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SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

ANNOUNCEMENT

**DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
CAPITAL INJECTION TO SINOCHEM FULING**

Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, has, since 2010, extended several shareholder's loans to its non-wholly owned subsidiary, Sinochem Fuling, for the purposes of satisfying the needs of Sinochem Fuling's daily operation and business development. As at the date of this announcement, the outstanding amount of such shareholder's loans is RMB1,692,620,000.

The Board announces that on 16 March 2020, Sinochem Fertilizer, Sinochem Fuling, Fuling SASAC, Fuling SAM and SCFP entered into the Agreement, pursuant to which (i) Sinochem Fertilizer agreed to convert an amount of RMB700,000,000 in the outstanding shareholder's loans extended by it to Sinochem Fuling into an additional registered capital of Sinochem Fuling; and (ii) Fuling SAM, a wholly-owned subsidiary of Fuling SASAC, agreed to subscribe for an additional registered capital of Sinochem Fuling of RMB210,000,000 in cash. Upon completion of the Transaction, the registered capital of Sinochem Fuling will increase from RMB148,000,000 to RMB1,058,000,000, and the shareholding percentage of Sinochem Fertilizer in Sinochem Fuling will increase from 60% to 74.56%.

LISTING RULES IMPLICATIONS

Given that the applicable percentage ratios in respect of the Capital Injection by Sinochem Fertilizer are more than 5% but less than 25%, the Capital Injection by Sinochem Fertilizer constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Sinochem Fuling is an indirect non-wholly owned subsidiary of the Company. As at the date of this announcement, Fuling SASAC holds 38.75% equity interest in Sinochem Fuling and is therefore a substantial shareholder of Sinochem Fuling. Fuling SAM is a connected person of the Company at the subsidiary level by virtue of it being a wholly-owned subsidiary of Fuling SASAC. As such, the Capital Injection by Fuling SAM constitutes a connected transaction between the Group and the connected person at the subsidiary level under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Capital Injection by Fuling SAM are more than 1% but less than 5%, the Capital Injection by Fuling SAM is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, has, since 2010, extended several shareholder's loans to its non-wholly owned subsidiary, Sinochem Fuling, for the purposes of satisfying the needs of Sinochem Fuling's daily operation and business development. As at the date of this announcement, the outstanding amount of such shareholder's loans is RMB1,692,620,000.

The Board announces that on 16 March 2020, Sinochem Fertilizer, Sinochem Fuling, Fuling SASAC, Fuling SAM and SCFP entered into the Agreement, pursuant to which (i) Sinochem Fertilizer agreed to convert an amount of RMB700,000,000 in the outstanding shareholder's loans extended by it to Sinochem Fuling into an additional registered capital of Sinochem Fuling; and (ii) Fuling SAM, a wholly-owned subsidiary of Fuling SASAC, agreed to subscribe for an additional registered capital of Sinochem Fuling of RMB210,000,000 in cash. Upon completion of the Transaction, the registered capital of Sinochem Fuling will increase from RMB148,000,000 to RMB1,058,000,000, and the shareholding percentage of Sinochem Fertilizer in Sinochem Fuling will increase from 60% to 74.56%.

PRINCIPAL TERMS OF THE AGREEMENT

Date

16 March 2020

Parties

- (a) Sinochem Fertilizer
- (b) Sinochem Fuling
- (c) Fuling SASAC
- (d) Fuling SAM
- (e) SCFP

Nature of the Transaction

Capital Injection by Sinochem Fertilizer

Pursuant to the Agreement, Sinochem Fertilizer agreed to convert an amount of RMB700,000,000 in the outstanding shareholder's loans extended by it to Sinochem Fuling into an additional registered capital of Sinochem Fuling. As the Capital Injection by Sinochem Fertilizer is to be made through the conversion of shareholder's loans into registered capital, Sinochem Fertilizer is not required to make any cash payment.

Sinochem Fertilizer shall complete the conversion of the shareholder's loan in two steps, including the conversion of (i) the debt of an amount of RMB500,000,000 within five business days from the date of the Agreement or the date on which the existing shareholders of Sinochem Fuling approve the Transaction by way of shareholders' resolution (whichever is later), and (ii) the debt of the remaining amount of RMB200,000,000 by 30 June 2021.

Capital Injection by Fuling SAM

Pursuant to the Agreement, Fuling SAM, a wholly-owned subsidiary of Fuling SASAC, agreed to subscribe for an additional registered capital of Sinochem Fuling of RMB210,000,000 in cash.

Fuling SAM shall pay its subscribed registered capital to Sinochem Fuling in two steps, including the payment of (i) an amount of RMB150,000,000 within five business days from the date of the Agreement or the date on which the existing shareholders of Sinochem Fuling approve the Transaction by way of shareholders' resolution (whichever is later), and (ii) the remaining amount of RMB60,000,000 by 30 June 2021.

Basis for Determining the Amount of Capital Injection

Based on Sinochem Fuling's previous experiences and its communications with independent commercial banks, it planned to lower its debt asset ratio to a range between 60% and 70% to enhance its bank financing capability. The amount of capital injection by each of Sinochem Fertilizer and Fuling SAM to Sinochem Fuling was determined by reference to the shareholding percentage of the parties in Sinochem Fuling and based on the above debt asset ratio and the financial information of Sinochem Fuling for the year ended 31 December 2018.

Corporate Governance

As the shareholding percentage of the shareholders in Sinochem Fuling is to be changed as a result of the Transaction, the parties have agreed to make adjustments to the corporate governance structure of Sinochem Fuling.

Pursuant to the Agreement, Sinochem Fuling shall have a board of directors consisting of seven directors, of whom four shall be nominated by Sinochem Fertilizer, two shall be nominated by Fuling SASAC and the remaining one shall be elected by employees. The chairman of Sinochem Fuling shall be nominated by Sinochem Fertilizer, whereas the vice chairman of Sinochem Fuling shall be nominated by Fuling SASAC. Sinochem Fuling shall have a supervisory committee consisting of three supervisors, of whom one shall be nominated by Sinochem Fertilizer, one shall be nominated by Fuling SASAC and the remaining one shall be elected by employees.

Completion

Sinochem Fuling shall complete the accounting treatment in respect of the Transaction, the corresponding amendments to its register of members and articles of association, as well as the formalities in relation to the change of registration with the authority for industrial and commercial administration.

Pursuant to the Agreement, before the completion of capital injection in full by Sinochem Fertilizer and Fuling SAM with respect to their respective subscription of additional registered capital of Sinochem Fuling, the profit and loss of Sinochem Fuling shall be borne by its shareholders in proportion to their paid-in capital contribution.

INFORMATION ON SINOCEM FULING

Established in 1966, Sinochem Fuling is principally engaged in the production and sale of phosphate and compound fertilizers. As at the date of this announcement, Sinochem Fuling has a registered capital of RMB148,000,000. Upon completion of the Transaction, its registered capital will increase to RMB1,058,000,000. Sinochem Fuling will remain as a non-wholly owned subsidiary of Sinochem Fertilizer, and its accounts will continue to be consolidated into the accounts of the Group. Before and following the completion of the Transaction, the shareholding structure of Sinochem Fuling is and will be as follows:

	As at the date of this announcement		Following the completion of the Transaction	
	<i>Capital contribution (RMB)</i>	<i>Percentage</i>	<i>Capital contribution (RMB)</i>	<i>Percentage</i>
Sinochem Fertilizer	88,800,000	60%	788,800,000	74.56%
Fuling SASAC	57,350,000	38.75%	57,350,000	5.42%
Fuling SAM	–	–	210,000,000	19.85%
SCFP	1,850,000	1.25%	1,850,000	0.17%
Total	<u>148,000,000</u>	<u>100%</u>	<u>1,058,000,000</u>	<u>100%</u>

Based on the financial statements of Sinochem Fuling prepared in accordance with the China Accounting Standards for Business Enterprises, its unaudited net liabilities as at 31 December 2019 is approximately RMB249.12 million. The profits of Sinochem Fuling for the two years ended 31 December 2019 are as follows:

Unit: Approximately RMB million

	Year ended 31 December 2018 <i>(Audited)</i>	Year ended 31 December 2019 <i>(Unaudited)</i>
Profit before taxation	64.35	40.19
Profit after taxation	63.56	38.90

REASONS FOR AND BENEFITS OF THE TRANSACTION

According to the requirements under the environmental policies of the local government, Sinochem Fuling is required to relocate its production facilities. The funds required by Sinochem Fuling for the relocation of its production facilities will be partially satisfied by bank loans. The Transaction can reduce the debt burden of Sinochem Fuling, improve its debt asset ratio and increase its bank financing capability, which help promote the relocation and construction of its production facilities. The relocation of production facilities of Sinochem Fuling is a key project of the Group in Southwest China. The enhancement of its financing capability will provide strong support for Sinochem Fuling to smoothly complete its relocation and construction of production facilities.

Before and following the completion of the Transaction, Sinochem Fuling has been and will remain as a non-wholly owned subsidiary of the Company, and its accounts have been and will continue to be consolidated into the accounts of the Group. Upon completion of the Transaction, the shareholding percentage of Sinochem Fertilizer in Sinochem Fuling will increase from 60% to 74.56%, and the debt investment in an amount of RMB700,000,000 made by Sinochem Fertilizer to Sinochem Fuling will be changed to long-term equity investment. As the debt of Sinochem Fuling and the long-term equity investment of Sinochem Fertilizer will be offset internally in the Group's consolidated financial statements, the Transaction will have no material impact on the assets and liabilities of the Group.

The Directors (including the independent non-executive Directors) are of the view that the Transaction is entered into by the Group in its ordinary and usual course of business, on normal commercial terms, is fair and reasonable and in the interests of the Company and its shareholders as a whole. As none of the Directors is regarded as having a material interest in the Transaction, no Director has abstained from voting on the resolution of the Board approving the Transaction.

LISTING RULES IMPLICATIONS

Given that the applicable percentage ratios in respect of the Capital Injection by Sinochem Fertilizer are more than 5% but less than 25%, the Capital Injection by Sinochem Fertilizer constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Sinochem Fuling is an indirect non-wholly owned subsidiary of the Company. As at the date of this announcement, Fuling SASAC holds 38.75% equity interest in Sinochem Fuling and is therefore a substantial shareholder of Sinochem Fuling. Fuling SAM is a connected person of the Company at the subsidiary level by virtue of it being a wholly-owned subsidiary of Fuling SASAC. As such, the Capital Injection by Fuling SAM constitutes a connected transaction between the Group and the connected person at the subsidiary level under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Capital Injection by Fuling SAM are more than 1% but less than 5%, the Capital Injection by Fuling SAM is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

The Company is principally engaged in the production, procurement and sale of fertilizers and related products in the PRC. The main business comprises research and development, production, procurement, distribution and agricultural services of fertilizers and forms a vertically integrated business model combining upstream and downstream businesses.

Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, is principally engaged in the production, import, export, distribution, wholesale and retail of fertilizer raw materials and products, as well as research and development and services in the field of fertilizer-related business and products.

Fuling SASAC is an agency directly under the administration of Fuling District Government of Chongqing, which is primarily responsible for performing the duties and responsibilities of an investor to direct and push forward the reform and restructuring of state-owned enterprises; monitoring the value preservation and appreciation of state-owned assets of the enterprises under its supervision to strengthen the management of state-owned assets; promoting the establishment of a modern corporate system for state-owned enterprises to optimize the corporate governance structure; and pushing forward the strategic adjustment to the structure and landscape of the state-owned economy.

Fuling SAM is a wholly-owned subsidiary of Fuling SASAC, which primarily undertakes the investments made by Fuling District Government in key industries and projects and its land consolidation, and is engaged in the procurement and sale of shale gas and natural gas, as well as the investment and financing business associated with the investment, operation and management of state-owned assets.

SCFP is principally engaged in the manufacturing and processing of compound fertilizer products and packaging products, as well as the sale of fertilizers and chemical products. SCFP is owned as to 95% and 5% by Lu Dongming and Lu Peiming, respectively, both of whom are Chinese natural persons, and third parties independent of the Company and its connected persons.

DEFINITIONS

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

“Agreement”	the agreement dated 16 March 2020 entered into by and among Sinochem Fertilizer, Sinochem Fuling, Fuling SASAC, Fuling SAM and SCFP in respect of the Transaction
“Board”	the board of Directors of the Company
“Capital Injection by Fuling SAM”	the subscription by Fuling SAM of an additional registered capital of Sinochem Fuling of RMB210,000,000 in cash
“Capital Injection by Sinochem Fertilizer”	the conversion by Sinochem Fertilizer of an amount of RMB700,000,000 in the outstanding shareholder’s loans extended by it to Sinochem Fuling into an additional registered capital of Sinochem Fuling
“Company”	Sinofert Holdings Limited, a company incorporated on 26 May 1994 in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Fuling SAM”	重慶市涪陵國有資產投資經營集團有限公司(Chongqing Fuling State-owned Assets Management Group Co., Ltd.), a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of Fuling SASAC
“Fuling SASAC”	the Fuling District State-owned Assets Supervision and Administration Commission of Chongqing, which holds 38.75% equity interest in Sinochem Fuling prior to the completion of the Transaction
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macao”	the Macao Special Administrative Region of the PRC

“PRC”	the People’s Republic of China, which for the purposes of this announcement only, exclude Hong Kong, Macao and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SCFP”	蘇州複合肥廠有限公司 (Suzhou Compound Fertilizer Plant Co., Ltd.), a company incorporated in the PRC with limited liability, which holds 1.25% equity interest in Sinochem Fuling prior to the completion of the Transaction
“Sinochem Fertilizer”	中化化肥有限公司 (Sinochem Fertilizer Company Limited), a company incorporated in the PRC with limited liability, and an indirect wholly-owned subsidiary of the Company, which holds 60% equity interest in Sinochem Fuling prior to the completion of the Transaction
“Sinochem Fuling”	中化重慶涪陵化工有限公司 (Sinochem Fuling Chongqing Chemical Industry Co., Ltd.), a company incorporated in the PRC with limited liability, and a non-wholly owned subsidiary of Sinochem Fertilizer
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“Transaction”	the Capital Injection by Sinochem Fertilizer and the Capital Injection by Fuling SAM
“%”	percent

For and on behalf of the Board
SINOFERT HOLDINGS LIMITED
Qin Hengde
Executive Director and Chief Executive Officer

Hong Kong, 16 March 2020

As at the date of this announcement, the executive directors of the Company are Mr. Qin Hengde (Chief Executive Officer), Mr. Feng Mingwei and Mr. Harry Yang; the non-executive director of the Company is Mr. Yang Lin; and the independent non-executive directors of the Company are Mr. Ko Ming Tung, Edward, Mr. Lu Xin and Mr. Tse Hau Yin, Aloysius.

* *For identification purposes only*