
RISK FACTORS

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

RISK FACTORS

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.

RISK FACTORS

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,

RISK FACTORS

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

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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 constitute 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.

RISK FACTORS

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 to comply 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.

RISK FACTORS

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.

RISK FACTORS

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 to temporary 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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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

RISK FACTORS

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 majeure 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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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 efficiency during 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

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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

RISK FACTORS

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 adopt any hedging instruments to manage risks associated with foreign exchange 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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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.

RISK FACTORS

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

RISK FACTORS

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.

RISK FACTORS

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稅若干問題的公告) (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.

RISK FACTORS

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

RISK FACTORS

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

RISK FACTORS

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.

RISK FACTORS

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

RISK FACTORS

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

RISK FACTORS

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.