For so long as any part of the share capital of the Company is [**REDACTED**] on the Hong Kong Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed in accordance with the terms equivalent to the relevant section of the Companies Ordinance) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Companies Ordinance.

2.9 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarised in paragraph 3.6 of this Appendix.

2.10 Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and

(b) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.11 Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. COMPANY LAWS OF THE CAYMAN ISLANDS

The Company was incorporated in the Cayman Islands as an exempted company on 21 November 2017 subject to the Cayman Companies Act. Certain provisions of the company laws of the Cayman Islands are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the company laws of the Cayman Islands, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

3.2 Share capital

Under the Cayman Companies Act, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) any manner provided in section 37 of the Cayman Companies Act;

(d) writing-off the preliminary expenses of the company; and

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Act. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Act.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Act, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

3.8 Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it; and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

Pursuant to section 6 of the Tax Concessions Act (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

(a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and

(b) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (2018 Revision).

The undertaking for the Company is for a period of 20 years from 25 February 2022.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

3.11 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

3.14 Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands.

3.15 Register of directors and officers

Pursuant to the Cayman Companies Act, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and, where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands, and any change must be notified to the Registrar of Companies within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.17 Reconstructions

Reconstructions and amalgamations may be approved by (i) 75% in value of the members or class of members or (ii) a majority in number representing 75% in value of the creditors or class of creditors, in each case, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.18 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

3.19 Indemnification

The Cayman Islands laws do not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

3.20 Economic Substance

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Act (2021 Revision) together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from 1 July 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

4. GENERAL

Harney Westwood & Riegels, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Cayman Companies Act. This letter, together with a copy of the Cayman Companies Act, is on display on the websites of the Hong Kong Stock Exchange and the Company as referred to in the paragraph headed "Appendix V – Documents Delivered to the Registrar of Companies and Documents on Display" to this document. Any person wishing to have a detailed summary of the Cayman Companies Act or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Act as an exempted company with limited liability on 21 November 2017 and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 15 November 2019. We have established a principal place of business in Hong Kong at Room 801, 8/F, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong. We have appointed Ms. Wong Wai Yee, Ella (黃慧兒) and Ms. Fung Wai Sum (馮慧森) as the authorised representatives of our Company for the acceptance of service of process and notices on our behalf in Hong Kong. The address for service of process and notices on our Company in Hong Kong is 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

As we were incorporated in the Cayman Islands, our operations are subject to the Cayman Companies Act and the Memorandum and the Articles. A summary of certain provisions of the Memorandum and the Articles and relevant aspects of the Cayman Companies Act is set out in Appendix III to this document.

2. Changes in Our Share Capital

As at the date of our incorporation, our authorised share capital was US$50,000, consisting of 50,000 shares of US$1.00 each. On 21 November 2017, one Share was allotted and issued to Harneys Fiduciary (Cayman) Limited and such share was subsequently transferred to Migao BVI on 21 November 2017. On 21 November 2017, 9,999 shares of US$1.00 each were allotted and issued to Migao BVI, which was credited as fully paid. On [●] 2023, the authorised share capital of our Company was subdivided from US$50,000 divided into 50,000 Shares of US$1 each to [5,000,000] Shares of US$[0.01] each. On [●], our authorised share capital was increased from [5,000,000] Share of US$[0.01] each to [10,000,000,000] Share of US$[0.01] each. Our Company remained wholly-owned by Migao BVI after the above changes in our authorised share capital. Pursuant to the resolutions of our Shareholder passed on [●], [**REDACTED**] Shares will be allotted and issued to Migao BVI, credited as fully paid at par by [**REDACTED**] and applying a sum of US$[**REDACTED**] standing to the credit of the share premium account of our Company on or about the [**REDACTED**].

Immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (but without taking into account any Shares which may be issued upon the exercise of the [**REDACTED**]), the issued share capital of our Company will be US$[**REDACTED**], divided into [**REDACTED**] Shares, all fully paid or credited as fully paid.

Save for the aforesaid and as mentioned in the section headed "Appendix IV – Statutory and General Information – A. Further Information about Our Group – 3. Resolutions in Writing of Our Shareholders" below in this document, there has been no alteration in the share capital of our Company since our incorporation.

3. Resolutions in Writing of Our Shareholder

On [●], written resolutions of our Shareholder were passed pursuant to which, among others:

(a) our Company approved and adopted the Memorandum and Articles of Association which will become effective upon [**REDACTED**];

(b) conditional on (a) the Hong Kong Stock Exchange granting the [**REDACTED**] of, and permission to [**REDACTED**], the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the [**REDACTED**], the [**REDACTED**] and the [**REDACTED**]; (b) the [**REDACTED**] having been determined; (c) the obligations of the [**REDACTED**] under the [**REDACTED**] becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the [**REDACTED**], for themselves and on behalf of the [**REDACTED**]) and not being terminated in accordance with the terms of such agreement or otherwise, in each case on or before the date specified in the [**REDACTED**]:

(i) the [**REDACTED**] was approved and our Directors were authorised to effect the same and to allot and issue the [**REDACTED**] pursuant to the [**REDACTED**];

(ii) the grant of the [**REDACTED**] was approved and our Directors were authorised to allot and issue any Shares which may be required to be issued if the [**REDACTED**] is exercised; and

(iii) conditional upon the share premium account of our Company being credited as a result of the [**REDACTED**], our Directors were authorised to [**REDACTED**] the amount of US$[**REDACTED**] from the amount standing to the credit of the share premium account of our Company to pay up in full at par [**REDACTED**] Shares for allotment and issue to the person(s) whose name(s) appears on the register of members of our Company, on a pro rata basis at the close of business on the date preceding the [**REDACTED**] Date (or as they may direct) and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;

(c) a general unconditional mandate was given to our Directors to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which would or might require Shares to be allotted, issued or dealt with, with an aggregate nominal amount (otherwise than pursuant to, or in consequence of, the [**REDACTED**] or the [**REDACTED**], a rights issue or pursuant to the exercise of any subscription rights which may be granted under any share incentive scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our Shareholders or an issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association), not exceeding the sum of 20% of the aggregate nominal amount of our share capital in issue immediately following completion of the [**REDACTED**] and the [**REDACTED**] but excluding any Shares which may be issued pursuant to the exercise of the [**REDACTED**], until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;

(d) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of our share capital in issue immediately following the completion of the [**REDACTED**] and the [**REDACTED**], but excluding any Shares which may be issued pursuant to the exercise of the [**REDACTED**] until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or applicable laws of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate;

(e) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares, which may be purchased or repurchased pursuant to paragraph (d) above.

4. Corporate Reorganisation

In preparation for the [**REDACTED**], the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group. For further details, please refer to the section headed "History, Reorganisation and Corporate Structure – The Reorganisation" in this document.

5. Changes in the Share Capital of Our Subsidiaries

The following set forth the changes to the share capital or registered capital (as the case may be) of our subsidiaries during the two years immediately preceding the date of this document:

Anda Migao

On 16 February 2022, the registered capital of Anda Migao increased from RMB180 million to RMB240 million.

Save as disclosed in this document, there has been no alteration in the share capital or the registered capital (as the case may be) of any of our subsidiaries within the two years preceding the date of this document.

6. Particulars of Our Subsidiaries

Our subsidiaries are set forth in the Accountants' Report, the text of which is set forth in Appendix I to this document.

7. Repurchase of Our Own Securities

This section includes the information required by the Hong Kong Stock Exchange to be included in this document concerning the repurchase by our Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their own securities on the Hong Kong Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the Repurchase Mandate, authority was given to our Directors to repurchase our Shares on the Hong Kong Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognised by the SFC and the Hong Kong Stock Exchange for this purpose. Details of the Repurchase Mandate is set out above in the section headed "Appendix IV – Statutory and General Information – A. Further Information about Our Group – 3. Resolutions in Writing of Our Shareholder" to this document.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Memorandum and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange as amended from time to time. Subject to the foregoing, any repurchases by our Company may be made out of the profits of our Company, out of the share premium account of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Act, if so authorised by the Articles, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Act, if so authorised by the Articles, out of capital.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Hong Kong Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Hong Kong Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Hong Kong Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Hong Kong Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Hong Kong Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Hong Kong Stock Exchange such information with respect to the repurchase as the Hong Kong Stock Exchange may require.

(iv) Status of Repurchased Shares

All repurchased securities (whether effected on the Hong Kong Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Hong Kong Stock Exchange other than in exceptional circumstances. In addition, the Hong Kong Stock Exchange may prohibit a repurchase of securities on the Hong Kong Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Hong Kong Stock Exchange from a core connected person and a core connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for Repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and our Shareholders. Repurchases may, depending on market conditions, funding arrangements and other circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of Repurchases

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with the Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material and adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this document) in the event that the Repurchase Mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material and adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of [**REDACTED**] Shares in issue immediately following the completion of the [**REDACTED**] and the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), could accordingly result in up to [**REDACTED**] Shares being repurchased by our Company during the period prior to:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association and the applicable laws and regulations of the Cayman Islands to be held; or

(iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares that results in the number of Shares held by the public falling below 25% of the total number of Shares in issue, being the relevant minimum prescribed percentage as required by the Hong Kong Stock Exchange, could only be implemented if the Hong Kong Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Repurchase Mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following material contracts (not being contracts in the ordinary course of business of our Group) have been entered into by members of our Group within the two years preceding the date of this document:

(a) the [**REDACTED**].

2. Intellectual Property Rights of Our Group

As at the Latest Practicable Date, we have registered the following intellectual property rights which are material in relation to our business:

(a) Trademarks

As at the Latest Practicable Date, our Group has registered the following trademarks in the PRC, which we consider to be material to our business:

No.	Trademark	Registered owner	Class	Registered Number	Expiry Date
1.	米 高	Guangdong Migao	4	7923082	27 January 2031
2.	米 高	Guangdong Migao	7	7923133	13 February 2031
3.		Guangdong Migao	1	9152257	6 March 2032
4.		Guangdong Migao	1	9152269	6 March 2032

No.	Trademark	Registered owner	Class	Registered Number	Expiry Date
5.		Guangdong Migao	1	9152264	6 March 2032
6.		Guangdong Migao	7	14237234	6 May 2025
7.		Guangdong Migao	4	14237085	6 May 2025
8.	米高	Guangdong Migao	1	14278801	13 May 2025
9.	米高	Guangdong Migao	1	3709380	6 July 2025
10.		Guangdong Migao	1	14236959	6 August 2025
11.		Guangdong Migao	7	14234959	13 August 2025
12.		Guangdong Migao	4	14234689	13 August 2025
13.		Guangdong Migao	1	14234602	13 August 2025
14.	米高	Guangdong Migao	7	14234925	6 September 2025
15.		Guangdong Migao	1	22826869	13 October 2028
16.	布兰德化肥	Changchun Migao	1	14903309	6 October 2025
17.		Sichuan Migao	45	14247153	6 September 2025
18.		Sichuan Migao	43	14247087	6 September 2025
19.		Sichuan Migao	42	14247049	6 September 2025
20.		Sichuan Migao	41	14247022	6 September 2025
21.		Sichuan Migao	40	14246998	6 June 2025
22.		Sichuan Migao	39	14246946	13 August 2025

No.	Trademark	Registered owner	Class	Registered Number	Expiry Date
23.		Sichuan Migao	37	14246918	6 June 2025
24.		Sichuan Migao	36	14238175	6 May 2025
25.		Sichuan Migao	35	14238141	13 August 2025
26.		Sichuan Migao	34	14238112	6 May 2025
27.		Sichuan Migao	32	14238091	6 May 2025
28.		Sichuan Migao	31	14238064	6 May 2025
29.		Sichuan Migao	30	14238031	6 May 2025
30.		Sichuan Migao	29	14237997	6 May 2025
31.		Sichuan Migao	28	14237955	6 May 2025
32.		Sichuan Migao	27	14237934	6 May 2025
33.		Sichuan Migao	26	14237898	6 May 2025
34.		Sichuan Migao	24	14237865	6 May 2025
35.		Sichuan Migao	23	14237817	6 May 2025
36.		Sichuan Migao	22	14237783	6 May 2025
37.		Sichuan Migao	21	14237723	6 May 2025
38.		Sichuan Migao	20	14237678	6 July 2025
39.		Sichuan Migao	19	14237667	6 May 2025
40.		Sichuan Migao	18	14237626	6 May 2025
41.		Sichuan Migao	17	14237574	6 May 2025

No.	Trademark	Registered owner	Class	Registered Number	Expiry Date
42.		Sichuan Migao	16	14237540	6 May 2025
43.		Sichuan Migao	15	14237513	6 May 2025
44.		Sichuan Migao	13	14237487	6 May 2025
45.		Sichuan Migao	11	14237455	13 June 2025
46.		Sichuan Migao	10	14237408	13 June 2025
47.		Sichuan Migao	9	14237372	6 May 2025
48.		Sichuan Migao	8	14237280	6 May 2025
49.		Sichuan Migao	6	14237182	6 July 2025
50.		Sichuan Migao	5	14237126	6 May 2025
51.		Sichuan Migao	3	14237034	6 May 2025
52.		Sichuan Migao	2	14237012	6 August 2025
53.	米高	Sichuan Migao	45	14236618	6 May 2025
54.	米高	Sichuan Migao	44	14236596	6 May 2025
55.	米高	Sichuan Migao	42	14236526	6 September 2025
56.	米高	Sichuan Migao	41	14236487	6 September 2025
57.	米高	Sichuan Migao	40	14236457	6 May 2025
58.	米高	Sichuan Migao	39	14236427	6 May 2025
59.	米高	Sichuan Migao	38	14236366	6 May 2025
60.	米高	Sichuan Migao	37	14236339	6 May 2025

No.	Trademark	Registered owner	Class	Registered Number	Expiry Date
61.	米高	Sichuan Migao	36	14236310	6 May 2025
62.	米高	Sichuan Migao	35	14236296	6 May 2025
63.	米高	Sichuan Migao	34	14236253	6 May 2025
64.	米高	Sichuan Migao	32	14236206	6 August 2025
65.	米高	Sichuan Migao	31	14236189	6 May 2025
66.	米高	Sichuan Migao	30	14236169	6 September 2025
67.	米高	Sichuan Migao	29	14236102	27 July 2025
68.	米高	Sichuan Migao	28	14236092	6 May 2025
69.	米高	Sichuan Migao	27	14235821	27 July 2025
70.	米高	Sichuan Migao	26	14235792	6 May 2025
71.	米高	Sichuan Migao	24	14235771	27 July 2025
72.	米高	Sichuan Migao	23	14235747	6 May 2025
73.	米高	Sichuan Migao	22	14235696	6 May 2025
74.	米高	Sichuan Migao	21	14235636	6 May 2025
75.	米高	Sichuan Migao	19	14235319	6 May 2025
76.	米高	Sichuan Migao	17	14235279	6 May 2025
77.	米高	Sichuan Migao	16	14235259	6 May 2025
78.	米高	Sichuan Migao	15	14235215	6 May 2025
79.	米高	Sichuan Migao	14	14235177	6 May 2025
80.	米高	Sichuan Migao	13	14235147	6 September 2025
81.	米高	Sichuan Migao	11	14235074	6 September 2025

No.	Trademark	Registered owner	Class	Registered Number	Expiry Date
82.	米高	Sichuan Migao	10	14235033	20 May 2025
83.	米高	Sichuan Migao	9	14235000	6 September 2025
84.	米高	Sichuan Migao	8	14234958	6 September 2025
85.	米高	Sichuan Migao	6	14234800	13 June 2025
86.	米高	Sichuan Migao	2	14234673	6 May 2025
87.		Sichuan Migao	45	14236231	6 August 2025
88.		Sichuan Migao	43	14236203	6 August 2025
89.		Sichuan Migao	42	14236187	6 August 2025
90.		Sichuan Migao	41	14236174	20 July 2025
91.		Sichuan Migao	40	14236447	6 May 2025
92.		Sichuan Migao	39	14236128	6 September 2025
93.		Sichuan Migao	37	14236104	6 May 2025
94.		Sichuan Migao	35	14236069	13 August 2025
95.		Sichuan Migao	34	14236050	6 May 2025
96.		Sichuan Migao	32	14235829	6 May 2025
97.		Sichuan Migao	31	14235819	6 May 2025
98.		Sichuan Migao	30	14235782	6 May 2025
99.		Sichuan Migao	29	14235738	6 May 2025
100.		Sichuan Migao	28	14235712	6 May 2025
101.		Sichuan Migao	24	14235614	6 May 2025

No.	Trademark	Registered owner	Class	Registered Number	Expiry Date
102.		Sichuan Migao	22	14235552	20 May 2025
103.		Sichuan Migao	21	14235495	6 May 2025
104.		Sichuan Migao	20	14235464	6 May 2025
105.		Sichuan Migao	19	14235449	6 September 2025
106.		Sichuan Migao	18	14235422	6 May 2025
107.		Sichuan Migao	16	14235403	6 May 2025
108.		Sichuan Migao	15	14235371	6 May 2025
109.		Sichuan Migao	14	14235345	6 May 2025
110.		Sichuan Migao	13	14235301	6 May 2025
111.		Sichuan Migao	12	14235269	6 May 2025
112.		Sichuan Migao	11	14235241	6 May 2025
113.		Sichuan Migao	10	14235197	6 May 2025
114.		Sichuan Migao	9	14235137	13 August 2025
115.		Sichuan Migao	8	14235057	6 May 2025
116.		Sichuan Migao	6	14234833	13 August 2025
117.		Sichuan Migao	5	14234784	13 August 2025
118.		Sichuan Migao	3	14234663	13 June 2025
119.		Sichuan Migao	2	14234640	13 August 2025
120.	DX	Daxing Migao	1	1302525	13 August 2029

No.	Trademark	Registered owner	Class	Registered Number	Expiry Date
121.		Daxing Migao	1	25438117	20 July 2028
122.		Daxing Migao	44	25426155	20 July 2028

As at the Latest Practicable Date, our Group has registered the following trademarks in Hong Kong:

No.	Trademark	Registered owner	Class	Registration date	Expiry date	Registration number
1.		Company	1, 9, 16, 31, 42, 44	27 June 2019	26 June 2029	304974526
2.	MIGAO GROUP	Company	1, 9, 16, 31, 42, 44	2 July 2019	1 July 2029	304978261
3.	米高集團 米高集团	Company	1, 31, 44	2 July 2019	1 July 2029	304978252

(b) Patents

As at the Latest Practicable Date, our Group was the registered owner of the following patents which are material to our business:

No.	Patent title	Place of registration	Registrant	Patent type	Registration number	Expiry date
1.	A kind of method for potash granulation and its granules (一種鉀肥造粒方法及其顆粒)	PRC	Guangdong Migao	Invention	201410501283.8	25 September 2034
2.	A kind of polymer potash and the method for preparation and production (一種高分子鉀肥及製備方法)	PRC	Guangdong Migao	Invention	201410564318.2	21 October 2034

No.	Patent title	Place of registration	Registrant	Patent type	Registration number	Expiry date
3.	Metathesis for preparation and production of potassium nitrate and ammonium chloride (複分解法製備硝酸鉀和氯化銨)	PRC	Sichuan Migao	Invention	200510021224.1	6 July 2025
4.	Metathesis for preparation and production of potassium nitrate (複分解法製備硝酸鉀的方法)	PRC	Sichuan Migao	Invention	201210394332.3	16 October 2032
5.	Recrystallization for preparation and production of industrial potassium nitrate (重結晶法製備工業硝酸鉀的方法)	PRC	Sichuan Migao	Invention	201510173413.4	13 April 2035
6.	A preparation method of compound fertiliser (一種複合肥的製備方法)	PRC	Daxing Migao	Invention	201810910679.6	9 August 2038
7.	A type of hydrogen chloride tail gas treatment device (一種氯化氫尾氣處理裝置)	PRC	Guangdong Migao	Utility model	202220499677.4	8 March 2032

No.	Patent title	Place of registration	Registrant	Patent type	Registration number	Expiry date
8.	A type of floating production mould for tabaco (一種煙苗漂盤生產模具)	PRC	Daxing Migao	Invention	202222311803.1	30 August 2032
9.	A flue-cured tobacco compound fertiliser cooling drum (一種烤煙復混肥冷卻滾筒)	PRC	Daxing Migao	Utility model	202222746448.0	18 October 2032
10.	A water-soluble fertiliser crushing and screening machine (一種水溶肥粉碎篩分機)	PRC	Daxing Migao	Utility model	202222176441.X	17 August 2032

As at the Latest Practicable Date, our Group has applied to register the following patents:

No.	Patent title	Place of application	Applicant	Patent type	Application number	Date of application
1.	Fertiliser production device (肥料生產裝置)	PRC	Daxing Migao	Invention	201810835489.2	26 July 2018
2.	Processing device for fertiliser production (用於製作肥料的加工裝置)	PRC	Daxing Migao	Invention	201810847764.2	27 July 2018

No.	Patent title	Place of application	Applicant	Patent type	Application number	Date of application
3.	Compound fertiliser production device (複合肥料的生產裝置)	PRC	Daxing Migao	Invention	201810844436.7	27 July 2018
4.	Spare stirring device for Compound fertiliser (複合肥製備用攪拌裝置)	PRC	Daxing Migao	Invention	201810846526.X	27 July 2018
5.	Fertiliser granulator (肥料造粒機)	PRC	Daxing Migao	Invention	201810846522.1	27 July 2018
6.	A type of mixing device for chemical fertiliser (一種化肥混合裝置)	PRC	Daxing Migao	Invention	201810909153.6	10 August 2018
7.	Dust collection device for fertiliser's tail gas (肥料尾氣除塵裝置)	PRC	Daxing Migao	Invention	201810909738.8	10 August 2018
8.	A type of drying device for solid chemical fertiliser (一種固態化肥乾燥裝置)	PRC	Daxing Migao	Invention	201810909740.5	10 August 2018
9.	Sealed fermentation device for organic fertiliser (有機肥密封發酵裝置)	PRC	Daxing Migao	Invention	201810897013.1	8 August 2018

No.	Patent title	Place of application	Applicant	Patent type	Application number	Date of application
10.	A type of chili specialty fertiliser and preparation method thereof (一種辣椒專用肥及其製備方法)	PRC	Daxing Migao	Invention	201910876685.9	17 September 2019
11.	A type of organic fertiliser and preparation method thereof (一種有機肥及其製備方法)	PRC	Daxing Migao	Invention	201910950400.1	8 October 2019
12.	A type of tea leaf specialty fertiliser and preparation method thereof (一種茶葉專用肥及製備裝置)	PRC	Daxing Migao	Invention	202011239696.5	9 November 2020
13.	A type of fermentation technology and fermentation device using coconut shell seedling substrate (一種椰殼育苗基質的發酵工藝及發酵裝置)	PRC	Daxing Migao	Invention	202011626435.9	31 December 2020

No.	Patent title	Place of application	Applicant	Patent type	Application number	Date of application
14.	A type of floating seedling substrate for tabaco (一種煙草專用漂浮育苗基質)	PRC	Daxing Migao	Invention	202110028984.4	11 January 2021
15.	A type of nutrient fertiliser for chili and fertilisation thereof (一種辣椒專用營養套餐肥及施肥方法)	PRC	Daxing Migao	Invention	202110028983.X	11 January 2021
16.	Husk fermentation process for tabaco specialty fertiliser (煙草專用肥殼殼發酵工藝)	PRC	Daxing Migao	Invention	202110036894.X	12 January 2021
17.	A type of organic and inorganic compound fertiliser for tabaco plantation and preparation method thereof (一種適用煙草種植的有機無機肥複混肥及其製備方法)	PRC	Daxing Migao, Guizhou Tobacco Zunyi	Invention	202110513139.6	11 May 2021
18.	A type of floating production and air treatment equipment (一種漂盤生產及空氣處理設備)	PRC	Daxing Migao	Invention	202210184639.4	28 February 2022

No.	Patent title	Place of application	Applicant	Patent type	Application number	Date of application
19.	A flue-cured tobacco compound fertiliser production line (一種烤煙複混肥生產線)	PRC	Daxing Migao	Invention	202211286729.0	20 October 2022

(c) Copyrights

As at the Latest Practicable Date, our Group has registered the following copyrights:

No.	Name of Copyright	Place of registration	Registrant	Version	Registration number	Completion date
1.	Migao environmental monitoring system for the chemical product storage process [Abbreviation: environmental monitoring system for the product storage process] (米高化工產品儲存過程環境監控系統[簡稱:產品儲存過程環境監控系統])	PRC	Guangdong Migao	1.0	2016SR047114	30 January 2014
2.	Migao chemical material information management system[Abbreviation: chemical material information management system] (米高化工材料信息化管理系統[簡稱:化工材料信息化管理系統])	PRC	Guangdong Migao	1.0	2016SR047094	20 March 2014

No.	Name of Copyright	Place of registration	Registrant	Version	Registration number	Completion date
3.	Migao chemical wastewater purification process management software [Abbreviation: chemical wastewater purification process management software] (米高化工廢水淨化工藝管理軟件[簡稱:化工廢水淨化工藝管理軟件])	PRC	Guangdong Migao	1.0	2016SR046966	28 June 2014
4.	Migao chemical raw product control management system [Abbreviation: chemical raw product control management system] (米高化工生產品控管理系統[簡稱:化工生產品控管理系統])	PRC	Guangdong Migao	1.0	2016SR047015	30 August 2014
5.	Migao safety operation monitoring system for the chemical production equipment [Abbreviation: safety operation monitoring system for the chemical production equipment] (米高化工生產設備安全運行監控系統[簡稱:化工生產設備安全運行監控系統])	PRC	Guangdong Migao	1.0	2016SR047171	25 November 2014

No.	Name of Copyright	Place of registration	Registrant	Version	Registration number	Completion date
6.	Migao chemical production process control system [Abbreviation: chemical production process control system] (米高化工生產工藝流程管控系統[簡稱:化工生產工藝流程管控系統])	PRC	Guangdong Migao	1.0	2016SR046967	25 January 2015
7.	Migao chemical production scheduling intelligent management system [Abbreviation: chemical production scheduling intelligent management system] (米高化工生產調度智能管理系統[簡稱:化工生產調度智能管理系統])	PRC	Guangdong Migao	1.0	2016SR046580	28 April 2015
8.	Migao chemical raw material detection and analysis system [Abbreviation: chemical raw material detection and analysis system] (米高化工原料檢測分析系統[簡稱:化工原料檢測分析系統])	PRC	Guangdong Migao	1.0	2016SR047176	30 July 2015
9.	Migao chemical automation safety production control system [Abbreviation: chemical automation safety production control system] (米高化工自動化安全生產控制系統[簡稱:化工自動化安全生產控制系統])	PRC	Guangdong Migao	1.0	2016SR047227	28 October 2015

No.	Name of Copyright	Place of registration	Registrant	Version	Registration number	Completion date
10.	Migao material storage management system [Abbreviation: material storage management system] (米高物料倉儲管理系統[簡稱:物料倉儲管理系統])	PRC	Guangdong Migao	1.0	2016SR047091	30 December 2015

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Interests and short positions of our Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations

Immediately following the completion of the [**REDACTED**] and [**REDACTED**] (assuming the [**REDACTED**] is not exercised), the interests or short positions of our Directors or chief executives in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong 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) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, once the Shares are [**REDACTED**] will be as follows:

Interest in Shares or Underlying Shares of Our Company

Name of Director	Nature of Interest	Number of Shares(1)	Approximate percentage of shareholding interest
Mr. Liu(2)	Interest in controlled corporation	[**REDACTED**](L)	[**REDACTED**]

Notes:

(1) The letter "L" denotes long position in the Shares.

(2) As all the issued shares of Migao BVI is held by Migao Barbados which in turn is held by Mr. Liu, each of Mr. Liu and Migao Barbados is deemed to be interested in the Shares held by Migao BVI by virtue of the SFO.

(b) Interests and short positions of the substantial Shareholders in the Shares and underlying Shares of Our Company

So far as our Directors are aware, immediately following the completion of the [**REDACTED**] and [**REDACTED**] (assuming the [**REDACTED**] is not exercised), the following persons (not being Directors or chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or theunderlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Substantial Shareholder	**Nature of Interest**	**Number of Shares**[1]	**Approximate percentage of shareholding interest**
Migao Barbados[2]	Interest in controlled corporation	[**REDACTED**](L)	[**REDACTED**]
Migao BVI[2]	Beneficial owner	[**REDACTED**](L)	[**REDACTED**]

Notes:

(1) The letter "L" denotes long position in the Shares.

(2) As all the issued shares of Migao BVI is held by Migao Barbados which in turn is held by Mr. Liu, each of Mr. Liu and Migao Barbados is deemed to be interested in the Shares held by Migao BVI by virtue of the SFO.

(c) Interests of the substantial Shareholders of any member of our Group (other than our Company)

So far as our Directors are aware, immediately following the completion of the [**REDACTED**] and [**REDACTED**] (assuming the [**REDACTED**] is not exercised), the following persons (excluding us) will, directly or indirectly, be interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name of substantial shareholder	**Name of member of our Group**	**Nature of interest**	**Approximate percentage of interest held by the substantial shareholders**
Guizhou Tobacco Investment	Daxing Migao	Beneficial owner	49%
Heilongjiang Beidahuang	Anda Migao	Beneficial owner	35%
Heilongjiang Beidahuang	Baoqing Migao	Beneficial owner	23%

2. Particulars of Service Contracts

(a) Executive Directors

Each of the executive Directors [has] entered into a service contract with us for an initial term of three years commencing from the [**REDACTED**], which may be terminated by not less than three months' notice in writing served by either the executive Director or us. The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

(b) Independent Non-executive Directors

Each of the independent non-executive Directors [has] signed an appointment letter with us for a term of three years commencing from the [**REDACTED**]. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles and the applicable Listing Rules.

(c) Others

(i) Save as disclosed above, none of our Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(ii) None of our Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, us, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

3. Fees or commissions received

Save as disclosed in this document, none of our Directors or any of the persons whose names are listed under the section headed "Appendix IV – Statutory and General Information – D. Other Information – 8. Consent of Experts" to this document below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this document.

4. Disclaimers

Save as disclosed in this document:

(a) none of our Directors or chief executives has any interests and short positions in the Shares, underlying Shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to us and the Hong Kong Stock Exchange, in each case once our Shares are [**REDACTED**] on the Hong Kong Stock Exchange;

(b) so far as is known to any of our Directors or chief executives, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;

(c) none of our Directors nor any of the parties listed in the section headed "Appendix IV – Statutory and General Information – D. Other Information – 7. Qualification of Experts" to this document is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this document, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;

(d) save as disclosed in this document or in connection with the [**REDACTED**] Agreements, none of our Directors nor any of the parties listed in the section headed "Appendix IV – Statutory and General Information – D. Other Information – 7. Qualification of Experts" to this document is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;

(e) save in connection with the [**REDACTED**], none of the parties listed in the section headed "Appendix IV – Statutory and General Information – D. Other Information – 7. Qualification of experts" to this document: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

(f) none of our Directors or their respective associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest revenue payment collection channels.

D. OTHER INFORMATION

1. Tax and other indemnities

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favour of our Company and each of its subsidiaries to provide indemnities on a joint and several basis in respect of, among others, any demands, actions, claims, losses, liabilities, damages, costs, charges, fees, penalties, fines or expenses made, suffered or incurred by any of our Company and its subsidiaries in respect of or arising directly or indirectly from: (i) any title or other defects that exist and existed on or before the date on which the [**REDACTED**] becomes unconditional (the "**Relevant Date**") with respect to our Group's owned or leased real estate properties including but not limited to those set forth or otherwise referred to in the paragraphs headed "Business – Land and Properties" of this document; (ii) any non-compliance or alleged non-compliance by any of our Company and its subsidiaries with any applicable laws, rules and regulations in the PRC or any other jurisdictions relevant to our Company and its subsidiaries or any of them for so long as such non-compliance or alleged non-compliance occurs or occurred on or before the Relevant Date, which shall include, but not limited to, the non-compliance incidents as set forth in or otherwise referred to in the paragraphs headed "Business – Legal Proceedings and Non-compliance" of this document; (iii) the amount of any and all taxation falling on any of our Company and its subsidiaries resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the Relevant Date, or in respect or in consequence of any act, omission or event occurring or deemed to occur on or before the Relevant Date, whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, including any and all taxation resulting from the receipt by any of our Company and its subsidiaries of any amounts paid by our Controlling Shareholders, unless such liability to taxation is also discharged by such other person, firm or company, save and except that our Controlling Shareholders shall not be liable to indemnify our Company and its subsidiaries (a) to the extent that provision has been made for such liability in the audited consolidated financial statements of our Group as set out in Appendix I; (b) to the extent that such liability falls on any of our Company and its subsidiaries in respect of any accounting period commencing on or after the [**REDACTED**] unless such liability would not have arisen but for some act or omission of, or transaction entered into by any of our Company and its subsidiaries (whether alone or in conjunction with some other act, omission or transaction, whenever occurring), otherwise than in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets, on or before the [**REDACTED**]; (c) to the extent that such liability arises or is incurred as a consequence of any change in the law, rules or regulations, or the interpretation or practice thereof by any statutory or governmental authority, having retrospective effect coming into force after the [**REDACTED**] or to the extent that such liability arises or is increased by an increase in rates of taxation or other penalties after the [**REDACTED**] with retrospective effect; (d) to the extent that such liability is discharged by another person who is not any of our Company and its subsidiaries, and that none of our Company and its subsidiaries is required to reimburse such person in respect of the discharge of such liability; or (e) to the extent of any provision or reserve made for such liability in the audited accounts referred to in (a) above which is finally established to be an over provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce our Controlling Shareholders' liability in respect of such liability shall not be available in respect of any such liability arising thereafter.

2. Estate Duty

We have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

3. Litigation

As at the Latest Practicable Date, save as disclosed in this document, we are not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

4. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Hong Kong Stock Exchange for the [**REDACTED**] of, and permission to [**REDACTED**], the Shares in issue and Shares to be issued as mentioned herein (including any Shares falling to be issued pursuant to the exercise of the [**REDACTED**]). The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The fees to the Sole Sponsor in the amount of approximately US$[**REDACTED**] and are payable by us.

5. Preliminary Expenses

Our preliminary expenses incurred by us in relation to our incorporation were approximately HK$1,720 and were paid by our Company.

6. Promoter

Our Company has no promoter for the purpose of the [**REDACTED**]. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefits have been paid, allotted or given to any promoters in connection with the [**REDACTED**] or the related transactions described in this document.

7. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

Name	Qualification
GF Capital (Hong Kong) Limited	Licenced to carry on Type 6 (advising on corporate finance) regulated activity as defined under the SFO
Deloitte Touche Tohmatsu	Certified public accountants Public interest entity auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Harney Westwood & Riegels	Cayman Islands legal advisers
Jingtian & Gongcheng	PRC legal advisers
Ashurst Hong Kong	Legal advisers as to international sanctions laws
Mazars Tax Services Limited	Transfer pricing consultant
Frost & Sullivan	Industry consultant

8. Consent of Experts

Each of the experts named in paragraph 6 above has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or opinion and/or data (as the case may be) and references to its name included in the form and context in which it respectively appears.

9. Binding Effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance insofar as applicable.

10. Agency Fees or Commission Received

The [**REDACTED**] will receive an [**REDACTED**] commission, and the Sole Sponsor will receive a sponsorship fee, as referred to under the section headed "[**REDACTED**] – [**REDACTED**] Arrangements and Expenses – [**REDACTED**] Commission and Expenses" in this document.

11. Miscellaneous

(a) Save as disclosed in this document,

(i) within the two years immediately preceding the date of this document:

(aa) no share or loan capital of our Company or any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;

(cc) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring or agreeing to procure subscription of any Share in our Company or any of its subsidiaries (except for the [**REDACTED**] paid and payable to commission by the [**REDACTED**]);

(dd) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(ee) no founders, management or deferred Shares of our Company or any of its subsidiaries have been issued or agreed to be issued; and

(ii) our Group had not issued any debentures nor did it have any outstanding debentures or any convertible debt securities.

(b) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document.

(c) Our principal register of members will be maintained by our [**REDACTED**], in the Cayman Islands and our Hong Kong register of members will be maintained by our [**REDACTED**], in Hong Kong. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our [**REDACTED**] and may not be lodged in the Cayman Islands.

(d) All necessary arrangements have been made to enable the Shares to be admitted into [**REDACTED**] for clearing and settlement.

(e) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(f) There are no arrangements in existence under which future dividends are to be or agreed to be waived.

(g) Our Directors have been advised that, under the Cayman Companies Act, the use of a Chinese name by the Company does not contravene the Cayman Companies Act.

12. No Material Adverse Change

The Directors confirm that there has been no material adverse change in our financial or trading position since 31 March 2023 and that no material changes have occurred since the date of the Accountants' Report up to the date of this document.

13. Bilingual Document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of the [**REDACTED**];

(b) a copy of each of the material contracts referred to the section headed "Appendix IV – Statutory and General Information – B. Further Information About Our Business – 1. Summary of Material Contracts" to this document;

(c) the written consents referred to in the section headed "Appendix IV – Statutory and General Information – D. Other Information – 8. Consent of Experts" to this document; and

2. DOCUMENTS ON DISPLAY

The following documents will be published on the websites of the Hong Kong Stock Exchange (**www.hkexnews.hk**) and our Company (**www.migaogroup.com**) up to and including the date which is 14 days from the date of this document:

(a) our Memorandum and Articles of Association;

(b) the Accountants' Report from by Deloitte Touche Tohmatsu, the text of which are set out in Appendix I to this document;

(c) the report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this document;

(d) the audited consolidated financial statements of our Company for FY2021, FY2022 and FY2023;

(e) the legal opinions issued by Jingtian & Gongcheng, in respect of certain aspects of the Group and the property interests of the Group;

(f) the legal opinion issued by Harney Westwood & Riegels summarising the constitution of our Company and certain aspects of the Cayman Companies Act referred to in Appendix III to this document;

(g) the legal memorandum issued by Ashurst Hong Kong, our legal advisers as to international sanctions laws in respect of our business dealings with certain third parties subject to international sanctions;

(h) the transfer pricing review report issued by Mazars Tax Services Limited, our Transfer Pricing Consultant;

(i) the Cayman Companies Act;

(j) copies of material contracts referred to the section headed "Appendix IV – Statutory and General Information – B. Further Information About Our Business – 1. Summary of Material Contracts" to this document;

(k) the written consents referred to in the section headed "Appendix IV – Statutory and General Information – D. Other Information – 8. Consent of Experts" to this document;

(l) service contracts and letters of appointment entered into between our Company and each of our Directors; and

(m) the Frost & Sullivan Report.