

CONNECTED TRANSACTIONS

We have entered into certain agreements with parties that will be considered as our connected persons (as defined under Chapter 14A of the Listing Rules). Following the [REDACTED], the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules.

SUMMARY OF OUR CONNECTED PERSONS

Upon the [REDACTED], the following parties, which have entered into certain written agreements with our Group, will be connected persons of our Group:

Name	Connected Relationship
Zunyi Migao	an indirect wholly-owned subsidiary of Elegant Castle, which is in turn owned by Mr. Liu, one of our Controlling Shareholders
Heilongjiang Beidahuang Modern Agricultural Services Group Co., Ltd.* (黑龍江北大荒現代農業服務集團有限公司) (“Beidahuang Modern Agricultural Services”)	the immediate holding company of Heilongjiang Beidahuang, which is in turn a substantial shareholder of Baoqing Migao and Anda Migao

CONNECTED TRANSACTION

We have entered into a transaction with a party who is our connected person and such transaction constitutes a connected transaction of our Group under Chapter 14A of the Listing Rules.

Daxing Lease Agreement

Principal Terms

Daxing Migao and Zunyi Migao entered into a lease agreement on 4 January 2022 (the “**Daxing Lease Agreement**”), pursuant to which Zunyi Migao agreed to lease the land and properties on it where the Daxing Production Facility is situated (the “**Daxing Lease Property**”) to Daxing Migao and the terms of which are as follows:

Landlord	Tenant	Term	Leased area (<i>sqm</i>)	Rent per annum (<i>RMB</i>)
Zunyi Migao	Daxing Migao	1 January 2022 to 31 December 2024	land area of 156,049 and property area of 46,114.04	2.61 million for the first year; and a 3% increase in the rent for each subsequent year

CONNECTED TRANSACTIONS

The rent under the Daxing Lease Agreement is determined, with reference to a valuation report prepared by an independent valuer, at arm’s length and reflects the market rents. As confirmed by our Directors, (i) the rent charged by Zunyi Migao under the Daxing Lease Agreement represents the prevailing market rent for comparable properties in neighbouring areas at which the Daxing Lease Property is located; (ii) the terms of the Daxing Lease Agreement is fair, reasonable and on normal commercial terms to our Group; and (iii) the Daxing Lease Agreement was entered into in the ordinary and usual course of business of our Group.

During the Track Record Period, the repayment of lease liabilities in relation to the Daxing Lease Property for FY2021, FY2022, FY2023 and 8MFY2024 were approximately RMB2.1 million, RMB2.2 million, RMB2.6 million and RMB1.8 million, respectively.

Reasons for and benefits of the Transactions

As our Daxing Production Facility is situated on the Daxing Leased Property since January 2017, having considered (i) the use of the Daxing Lease Property as one of our production sites; (ii) the continuation of leasing Daxing Lease Property for our Daxing Production Facility will prevent the incurrance of any associated costs and occurrence of any unnecessary interruption of business caused by relocation, our Directors (including our independent non-executive Directors) are of the view that the Daxing Lease Agreement is beneficial to our Group as this would minimise the risk of potential disruption to our business operations. As such, the entering into of the Daxing Lease Agreement is fair and reasonable and in the best interest of our Group and our Shareholders as a whole.

Listing Rules Implications

In accordance with HKFRS 16 “Leases”, our Group recognised a right-of-use assets on our balance sheet in relation to the fixed term leases in the form of an asset (representing the right to use the underlying assets during the lease term) and a liability (for the obligation to make lease payment). Therefore, the lease of the Daxing Lease Property from Zunyi Migao under the Daxing Lease Agreement is regarded as an acquisition of a capital asset of our Group and a one-off connected transaction entered into by our Group prior to the [REDACTED], rather than a continuing connected transaction, for the purposes of the Listing Rules. Accordingly, the reporting, announcement, annual review, circular and independent shareholders’ approval requirements in Chapter 14A of the Listing Rules will not be applicable.

CONNECTED TRANSACTIONS

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Transaction	Applicable Listing Rules	Waiver Sought	Proposed annual caps for the year ending 31 March		
			2024	2025	2026
			<i>(RMB'000)</i>		
Beidahuang Framework Sale Agreement	Rule 14A.101 of the Listing Rules	Waiver from strict compliance with the announcement requirement	838,000	879,000	923,000

Non-exempt Continuing Connected Transactions

We set out below a summary of the continuing connected transactions of our Group which are subject to reporting, annual review and announcement requirements, and are exempt from the circular, independent financial advice and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Beidahuang Framework Sale Agreement

Background and Historical Transaction Amount

In order to establish strategic cooperation with Beidahuang Modern Agricultural Services, one of our major customers during the Track Record Period, we have two joint ventures with its subsidiary, namely, Heilongjiang Beidahuang, where our Company is indirectly interested in 77% and 65% of the equity interest in Baoqing Migao and Anda Migao, respectively, and Heilongjiang Beidahuang is interested in 23% and 35% of the equity interest in Baoqing Migao and Anda Migao, respectively. Baoqing Migao and Anda Migao were consolidated and accounted for as our subsidiaries from 31 March 2022.

During the Track Record Period, the sale of our potash fertiliser products by our Group to Beidahuang Modern Agricultural Services and its subsidiaries (“**Beidahuang Group**”) amounted to approximately RMB580.1 million, RMB861.0 million, RMB942.1 million and RMB211.2 million for FY2021, FY2022, FY2023 and 8MFY2024, respectively.

For FY2021, FY2022, FY2023 and 8MFY2024, the sales volume of our KCL to Beidahuang Group was approximately 291,799 tonnes, 281,589 tonnes, 212,331 tonnes and 66,942 tonnes, respectively, and the sales volume of our SOP to Beidahuang Group was approximately 39,034 tonnes, 52,492 tonnes, 52,181 tonnes and 11,381 tonnes, respectively.

CONNECTED TRANSACTIONS

Principal Terms and Pricing Policies

On [●], our Company and Beidahuang Modern Agricultural Services entered into a framework sale agreement (“**Beidahuang Framework Sale Agreement**”), pursuant to which, our Group will provide supply of our potash fertiliser products to Beidahuang Group. Major terms of such agreement are summarised below:

Term: The Beidahuang Framework Sale Agreement shall commence from the [REDACTED] to 31 December 2026.

Supply of potash fertiliser products: Our Group agrees to sell our potash fertiliser products to Beidahuang Group.

Pricing: The price at which our Group will sell our potash fertiliser products shall be determined with reference to (i) our historical selling price of similar potash fertiliser products; (ii) our selling price of similar potash fertiliser products to independent third parties other than our Group and Beidahuang Group during the same period; (iii) the domestic market price of similar potash fertiliser products; and (iv) the requirements of the applicable laws and regulations and the Listing Rules (if any).

For the avoidance of doubt, the selling price of our potash fertiliser products shall be fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of our Group, and in the interests of our Group and our Shareholders as a whole.

Payment terms: All payments in relation to the sale of our potash fertiliser products pursuant to the Beidahuang Framework Sale Agreement shall be payable in accordance to terms of the individual contracts entered into for each transaction.

CONNECTED TRANSACTIONS

Termination: The Beidahuang Framework Sale Agreement shall continue to be in force until (i) the expiry of the Beidahuang Framework Sale Agreement; (ii) termination by mutual agreement of the parties in writing; (iii) termination by laws, regulations, or the determination of a competent court or arbitration institution; (iv) the waiver from the Hong Kong Stock Exchange in relation to the continuing connected transactions under the Beidahuang Framework Sale Agreement having been invalidated, withdrawn or revoked; or (v) the Beidahuang Framework Sale Agreement and the continuing connected transactions therein failed to satisfy the requirements under the Listing Rules.

Reasons for the Transactions

We consider that it is beneficial to enter into the Beidahuang Framework Sale Agreement as the transactions contemplated therein have facilitated, and will continue to facilitate, the overall operations and growth of our Group’s business. It is also expected that the transactions contemplated under the Beidahuang Framework Sale Agreement will further deepen our collaboration and ensure efficient cooperation between the our Group and Beidahuang Group. A long-term framework sale arrangement with Beidahuang Group ensures a stable demand of our potash fertiliser products, which provides a great level of certainty in our business growth and future strategic and operational planning.

Estimated Annual Caps

Our Directors estimate that the total annual sale amount to Beidahuang Group by our Group under the Beidahuang Framework Sale Agreement will not exceed RMB888.0 million, RMB933.0 million and RMB979.0 million for each of the three years ending 31 March 2024, 2025 and 2026, respectively. In determining such annual caps, our Directors have considered the following factors:

- (a) the average selling price of our KCL and SOP to Beidahuang Group for 8MFY2024. The Sea Import Master Contract Price increased significantly to US\$590 per tonne in February 2022 (which represented the going price for FY2023) due to global supply shortage of KCL and other factors, and subsequently decreased to US\$307 per tonne in June 2023 mainly due to the decrease in uncertainties on the global supply of potash fertiliser. It is not expected there will be a further decrease in the Sea Import Master Contract Price in the near future as the international market price of KCL has been recovering from its low level in June 2023. As the Sea Import Master Contract Price is a key factor for the determination of our purchase price of KCL, we expect the average selling price of our KCL and SOP to remain at a relatively stable level from FY2024 to FY2026 as compared to 8MFY2024;

CONNECTED TRANSACTIONS

- (b) the historical transaction volume of potash fertiliser products sold to Beidahuang Group by our Group during FY2021, FY2022 and FY2023; and
- (c) the expected rate of growth for both of the sales and overall business of Beidahuang Group. We expect the selling price of both KCL and SOP to remain stable for FY2024, FY2025 and FY2026, and the sales volume for both KCL and SOP to have a year-to-year growth rate of 5% for FY2025 and FY2026.

Listing Rule Implications

As at the Latest Practicable Date, Beidahuang Modern Agricultural Services is the immediate holding company of Heilongjiang Beidahuang, which is in turn a substantial shareholder of our subsidiaries, and therefore, Beidahuang Modern Agricultural Services and its subsidiaries are connected persons of our Company under the Listing Rules. Accordingly, the transactions contemplated under the Beidahuang Framework Sale Agreement will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon [REDACTED].

As (i) Beidahuang Modern Agricultural Services and its subsidiaries are connected persons of our Company at the subsidiary level; (ii) our Board has approved the Beidahuang Framework Sale Agreement and the transactions contemplated thereunder; and (iii) all the independent non-executive Directors have confirmed that the terms of the Beidahuang Framework Sale Agreement are fair and reasonable, on normal commercial terms or better and in the interests of our Company and the Shareholders as a whole, the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements but exempt from independent Shareholders’ approval requirement pursuant to Rule 14A.101 of the Listing Rules.

Reasons for the Waiver Application

Our Directors (including our independent non-executive Directors) are of the view that the Beidahuang Framework Sale Agreement is fundamental to our businesses’ development, given that Beidahuang Modern Agricultural Services is one of our major customers during the Track Record Period.

In addition, given that the Beidahuang Framework Sale Agreement was entered into prior to the [REDACTED] and are disclosed in this document, and our potential investors will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement requirement in respect thereof immediately after the [REDACTED] would be impractical and unduly burdensome, and would add unnecessary administrative cost to us.

Accordingly, we [have] applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has] granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirement in respect of the Beidahuang Framework Sale Agreement.

CONNECTED TRANSACTIONS

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions pursuant to the Beidahuang Framework Sale Agreement, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

SOLE SPONSOR’S AND DIRECTORS’ VIEWS

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described in this section, including but not limited to terms and annual caps thereof, have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

The Sole Sponsor is of the view that all the continuing connected transactions described in this section, including but not limited to terms and annual caps thereof, have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.