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# **SINOFERT HOLDINGS LIMITED**

## **中化化肥控股有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 297)**

### **ANNOUNCEMENT**

### **POTENTIAL CONTINUING CONNECTED TRANSACTIONS UNDER THE FERTILIZER IMPORT FRAMEWORK AGREEMENT**

References are made to the announcements of the Company dated 23 January 2020 and 31 March 2021 in relation to the Strategic Restructuring between ChemChina, the indirect controlling shareholder of the Company, and Sinochem Group. Upon completion of the Strategic Restructuring, ChemChina and Sinochem Group will be consolidated into a new holding company established by SASAC. ChemChina and SASAC will remain as the indirect controlling shareholder and the de facto controller of the Company, respectively, and Sinochem Group will become an associate of ChemChina upon completion of the Strategic Restructuring. As at the date of this announcement, the Strategic Restructuring has not been completed.

During its ordinary and usual course of business, Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, from time to time imports fertilizer and other fertilizer raw materials through Sinochem Group. It is expected that such transactions will continue upon completion of the Strategic Restructuring. As such, on 24 August 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 overseas subsidiaries of the Company and sell them to Sinochem Fertilizer (or other domestic subsidiaries of the Company).

#### **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. Upon completion of the Strategic Restructuring, ChemChina and Sinochem Group will be wholly owned by a new holding company established by SASAC. As such, Sinochem Group will become an associate of ChemChina and therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Fertilizer Import Framework Agreement will constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the cap amounts for continuing connected transactions contemplated under 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 Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts. An Independent Board Committee of the Company has been formed to advise the Independent Shareholders in respect of the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts. 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Fertilizer Import Framework Agreement, a letter from the Independent Board Committee, a letter from the Independent Financial Adviser, and a notice to convene the SGM will be dispatched to the shareholders of the Company on or about 14 September 2021.

## **BACKGROUND**

References are made to the announcements of the Company dated 23 January 2020 and 31 March 2021 in relation to the Strategic Restructuring between ChemChina, the indirect controlling shareholder of the Company, and Sinochem Group. Upon completion of the Strategic Restructuring, ChemChina and Sinochem Group will be consolidated into a new holding company established by SASAC. ChemChina and SASAC will remain as the indirect controlling shareholder and the de facto controller of the Company, respectively, and Sinochem Group will become an associate of ChemChina upon completion of the Strategic Restructuring. As at the date of this announcement, the Strategic Restructuring has not been completed.

During its ordinary and usual course of business, Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, from time to time imports fertilizer and other fertilizer raw materials through Sinochem Group. It is expected that such transactions will continue upon completion of the Strategic Restructuring. As such, on 24 August 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 overseas subsidiaries of the Company and sell them to Sinochem Fertilizer (or other domestic subsidiaries of the Company).

## **PRINCIPAL TERMS OF THE FERTILIZER IMPORT FRAMEWORK AGREEMENT**

### ***Date***

24 August 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
- (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 price at port.

In determining the prevailing international market price and the domestic price at port, the parties generally make reference to the reports published by certain independent commodity information providers such as Argus Media and Baiinfo (百川盈孚). Such reports, usually updated on a regular basis and available to the Company 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.

### ***Term***

The Fertilizer Import Framework Agreement shall take effect upon obtaining approval from the Independent Shareholders and shall expire on 31 December 2021. The term of the Fertilizer Import Framework Agreement can be extended with the consent of the Company, Sinochem Fertilizer and Sinochem Group, and subject to the Company's compliance with applicable requirements under the Listing Rules.

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.

### **Cap Amounts**

#### ***Cap amount for continuing connected transactions between overseas subsidiaries of the Company and Sinochem Group***

The Company estimates that the cap amount for the term of the Fertilizer Import Framework Agreement in respect of the purchase of fertilizer and other fertilizer raw materials by Sinochem Group from overseas subsidiaries of the Company will be US\$370,000,000. Such cap amount has 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 during the term of the Fertilizer Import Framework Agreement.

The historical amounts of such transactions for the two years ended 31 December 2020 and the seven months ended 31 July 2021 were approximately US\$781,209,000, US\$595,603,000 and US\$239,024,000, respectively.

***Cap amount for continuing connected transactions between Sinochem Fertilizer (or other domestic subsidiaries of the Company) and Sinochem Group***

The Company estimates that the cap amount for the term of the Fertilizer Import Framework Agreement 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 RMB2,600,000,000. Such cap amount has 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 during the term of the Fertilizer Import Framework Agreement.

The historical amounts of such transactions for the two years ended 31 December 2020 and the seven months ended 31 July 2021 were approximately RMB5,550,411,000, RMB4,106,384,000 and RMB1,546,840,000, respectively.

**REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS**

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, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in the circular, are of the view that the continuing connected transactions contemplated under 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 cap amounts for the continuing connected transactions contemplated under the Fertilizer Import Framework Agreement are fair and reasonable.

None of the Directors is regarded as having a material interest in the transactions contemplated under the Fertilizer Import Framework Agreement, and hence none of the Directors has abstained from voting on the Board resolution to approve the transactions contemplated under the Fertilizer Import Framework Agreement.

**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. Upon completion of the Strategic Restructuring, ChemChina and Sinochem Group will be wholly owned by a new holding company established by SASAC. As such, Sinochem Group will become an associate of ChemChina and therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions

contemplated under the Fertilizer Import Framework Agreement will constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the cap amounts for continuing connected transactions contemplated under 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.

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## **GENERAL INFORMATION**

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

Sinochem Fertilizer 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, agriculture, real estate and finance, etc.

## **DEFINITIONS**

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

“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 24 August 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”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company formed to consider the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts
“Independent Financial Adviser”	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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts
“Independent Shareholders”	shareholders other than ChemChina and its associates
“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 announcement 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
“SGM”	a special general meeting of the Company to be convened to consider and approve the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts
“shareholder(s)”	registered holder(s) of ordinary share(s) of HK\$0.10 each in the capital of the Company
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Restructuring”	the strategic restructuring between ChemChina and Sinochem Group as described in the announcements of the Company dated 23 January 2020 and 31 March 2021
“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

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

Hong Kong, 24 August 2021

*As at the date of this announcement, the executive directors of the Company are Mr. Qin Hengde (Chief Executive Officer), Mr. Feng Mingwei and Mr. Harry Yang; the non-executive director of the Company is Mr. 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.*