

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

Please refer to the section headed “Business – Business Strategies” in this document for a detailed discussion of our future plans.

USE OF [REDACTED]

We estimate that we will receive net [REDACTED] of approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) from the [REDACTED], assuming that the [REDACTED] is not exercised, after deducting the [REDACTED] commissions and other estimated [REDACTED] expenses payable by us and assuming the initial [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range.

The following table sets forth the timeline for our use of net [REDACTED] from the [REDACTED]:

	For the year ending			Approximate percentage of [REDACTED]
	31 March			
	2025	2026	Total	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	
	<i>million</i>	<i>million</i>	<i>million</i>	%
Heilongjiang Warehousing and Production Centre	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
New Sichuan Production Facility	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Research and Development Centre	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Upgrading and Replacement of Equipment and Machinery	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
General Working Capital	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>100.0</u>

FUTURE PLANS AND USE OF [REDACTED]

We currently intend to apply the net [REDACTED] from the [REDACTED] for the purposes and in the amounts as set out below:

Heilongjiang Warehousing and Production Centre

- approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED], is intended to be used to construct the Heilongjiang Warehousing and Production Centre, of which
 - o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for the construction of the designated railway connecting lines;
 - o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for construction costs;
 - o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used primarily for purchasing of equipment and machinery for KCL loading and processing; and
 - o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for installation and miscellaneous costs.

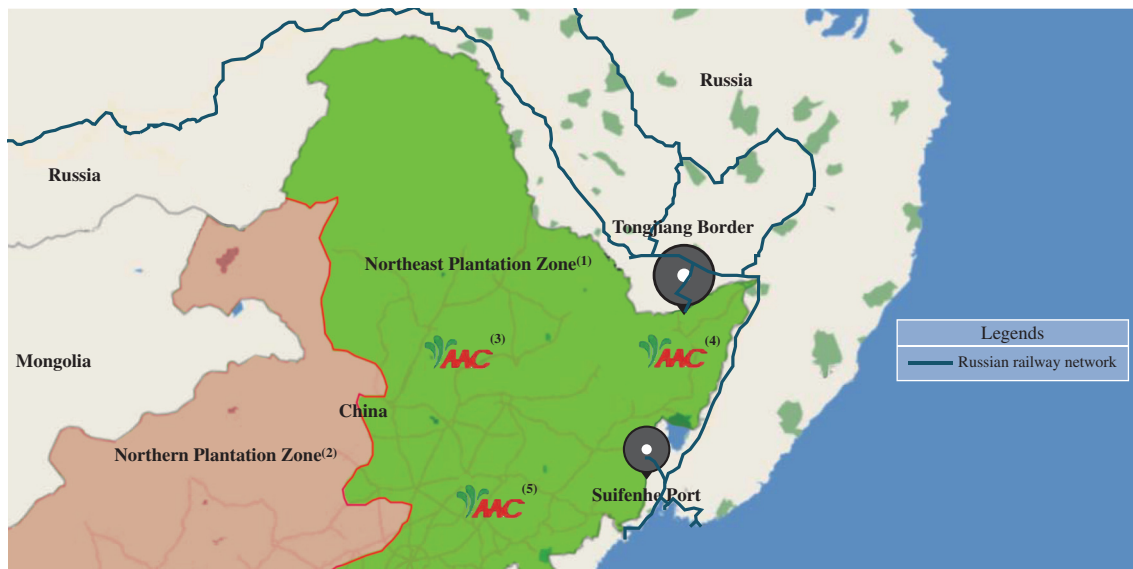
Background and Geographic Importance

Tongjiang City is located in the northern part of the Heilongjiang Province, adjacent to Russia. Heilongjiang Province has been ranking the first in China for grain production in terms of volume consecutively, and being the critical channel for Sino-Russia trade. According to the Joint Statement by the President of the PRC and the President of the Russian Federation on the Development Plan of Key Directions for Sino-Russian Economic Cooperation before 2030 (《中華人民共和國主席和俄羅斯聯邦總統關於2030年前中俄經濟合作重點方向發展規劃的聯合聲明》) published on 21 March 2023, the governments agree to, among others, expand Sino-Russian trading, increase integration of logistics between the two countries by building new connecting ports and increase cooperation in the fertiliser, chemicals, commodities and minerals resources industries. Further, according to The Fourteenth Five-Year Plan for National Economic and Social Development of the PRC and the Outline of Long-term Goals for 2035 (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) published on 12 March 2021, the PRC government aims to increase cooperation with Russia through Heilongjiang Province through the development of connecting ports. It intends to support Tongjiang City, among others, to become a commodity trading centre for the trading of agricultural and mineral resources products.

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As the Tongjiang railway port (the “**Tongjiang Border**”) started operation since 16 November 2022, Tongjiang City has become the only city in China with diverse ports access to Russia via water, road and railway. According to the Frost & Sullivan Report, the railway transportation time and distance has been shortened by several hundred kilometers from major potash reserves in Russia to Heilongjiang via the Tongjiang Border as compared to via the Suifenhe port.

Below map shows the geographical location of the main KCL import ports in Heilongjiang Province, the related Russian railway network connected to such KCL import ports, our Anda Production Facility, Baoqing Production Facility and Changchun Production Facility, and the neighboring plantation zones.



Notes:

- (1) Northeast Soybean, Spring Wheat, Maize and Beet Plantation Zone
- (2) Northern Plateau Small Grains and Beet Plantation Zone
- (3) Anda Production Facility
- (4) Baoqing Production Facility
- (5) Changchun Production Facility

The import volume of KCL from Russia to China by ground transportation is expected to increase from approximately 1.2 million tonnes in 2022 to approximately 5.0 million tonnes in 2027 and import by railway account for majority of such import volume. Further, the Tongjiang Border is the only new port with railway which involves the import of potash among the existing main trading borders between Russia and China. As such, we intend to take advantage of the geographic benefits of the Tongjiang Border and the favorable government policies to construct the Heilongjiang Warehousing and Production Centre in Tongjiang City to meet the demand of warehousing services for our Group and other KCL importers. The Heilongjiang Warehousing and Production Centre is expected to be connected to the Russian railway systems and the Chinese railway systems and is planned to be equipped with loading, granulation and packaging equipment. These infrastructures will enable us to unload the imported KCL by railway from the Russian railway systems at the Heilongjiang Warehousing and Production Centre for processing, granulation and storage before entering the Chinese railway systems.

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Investment Steps and Terms

On 26 April 2022, our Group acquired 100% equity interest in Tongjiang Migao at a consideration of RMB1 from Liaoning Migao to support our development plan to build the Heilongjiang Warehousing and Production Centre to enhance the product supply efficiency and capability. Tongjiang Migao became our indirect wholly-owned subsidiary after the acquisition.

In May 2022, we have entered into a project investment agreement with the local authorities in respect of our investment in the Heilongjiang Warehousing and Production Centre. Below are certain key terms of the project investment agreement:

- **Investment Amount:** The total investment amount will be RMB1,600 million inclusive of the working capital and purchase of inventory for the operations of the Heilongjiang Warehousing and Production Centre for three years from the commencement of its construction. The total investment amount will be funded from internal resources, external borrowings, net [REDACTED] from the [REDACTED] and cashflow from the operations of the Heilongjiang Warehousing and Production Centre.
- **Land Acquisition:** The land will be offered for sale through public listing in accordance with the laws and the price will be determined in accordance with land usage sale contract.
- **Land Use:** The land is used for the construction of the project only.
- **Rights and Obligations:** We are required to comply with the relevant laws and regulations in relation to environment protection and safety provisions and ensure completion of project in accordance with the agreement. We also agree to continue to pay relevant taxes to the local authorities and not to relocate for the next 10 years.
- **Preferential Policy:** The local government will offer various preferential policies to us.

On 21 September 2022, we entered into a land use right acquisition agreement with the local authorities to acquire a parcel of land in Tongjiang City, Heilongjiang Province with a site area of approximately 368,104.7 sqm for the construction of the Heilongjiang Warehousing and Production Centre. The acquisition price for the land use right is RMB60,210,000 and we had paid the acquisition price as at the Latest Practicable Date.

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We also entered into (i) a special designated railway connecting line agreement with a local state-owned enterprise (the “**Railway SOE**”) to connect to our Heilongjiang Warehousing and Production Centre to the conjunction area of Tongjiang North Station where the Russia railway systems and the Chinese railway systems are connected; and (ii) a lease agreement with the Railway SOE to lease the land where our connecting lines connect to the conjunction area of Tongjiang North Station. Please refer to the sections headed “Risk Factors – Risks Relating to Our Business – We may face fines in relation to leased properties or may not be able to continue to use certain buildings on the leased properties or use the land we leased” and “Business – Land and Properties – Land” in this document for further information.

Construction Plan and Investment Costs

As at the Latest Practicable Date, site formation and infrastructure works of the Heilongjiang Warehousing and Production Centre have been commenced and we expect to complete construction in the second half of 2025. The total site area of the Heilongjiang Warehousing and Production Centre (including the railway) is expected to be approximately 530,000 sqm and with a storage capacity of around 500,000 tonnes. The construction of the designated railway is also included in the construction plan of the Heilongjiang Warehousing and Production Centre. The Heilongjiang Warehousing and Production Centre is expected to be equipped with 35 processing lines consisting of automatic conveyor and packaging machinery and 10 granulating lines. The estimated annual capacity of KCL processing and granulation is expected to be two million tonnes and one million tonnes, respectively.

We expect that the investment costs for the Heilongjiang Warehousing and Production Centre to be approximately RMB591.8 million, of which approximately (i) RMB103.4 million is the land acquisition costs; (ii) RMB119.9 million is the designated railway connecting lines construction costs; (iii) RMB203.6 million is the construction costs; (iv) RMB113.8 million is for purchasing of equipment and machinery, of which approximately RMB35.0 million is for equipment and machinery for KCL granulation and approximately RMB65.0 million is for equipment and machinery for KCL processing; and (v) RMB51.2 million is installation and miscellaneous costs. As at the Latest Practicable Date, we had incurred approximately RMB69.1 million for land acquisition and RMB4.9 million primarily for site formation works. We plan to fund the establishment of Heilongjiang Warehousing and Production Centre with part of the net [REDACTED] from the [REDACTED] of approximately RMB[REDACTED] million; and the remaining approximately RMB[REDACTED] million, primarily including the construction of facilities, equipment and machinery and installation and miscellaneous costs for general facilities and granulating lines, will be funded by our internal resources and/or external borrowings.

The following table sets out a breakdown of our main investment amount with respect to (i) land acquisition, (ii) construction of designated railway connecting lines, (iii) construction of facilities, (iv) equipment and machinery acquisition, and (v) installation and miscellaneous costs of the Heilongjiang Warehousing and Production Centre for the years specified.

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	For the year ended/ending 31 March			
	2023	2024	2025	2026
	RMB'000	RMB'000	RMB'000	RMB'000
Land	69,721	4,307	29,367	–
Construction of designated railway connecting lines	–	–	119,855	–
Construction of facilities	–	–	203,570	–
Equipment and machinery	–	–	71,125	42,675
Installation and miscellaneous	–	–	18,075	33,075
Total	69,721	4,307	441,992	75,750

Assuming that, among others, (i) total hiring of an additional 62 employees; (ii) property, railway and buildings with 20 years depreciation period; (iii) equipment and machinery with 10 years depreciation period; (iv) maintenance fees of 2% of the fixed assets; (v) other manufacturing fees of 2% of the fixed assets; (vi) other management fees of 50% of salary and staff benefits; (vii) other sale expenses of 3.0% of revenue; (viii) utilisation rate of the centre to reach 70% for the first year of operation, 90% for the second year of operation and 100% for the third year of operation and onwards; (ix) warehousing service fee including KCL processing service fee of RMB75 per tonne, KCL granulating service fee of RMB150 per tonne (inclusive of the KCL processing service fee of RMB75 per tonne) and annual storage fee of RMB360 per tonne; (x) other operation expenses of 6.0% of revenue; and (xi) corporate income tax rate of 25% with no preferential tax treatment, the breakeven point of the Heilongjiang Warehousing and Production Centre, i.e., the amount of sales required to cover its costs and expenses, is approximately within three years from the commencement date of its construction (i.e. the first year of operation). The expected time required for the Heilongjiang Warehousing and Production Centre to recover the investment costs, i.e., the payback period, is approximately 7.5 years from the commencement date of its construction with reference to the feasibility study report.

Justification for Construction of the Heilongjiang Warehousing and Production Centre

We believe that the construction of the Heilongjiang Warehousing and Production Centre will enable us to enhance: (i) the flexibility in our KCL procurement arrangements; (ii) the sales and service network for our customers and our management efficiency over production schedule; and (iii) our Group’s financial performance from a new revenue stream by providing one-stop warehousing solution to other KCL importers.

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- (i) Enhance flexibility in our KCL procurement arrangements

The construction of the Heilongjiang Warehousing and Production Centre will enable us to enjoy flexibility in managing our KCL procurement arrangements based on our own operational demand, which will reduce our reliance on the warehousing and processing services provided by third parties in proximity to the Tongjiang Border. During the Track Record Period, our KCL processing capacity had been over utilised with utilisation rates constantly over 100% which we had to seek third party to process KCL for us. With the additional KCL processing capacity at the Heilongjiang Warehousing and Production Centre, it can alleviate the over utilisation of our KCL processing capacity.

Further, with the increased storage capacity, we would have a greater flexibility to systematically manage our inventory of KCL and enhance our control over our procurement arrangement to timely respond to changes of global supply and fluctuation in market price of potash fertiliser.

- (ii) Enhance sales and service network for our customers and our management efficiency over production schedules

None of our production facilities located in the Heilongjiang Province (i.e. Baoqing Production Facility and Anda Production Facility) have any KCL processing capabilities. Our closest production facility with KCL processing capability is the Changchun Production Facility. With the establishment of the Heilongjiang Warehousing and Production Centre, it will strengthen our presence in Heilongjiang Province. It will allow us to process KCL there and our customers can pick up KCL at Tongjiang, representing another alternative location in the region in addition to our production facility in Changchun. Such additional location will provide more flexibility to our customer in terms of their scheduling, transportation cost management, inventory management and other operational convenience. While we are able to coordinate with our customers for delivery of our fertiliser products, with the capabilities and space of the Heilongjiang Warehousing and Production Centre, we will be able to independently accommodate our customers’ needs, in term of timing and level of services, and have better control over the quality of services delivered to our customers.

In addition, as the KCL imported through the Tongjiang Border will be unloaded directly at the Heilongjiang Warehousing and Production Centre and may be further granulated there when requested by our customers, it enables us to enhance our KCL granulation in an effective manner and it is easier for our Group to manage its production schedule. Also, it will become a third facility for our customers to pick up granulated KCL and provide greater flexibility to our customers on their procurement management.

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- (iii) Enhance our Group’s financial performance from a new revenue stream by providing one-stop warehousing solution to other KCL importers

In addition to using the Heilongjiang Warehousing and Production Centre for our own production, with the significant increase in both KCL processing and KCL granulating capacities, we can also provide one-stop warehousing solution including processing, granulating and storage services to other KCL importers and customers. We expect to charge warehousing service fees for KCL processing, KCL granulating and storage. The KCL granulating service fee is inclusive of the KCL processing service fee. For KCL processing and granulating services, we only provide a service and do not bear the cost of the KCL (unlike the sales of our processed KCL and granulated KCL) as the KCL will be provided to us by the KCL importers and customers. As such, for our pricing of KCL processing and granulating services at the Heilongjiang Warehousing and Production Centre, we would distinguish the pricing for KCL processing and granulating services unlike for the sales of our processed KCL and granulated KCL where we adopt the same pricing policy for all KCL we sold.

As it is expected that the Tongjiang Border will become a major port for the import of KCL from Russia given the support of favorable government policies, we believe there is an increasing demand for warehousing solution by KCL importers; and the development of the Heilongjiang Warehousing and Production Centre will enable our Group to capture the business opportunities from the rising demand of KCL from Russia and hence will bring in new income stream for our Group and enhance our revenue.

Our Group has received letters of intent from four of our top five suppliers during the Track Record Period, in which they have indicated their willingness to utilise the Heilongjiang Warehousing and Production Centre for the import of potash, in an aggregate amount of not less than 1.4 million tonnes per year, through the Tongjiang Border, after the establishment of Heilongjiang Warehousing and Production Centre.

New Sichuan Production Facility

- approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for the investment and construction of our New Sichuan Production Facility, among which:
 - o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED] will be used for acquisition of land;

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- o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for construction costs;
- o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for purchasing of equipment and machinery; and
- o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for installation and miscellaneous costs.

For further details, please refer to the section headed “Business – Expansion Plan” in this document.

Research and Development Centre

- approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used to fund the establishment of a research development centre (the “**Sichuan R&D Centre**”), of which
 - o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for acquisition of the land parcel for the Sichuan R&D Centre;
 - o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for construction costs of the Sichuan R&D Centre; and
 - o approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for purchasing of equipment and machinery.

We consider that our research and development capabilities is one of our competitive strengths to our success and have placed strong emphasis on the research and development activities since our incorporation. For FY2021, FY2022, FY2023 and 8MFY2024, our research and development expenses were RMB24.5 million, RMB38.9 million, RMB31.0 million and RMB26.3 million, respectively. As at the Latest Practicable Date, we had 106 registered patents in China, including 19 invention patents and 87 utility model patents, and were in the process of applying for 13 invention patents.

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As at the Latest Practicable Date, our research and development team comprised of 73 employees who are located at our various production facilities in different cities throughout China. By establishing our own centralised Sichuan R&D Centre, we believe that it would allow us for better collaboration, centralisation of resources and better control and oversight of research and development activities. Please refer to the section headed “Business – Research and Development” in this document for further information.

Taking into account of the above, we intend to acquire a land parcel of approximately 33,000 sqm to 40,000 sqm located in Qingbaijiang District in Chengdu City, Sichuan Province, to establish our research and development facilities with gross floor area of approximately 16,800 sqm, including an office building, a laboratory building, two pilot scale testing plants, three warehouses for testing materials and products; and to purchase and/or install the requisite equipment and machinery.

The following table sets out a breakdown of our main investment amount with respect of acquisition of land parcel, construction of buildings and purchase and/or instalment of equipment and machinery of the Sichuan R&D Centre for the years specified.

	For the year ending 31 March	
	2025	2026
	RMB'000	RMB'000
Land	15,000	–
Buildings	22,250	11,250
Equipment and machinery	15,250	56,250
Total	52,500	67,500

We plan to fund the establishment of Sichuan R&D Centre with part of the net [REDACTED] from the [REDACTED] of approximately RMB[REDACTED] million; and the remaining approximately RMB[REDACTED] million will be funded by our internal resources and/or external borrowings.

Upgrading and Replacement of Equipment and Machinery

- approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used to purchase new equipment and machinery for replacement of existing equipment and machinery and to purchase new environmental and automatic equipment and machinery for our Guangdong Production Facility, Changchun Production Facility and Daxing Production Facility. Most of the major equipment and machinery we intend to replace are equipment and machinery with less than three years of remaining useful life. The total original cost of these pieces of equipment and machinery was approximately RMB91.1 million which accounted for

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approximately 18.8% of our total original cost of equipment and machinery as at 30 November 2023. These pieces of equipment and machinery mainly include equipment and machinery for our production lines, equipment for cooling and HCL acid making, Mannheim reacting furnaces, and related power and energy supply equipment. It is estimated that the total purchase costs of new equipment and machinery is approximately RMB183.2 million, which will be funded by the net [REDACTED] from the [REDACTED] and our internal resources. We intend to begin the replacement from April 2024 and complete the replacement by September 2025. As we intend to carry the replacement during the low season of our production, we do not expect that the temporary suspension of certain of our production lines due to replacement of equipment and machinery will have any material adverse impact to our operations. During the Track Record Period, our total capital expenditure on equipment and machinery upgrade and replacement for these three production facilities were in aggregate approximately RMB14.6 million. The upgrading and replacement of equipment and machinery at our Guangdong Production Facility and Changchun Production Facility will enhance and improve the environmental standards of our production in those facilities, which is invaluable to our operations and our compliance with relevant environmental laws and regulations. The upgrading and replacement of equipment and machinery at our Daxing Production Facility will allow us to adopt automatic production procedures at the facility which will thereby increase our production efficiency and lower relevant work safety risks.

General Working Capital

- approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] will be used for additional working capital and other general corporate purposes.

If the [REDACTED] is fixed at the high-end of the indicative [REDACTED] range, being HK\$[REDACTED] per Share, and assuming the [REDACTED] is not exercised, the net [REDACTED] we receive from the [REDACTED] will increase by approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million). We intend to apply the additional net [REDACTED] for the above purposes on a pro-rata basis. If the [REDACTED] is set at the low-end of the indicative [REDACTED] range, being HK\$[REDACTED] per Share, and assuming the [REDACTED] is not exercised, the net [REDACTED] we receive from the [REDACTED] will decrease by approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million). We intend to reduce the net [REDACTED] for the above purposes on a pro-rata basis.

If the [REDACTED] is exercised in full, we estimate that we will receive additional net [REDACTED] of approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), assuming an [REDACTED] of HK\$[REDACTED] per Share, being the midpoint of the indicative [REDACTED] range. If the [REDACTED] is set at the high-end of the indicative [REDACTED] range, the additional estimated net [REDACTED]

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upon full exercise of the [REDACTED] will be approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million). If the [REDACTED] is set at the low-end of the indicative [REDACTED] range, the additional estimated net [REDACTED] upon full exercise of the [REDACTED] will be approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million). In the event the [REDACTED] is exercised in full, we intend to apply the additional net [REDACTED] for the above purposes on a pro-rata basis.

To the extent that the net [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net [REDACTED] into short-term demand deposits with authorised financial institutions and/or licenced banks in the PRC or Hong Kong.

We will issue an announcement in the event that there is any material change in the use of [REDACTED] from the [REDACTED] as set out above.