
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Sinofert Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

CONTINUING CONNECTED TRANSACTIONS UNDER THE AGRICULTURAL PRODUCTS PURCHASE AND SALE FRAMEWORK AGREEMENT AND THE FERTILIZER IMPORT FRAMEWORK AGREEMENT AND NOTICE OF SPECIAL GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 17 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from Somerley, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 41 of this circular.

A notice convening the SGM of Sinofert Holdings Limited to be held at Salon IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 29 December 2021 at 10:00 a.m. is set out on pages 45 to 47 of this circular. Whether or not you are able to attend and vote at the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy as instructed will not preclude you from subsequently attending and voting at the meeting or any adjourned meeting if you so wish.

PRECAUTIONARY MEASURES FOR THE SGM

Please see page 1 of this circular for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the SGM, including:

- **compulsory body temperature checks and health declarations**
- **wearing of surgical face masks**
- **no refreshment will be served or arranged to be taken away**

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company encourages attendees to wear surgical face masks and reminds shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the SGM as an alternative to attending the SGM in person.

CONTENTS

	<i>Page</i>
PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING . . .	1
DEFINITIONS	2
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	18
LETTER FROM SOMERLEY	20
APPENDIX – GENERAL INFORMATION	42
NOTICE OF SPECIAL GENERAL MEETING	45

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

The health of our shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the SGM to protect attending shareholders, staff and stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted for every shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue.
- (ii) The Company encourages each attendee to wear a surgical face mask throughout the meeting and inside the meeting venue, and to maintain a safe distance between seats.
- (iii) No refreshment will be served or arranged to be taken away.
- (iv) Each attendee may be asked whether (a) he/she travels outside of Hong Kong within the 21-day period immediately before the SGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.

In the interest of all stakeholders' health and safety and in accordance with recent guidelines for prevention and control of the spread of COVID-19, the Company reminds all shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the SGM instead of attending the SGM in person, by completing and returning the form of proxy attached to this circular.

If any shareholder chooses not to attend the SGM in person but has any question about any resolution or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to our principal place of business in Hong Kong or to our email at ir_sinofert@sinochem.com.

If any shareholder has any question relating to the SGM, please contact Tricor Secretaries Limited, the branch share registrar and transfer office of the Company in Hong Kong as follows:

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Email: is-enquiries@hk.tricorglobal.com
Tel: (852) 2980 1333

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meaning:

“Agricultural Products Purchase and Sale Framework Agreement”	the framework agreement for the purchase and sale of agricultural products dated 22 November 2021 entered into between Sinochem Fertilizer and Sinochem Holdings
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“ChemChina”	中國化工集團有限公司 (China National Chemical Corporation Limited), a state-owned enterprise incorporated in the PRC, and the indirect controlling shareholder of the Company
“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”	has the same meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the same meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Fertilizer Import Framework Agreement”	the import and sale framework agreement for fertilizer and other fertilizer raw materials dated 22 November 2021 entered into among the Company, Sinochem Fertilizer and Sinochem Group
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company formed to consider (i) the Agricultural Products Purchase and Sale Framework Agreement, the transactions contemplated thereunder and the proposed annual caps, and (ii) the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed annual caps
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the Agricultural Products Purchase and Sale Framework Agreement, the transactions contemplated thereunder and the proposed annual caps, and (ii) the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed annual caps
“Independent Shareholders”	shareholders other than ChemChina and its associates
“Latest Practicable Date”	6 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, which for the purposes of this circular only, excludes Hong Kong, Macao Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at Salon IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 29 December 2021 at 10:00 a.m. or any adjournment thereof, the notice of which is set out on pages 45 to 47 of this circular

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“shareholder(s)”	registered holder(s) of Shares
“Sinochem Fertilizer”	中化化肥有限公司 (Sinochem Fertilizer Company Limited), a limited liability company incorporated in the PRC, and an indirect wholly-owned subsidiary of the Company
“Sinochem Group”	中國中化集團有限公司 (Sinochem Group Co., Ltd.), a state-owned enterprise incorporated in the PRC
“Sinochem Holdings”	中國中化控股有限責任公司 (Sinochem Holdings Corporation Ltd.), a state-owned enterprise established in the PRC, which is wholly owned by SASAC and is the holding company of ChemChina and Sinochem Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	percent

LETTER FROM THE BOARD

SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

Executive Directors:

QIN Hengde (*Chief Executive Officer*)
FENG Mingwei
Harry YANG

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Non-executive Director:

J. Erik FYRWALD (*Chairman*)

Principal place of business:

Unit 4705, 47th Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Independent Non-executive Directors:

KO Ming Tung, Edward
LU Xin
TSE Hau Yin, Aloysius

13 December 2021

To: the shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
UNDER THE AGRICULTURAL PRODUCTS PURCHASE AND SALE
FRAMEWORK AGREEMENT
AND
THE FERTILIZER IMPORT FRAMEWORK AGREEMENT**

INTRODUCTION

Reference is made to the announcement of the Company dated 22 November 2021 in relation to the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement. The transactions contemplated under the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement constitute continuing connected transactions of the Company, and are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with (i) further information on the Agricultural Products Purchase and Sale Framework Agreement, the transactions contemplated thereunder and the proposed annual caps; (ii) further information on the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed annual caps; (iii) the letter of advice from the Independent Board Committee to the

LETTER FROM THE BOARD

Independent Shareholders; (iv) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (v) the notice of the SGM; and (vi) other information as required under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

(A) Agricultural Products Purchase and Sale Framework Agreement

Reference is made to (i) the announcement of the Company dated 29 October 2020 in relation to the existing agricultural products purchase and sale framework agreement entered into between Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, and ChemChina, and (ii) the announcement of the Company dated 24 August 2021 in relation to the existing fertilizer purchase and sale framework agreement entered into between Sinochem Fertilizer and Sinochem Group. Such existing agreements will expire on 31 December 2021.

On 22 November 2021, Sinochem Fertilizer entered into the Agricultural Products Purchase and Sale Framework Agreement with Sinochem Holdings, the holding company of ChemChina and Sinochem Group, pursuant to which Sinochem Fertilizer will continue to purchase from and/or sell to subsidiaries of Sinochem Holdings (including ChemChina and Sinochem Group and their respective subsidiaries) certain agricultural products (including all types of products under the above existing agreements) within the PRC during the period from 1 January 2022 to 31 December 2024 (both days inclusive).

Principal Terms of the Agricultural Products Purchase and Sale Framework Agreement

Date

22 November 2021

Parties

- (a) Sinochem Fertilizer
- (b) Sinochem Holdings

Nature of transactions

Pursuant to the Agricultural Products Purchase and Sale Framework Agreement, Sinochem Fertilizer will purchase from and/or sell to subsidiaries of Sinochem Holdings certain agricultural products, including fertilizers (such as nitrogen fertilizer, phosphate fertilizer, potash fertilizer and compound fertilizer), agrichemicals (such as pesticide, fungicide and herbicide) and seeds within the PRC.

It is expected that the agricultural products to be purchased by Sinochem Fertilizer from subsidiaries of Sinochem Holdings will mainly include nitrogen fertilizer, agrichemicals and seeds, while the agricultural products to be sold by Sinochem Fertilizer to subsidiaries of Sinochem Holdings will mainly include phosphate fertilizer, potash fertilizer,

LETTER FROM THE BOARD

compound fertilizer and nitrogen fertilizer. Based on Sinochem Fertilizer's purchase and sale plans, it is expected that Sinochem Fertilizer will source nitrogen fertilizer from independent suppliers and certain subsidiaries of Sinochem Holdings ("**Nitrogen Fertilizer Suppliers**"). Separately, a small amount of nitrogen fertilizer may be sold to other subsidiaries of Sinochem Holdings ("**Nitrogen Fertilizer Customers**") that operate in different regions of the Nitrogen Fertilizer Suppliers. This is because the sales and logistics network of the Nitrogen Fertilizer Suppliers may not cover the regions where the Nitrogen Fertilizer Customers operate their business, and the Nitrogen Fertilizer Customers intend to purchase through Sinochem Fertilizer who has the strategic centralized procurement capability and extensive service network to supply nitrogen fertilizer. Save for nitrogen fertilizer, Sinochem Fertilizer will not purchase from and sell to subsidiaries of Sinochem Holdings agricultural products of the same type.

Pricing

Pursuant to the Agricultural Products Purchase and Sale Framework Agreement, prices of agricultural products shall be determined with reference to the fair market prices of the products within the PRC at the time when Sinochem Fertilizer or the relevant subsidiary of Sinochem Holdings submits its purchase plan for the relevant products.

In determining the fair market price of agricultural products, the Group mainly makes reference to the prices provided by key suppliers and the ex-factory prices of large factories at the places of origin of the relevant products. The Group maintains regular contacts with producers, distributors and traders of agricultural products, keeping abreast of the latest prices of agricultural products.

The Group also makes reference to the reports published by certain independent commodity information providers (the "**Independent Commodity Information Providers**") such as Baiinfo (百川盈孚, www.baiinfo.com) and OilChem China (隆眾資訊, www.oilchem.net). Such reports, usually updated on a regular basis and available to the Group by subscription, provide up to date information on market trend and prevailing market prices.

Purchase of agricultural products

With respect to the purchase of agricultural products, the Group will compare three or more reference prices and take into account the demand of its downstream customers when determining the prices of the transactions.

Before placing a purchase order with the relevant subsidiary of Sinochem Holdings for fertilizer products, the Group will compare (i) its historical prices for the purchase of relevant fertilizer products, (ii) the prices offered by independent third parties and subsidiaries of Sinochem Holdings, and (iii) the latest market prices published by the Independent Commodity Information Providers. The Group will only place purchase order with the relevant subsidiary of Sinochem Holdings when the terms are no less favourable to the Group than those offered by independent third parties for the provision of a comparable quantity of the relevant fertilizer products.

LETTER FROM THE BOARD

In respect of agrichemicals (such as pesticide, fungicide and herbicide) and seeds, as prices of agrichemicals and seeds vary largely among types and specifications, reference prices from independent third parties may not be available or comparable. In order to ensure that the pricing terms are no less favourable to the Group, the Group will look into the prices of relevant agrichemicals and seeds quoted from subsidiaries of Sinochem Holdings, and (i) compare such prices against the Group's historical purchase prices of relevant agrichemicals and seeds, and (ii) evaluate the estimated gross profit margin based on such quoted prices and overhead costs of the relevant agrichemicals and seeds and compare against the Group's historical gross profit margin from the same or similar type of product.

Sale of agricultural products

With respect to the sale of agricultural products, in order to ensure that the terms (including the prices) of the sales of agricultural products by Sinochem Fertilizer to the relevant subsidiary of Sinochem Holdings are no less favourable to the Group than those entered into by the Group with independent third parties, the Group will take into account the then purchase prices from its upstream suppliers and make comparison of selling prices of similar type of agricultural products to independent third parties. The Group will also make reference to the latest data and price trend published by the Independent Commodity Information Providers to ensure that the selling prices to subsidiaries of Sinochem Holdings are in line with the latest market prices of the relevant products.

Internal approval process

The purchase and sale prices will be reported to the manager of the relevant department, and then submitted to the person in charge of the business for approval.

As the purchase and sale process involves reference to industry reports as well as up to date market prices as mentioned above, the Company considers that the methods and procedures adopted above can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

Payment

Sinochem Fertilizer shall enter into specific agreements with the relevant subsidiary of Sinochem Holdings pursuant to the Agricultural Products Purchase and Sale Framework Agreement in relation to the type, quantity, price and delivery schedule of the agricultural products. Payments for agricultural products shall mainly be settled by way of payment on delivery or advance payment.

Term

Subject to obtaining the approval from the Independent Shareholders at the SGM, the Agricultural Products Purchase and Sale Framework Agreement will have a term from 1 January 2022 to 31 December 2024 (both days inclusive).

LETTER FROM THE BOARD

Annual Caps

The Company estimates that the annual caps for the three years ending 31 December 2024 in respect of the purchase of agricultural products by Sinochem Fertilizer from subsidiaries of Sinochem Holdings will be RMB410,000,000, RMB520,000,000 and RMB630,000,000, respectively, and the annual caps for the three years ending 31 December 2024 in respect of the sale of agricultural products by Sinochem Fertilizer to subsidiaries of Sinochem Holdings will be RMB2,260,000,000, RMB3,430,000,000 and RMB4,480,000,000, respectively. The parties have determined such annual caps based on Sinochem Fertilizer's purchase and sale plans and the projected quantities of purchase and sale of agricultural products for years from 2022 to 2024, as well as the projected average price per tonne of agricultural products (which is determined in accordance with the latest prevailing market prices and/or the latest transaction prices).

For the two years ended 31 December 2020 and the ten months ended 31 October 2021, the historical amounts of the purchase of agricultural products by Sinochem Fertilizer from the relevant entities were approximately RMB54,305,700, RMB274,705,800 and RMB287,796,600, respectively. For the two years ended 31 December 2020 and the ten months ended 31 October 2021, the historical amounts of the sale of agricultural products by Sinochem Fertilizer to the relevant entities were approximately RMB455,285,600, RMB514,902,400 and RMB621,048,600, respectively.

In determining the annual caps in respect of the purchase of agricultural products by Sinochem Fertilizer from subsidiaries of Sinochem Holdings, the Company has considered the increasing trend of the historical amounts, which is mainly due to the strengthened cooperation between subsidiaries of ChemChina and the Group since mid-2020 and the increase in average purchase price of agricultural products. Historically, Sinochem Fertilizer's transaction volume of agrichemicals was relatively small and it therefore faced difficulties in sourcing agrichemicals from independent suppliers who usually required bulk purchase. Since 2020, Sinochem Fertilizer has increased its allocation of resources in the agrichemicals business. Along with the development of its agrichemicals business, Sinochem Fertilizer intends to increase its purchase of high-end agrichemicals, expand its procurement channel by sourcing agrichemicals from both independent suppliers and subsidiaries of Sinochem Holdings, and further optimize its product structure with particular focus on products with high profit margin. As such, it is expected that the amount of the purchase of agricultural products by Sinochem Fertilizer from subsidiaries of Sinochem Holdings will continue to increase at an annual growth rate of over 20% during the term of the Agricultural Products Purchase and Sale Framework Agreement. Such annual growth rate has been determined by the Company with reference to the historical growth trend, in particular the annualized amount of purchase for the year ending 31 December 2021, which represents an increase of over 20% as compared to the full year amount of 2020.

With respect to the sale of agricultural products by Sinochem Fertilizer to subsidiaries of Sinochem Holdings, the Company noted that certain subsidiaries of Sinochem Holdings experienced rapid business growth in recent years, including Syngenta Group Co., Ltd. ("**Syngenta Group**"), a subsidiary of Sinochem Holdings and the largest customer historically and as expected under the Agricultural Products Purchase and Sale Framework Agreement. For the two years ended 31 December 2020 and the ten months ended 31

LETTER FROM THE BOARD

October 2021, the amount of sales of agricultural products by Sinochem Fertilizer to Syngenta Group and its subsidiaries accounted for approximately 90% of the total sales amount of Sinochem Fertilizer to subsidiaries of Sinochem Holdings. The significant increase in the annual caps in respect of the sale of agricultural products in the next three years as compared to the historical levels was mainly contributed by the rapid business expansion of modern agricultural technological platform (“MAP”) business operated by Syngenta Group and its subsidiaries. According to the listing document filed with the Shanghai Stock Exchange by Syngenta Group, its revenue arising from the MAP business increased significantly from approximately RMB0.9 billion in 2018 to approximately RMB1.6 billion and approximately RMB4.9 billion in 2019 and 2020, respectively. The growth trend accelerated in the first quarter of 2021 and its revenue from the MAP business reached approximately RMB1.8 billion, representing approximately four times increase as compared to the corresponding period of last year. In terms of operational scale, as at 31 December 2020, Syngenta Group has 325 MAP technical service centers and over 900 MAP demonstration farms, serving more than 11 million mu of cultivated land and providing 14,000 professional farmers with whole-process planting technical services online and offline. According to its listing document (subject to approval from, among others, the China Securities Regulatory Commission), Syngenta Group plans to utilize the proceeds of approximately RMB7.8 billion from its initial public offering to further expand its MAP business (subject to the final result of the total amount of proceeds raised from the initial public offering and the allocation of proceeds among the projects as disclosed in the listing document). In determining the annual caps in respect of the sale of agricultural products, the Company has taken into account the business growth of subsidiaries of Sinochem Holdings, in particular Syngenta Group and its subsidiaries as mentioned above, and relied on their purchase plans for the next three years submitted to Sinochem Fertilizer. On such basis, it is expected that the amount of the sale of agricultural products by Sinochem Fertilizer to subsidiaries of Sinochem Holdings will increase significantly as compared to the historical amounts.

Taking into account the increasing trend of the historical amounts with both of the purchase and sale amounts for the ten months ended 31 October 2021 exceeding their respective full year amount of 2020, and the purchase and sale plans of agricultural products as mentioned above, the Directors are of the view that the annual caps for the three years ending 31 December 2024 are fair and reasonable despite the difference between the historical amounts and the annual caps.

(B) Fertilizer Import Framework Agreement

Reference is made to the announcement of the Company dated 24 August 2021 in relation to the existing fertilizer import framework agreement entered into among the Company, Sinochem Fertilizer and Sinochem Group, which will expire on 31 December 2021.

On 22 November 2021, the Company and Sinochem Fertilizer entered into the Fertilizer Import Framework Agreement with Sinochem Group, pursuant to which Sinochem Group will continue to import fertilizer and other fertilizer raw materials sourced by

LETTER FROM THE BOARD

overseas subsidiaries of the Company and sell them to Sinochem Fertilizer (or other domestic subsidiaries of the Company) during the period from 1 January 2022 to 31 December 2024 (both days inclusive).

Principal Terms of the Fertilizer Import Framework Agreement

Date

22 November 2021

Parties

- (a) The Company
- (b) Sinochem Fertilizer
- (c) Sinochem Group

Nature of transactions

Pursuant to the Fertilizer Import Framework Agreement, fertilizer and other fertilizer raw materials sourced by overseas subsidiaries of the Company for Sinochem Fertilizer (or other domestic subsidiaries of the Company) will first be sold to Sinochem Group. Sinochem Group, as an approved importer of fertilizer and other fertilizer raw materials in the PRC, will import the products sourced by overseas subsidiaries of the Company and sell all such products to Sinochem Fertilizer (or other domestic subsidiaries of the Company).

Pricing

Under the Fertilizer Import Framework Agreement, the pricing principles for the sale and purchase of fertilizer and other fertilizer raw materials between the parties are as follows:

- (i) the price to be paid by Sinochem Group to overseas subsidiaries of the Company for fertilizer and other fertilizer raw materials sold by overseas subsidiaries of the Company to Sinochem Group shall be determined in accordance with the prevailing international market price;
- (ii) the price to be paid by Sinochem Fertilizer (or other domestic subsidiaries of the Company) to Sinochem Group for fertilizer and other fertilizer raw materials (excluding sulphur, the pricing basis of which is set out in (iii) below) sold by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) shall be determined in accordance with the purchase price paid by Sinochem Group plus the import costs incurred by Sinochem Group; and

LETTER FROM THE BOARD

- (iii) the price to be paid by Sinochem Fertilizer (or other domestic subsidiaries of the Company) to Sinochem Group for sulphur sold by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) shall be determined in accordance with the prevailing domestic wholesale price at port.

In determining the prevailing international market price and the domestic price at port, the Group generally makes reference to the reports published by certain independent commodity information providers such as Argus Media (www.argusmedia.com) and Baiinfo (百川盈孚, www.baiinfo.com). Such reports, usually updated on a regular basis and available to the Group by subscription, provide up to date information on market trend and prevailing market prices.

In assessing the import costs incurred by Sinochem Group, the Group generally takes into account the product inspection costs, customs clearing charges, import customs duty, bank charges and other fees payable to third parties (in aggregate representing approximately 1.2% of the import price), as well as the reasonable administrative costs. Such administrative costs mainly include labor costs, office supplies and rents, and staff travel expenses, all of which are the costs to be incurred by Sinochem Group. The administrative costs are expected to account for approximately 0.2% of the total transaction value.

In addition, the Group maintains regular contacts with domestic and overseas producers, distributors and traders, keeping abreast of the latest international bidding price and spot price and the latest domestic port price and factory price. The Group also takes into account the demand of its downstream customers when determining the prices of the transactions. Such prices will be reported to the manager of the relevant department, and then submitted to the person in charge of the business for approval.

As the procurement and approval process involves reference to industry reports as well as up to date market prices as mentioned above, the Company considers that the methods and procedures adopted above can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

Payment

Sinochem Fertilizer (or other domestic subsidiaries of the Company) and Sinochem Group shall enter into specific agreements in relation to the type, specification, quantity, packaging and price of the fertilizer and other fertilizer raw materials, and Sinochem Fertilizer (or other domestic subsidiaries of the Company) shall make the full payment to Sinochem Group by bank draft or other means for its purchase of the fertilizer and other fertilizer raw materials. Upon receipt of the payment made by Sinochem Fertilizer (or other domestic subsidiaries of the Company), Sinochem Group shall enter into specific agreements with overseas subsidiaries of the Company in relation to the import of fertilizer and other raw fertilizer materials.

The parties shall enter into specific agreements setting out detailed terms of the transactions including the payment terms. The payment terms, subject to further negotiation between the parties, will be in line with the market practices.

LETTER FROM THE BOARD

Term

Subject to obtaining the approval from the Independent Shareholders at the SGM, the Fertilizer Import Framework Agreement will have a term from 1 January 2022 to 31 December 2024 (both days inclusive).

Where a party to the Fertilizer Import Framework Agreement has breached any terms of the Fertilizer Import Framework Agreement and such breach is not remedied within 60 days of the date of written notice from the other party(ies) requesting remedy of the breach, the other party(ies) may terminate the Fertilizer Import Framework Agreement. In addition, during the term of the Fertilizer Import Framework Agreement, the Company and Sinochem Fertilizer are entitled to terminate the Fertilizer Import Framework Agreement by giving one month's notice to the other parties.

Annual Caps

Annual caps for continuing connected transactions between overseas subsidiaries of the Company and Sinochem Group

The Company estimates that the annual caps for the three years ending 31 December 2024 in respect of the purchase of fertilizer and other fertilizer raw materials by Sinochem Group from overseas subsidiaries of the Company will be US\$2,000,000,000, US\$2,168,000,000 and US\$2,345,000,000, respectively. Such annual caps have been estimated based on the projected quantity of purchase by Sinochem Group for Sinochem Fertilizer (or other domestic subsidiaries of the Company) through the arrangement with overseas subsidiaries of the Company and the projected average price per tonne of products.

The historical amounts of such transactions for the two years ended 31 December 2020 and the ten months ended 31 October 2021 were approximately US\$784,968,000, US\$595,603,000 and US\$325,825,000, respectively.

Annual caps for continuing connected transactions between Sinochem Fertilizer (or other domestic subsidiaries of the Company) and Sinochem Group

The Company estimates that the annual caps for the three years ending 31 December 2024 in respect of the sale of fertilizer and other fertilizer raw materials by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) will be RMB13,135,000,000, RMB14,321,000,000 and RMB15,523,000,000, respectively. Such annual caps have been estimated based on the projected quantity of sale by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) and the projected average price per tonne of products.

The historical amounts of such transactions for the two years ended 31 December 2020 and the ten months ended 31 October 2021 were approximately RMB5,505,060,000, RMB4,184,540,000 and RMB2,135,735,000, respectively.

LETTER FROM THE BOARD

Following the recovery of fertilizer industry, the Group increased its efforts in the implementation of various business strategies and formulated its business plan for the next few years. In particular, the Group plans to further promote the strategic concentrated procurement to ensure the supply of fertilizer products in the PRC, continue to optimize its product structure with particular focus on fertilizer products with high profit margin, and replenish and adjust its inventory level of fertilizer products with reference to the anticipated increase in demand from downstream customers. In determining the annual caps, the Company has made reference to its business plan, including its sales plan of fertilizer products, for the next three years, compared its historical sales plan with the historical actual sales, and taken into account the increasing trend of the market price of fertilizer products. It is expected that over 70% of the annual caps for each of the three years ending 31 December 2024 will relate to the import of potash fertilizer. The Group's inventory level of fertilizer has fallen to a recent years low to approximately RMB3,696 million as at 30 June 2021, down by approximately 30.6% from approximately RMB5,323 million as at 31 December 2020, and its inventory quantities as at 30 June 2021 also decreased by approximately 35% from those as at 31 December 2020. Such decrease was mainly due to the substantial decrease in import quantity of potash fertilizer in 2021 and the increase in sales volume of different fertilizer products. For example, the Group's sales volume of potash fertilizer in China continued to increase in recent years, by approximately 14.1% from approximately 1.84 million tons in 2019 to approximately 2.10 million tons in 2020, and the demand of downstream customers for potash fertilizer is expected to further increase during the term of the Fertilizer Import Framework Agreement. As such, the Group intends to increase its import of fertilizer products, in particular potash fertilizer, to replenish its inventory level, cater for the anticipated increase in demand from downstream customers, and implement its sales plan for the next few years. Further, the market price of potash has increased substantially in 2021, which also contributed to the significant increase in the annual caps. On such basis, the Directors are of the view that the annual caps for the three years ending 31 December 2024 are fair and reasonable despite the difference between the historical amounts and the annual caps.

REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

(A) Agricultural Products Purchase and Sale Framework Agreement

Subsidiaries of Sinochem Holdings have a good reputation in the industry and can provide sufficient supply of agricultural products covering a wide range of categories with reasonable prices. The purchase of agricultural products by Sinochem Fertilizer from subsidiaries of Sinochem Holdings can diversify the product mix of the Group and enhance its capability of supplying products. Meanwhile, subsidiaries of Sinochem Holdings have extensive customer base which can serve as an effective replenishment to the established markets of Sinochem Fertilizer, and the sale of agricultural products by Sinochem Fertilizer to subsidiaries of Sinochem Holdings can boost up the sale revenues of the Group.

LETTER FROM THE BOARD

(B) Fertilizer Import Framework Agreement

Under the PRC law, the Group is not allowed to import fertilizer and other fertilizer raw materials into the PRC (except for small amount trade in border areas (邊境小額貿易) as approved under the PRC law) and the right to import fertilizer and other fertilizer raw materials is only granted to Sinochem Group and several other importers. In addition, as a state-owned enterprise in the PRC, Sinochem Group enjoys domestic preferential policies issued by the PRC government from time to time, such as import-related preferential policies. As the Group needs to import fertilizer and other fertilizer raw materials through authorized importers, such as Sinochem Group, the Fertilizer Import Framework Agreement was therefore entered into between the parties.

The Directors, including the independent non-executive Directors, are of the view that the continuing connected transactions contemplated under each of the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement have been conducted on normal commercial terms, were entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and its shareholders as a whole, and that the annual caps for the continuing connected transactions contemplated under each of the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement are fair and reasonable.

Mr. J. Erik Fyrwald, Mr. Qin Hengde and Mr. Feng Mingwei, being Directors of the Company and management members of subsidiaries of ChemChina, have abstained from voting on the Board resolution passed to approve the Agricultural Products Purchase and Sale Framework Agreement and the transactions contemplated thereunder. None of the Directors is regarded as having a material interest in the Fertilizer Import Framework Agreement and the transactions contemplated thereunder, and hence none of the Directors has abstained from voting on the Board resolution passed to approve the Fertilizer Import Framework Agreement and the transactions contemplated thereunder.

IMPLICATIONS OF THE LISTING RULES

ChemChina is the indirect controlling shareholder of the Company, holding an effective interest of approximately 52.65% of the Company, and is therefore a connected person of the Company. As ChemChina and Sinochem Group are wholly owned by Sinochem Holdings, each of Sinochem Holdings and Sinochem Group is an associate of ChemChina and also a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under each of the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for continuing connected transactions contemplated under each of the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

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 provision of agricultural services of fertilizers and forms a vertically integrated business model combining upstream and downstream businesses.

Sinochem Fertilizer is 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.

Sinochem Group is a key state-controlled enterprise established in 1950. Sinochem Group's core businesses include: the businesses of energy, chemical, real estate and finance, etc. Sinochem Group is a wholly-owned subsidiary of Sinochem Holdings.

Sinochem Holdings is a large-scale chemical conglomerate. It operates in eight business sectors covering life science, materials science, basic chemicals, environmental science, rubber and tire, machinery and equipment, city operation, and industrial finance. The sole shareholder of Sinochem Holdings is the SASAC.

SGM

Ordinary resolutions approving (i) the Agricultural Products Purchase and Sale Framework Agreement, the transactions contemplated thereunder and the proposed annual caps, and (ii) the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed annual caps will be proposed at the SGM.

As ChemChina may be deemed to be interested in the transactions under the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement, ChemChina and its associates are required to abstain and shall abstain from voting on the ordinary resolutions to be proposed at the SGM to approve (i) the Agricultural Products Purchase and Sale Framework Agreement, the transactions contemplated thereunder and the proposed annual caps, and (ii) the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed annual caps.

A notice convening the SGM to be held at Salon IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 29 December 2021 at 10:00 a.m. is set out on pages 45 to 47 of this circular.

A form of proxy for the SGM is enclosed herewith. Whether or not shareholders are able to attend and vote at the SGM, they are requested to complete the enclosed form of proxy and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM

LETTER FROM THE BOARD

or any adjournment thereof. Completion and return of the form of proxy as instructed will not prevent shareholders from subsequently attending and voting at the SGM or any adjourned meeting if they so wish.

RECOMMENDATION

The Directors consider that the proposed resolutions set out in the notice of the SGM are in the best interests of the Company and the shareholders as a whole. The Directors therefore recommend the shareholders to vote in favour of all the resolutions set out in the notice of the SGM.

FURTHER INFORMATION

The Independent Board Committee comprising all three independent non-executive Directors has been appointed to advise the Independent Shareholders in respect of (i) the Agricultural Products Purchase and Sale Framework Agreement, the transactions contemplated thereunder and the proposed annual caps, and (ii) the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed annual caps. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such regard. Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on pages 18 to 19 of this circular, which contains its advice to the Independent Shareholders, and the letter from Somerley set out on pages 20 to 41 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders. Your attention is also drawn to the general information set out in the Appendix to this circular.

Yours faithfully,
For and on behalf of the Board of
Sinofert Holdings Limited
Qin Hengde
Executive Director and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

13 December 2021

To: the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
UNDER THE AGRICULTURAL PRODUCTS PURCHASE AND SALE
FRAMEWORK AGREEMENT
AND
THE FERTILIZER IMPORT FRAMEWORK AGREEMENT**

We refer to the circular of the Company dated 13 December 2021 (the “**Circular**”) to the shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

In compliance with the Listing Rules, we have been appointed to advise the Independent Shareholders as to whether, in our opinion, (i) the Agricultural Products Purchase and Sale Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) and (ii) the Fertilizer Import Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and the shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. In this connection, Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Agricultural Products Purchase and Sale Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) and (ii) the Fertilizer Import Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps).

We wish to draw your attention to the letter from the Board set out on pages 5 to 17 of the Circular, and the letter from Somerley to the Independent Board Committee and the Independent Shareholders set out on pages 20 to 41 of the Circular which contains its opinion in respect of the (i) the Agricultural Products Purchase and Sale Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) and (ii) the Fertilizer Import Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of Somerley and its recommendation in relation thereto, we consider that (i) the Agricultural Products Purchase and Sale Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) and (ii) the Fertilizer Import Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and the shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that you vote in favour of the relevant resolutions set out in the notice of the SGM.

Yours faithfully,
Independent Board Committee of
Sinofert Holdings Limited
Tse Hau Yin, Aloysius
Ko Ming Tung, Edward
Lu Xin

LETTER FROM SOMERLEY

The following is the text of the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

13 December 2021

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS UNDER THE AGRICULTURAL PRODUCTS PURCHASE AND SALE FRAMEWORK AGREEMENT AND THE FERTILIZER IMPORT FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the purchase and sale of certain agricultural products between Sinochem Fertilizer and subsidiaries of Sinochem Holdings in the PRC (the “**Domestic Arrangements**”) (including the proposed annual caps (the “**Domestic Arrangements Annual Caps**”)) under the Agricultural Products Purchase and Sale Framework Agreement for the three years ending 31 December 2024, and (ii) the import of fertilizer and other fertilizer raw materials for Sinochem Fertilizer (or other domestic subsidiaries of the Company) by Sinochem Group through the arrangement with the Company’s overseas subsidiaries (the “**Import Arrangements**”) (including the proposed annual caps (the “**Import Arrangements Annual Caps**”, together with the Domestic Arrangements Annual Caps, the “**Annual Caps**”)) under the Fertilizer Import Framework Agreement for the three years ending 31 December 2024 (collectively, the “**Continuing Connected Transactions**”), for which the Independent Shareholders’ approval is being sought. Details of the Continuing Connected Transactions and the Annual Caps are contained in the circular of the Company to the Shareholders dated 13 December 2021 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

ChemChina is the indirect controlling shareholder of the Company, holding an effective interest of approximately 52.7% of the Company, and is therefore a connected person of the Company. As ChemChina and Sinochem Group are wholly owned by Sinochem Holdings, each of Sinochem Holdings and Sinochem Group is an associate of ChemChina and also a connected person of the Company. Accordingly, the transactions contemplated under each of

LETTER FROM SOMERLEY

the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement will constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

Given that the applicable percentage ratios in respect of the annual caps for continuing connected transactions contemplated under each of the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of the Continuing Connected Transactions (including the Annual Caps). In view of ChemChina's interests in the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement, ChemChina and its associates are required to abstain and shall abstain from voting on the ordinary resolutions to be proposed at the SGM to approve the Continuing Connected Transactions (including the Annual Caps).

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Ko Ming Tung, Edward, Mr. Lu Xin and Mr. Tse Hau Yin, Aloysius, has been established to advise the Independent Shareholders whether the terms of the Continuing Connected Transactions (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, Somerley, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to certain connected transactions of the Group, details of which were set out in the circulars of the Company dated 2 September 2020, 3 December 2020 and 14 September 2021. The past engagements were limited to providing independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the Listing Rules, for which Somerley received normal professional fees from the Company. As such, we are of the view that the past engagements would not affect the objectivity of our advice to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions (including the Annual Caps). Notwithstanding the past engagements, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) the Group, Sinochem Group, Sinochem Holdings and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete in all material aspects and will remain so up to the time of the SGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has

LETTER FROM SOMERLEY

been withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have, however, not conducted any independent investigation into the business and affairs of the Group, Sinochem Group, Sinochem Holdings or any of their respective subsidiaries or associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Continuing Connected Transactions (including the Annual Caps), we have taken the following principal factors and reasons into consideration:

(A) The Agricultural Products Purchase and Sale Framework Agreement

1. *Information on the parties*

The Group

The Group is principally engaged in the production, procurement and sale of fertilizers and related products in the PRC. Its main business comprises research and development, production, procurement, distribution and agricultural services in relation to fertilizers, and forms a vertically integrated business model combining upstream and downstream businesses. Shares of the Company are listed on the Stock Exchange and the Company had a market capitalisation of approximately HK\$8.0 billion as at the Latest Practicable Date.

The Group's total revenue reached RMB21.4 billion in 2020, and increased further by approximately 8.4% year-on-year to approximately RMB13.6 billion in the first half of 2021. The profit attributable to owners of the Company grew by approximately 4.6% and 48.1% year-on-year to approximately RMB644.1 million and RMB663.4 million respectively, during the same period. According to the Company's 2021 interim report, the continuous growth in revenue and profit was mainly due to (i) the recovery of fertilizer industry and the rise in market price of fertilizer products, and (ii) the Group's increased efforts in strategic procurement, serving customers and business models innovations.

Sinochem Fertilizer is incorporated in the PRC and 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. It is an indirect wholly-owned subsidiary of the Company.

LETTER FROM SOMERLEY

Sinochem Holdings

Sinochem Holdings is a large-scale chemical conglomerate. It operates in eight business sectors covering life science, materials science, basic chemicals, environmental science, rubber and tire, machinery and equipment, city operation, and industrial finance. Sinochem Holdings is the holding company of ChemChina and Sinochem Group. The sole shareholder of Sinochem Holdings is the SASAC.

ChemChina

ChemChina is the controlling shareholder of the Company and is primarily engaged in the production and sale of, among others, various chemical products and equipment (including raw materials, minerals and agrichemicals (excluding hazardous chemicals)), fertilizers, chemical equipment, mechanical products and electronic products; and the research, development, design and construction of, among others, chemical equipment, petrochemicals and water technology.

Sinochem Group

Sinochem Group is a state-controlled enterprise and a Fortune Global 500 Company. Its core businesses include, among others, energy, chemical, real estate and finance.

2. *Background to and reasons for the Domestic Arrangements*

As disclosed in the 2020 annual report and 2021 interim report of the Company, the Group has been implementing various strategic initiatives, which include optimising channel structure and implementing specialised operation, to duly seize market opportunities. The Group has continued to develop new type of fertilizer products in order to differentiate its fertilizer products and demonstrate better market competitiveness. The Group has also explored ways to expand its distribution channels, such as putting efforts on digital marketing, as evidenced by the adoption of “online sales and offline service” model, in order to increase its channel coverage.

As set out in the letter from the Board, subsidiaries of Sinochem Holding have a good reputation in the industry and can provide sufficient supply of agricultural products covering a wide range of categories. The purchase of agricultural products by Sinochem Fertilizer from subsidiaries of Sinochem Holdings can diversify the Group’s product mix and enhance its capability of supplying products. Subsidiaries of Sinochem Holdings have an extensive customer base which can serve as an effective replenishment to the established markets of Sinochem Fertilizer, and the sale of agricultural products by Sinochem Fertilizer to subsidiaries of Sinochem Holdings can boost the revenue of the Group.

Currently, the purchase and sale of certain agricultural products between the parties are governed by (i) the framework agreement dated 29 October 2020 entered into between Sinochem Fertilizer and ChemChina, which was approved by the then independent shareholders of the Company at a shareholders’ meeting held on 18

LETTER FROM SOMERLEY

December 2020; and (ii) the framework agreement dated 24 August 2021 entered into between Sinochem Fertilizer and Sinochem Group, details of which are set out in the announcement of the Company dated 24 August 2021 (collectively, the “**Existing Framework Agreements**”).

The Existing Framework Agreements will expire on 31 December 2021. In view of the upcoming expiry, the Agricultural Products Purchase and Sale Framework Agreement has been entered into between Sinochem Fertilizer and Sinochem Holding on 22 November 2021 to govern and continue the purchase and sale relationship between Sinochem Fertilizer and subsidiaries of Sinochem Holding for the three years ending 31 December 2024.

3. Principal terms of the Agricultural Products Purchase and Sale Framework Agreement

The principal terms of the Agricultural Products Purchase and Sale Framework Agreement are summarised below. For further details, please refer to the section headed “Principal Terms of the Agricultural Products Purchase and Sale Framework Agreement” in the letter from the Board.

General

Pursuant to the Agricultural Products Purchase and Sale Framework Agreement, Sinochem Fertilizer will purchase from and/or sell to subsidiaries of Sinochem Holding certain agricultural products, including fertilizers (such as nitrogen fertilizer, phosphate fertilizer, potash fertilizer and compound fertilizer), agrichemicals (such as pesticide, fungicide and herbicide) and seeds within the PRC.

The agricultural products to be purchased by Sinochem Fertilizer from subsidiaries of Sinochem Holdings will mainly include nitrogen fertilizer, agrichemicals and seeds, while the agricultural products to be sold by Sinochem Fertilizer to subsidiaries of Sinochem Holdings will mainly include phosphate fertilizer, potash fertilizer, compound fertilizer and nitrogen fertilizer. Based on Sinochem Fertilizer’s purchase and sale plans, it is expected that nitrogen fertilizer will be sourced by Sinochem Fertilizer from independent suppliers and certain subsidiaries of Sinochem Holdings (“**Nitrogen Fertilizer Suppliers**”) in certain regions. Separately, a small amount of nitrogen fertilizer may be sold by Sinochem Fertilizer to other subsidiaries of Sinochem Holdings (“**Nitrogen Fertilizer Customers**”) that operates in different regions. As set out in the letter from the Board, the above arrangements are due to the sales and logistics network of the Nitrogen Fertilizer Suppliers may not cover the regions where the Nitrogen Fertilizer Customers operate their business, and the Nitrogen Fertilizer Customers intend to purchase through Sinochem Fertilizer who has the strategic centralised procurement capability and extensive service network to supply such nitrogen fertilizer. Save for nitrogen fertilizer, Sinochem Fertilizer will not purchase from

LETTER FROM SOMERLEY

and sell to subsidiaries of Sinochem Holdings agricultural products of the same type. Having considered the above, we concur with the management of the Group that the above arrangements are acceptable.

Pricing

Pursuant to the Agricultural Products Purchase and Sale Framework Agreement, the pricing shall be determined with reference to the fair market prices of the relevant agricultural products within the PRC at the time when Sinochem Fertilizer or the relevant subsidiary of Sinochem Holdings submits its purchase plan for the relevant products.

In determining the fair market price, the Group mainly makes reference to the prices provided by key suppliers and the ex-factory prices of large factories at the places of origin of the relevant agricultural products. In addition, the Group maintains regular contacts with producers, distributors and traders of agricultural products, keeping abreast of the latest market prices of agricultural products.

The Group also makes reference to the reports published by certain independent commodity information providers (the “**Independent Commodity Information Providers**”), such as Baiinfo (百川盈孚, www.baiinfo.com), Argus Media (<http://www.arguschina.cn>) and OilChem China (隆眾資訊, www.oilchem.net). These reports, which are usually updated on a regular basis and made available to the Group on a subscription basis, provide up-to-date information on market trend and prevailing market prices of fertilizer products.

In respect of purchase of agricultural products

With respect to purchase of agricultural products, the Group will compare three or more reference prices and take into account the demand of its downstream customers when determining the prices of the transactions.

Before placing a purchase order with the relevant subsidiary of Sinochem Holdings for fertilizer products, the Group will compare (i) its historical prices for the purchase of relevant fertilizer products, (ii) the prices offered by independent third parties and subsidiaries of Sinochem Holdings, and (iii) the latest market prices published by the Independent Commodity Information Providers. The Group will only place purchase order with the relevant subsidiary of Sinochem Holdings when the terms are no less favourable to the Group than those offered by independent third parties for the provision of a comparable quantity of the relevant fertilizer products.

In respect of agrichemicals (such as pesticide, fungicide and herbicide) and seeds, as prices of agrichemicals and seeds vary largely among types and specifications, reference prices from independent third parties may not be available or comparable. In order to ensure that the pricing terms are no less favourable to the Group, the Group will look into the prices of relevant agrichemicals and seeds quoted from subsidiaries of Sinochem Holdings, and (i)

LETTER FROM SOMERLEY

compare such prices against the Group's historical purchase prices of relevant agrichemicals and seeds, and (ii) evaluate the estimated gross profit margin based on such quoted prices and overhead costs of the relevant agrichemicals and seeds and compare against the Group's historical gross profit margin from the same or similar type of product.

In respect of sale of agricultural products

With respect to sale of agricultural products, in order to ensure that the terms (including the prices) of sales of agricultural products by Sinochem Fertilizer to the relevant subsidiary of Sinochem Holdings are no less favourable to the Group than those entered into by the Group with independent third parties, the Group will take into account the then purchase prices from its upstream suppliers and make comparison of selling prices of similar type of agricultural products to independent third parties. The Group will also make reference to the latest data and price trend published by the Independent Commodity Information Providers to ensure that the selling prices to subsidiaries of Sinochem Holdings are in line with the then latest market prices of the relevant products.

The purchase and sale prices will be reported to the manager of the relevant department, and then submitted to the person in charge of the business for approval.

According to the letter from the Board, as the purchase and sale process involves reference to industry reports as well as up to date market prices as mentioned above, the Company considers that the methods and procedures adopted above can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

Payment

Sinochem Fertilizer shall enter into specific agreements with the relevant subsidiary of Sinochem Holdings in relation to the type, quantity, price and delivery schedule of the agricultural products. Payments for agricultural products shall mainly be settled by way of payment on delivery or advance payment.

Term

Subject to obtaining the approval by the Independent Shareholders at the SGM, the Agricultural Products Purchase and Sale Framework Agreement has a term of three years, commencing from 1 January 2022 and ending on 31 December 2024 (both days inclusive).

LETTER FROM SOMERLEY

Comparison of terms with independent third parties

We have discussed with the management of the Group and reviewed the lists of transactions, summarising transaction details (such as transaction date, parties involved, product descriptions, transaction price and transaction volume) during the period from 1 January 2021 to 30 September 2021, and selected 51 sample contracts for sale and purchase of agricultural products under the Existing Framework Agreements, which are randomly selected and on the basis that there is at least one sample relating to each of the major products under the Existing Framework Agreements.

In respect of purchase of agricultural products

In respect of fertilizer products (such as nitrogen fertilizer, phosphate fertilizer, potash fertilizer and compound fertilizer), we compared the selected samples with (i) contracts for similar purchases selected from the lists of transactions with independent third parties that were selected on a random basis in the same period, and/or (ii) the then prevailing market price of agricultural products to the extent possible sourced from the Independent Commodity Information Providers. We note from the selected samples that the purchase prices relating to the fertilizer products from subsidiaries of Sinochem Holdings were in line with the prevailing market price of the relevant agricultural products at around that time, and that such purchase, in particular the pricing and credit terms, were on normal commercial terms when compared with those applicable to independent third parties.

In respect of agrichemicals (such as pesticide, fungicide and herbicide), we note that such purchases from subsidiaries of Sinochem Holdings and independent third parties may not be comparable, as the types of agrichemicals vary. As confirmed by the management of the Group, in order to ensure that the pricing terms are no less favourable to the Group, the Company would look into the prices of relevant agrichemicals quoted from subsidiaries of Sinochem Holdings, compare such prices against the Group's historical purchase prices of relevant agrichemicals from subsidiaries of Sinochem Holdings, evaluate the estimated gross profit margin, based on such quoted prices and overhead costs of the relevant agrichemicals, and compare against the Group's historical gross profit margin from the similar product. As mentioned above, the purchase and selling prices of agricultural products will be reported to Sinochem Fertilizer's manager of the basic fertilizer department and the distribution business department, and will be approved by the person in charge of purchase and sale of the relevant agricultural products.

In respect of sale of agricultural products

We compared the selected samples with (i) contracts for similar sales that are randomly selected from the lists of transactions with independent third parties in the same period, and/or (ii) the then prevailing market price of agricultural products, sourced from the Independent Commodity Information Providers. We

LETTER FROM SOMERLEY

note from the selected samples that (i) the selling prices relating to the agricultural products to subsidiaries of Sinochem Holdings were in line with the prevailing market price of the relevant products at around that time, and (ii) such sales, in particular the pricing and credit terms, were on normal commercial terms when compared with those applicable to independent third parties.

4. *The Domestic Arrangements Annual Caps*

(i) *Review of historical figures*

Set out below are the historical transaction amounts relating to the Domestic Arrangements with the relevant entities for the two years ended 31 December 2020 and the ten months ended 31 October 2021, and the relevant caps during the respective period:

	For the year ended 31 December		For the ten months ended
	2019	2020	31 October
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Approximate)</i>	<i>(Approximate)</i>	<i>(Approximate)</i>
Purchase of agricultural products by Sinochem Fertilizer from the relevant entities	54,306	274,706	287,797
Relevant caps	N/A	N/A	494,800
Utilisation rates	N/A	N/A	58.2%
Sale of agricultural products by Sinochem Fertilizer to the relevant entities	455,286	514,902	621,048
Relevant caps	N/A	N/A	700,600
Utilisation rates	N/A	N/A	88.6%

As shown in the above table, purchase of agricultural products by Sinochem Fertilizer from the relevant entities increased significantly during the periods presented above. It grew by more than four times from approximately RMB54.3 million in 2019 to approximately RMB274.7 million in 2020. The growing trend continued to reach approximately RMB287.8 million in the first ten months of 2021, surpassing the full year transaction amount in 2020 and approximately 60% of the annual cap being utilised. As advised by the management of the Group, the significant increase was mainly due to the strengthened cooperation between subsidiaries of ChemChina and the Group since mid-2020, and the increase in average purchase price of agricultural products, mainly as a result of the rising market price of fertilizer products and Sinochem Fertilizer's adjustment to its product structure with focus on higher quality and efficient agrichemicals (such as

LETTER FROM SOMERLEY

pesticide, fungicide and herbicide). As advised by the management of the Group, the increase in 2021 was partly offset by the fact that a major supplier under the Domestic Arrangements had temporary shut down its operation for a few months in 2021, which in turn led to a temporary slow-down of the growth trend in 2021.

Sale of agricultural products by Sinochem Fertilizer to the relevant entities also exhibited an increasing trend during the periods presented above, from approximately RMB455.3 million in 2019 to approximately RMB514.9 million in 2020, and further to approximately RMB621.0 million in the first ten months of 2021, which surpassed the full year transaction amounts in 2020. The relevant annual cap in 2021 had been substantially utilised, being approximately 90%. As advised by the management of the Group, such growing trend was mainly attributable to the increased sale volume of agricultural products sold, mainly driven by the continuous expansion of business and customer base of the relevant entities, and the rise in average selling price of fertilizer products.

(ii) Assessment of the Domestic Arrangements Annual Caps

Set out below are the Domestic Arrangements Annual Caps governing all the transactions contemplated under the Agricultural Products Purchase and Sale Framework Agreement, for the three years ending 31 December 2024 as follow:

	For the year ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Purchase of agricultural products by Sinochem Fertilizer from subsidiaries of Sinochem Holdings	410,000	520,000	630,000
Sale of agricultural products by Sinochem Fertilizer to subsidiaries of Sinochem Holdings	2,260,000	3,430,000	4,480,000

Based on our discussions with the management of the Group, in determining the Domestic Arrangements Annual Caps, the Company has taken into account the purchase and sale plans of Sinochem Fertilizer and subsidiaries of Sinochem Holdings for the three years ending 31 December 2024, in order to estimate the projected prices and quantities of purchase and sale of agricultural products. In assessing the reasonableness of the Domestic Arrangements Annual Caps, we have discussed with the management of the Group the bases and assumptions underlying the projections for the purchase and sale plans in the next three years.

LETTER FROM SOMERLEY

Purchase of agricultural products

In respect of purchase of agricultural products, the annual caps were estimated based on (i) the projected quantities of purchase by Sinochem Fertilizer from subsidiaries of Sinochem Holdings; and (ii) the projected average price per tonne of agricultural products (which is determined in accordance with the latest prevailing market prices and/or the latest transaction prices) for years 2022 to 2024.

When determining the projected purchase quantities of agricultural products, management of the Group has taken into account Sinochem Fertilizer's intention to expand its procurement channel by sourcing agrichemicals from both independent suppliers and subsidiaries of Sinochem Holdings, and further optimize its product structure with focus on higher quality and efficient agrichemicals, in order to differentiate its products from competitors.

As regards the projected purchase prices of fertilizer products, management of the Group has generally made reference to the prevailing market prices for different type of fertilizer products. In this respect, we have reviewed and compared the projected prices of nitrogen fertilizer, being the largest fertilizer product expected to be purchased by the Group under the Domestic Arrangements against the prevailing market prices in October 2021 available from the Independent Commodity Information Providers, and note that they are broadly comparable. With respect to the projected purchase prices of agrichemicals and seeds, the management of the Group has generally made reference to the latest transaction prices in October 2021.

In addition to the above, the Group has taken into account the significant growth in historical transaction amounts, with a compound annual growth rate of approximately 148.3% between 2019 to the first ten months of 2021, and the Group's future business plan to have a closer cooperation with subsidiaries of Sinochem Holdings to purchase additional agricultural products (mainly higher quality and efficient agrichemicals) under the Domestic Arrangements, in order to differentiate its product offerings from competitors. Based on the above, we concur with the management of the Group's view that the purchase of agricultural products by Sinochem Fertilizer from subsidiaries of Sinochem Holdings is expected to continuously increase in the next three years, as discussed above.

Sale of agricultural products

In respect of sale of agricultural products, the annual caps were estimated based on (i) the projected quantities of sales by Sinochem Fertilizer to subsidiaries of Sinochem Holdings; and (ii) the projected average price per tonne of agricultural products (which is determined in accordance with the prevailing market prices) for years 2022 to 2024.

LETTER FROM SOMERLEY

When determining the projected sale quantities of agricultural products, management of the Group has taken into account the purchase plans for years 2022 to 2024 of subsidiaries of Sinochem Holdings, which indicate a significant increase in demand for agricultural products from subsidiaries of Sinochem Holdings.

As confirmed by the management of the Group, approximately 90% of the historical transaction amounts relating to the Domestic Arrangements for the two years ended 31 December 2020 and the ten months ended 31 October 2021 were contributed by subsidiaries of Syngenta Group Co., Ltd (“**Syngenta Group**”), a subsidiary of Sinochem Holdings and the largest customer historically and as expected under the upcoming Domestic Arrangements. Based on our discussions with the management of the Group, the significant increase in the annual caps and demand for the Group’s agricultural products in the next three years as compared to the historical levels was mainly contributed by the rapid business expansion of modern agricultural technological platform (“**MAP**”) business operated by Syngenta Group.

In this respect, we note from the listing document filed in Shanghai Stock Exchange by Syngenta Group that total revenue arising from its MAP business increased significantly from approximately RMB0.9 billion in 2018 to approximately RMB1.6 billion and RMB4.9 billion in 2019 and 2020 respectively. The growth trend accelerated in the first quarter of 2021 and total revenue reached approximately RMB1.8 billion, representing approximately four times increase as compared to the corresponding period last year. In terms of operational scale, as at 31 December 2020, Syngenta Group has 325 MAP technical service centers and over 900 MAP demonstration farms, serving more than 11 million mu of cultivated land and providing 14,000 professional farmers with whole-process planting technical services online and offline. According to its listing document (subject to approval from, among others, the China Securities Regulatory Commission), Syngenta Group plans to utilise the initial public offering proceeds of RMB7.8 billion to further expand its MAP business (subject to the final result of the total amount of proceeds raised from the initial public offering and its allocation among the use of proceeds disclosed in the listing documents). Given the above and having considered the ongoing business relationship between the Group and Syngenta Group, we concur with the management of the Group’s view that the sale of agricultural products by Sinochem Fertilizer to Syngenta Group is expected to significantly increase in the next three years.

As regards the projected selling prices of agricultural products (mainly fertilizer products), management of the Group has generally made reference to the prevailing market prices for different type of agricultural products. In this respect, we have reviewed and compared the projected prices of potash fertilizer and compound fertilizer, being the major products to be supplied by the Group under the Domestic Arrangements, and the prevailing market prices available from available from the Independent Commodity Information Providers and/or the latest transaction prices in October 2021, and note that they are broadly comparable.

LETTER FROM SOMERLEY

General comment

The Group has been strengthening its cooperation with subsidiaries of Sinochem Holdings in recent years, with a view to adjusting its product structure so as to differentiate its fertilizer products and demonstrate better market competitiveness. This has been demonstrated by the rapid growth in historical transaction amounts in recent years. In future, demand for agricultural products is expected to further increase, as explained above. Having considered (i) (*in respect of purchase of agricultural products*) the significant historical growth in transaction amounts and the expected expansion in procurement channel, (ii) (*in respect of sales of agricultural products*) the rapid growth of Syngenta Group (the Group's largest customer under the Domestic Arrangements) in recent years in terms of revenue, the expected further expansion of MAP business according to its listing document, and purchase plans for years 2022 to 2024 of subsidiaries of Sinochem Holdings, as explained above, and (iii) the projected purchase or selling prices of agricultural products are estimated with reference to the latest prevailing market prices and/or the latest transaction prices, we consider it reasonable for the Directors to set the Domestic Arrangements Annual Caps for the three years ending 31 December 2024 as set out above, and it is in the interests of the Group and the Shareholders to determine the Domestic Arrangements Annual Caps in a way that can accommodate the potential growth of the Group's revenue and product differentiation strategy.

(B) The Fertilizer Import Framework Agreement

1. Background to and reasons for the Import Arrangements

Pursuant to the PRC law, only approved importers are allowed to import fertilizer and other fertilizer raw materials into the PRC. The Group is not allowed to do so, except for small amounts in border areas as approved under the PRC law. Based on our discussions with, and as confirmed by, the management of the Group, Sinochem Group is one of the enterprises authorised under the Fertilizer Import Tariff Quota, Allocation Principle and Relevant Procedures for 2022 issued by the Ministry of Commerce of the PRC on 11 October 2021 for import of fertilizer and other fertilizer raw materials into the PRC, and the Group sees no indication that the above law is expected to change in near future.

The Group needs to import fertilizer and other fertilizer raw materials through authorised importers in its ordinary course of business. In addition, as a state-owned enterprise in the PRC, Sinochem Group enjoys domestic preferential policies issued by the PRC government from time to time, such as import-related preferential policies. During the ordinary and usual course of business, subsidiaries of the Company source fertilizer and other fertilizer raw materials from overseas and sell them to Sinochem Group, after which Sinochem Group imports the products into the PRC and sells all such products to Sinochem Fertilizer (or other domestic subsidiaries of the Company).

LETTER FROM SOMERLEY

Currently, the arrangements between the three parties are governed by the existing fertilizer import framework agreement dated 24 August 2021 (the “**Existing Fertilizer Import Framework Agreement**”), which was approved by the then independent shareholders at a shareholders’ meeting held on 30 September 2021. The Existing Fertilizer Import Framework Agreement will expire on 31 December 2021.

In view of the long-term business relationship between the Group and Sinochem Group and Sinochem Group being one of the approved PRC fertilizer importers, the Company (for and on behalf of its overseas subsidiaries) and Sinochem Fertilizer entered into the Fertilizer Import Framework Agreement with Sinochem Group on 22 November 2021, to govern and continue the aforementioned Import Arrangements for the three years ending 31 December 2024.

2. *Principal terms of the Fertilizer Import Framework Agreement*

General

Pursuant to the Fertilizer Import Framework Agreement, fertilizer and other fertilizer raw materials sourced from overseas by the Company’s overseas subsidiaries will first be sold to Sinochem Group, an approved importer of fertilizer and other fertilizer raw materials in the PRC, which will import such products and then sell them to Sinochem Fertilizer (or other domestic subsidiaries of the Company) in the PRC.

As confirmed by the management of the Group, other than the Import Arrangements for the Group, Sinochem Group will not import any fertilizer and other fertilizer raw materials itself or on behalf of other customers during the term of the Fertilizer Import Framework Agreement. In addition, Sinochem Fertilizer (or other domestic subsidiaries of the Company) is free to purchase fertilizer and other fertilizer raw materials from any authorised importers.

Term

Subject to obtaining the approval from the Independent Shareholders at the SGM, the Fertilizer Import Framework Agreement has a term of three years, commencing from 1 January 2022 and ending on 31 December 2024 (both days inclusive).

Pricing

Pursuant to the Fertilizer Import Framework Agreement, the pricing principles for the sale and purchase of fertilizer and other fertilizer raw materials between the parties are as follows:

- (i) the price to be paid by Sinochem Group to overseas subsidiaries of the Company for fertilizer and other fertilizer raw materials sold by overseas subsidiaries of the Company to Sinochem Group shall be determined in accordance with the prevailing international market price;

LETTER FROM SOMERLEY

- (ii) the price to be paid by Sinochem Fertilizer (or other domestic subsidiaries of the Company) to Sinochem Group for fertilizer and other fertilizer raw materials (excluding sulphur, the pricing basis of which is set out in (iii) below) sold by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) shall be on a cost basis, that is, based on purchase price paid by Sinochem Group plus reasonable costs incurred by Sinochem Group (the “**Import Charges**”) in relation to such import (including product inspection costs, customs clearing charges, import customs duty, bank charges and other fees payable to third parties (in aggregate representing 1.2% of the import price), as well as reasonable administrative costs); and
- (iii) the price to be paid by Sinochem Fertilizer (or other domestic subsidiaries of the Company) to Sinochem Group for sulphur sold by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) shall be determined in accordance with the prevailing domestic wholesale price at port.

We note that the above pricing principles are generally consistent with those adopted pursuant to the Existing Fertilizer Import Framework Agreement. Further, we understand from the management of the Group that the reasonable administrative costs included in the Import Charges described above represent costs to be incurred by Sinochem Group, and are expected to account for approximately 0.2% of the total transaction value, which we consider to be immaterial. On this basis, we consider the charging of such administrative costs to be acceptable.

According to the letter from the Board, as the procurement and approval process involves reference to industry reports as well as up-to-date market prices as mentioned above, the Company considers that the methods and procedures adopted above can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

Payment

Sinochem Fertilizer (or other domestic subsidiaries of the Company) and Sinochem Group shall enter into specific agreements in relation to the type, specification, quantity, packaging and price of the fertilizer and other fertilizer raw materials, and Sinochem Fertilizer (or other domestic subsidiaries of the Company) shall make full payment to Sinochem Group by bank draft or other means for its purchase of the fertilizer and other fertilizer raw materials. Upon receipt of the payment made by Sinochem Fertilizer (or other domestic subsidiaries of the Company), Sinochem Group shall enter into specific agreements with overseas subsidiaries of the Company in relation to the import of fertilizer and other fertilizer raw materials. Payments are usually made by telegraphic transfer within 90 days upon signing of the specific agreements.

LETTER FROM SOMERLEY

Comparison of terms with independent third parties

We have discussed with the management of the Group and reviewed the lists of transactions relating to the Import Arrangements covering the period from 1 January 2021 to 30 September 2021, and selected 33 sample contracts under the Existing Fertilizer Import Framework Agreement, which are randomly selected and on the basis that there is at least one sample relating to each of the major products under the Existing Fertilizer Import Framework Agreement. We have compared the sample contracts with (i) contracts for similar purchases selected on a random basis from the lists of transactions with independent fertilizer importers covering the period from 1 January 2021 to 30 September 2021, in the relevant categories, and/or (ii) the respective international market price and domestic wholesale price at port sourced from the Independent Commodity Information Providers. On the basis of our review, we note that the terms of the Import Arrangements as reviewed by us, in particular the pricing terms and credit terms, were in line with the transaction terms between the Group and the independent third parties and/or the international market price or domestic wholesale price at port.

3. *The Import Arrangements Annual Caps*

(i) Review of historical figures

Set out below are the historical transaction amounts relating to the Import Arrangements for the two years ended 31 December 2020 and for the ten months ended 31 October 2021:

	For the year ended 31 December		For the ten months ended 31 October
	2019	2020	2021
	<i>('000)</i>	<i>('000)</i>	<i>('000)</i>
	<i>(Approximate)</i>	<i>(Approximate)</i>	<i>(Approximate)</i>
Transactions between oversea subsidiaries of the Company and Sinochem Group	US\$784,968	US\$595,603	US\$325,825
Transactions between Sinochem Fertilizer (or domestic subsidiaries of the Company) and Sinochem Group	RMB5,505,060	RMB4,184,540	RMB2,135,735

In 2020, domestic sales of fertilizer products by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) decreased by approximately 24.0% to approximately RMB4,184.5 million, while the import of

LETTER FROM SOMERLEY

fertilizer products by Sinochem Group from the Company's overseas subsidiaries also decreased to a similar extent by approximately 24.1% to approximately US\$595.6 million. As advised by the management of the Group, the above decreases were largely due to the negative impact on economy as a result of COVID-19 pandemic, which affected in particular the fertilizer upstream industry chain and resulted in a decline in price of fertilizer products.

Both domestic sales of fertilizer products and the related imports continued to decrease in the first ten months of 2021, recording approximately RMB2,135.7 million and US\$325.8 million respectively, mainly due to the global shipping congestion resulting from COVID-19 pandemic related port disruption.

The annual caps relating to domestic sales of fertilizer products and the related imports were US\$370.0 million and RMB2,600.0 million under the Existing Fertilizer Import Framework Agreement, details of which are set out in the circular of the Company dated 14 September 2021. As advised by the management of the Group, the actual import quantities of fertilizer products through Sinochem Group in the remainder of 2021 is subject to high uncertainties and depends to a large degree on timing of the shipping arrangements.

(ii) Assessment of the Import Arrangements Annual Caps

Transactions between the Company's overseas subsidiaries and Sinochem Group

Set out below are the proposed annual caps in respect of the transactions between the Company's overseas subsidiaries and Sinochem Group under the Fertilizer Import Framework Agreement for the three years ending 31 December 2024.

	For the year ending 31 December		
	2022	2023	2024
	<i>(US\$ million)</i>	<i>(US\$ million)</i>	<i>(US\$ million)</i>
	<i>(Approximate)</i>	<i>(Approximate)</i>	<i>(Approximate)</i>
Transactions between the Company's overseas subsidiaries and Sinochem Group	2,000	2,168	2,345

In assessing the reasonableness of the annual caps, we have discussed with the management of the Group the bases and assumptions underlying the projections for the import of fertilizer products through Sinochem Group, which were estimated primarily based on (i) the projected quantities of purchase by Sinochem Group for Sinochem Fertilizer (or other domestic subsidiaries of the Company) through the arrangement with the Company's overseas subsidiaries; and (ii) the projected average price per tonne of fertilizer products during the term of the Fertilizer Import Framework Agreement. We understand that over 70% of such

LETTER FROM SOMERLEY

annual caps for each of the three years ending 31 December 2024 relates to potash fertilizer, being the major products under the Fertilizer Import Framework Agreement.

When estimating the sale quantities of fertilizer products from the Company's overseas subsidiaries to Sinochem Group for the three years ending 31 December 2024, the management of the Group has taken into account the Group's 2022 – 2024 procurement strategies of potash fertilizer, that a portion of the future expected import is to replenish its inventory level from recent years low and cater for the anticipated increase in demand from downstream customers in the next three years. In this respect, we note the Group's inventory level declined substantially during 2021 and recorded inventories of approximately RMB3,696.0 million as at 30 June 2021, down by approximately 30.6% and 11.9% compared with approximately RMB5,323.0 million as at 31 December 2020 and approximately RMB4,196.2 million as at 30 June 2020. According to the management of the Group, the decrease in inventory level was mainly due to the substantial decrease in import quantities of potash fertilizer in 2021.

According to an industry report issued in late October 2021 by one of the Independent Commodity Information Providers (the “**Industry Report**”), the lower import of muriate of potash by China in 2021 was mainly due to limited product availability stemming from a low contract price set between China and international suppliers in February 2021 that generated little interest from muriate of potash producers. The above, coupled with the continuous increase in sales quantities of potash fertilizer (as explained below), inventory level of the Group decreased in recent quarters. Moreover, such Independent Commodity Information Provider stated its expectation in the Industry Report that China will renegotiate its contract price to be more aligned with global spot markets. According to the Industry Report, the spot price of muriate of potash in southeast Asia markets amounted to approximately US\$580 to 620 per tonne in late October 2021, representing approximately 2.5 times as compared to that in early 2021. Given the above, we concur with the management of the Group the plan to increase its purchase of potash fertilizer from international suppliers starting from next year.

On the other hand, the sale volume of the Group's potash fertilizers increased steadily, by approximately 14.1% from approximately 1.84 million tons in 2019 to approximately 2.10 million tons in 2020 and by approximately 4.2% to approximately 1.17 million tons in the first six months of 2021 as compared to the corresponding period last year.

Based on the above growing trend and having considered the Group's efforts in, among others, the agricultural channel marketing, the enrichment of its product range and the enhancement its core channel system, management of the Group expects to achieve a continuous growth in sale volume of potash fertilizer in the next three years. Therefore, the Group is expected to increase its purchase of potash fertilizer from international suppliers to cater for the increase in demand.

LETTER FROM SOMERLEY

We have also performed independent research and reviewed a report titled “Public Summary: Medium-Term Fertilizer Outlook 2021 – 2025”, published in August 2021 by the International Fertilizer Association (<http://www.fertilizer.org/>), a global fertilizer association with a membership of more than 430 entities according to its website, which (i) estimates global fertilizer use at approximately 198.2 million tons in the year 2020/2021, approximately 5.2% higher than the previous year and the largest increase since the year 2010/2011, and demand for potash (K₂O) rose by approximately 6.2% to approximately 38.5 million tons, and (ii) expects the potash (K₂O) consumption to grow faster than other nutrients, despite the growth slowdown as compared to the year 2020/2021. Having considered the above, we concur with the management of the Group’s view that the increase in purchase of potash fertilizer from international suppliers is to replenish its inventory level and cater for the anticipated increase in demand from downstream customers in the next three years as discussed above.

According to the management of the Group, the projected average price of fertilizer products per tonne were determined mainly with reference to the prevailing international market prices and/or the latest transaction price of fertilizer products in October 2021. In this respect, we have compared the projected prices for potash fertilizer, being the major products under the Fertilizer Import Framework Agreement, to the latest international market price levels available from the Independent Commodity Information Providers, and note that they are broadly comparable.

Transactions between Sinochem Fertilizer (or other domestic subsidiaries of the Company) and Sinochem Group

Set out below are the proposed annual caps in respect of the transactions between Sinochem Fertilizer (or other domestic subsidiaries of the Company) and Sinochem Group under the Fertilizer Import Framework Agreement for the three years ending 31 December 2024.

	For the year ending 31 December		
	2022	2023	2024
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Transactions between Sinochem Fertilizer (or other domestic subsidiaries of the Company) and Sinochem Group	13,135	14,321	15,523

In assessing the reasonableness of the annual caps, we have discussed with the management of the Group the bases and assumptions underlying the projections, which were mainly estimated based on the projected quantities of sale of fertilizer products by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) and the projected average price per tonne

LETTER FROM SOMERLEY

of fertilizer products (which is determined in accordance with (a) in respect of fertilizer and other fertilizer raw materials, the purchase price paid by Sinochem Group to the Company's overseas subsidiaries plus the Import Charges incurred by Sinochem Group as discussed in the section above, and (b) in respect of sulphur, the prevailing domestic wholesale price at port) during the term of the Fertilizer Import Framework Agreement.

General comments

Generally speaking, in our opinion, it is in the interests of the Group and the Shareholders to determine the Import Arrangements Annual Caps in a way that can take into account the prevailing market conditions and accommodate the potential growth of the Group's business and the Group's procurement strategies. In particular, the Group's inventory levels declined to almost two years low, mainly due to the growing in sale volumes of different fertilizer products and the lower import of potash fertilizer due to global shipping congestion resulting from COVID-19 pandemic, as discussed in the sub-section above. It is difficult for the management of the Group to estimate the future transaction value with a high level of certainty, mainly due to the continued negative impact caused by COVID-19 pandemic in various aspects, some of which are highly unpredictable, for example the delay in global shipping and lockdown policies around the world. Having considered (i) the projected price of fertilizer products during the term of the Fertilizer Import Framework Agreement, referencing the prevailing international market prices and/or the latest transaction price of fertilizer products in October 2021, and (ii) the Group's projected purchase quantities of fertilizer products, mainly after taking account into the Group's 2022 to 2024 procurements strategies (in respect of potash fertilizers), as discussed in the sub-section above, we consider it in the interests of the Group and the Shareholders to determine the Import Arrangements Annual Caps in a way that can accommodate the potential growth of the Group's revenue.

REPORTING REQUIREMENTS AND CONDITIONS OF THE CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Continuing Connected Transactions every year and confirm in the Company's annual report whether the Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

LETTER FROM SOMERLEY

- (b) the Company must engage its auditors to report on the Continuing Connected Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
- (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and
 - (iv) have exceeded the relevant Annual Caps.
- (c) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the relevant Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms for each of the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement not being exceeded, we are of the view that appropriate measures will be in place to monitor the conduct of the transactions and assist to safeguard the interests of the Independent Shareholders.

LETTER FROM SOMERLEY

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We also consider that the Continuing Connected Transactions (including the Annual Caps) are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Continuing Connected Transactions (including the Annual Caps).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

Mr. John Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTEREST IN SECURITIES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) nor had any interest in the right to subscribe for Shares in the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, Directors of the Company had long position in the Shares of the Company as follows:

Name of Director	Capacity	Number of Shares held	Percentage of the issued share capital of the Company
Lu Xin	Beneficial owner	2,900,000	0.041%
Tse Hau Yin, Aloysius	Beneficial owner	3,404,000	0.048%

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Director is also an employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of substantial shareholder of the Company	Position in the substantial shareholder of the Company
J. Erik Fyrwald	Syngenta Group Co., Ltd.	Chief executive officer
Qin Hengde	Syngenta Group Co., Ltd.	Chairman of China Region
Feng Mingwei	Syngenta Group Co., Ltd.	Vice chairman of China Region

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTERESTS

Mr. Feng Mingwei, an executive Director of the Company, is the vice chairman of the board of directors of Qinghai Salt Lake Industry Co., Ltd. (青海鹽湖工業股份有限公司) (“**Qinghai Salt Lake**”). Qinghai Salt Lake is a joint stock limited liability company incorporated in the PRC whose shares are traded on the Shenzhen Stock Exchange (stock code: 000792). The principal activities of Qinghai Salt Lake include the development, production and sale of potassium chloride (a form of potash), and the comprehensive development and utilization of salt lake resources.

The board of directors of Qinghai Salt Lake consists of 11 directors. Mr. Feng Mingwei is not involved in the daily production, sale, operation or management of Qinghai Salt Lake. Mr. Feng Mingwei has extensive experience in the fertilizer industry, is aware of his duties and responsibilities as a Director and senior management member of the Company, and is able to devote sufficient time to the business of the Group. The Company believes that Mr. Feng Mingwei is able to exercise his independent judgment in making decisions at the Board meetings and act in the interest of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective close associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. OTHER ARRANGEMENTS INVOLVING DIRECTORS

- (a) None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular and which is significant in relation to the business of the Group; and
- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2020 (the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; (ii) leased to; or (iii) were proposed to be acquired or disposed of by; or (iv) were proposed to be leased to any member of the Group.

7. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Company since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

8. EXPERT

The following is the qualification of the expert who has given its opinions or advice, which are contained or referred to in this circular:

Name	Qualification
Somerley	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Somerley:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears;
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had been since 31 December 2020 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

9. GENERAL

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS ON DISPLAY

A copy of each of the Agricultural Products Purchase and Sale Framework Agreement and the Fertilizer Import Framework Agreement is available on the HKExnews website of the Hong Kong Exchanges and Clearing Limited (<https://www.hkexnews.hk>) and the website of the Company (<https://www.sinofert.com>) from the date of this circular up to and including the date of the SGM.

NOTICE OF SPECIAL GENERAL MEETING

SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Sinofert Holdings Limited (the “**Company**”) will be held at Salon IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 29 December 2021 at 10:00 a.m. or any adjournment thereof, to consider and, if thought fit, pass, with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the Agricultural Products Purchase and Sale Framework Agreement (as defined and described in the circular to the shareholders of the Company dated 13 December 2021 (the “**Circular**”)) and the execution thereof and implementation of all transactions thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps of the transactions contemplated under the Agricultural Products Purchase and Sale Framework Agreement be and are hereby approved, ratified and confirmed; and
- (c) the directors of the Company or any other person authorized by the directors of the Company be and are hereby authorized to sign, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Agricultural Products Purchase and Sale Framework Agreement and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the Agricultural Products Purchase and Sale Framework Agreement which in their opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.”

NOTICE OF SPECIAL GENERAL MEETING

2. “**THAT:**

- (a) the Fertilizer Import Framework Agreement (as defined and described in the Circular) and the execution thereof and implementation of all transactions thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps of the transactions contemplated under the Fertilizer Import Framework Agreement be and are hereby approved, ratified and confirmed; and
- (c) the directors of the Company or any other person authorized by the directors of the Company be and are hereby authorized to sign, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Fertilizer Import Framework Agreement and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the Fertilizer Import Framework Agreement which in their opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.”

For and on behalf of the Board of
Sinofert Holdings Limited
Qin Hengde
Executive Director and Chief Executive Officer

Hong Kong Special Administrative Region of the People’s Republic of China
13 December 2021

Notes:

- 1. The register of members of the Company will be closed from 23 December 2021 to 29 December 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for voting at the special general meeting of the Company, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on 22 December 2021.
- 2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

NOTICE OF SPECIAL GENERAL MEETING

3. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.
4. Where there are joint holders of any ordinary share of the Company, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders are present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
5. Voting of the ordinary resolutions set out in this notice will be by way of poll.

As at the date of this notice, 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. J. Erik Fyrwald (Chairman); and the independent non-executive directors of the Company are Mr. Ko Ming Tung, Edward, Mr. Lu Xin and Mr. Tse Hau Yin, Aloysius.