
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 FERTILIZER IMPORT FRAMEWORK AGREEMENT
AND
CONTINUING CONNECTED TRANSACTIONS AND
DISCLOSEABLE TRANSACTION UNDER
THE NEW FINANCIAL SERVICES 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 6 to 22 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 23 to 24 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 25 to 51 of this circular.

A notice convening the SGM of Sinofert Holdings Limited to be held at Drawing Room, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 30 September 2021 at 10:00 a.m. is set out on pages 56 to 58 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 (excluding any part of a day that is a public holiday) 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.

14 September 2021

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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 14-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:

“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“CBIRC”	China Banking and Insurance Regulatory Commission
“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
“Deposit Services”	the deposit services provided by Sinochem Finance to the Group pursuant to the New Financial Services Framework Agreement
“Director(s)”	the director(s) of the Company
“Existing Financial Services Framework Agreement”	the financial services framework agreement dated 11 December 2020 entered into between the Company and Sinochem Finance
“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

DEFINITIONS

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company formed to consider (i) the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts, and (ii) the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement
“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 Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts, and (ii) the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement
“Independent Shareholders”	shareholders other than ChemChina and its associates
“Latest Practicable Date”	7 September 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
“Loan Services”	the loan services (excluding entrustment loans) provided by Sinochem Finance to the Group pursuant to the New Financial Services Framework Agreement
“maximum daily outstanding balance”	the daily outstanding balance of the total deposits (including accrued interest) placed by the Group with Sinochem Finance, calculated at the close of business of Sinochem Finance on a daily basis
“New Financial Services Framework Agreement”	the financial services framework agreement dated 24 August 2021 entered into between the Company and Sinochem Finance

DEFINITIONS

“Other Financial Services”	apart from the Deposit Services and the Loan Services, other financial services provided by Sinochem Finance to the Group pursuant to the New Financial Services Framework Agreement, including entrustment loan services, commercial bills of exchange services, buyer financing services, settlement services, guarantee services, internet banking services, and other financial services as approved by the CBIRC
“PBOC”	the People’s Bank of China, the central bank of the PRC
“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 Drawing Room, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 30 September 2021 at 10:00 a.m. or any adjournment thereof, the notice of which is set out on pages 56 to 58 of this circular
“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 Corporation”	中國中化股份有限公司 (Sinochem Corporation), a limited liability company established under the laws of the PRC, and a subsidiary of Sinochem Group
“Sinochem Finance”	中化集團財務有限責任公司 (Sinochem Group Finance Co., Ltd.), a limited liability company established under the laws of the PRC, and a subsidiary of Sinochem Corporation

DEFINITIONS

“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

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

14 September 2021

To: the shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
UNDER THE FERTILIZER IMPORT FRAMEWORK AGREEMENT
AND
CONTINUING CONNECTED TRANSACTIONS AND
DISCLOSEABLE TRANSACTION UNDER
THE NEW FINANCIAL SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

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 Latest Practicable Date, the Strategic Restructuring has not been completed.

LETTER FROM THE BOARD

Upon completion of the Strategic Restructuring, the transactions between the Group and Sinochem Group and its subsidiaries, including those under the Fertilizer Import Framework Agreement and the New Financial Services Framework Agreement, will become continuing connected transactions of the Company.

The purpose of this circular is to provide you with (i) further information on the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts; (ii) further information on the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement; (iii) the letter of advice from the Independent Board Committee to the 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 UNDER THE FERTILIZER IMPORT FRAMEWORK AGREEMENT

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).

LETTER FROM THE BOARD

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 wholesale price at port.

In determining the prevailing international market price and the domestic wholesale price at port, the parties generally make reference to the reports published by certain independent commodity information providers such as Argus Media (<http://www.arguschina.cn>) and Baiinfo (百川盈孚) (<http://baiinfo.com>). Argus Media, founded in 1970, is an independent media organization, which produces price assessments and analysis of international energy and other commodity markets. Baiinfo, established in 2007, is one of the largest information suppliers of bulk raw materials market in China, which provides market consulting services focusing on spot price of raw materials and finished goods, market analysis and forecast, as well as market research. The reports published by Argus Media and Baiinfo, 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.

LETTER FROM THE BOARD

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 wholesale price at port 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 fertilizer raw 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.

LETTER FROM THE BOARD

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.

The cap amounts for the term of the Fertilizer Import Framework Agreement are higher than the historical amounts for the seven months ended 31 July 2021, which is mainly due to (i) the expected increase in the sales amount of fertilizer products in the second half of 2021 taking into account the committed value of major fertilizer products to be purchased under agreements entered with the fertilizer international suppliers which represent nearly half of the projected value of major fertilizer products adopted in determining the cap amounts, and (ii) the increasing trend of the market price of fertilizer products. In particular, the market price of compound fertilizer, one of the major products under the Fertilizer Import Framework Agreement, increased from approximately US\$400 per tonne in January 2021 to approximately US\$550 per tonne in June 2021. In determining the cap amounts, the Company has also factored in an allowance catering for the potential increase in the purchase quantities and market price of fertilizer products in the fourth quarter of 2021.

LETTER FROM THE BOARD

Reasons and Benefits of the 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, including the independent non-executive Directors, 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.

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.

LETTER FROM THE BOARD

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.

CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTION UNDER THE NEW FINANCIAL SERVICES FRAMEWORK AGREEMENT

Reference is also made to the announcement of the Company dated 11 December 2020 in relation to a discloseable transaction under the Existing Financial Services Framework Agreement entered into between the Company and Sinochem Finance. The Existing Financial Services Framework Agreement will expire on 31 December 2021. On 24 August 2021, the Company entered into the New Financial Services Framework Agreement with Sinochem Finance, pursuant to which the Group will continue to utilize the financial services available from Sinochem Finance as it deems necessary for a term up to 31 December 2023.

Principal Terms of the New Financial Services Framework Agreement

Date

24 August 2021

Parties

- (a) The Company
- (b) Sinochem Finance

Provision of financial services by Sinochem Finance to the Group

The Group will, from time to time, utilize the financial services available from Sinochem Finance as it deems necessary. Such services include:

- (i) Deposit Services, including but not limited to demand deposits, call deposits and term deposits;
- (ii) provision of the Loan Services (excluding entrustment loans) to members of the Group on normal commercial terms, where no mortgage, pledge or other security over the assets or interests of members of the Group will be granted;

LETTER FROM THE BOARD

- (iii) arrangement of entrustment loans for members of the Group whereby Sinochem Finance serves as a financial agency through which funds of one member of the Group may be channeled for use by another member of the Group. Such funds deposited by members of the Group will be applied for the purposes of providing entrustment loans to members of the Group only;
- (iv) commercial bills of exchange services which include the provision to members of the Group on normal commercial terms of services relating to the issuance, acceptance, custody, collection (when due) and discount of commercial bills of exchange, where no mortgage, pledge or other security over the assets or interests of members of the Group will be granted;
- (v) buyer financing services which include the provision to the customers of members of the Group on normal commercial terms of financing services, including but not limited to the extension of loans and the granting of credit for the purposes of purchasing goods or services from members of the Group only;
- (vi) settlement services which include settlement of transactions between members of the Group, and of transactions between members of the Group and third parties, the utilization by Sinochem Finance of the electronic payment and settlement systems it has set up with a number of banks to settle payments from distribution customers to members of the Group, and the utilization by Sinochem Finance of the settlement systems it has set up with banks to audit the settlement business of members of the Group;
- (vii) provision of guarantees at the request of members of the Group for financing, lease financing, bidding activities or the fulfillment of contracts to third parties, where no counter-guarantee by members of the Group is required;
- (viii) internet banking services; and
- (ix) any other financial services as approved by the CBIRC.

The Group utilizes the services of Sinochem Finance on a voluntary, non-exclusive basis and is not obliged to engage Sinochem Finance for any particular service, or at all.

Interests, fees and charges

Interests, fees and charges payable to and from Sinochem Finance under the New Financial Services Framework Agreement are determined on the following basis:

- (i) Deposit Services: interest rates shall not be lower than the benchmark interest rates for deposits of the same tenure and type as promulgated by the PBOC from time to time, or the interest rates for deposits of the same tenure and type as offered by independent commercial banks in the PRC (whichever is higher);

LETTER FROM THE BOARD

- (ii) Loan Services: interest rates shall not be higher than the interest rates for loans of the same tenure and type as offered by the independent commercial banks with which the Group maintains cooperation in the PRC;
- (iii) entrustment loan services: the annual service fee payable by the Group shall not exceed the service fee payable on entrustment loans of the same tenure and under the same terms obtainable from independent commercial banks;
- (iv) commercial bills of exchange services: the service fee and discount interest payable by the Group shall not exceed the service fee and discount interest payable on such services under the same terms obtainable from independent commercial banks;
- (v) buyer financing services: the service fee and interest payable by the Group shall not exceed the service fee and interest payable on such services under the same terms obtainable from independent commercial banks;
- (vi) settlement services: no service fee is payable by the Group; and
- (vii) provision of guarantees, internet banking services and other financial services as approved by the CBIRC: the service fees charged for these services shall not be higher than the prevailing market rates or standard rates promulgated by the PBOC from time to time (if applicable).

Term

The Deposit Services under the New Financial Services Framework Agreement shall take effect upon obtaining the approval from the Independent Shareholders and shall expire on 31 December 2023. The terms governing the deposit services under the Existing Financial Services Framework Agreement shall remain in effect until the date when the approval from the Independent Shareholders in respect of the Deposit Services under the New Financial Services Framework Agreement is obtained. The maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance under the Existing Financial Services Framework Agreement will be closely monitored to ensure that it falls within 5% of the applicable percentage ratios as defined in the Listing Rules, prior to obtaining the approval from the Independent Shareholders in respect of the Deposit Services under the New Financial Services Framework Agreement. In the event that the Deposit Services under the New Financial Services Framework Agreement are not approved by the Independent Shareholders, the Company will ensure that the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance falls within 5% of the applicable percentage ratios as defined in the Listing Rules.

Other terms under the New Financial Services Framework Agreement, which do not require the approval from the Independent Shareholders, shall take effect on 24 August 2021 and shall expire on 31 December 2023.

LETTER FROM THE BOARD

Sinochem Finance and members of the Group shall enter into separate agreements which set out the specific scope of services and the terms and conditions of providing such services according to the principles laid down by the New Financial Services Framework Agreement.

Right of set-off

In the event that any member of the Group fails to recover any amount it deposits with Sinochem Finance, such member of the Group will have the right to offset against any outstanding amounts due to Sinochem Finance by any member of the Group. Sinochem Finance does not have such right of set-off.

Undertakings

Sinochem Finance has undertaken that it will apply all the monies deposited by the Group to such activities as approved by the CBIRC in accordance with the relevant laws and regulations of the PRC. If Sinochem Finance decides to deposit any of such monies, it has undertaken to deposit them only with the banking institutions approved by the CBIRC.

Sinochem Finance has also undertaken that at all times the sum of the outstanding amount of the loans it provides to members of Sinochem Group (excluding the Group) shall not exceed the sum of Sinochem Finance's share capital, surplus and reserves, and the deposits received from parties other than the Group.

Whenever the Group suffers any financial loss due to the non-performance or default by Sinochem Finance under the New Financial Services Framework Agreement, Sinochem Finance shall compensate the Group for the full amount of the loss suffered. Sinochem Corporation issued an undertaking in favour of the Company, pursuant to which Sinochem Corporation will procure Sinochem Finance to perform its obligations under the New Financial Services Framework Agreement.

Annual Caps

Deposit Services

The Company estimates that the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for each of the three years ending 31 December 2023 will be RMB1,000,000,000. Such maximum daily outstanding balance has been determined after taking into account several factors, including:

- (i) The Group maintains sufficient bank balances and cash. During the peak season for the sale of fertilizer products in the past three years, its maximum bank balances and cash reached approximately RMB4,757,568,000;

LETTER FROM THE BOARD

- (ii) Comparing to other financial institutions, Sinochem Finance does not charge the Group any service fees in respect of the settlement services provided. The Group can deposit a large amount of its funds with Sinochem Finance to utilize the settlement services free of charge, especially during the peak season for the sale of fertilizer products when the funds of the Group are sufficient;
- (iii) For the purpose of utilizing the flexible and favourable services provided by Sinochem Finance and at the same time limiting the maximum risk exposure arising from the Deposit Services provided by Sinochem Finance, the Group will deposit its funds in different financial institutions (including Sinochem Finance) to spread risk, and monitor the status of its deposits with Sinochem Finance to ensure that the balance of its deposits with Sinochem Finance at the close of settlement system of Sinochem Finance on each day will not exceed 15% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements. Based on the interim results announcement of the Company published on 24 August 2021, the consolidated net assets of the Company as at 30 June 2021 was approximately RMB8,817,739,000, the 15% of which amounted to approximately RMB1,322,661,000. The maximum daily outstanding balance is lower than such 15% threshold, which is considered to be prudent from a risk management perspective; and
- (iv) The Group will utilize the services of Sinochem Finance on a voluntary, non-exclusive basis and is not obliged to engage Sinochem Finance for any particular services, including the Deposit Services. The maximum daily outstanding balance only represents the highest daily amount of deposits that the Group may place with Sinochem Finance and there are no obligations for the Group to deposit such amounts with Sinochem Finance. Setting the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance will enable the Group to have a greater flexibility in selecting deposit service providers and allocating its resources.

For the two years ended 31 December 2020 and the seven months ended 31 July 2021, the maximum daily outstanding balances of the deposits placed by the Group with Sinochem Finance were approximately RMB840,103,000, RMB930,159,000 and RMB901,014,000, respectively.

Other Financial Services

The Company estimates that the annual cap in respect of the Other Financial Services for each of the three years ending 31 December 2023 will be RMB10,000,000. Such annual cap has been determined after taking into account several factors, including the capital management strategy of the Group, the business development and financial needs of the Group, and the historical transaction amounts of such services.

For the two years ended 31 December 2020 and the seven months ended 31 July 2021, the historical transaction amounts of such services in aggregate were approximately RMB3,032,000, RMB2,507,000 and RMB47,000, respectively.

LETTER FROM THE BOARD

Internal Control Procedures and Corporate Governance Measures

In order to protect the interests of the shareholders, the Group will adopt the following internal control procedures and corporate governance measures in relation to its utilization of financial services provided by Sinochem Finance:

- Prior to placing term deposits with Sinochem Finance, the Group will compare at least three comparable interest rates of deposits of the same tenure and type from independent commercial banks and the deposit benchmark interest rates promulgated by the PBOC at the time of the transaction;
- For the purpose of facilitating settlement service through Sinochem Finance, the Group will also place demand deposits with Sinochem Finance. The Group will compare, on a quarterly basis and whenever there is a change in the deposit benchmark interest rate promulgated by the PBOC, at least three comparable interest rates on such deposits from independent commercial banks with which the Group maintains bank accounts and the deposit benchmark interest rates promulgated by the PBOC, and also take into account the service fee charged by the independent commercial banks for the settlement services and the free-of-charge settlement services offered by Sinochem Finance. The Group will determine whether it will continue to place demand deposits with Sinochem Finance for the next quarter based on the above assessment for the previous quarter;
- Before the Group enters into any loan or credit facilities agreements with Sinochem Finance in relation to its borrowings from Sinochem Finance, it will obtain at least three comparable offers from independent commercial banks or financial institutions for a loan of the same term or a credit facility of the same nature (as the case may be). The terms of such offers, together with the offer from Sinochem Finance, will forthwith be submitted to the chief financial officer of the Company for review. The chief financial officer of the Company will seek approval from the chief executive officer of the Company as appropriate on whether to accept Sinochem Finance's offer, after taking into account a number of factors including interest rate being offered, and quality and flexibility of the services to be provided by Sinochem Finance and independent commercial banks or financial institutions based on previous experience;
- All borrowings of the Group from Sinochem Finance (including drawdowns from credit facilities) will be conducted in accordance with the terms approved by the chief financial officer of the Company or the Board, as appropriate;
- Pursuant to the New Financial Services Framework Agreement, Sinochem Finance is required to (i) provide a report on any changes in its credit ratings to the Company every six months, (ii) provide the Company each month with its financial statements for the previous month, and (iii) deliver to the Company a monthly report on the status of the Group's deposits placed with Sinochem Finance on the third day of each month;

LETTER FROM THE BOARD

- Sinochem Finance will provide reports on operational ratios under regulatory requirements, including capital adequacy ratio, non-performing asset ratio, impaired loan ratio, asset impairment adequacy ratio, etc. to the Company on a quarterly basis;
- The Company will monitor the status of the deposits placed with Sinochem Finance on a daily basis and the status of the loans and other transactions with Sinochem Finance on a monthly basis through the internet banking services provided by Sinochem Finance;
- The Company will monitor the status of its financial assistance to Sinochem Group and its associates (including its deposits with Sinochem Finance under the New Financial Services Framework Agreement, as well as any other form of financial assistance provided to Sinochem Group and its associates). As disclosed in the announcement of the Company dated 17 August 2020 and the circular dated 2 September 2020, Sinochem Fertilizer agreed to provide a loan of no more than RMB1,000,000,000 to Sinochem Agriculture Holdings Limited, an associate of Sinochem Group upon completion of the Strategic Restructuring, for a term of two years from 17 September 2020. As at the Latest Practicable Date, the outstanding balance of such loan was RMB620,000,000. The Company will ensure that the outstanding amount of its overall financial assistance to Sinochem Group and its associates on each day will not exceed 20% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements, so as to limit the maximum risk exposure arising from its financial assistance to Sinochem Group and its associates (including the Deposit Services); and
- The internal control department of the Company will conduct an annual review of the above internal control measures and report the review results to the independent non-executive Directors.

The Board considers that the above internal control procedures and corporate governance measures adopted by the Company concerning the continuing connected transactions with Sinochem Finance are appropriate and sufficient, and that the procedures and measures give sufficient assurance that the continuing connected transactions will be appropriately monitored by the Company.

Reasons and Benefits of the Transactions

The Company believes that the risk profile of Sinochem Finance, as a provider of financial services to the Group, is not greater than those of independent commercial banks in the PRC because:

- (i) Sinochem Finance is regulated by the PBOC and the CBIRC and it provides its services in compliance with the relevant rules and operational requirements promulgated by the above authorities, including capital risk guidelines and requisite capital adequacy ratio requirements;

LETTER FROM THE BOARD

- (ii) Sinochem Finance has not defaulted on any of its credit obligations or, to the knowledge of the Company, breached any rules or operational requirements of such regulatory authorities during the past three years. In particular, the CBIRC monitors Sinochem Finance's compliance with relevant regulatory authorities and conducts on-site visits from time to time. To the knowledge of the Company, other than the opinions on corrective measures issued by the CBIRC during its on-site visits, the CBIRC has not taken any disciplinary actions, or imposed penalties or fines on Sinochem Finance since its incorporation. The opinions on corrective measures issued by the CBIRC refer to its advice and improvement suggestion on the operation and management of Sinochem Finance, which will not affect the credibility and repayment ability of Sinochem Finance. To the knowledge of the Company, Sinochem Finance has not received any further opinions on corrective measures from the CBIRC during the past three years; and
- (iii) according to the relevant laws and regulations promulgated by the CBIRC and as set out in the articles of association of Sinochem Finance, in the event that Sinochem Finance falls into financial difficulty, Sinochem Corporation, being the holding company of Sinochem Finance, has the obligation to take all required steps, such as injecting additional capital into Sinochem Finance based on its funding needs, to restore its financial position.

The advantages of utilizing financial services provided by Sinochem Finance over utilizing similar services provided by independent commercial banks are as follows:

- (i) Sinochem Finance has served as a financial service provider of the Group for over ten years. It can provide more favourable deposit portfolio for the Group based on the condition of the Group, which can increase capital returns while retaining the working capital flexibility of the Group;
- (ii) Comparing to other financial institutions, Sinochem Finance does not charge the Group any service fees in respect of the settlement services provided. The Group can deposit its funds with Sinochem Finance to utilize the settlement services free of charge (especially during the peak season for the sale of fertilizer products when the funds of the Group are sufficient), therefore reducing the transaction costs; and
- (iii) Sinochem Finance can offer reliable and stable finance resource and mid-term and long-term credit line for the Group, therefore optimizing the capital structure of the Group. The Company usually needs to make an appointment one week in advance or even longer to obtain loans from external banks while the loan drawdown procedure of Sinochem Finance is rather convenient and can be completed within one or two days, which can meet the capital demand of the Group's business in time.

LETTER FROM THE BOARD

However, if independent commercial banks or other financial institutions offer specific advantages which are more favourable to the Group in respect of any of the financial services set out in the New Financial Services Framework Agreement, the Group may discontinue its use of all or any of such services provided by Sinochem Finance without having to incur extra cost.

The Directors, including the independent non-executive Directors, are of the view that the transactions contemplated under the New Financial Services 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 maximum daily outstanding balance of the Deposit Services and the annual caps of the Other Financial Services under the New Financial Services Framework Agreement are fair and reasonable.

None of the Directors is regarded as having a material interest in the New Financial Services Framework Agreement and the transactions contemplated thereunder, and hence none of the Directors has abstained from voting on the Board resolution to approve the New Financial Services 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. Upon completion of the Strategic Restructuring, ChemChina and Sinochem Group will be wholly owned by a new holding company established by SASAC, and Sinochem Group will therefore become an associate of ChemChina. Sinochem Finance is a subsidiary of Sinochem Corporation, which is in turn a subsidiary of Sinochem Group. As such, each of Sinochem Group, Sinochem Corporation and Sinochem Finance will become a connected person of the Company upon completion of the Strategic Restructuring. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the New Financial Services Framework Agreement will constitute continuing connected transactions of the Company.

Given that the applicable percentage ratios in respect of the maximum daily outstanding balance of the Deposit Services under the New Financial Services Framework Agreement are more than 5%, the Deposit Services are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, given that the applicable percentage ratios in respect of the maximum daily outstanding balance of the Deposit Services under the New Financial Services Framework Agreement are more than 5% but less than 25%, the Deposit Services also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements.

LETTER FROM THE BOARD

Pursuant to Rule 14A.90 of the Listing Rules, the Loan Services (excluding entrustment loans) provided by Sinochem Finance to the Group are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as the Loan Services constitute financial assistance provided by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance.

Given that the applicable percentage ratios in respect of the annual caps of the Other Financial Services are more than 0.1% but less than 5%, the Other Financial Services are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

General Information

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

Sinochem Finance is a non-bank financial institution established in the PRC with the approval of the PBOC and subject to the supervision of the CBIRC. Sinochem Finance is principally engaged in the businesses of financial and financing advisory service, credit authentication and related consulting service and agency service; provision of guarantees; entrusted loan and investment; bill acceptance and discount; settlement service; deposit service; loan and finance lease, etc.

SGM

Ordinary resolutions approving (i) the Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts, and (ii) the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement shall be proposed at the SGM.

As ChemChina may be deemed to be interested in the transactions under the Fertilizer Import Framework Agreement and the New Financial Services 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 Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts, and (ii) the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement.

A notice convening the SGM to be held at Drawing Room, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 30 September 2021 at 10:00 a.m. is set out on pages 56 to 58 of this circular.

LETTER FROM THE BOARD

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 (excluding any part of a day that is a public holiday) before the time appointed for the holding of the SGM 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 Fertilizer Import Framework Agreement, the transactions contemplated thereunder and the proposed cap amounts, and (ii) the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement. 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 23 to 24 of this circular, which contains its advice to the Independent Shareholders, and the letter from Somerley set out on pages 25 to 51 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)

14 September 2021

To: the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
UNDER THE FERTILIZER IMPORT FRAMEWORK AGREEMENT
AND
CONTINUING CONNECTED TRANSACTIONS AND
DISCLOSEABLE TRANSACTION UNDER
THE NEW FINANCIAL SERVICES FRAMEWORK AGREEMENT**

We refer to the circular of the Company dated 14 September 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 Fertilizer Import Framework Agreement and the transactions contemplated thereunder (including the proposed cap amounts) and (ii) the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement 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 Fertilizer Import Framework Agreement and the transactions contemplated thereunder (including the proposed cap amounts) and (ii) the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement.

We wish to draw your attention to the letter from the Board set out on pages 6 to 22 of the Circular, and the letter from Somerley to the Independent Board Committee and the Independent Shareholders set out on pages 25 to 51 of the Circular which contains its opinion in respect of the Fertilizer Import Framework Agreement and the transactions contemplated thereunder (including the proposed cap amounts) and (ii) the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement.

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 Fertilizer Import Framework Agreement and the transactions contemplated thereunder (including the proposed cap amounts) and (ii) the Deposit Services (including the maximum daily outstanding balance) under the New Financial Services Framework Agreement 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

14 September 2021

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

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
UNDER THE FERTILIZER IMPORT FRAMEWORK AGREEMENT AND
CONTINUING CONNECTED TRANSACTIONS AND
DISCLOSEABLE TRANSACTION UNDER
THE NEW FINANCIAL SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the importation 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 cap amounts (the "**Annual Caps**")) under the Fertilizer Import Framework Agreement for the year ending 31 December 2021, and (ii) the provision of Deposit Services (including the proposed maximum daily outstanding balance (the "**Maximum Daily Balance**")) by Sinochem Finance to the Group under the New Financial Services Framework Agreement for the three years ending 31 December 2023 (collectively, the "**Continuing Connected Transactions**"), for which the Independent Shareholders' approval is being sought. Details of the Continuing Connected Transactions and related cap amounts are contained in the circular of the Company to the Shareholders dated 14 September 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. Upon completion of the Strategic Restructuring, ChemChina and Sinochem Group will be wholly owned by a new holding company established by SASAC. In addition, Sinochem Finance is a subsidiary of Sinochem Corporation, which is in turn a subsidiary of Sinochem Group. As such, each of Sinochem Group, Sinochem Corporation and Sinochem Finance will become an associate of

LETTER FROM SOMERLEY

ChemChina and therefore a connected person of the Company. Accordingly, the transactions contemplated under each of the Fertilizer Import Framework Agreement and the New Financial Services 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 under the Fertilizer Import Framework Agreement and the Maximum Daily Balance for the provision of Deposit Services are both 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. Pursuant to Rule 14A.90 of the Listing Rules, the Loan Services (excluding entrustment loans) provided by Sinochem Finance to the Group are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as the Loan Services constitute financial assistance provided by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted. Given that the applicable percentage ratios in respect of the proposed cap amount of the Other Financial Services are more than 0.1% but less than 5%, the Other Financial Services are subject to the reporting, announcement and annual review, but exempt from independent shareholders' approval requirements pursuant to the relevant exemption provisions 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 and the transactions contemplated thereunder (including the Annual Caps) and the Deposit Services under the New Financial Services Framework Agreement (including the Maximum Daily Balance). As ChemChina may be deemed to be interested in the transactions under the Fertilizer Import Framework Agreement and the New Financial Services 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.

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 and the Maximum Daily Balance) 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 26 November 2019, 3 December 2019, 4 December 2019, 2 September 2020 and 3 December 2020. 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

LETTER FROM SOMERLEY

Committee and the Independent Shareholders in relation to the Continuing Connected Transactions (including the Annual Caps and the Maximum Daily Balance). 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 Corporation, Sinochem Finance 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 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 Corporation, Sinochem Finance 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 and the Maximum Daily Balance), we have taken the following principal factors and reasons into consideration:

(A) The Fertilizer Import 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\$10.7 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. The continuous revenue and profit growth was mainly due to (i) the recovery of fertilizer industry

LETTER FROM SOMERLEY

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, according to the Company's 2021 interim report.

The Group had cash and cash equivalents, total assets and net assets of approximately RMB2.1 billion, RMB16.5 billion and RMB8.8 billion respectively as at 30 June 2021.

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.

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 Import Arrangements

Under 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 2021 issued by the Ministry of Commerce of the PRC on 30 October 2020 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 from time to time 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).

We are given to understand that a series of strategic restructuring exercises have been conducted between Sinochem Group and ChemChina in the past two years, and that Sinochem Group, which was the previous ultimate controlling shareholder of the Company, ceased to a connected person of the Company under Chapter 14A of the

LETTER FROM SOMERLEY

Listing Rules in June 2020. Currently, the arrangements between the Group and Sinochem Group do not constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

Given that Sinochem Group will become a connected person of the Company as a direct result of the anticipated completion of the Strategic Restructuring, and 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 24 August 2021, to govern and continue the aforementioned Import Arrangements for the year ending 31 December 2021.

3. Principal terms of the Import Arrangements

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 into 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

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

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:

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- (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 on a cost basis, that is, based on the price of the imported products purchased from overseas subsidiaries of the Company 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.

As confirmed by the management of the Group, the above pricing principles are generally consistent with those adopted by the parties under the fertilizer co-operation framework agreement and the sulphur import framework agreement entered into between two groups in prior years. Further, we understand from the management of the Group that the reasonable administrative costs included in the Import Charges described above represents costs to be incurred by Sinochem Group, and are expected to account for less than 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.

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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 purchases 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.

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 2020 to 30 June 2021, and we have selected sample contracts on a random basis from such lists (the “**Sample Contracts**”). 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 2020 to 30 June 2021, in the relevant categories, and (ii) the respective international market price and domestic wholesale price at port sourced from independent commodity information providers, such as Argus Media (<http://www.arguschina.cn>), an independent media organisation which produces price assessments and analysis of international energy and other commodity markets, and Baiinfo (百川盈孚) (<http://www.baiinfo.com>), an information supplier of bulk raw materials market in China which provides latest news, prices, expert market commentary and statistics, as well as data base for commodities prices (covering, among others, sulphur and fertilizer). 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.

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4. Annual Caps for the Import Arrangements

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 seven months ended 31 July 2021:

	For the year ended 31 December		For the seven months ended
	2019	2020	31 July 2021
	<i>('000)</i>	<i>('000)</i>	<i>('000)</i>
Transactions between oversea subsidiaries of the Company and Sinochem Group	US\$781,209	US\$595,603	US\$239,024
Transactions between Sinochem Fertilizer (or domestic subsidiaries of the Company) and Sinochem Group	RMB5,550,411	RMB4,106,384	RMB1,546,840

In 2020, the import of fertilizer products by Sinochem Group from the Company's overseas subsidiaries decreased by approximately 23.8% to approximately US\$595.6 million, and the domestic sales of fertilizer products by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) decreased at a similar degree by approximately 26.0% to approximately RMB4,106.4 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.

In the first seven months of 2021, both domestic sales of fertilizer products and the related imports continued to decrease and amounted to approximately RMB1,546.8 million and US\$239.0 million respectively. As advised by the management of the Group, there were delays in global shipping due to the impact of COVID-19 and resulting in a decrease in import quantities of fertilizer products through Sinochem Group.

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Assessment of the Annual Caps

(a) Transactions between the Company's overseas subsidiaries and Sinochem Group

The annual cap in respect of the transactions between the Company's overseas subsidiaries and Sinochem Group under the Fertilizer Import Framework Agreement is US\$370.0 million.

In assessing the reasonableness of the annual cap, 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 is 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 note that in estimating the sales quantities of fertilizer products from the Company's overseas subsidiaries to Sinochem Group during the term of the Fertilizer Import Framework Agreement, the management of the Group has mainly taken into account (i) the expected sales quantities of fertilizer products in the second half of 2021, on the basis of the first seven months sales volume, and (ii) the committed value of major fertilizer products to be purchased under agreements entered with the fertilizer international suppliers, which represent nearly half of the projected value of major fertilizer products adopted in determining the Annual Caps. The Group also factored in an allowance catering for potential increase in purchase quantities of fertilizer products in the fourth quarter of 2021. Further, we note that the sum of transaction amounts recorded for the first seven months of 2021 and the cap amounts for the term of the Fertilizer Import Framework Agreement is similar to the transaction amounts recorded in 2020, which is in line with management expectation. As discussed above, there was a decrease in import quantities of fertilizer products in the first seven months of 2021, due to delays in global shipping. In this respect, we have obtained selected agreements with the fertilizer international suppliers, for which the overseas subsidiaries of the Company may purchase fertilizer products within the maximum quantity specified in the agreements and noted that only 40% of the committed quantities stated in the selected agreements were delivered in the first eight months of 2021. We are advised by the management of the Group that the remaining committed quantities are anticipated to be achieved before the end of 2021 when the market condition and global shipping arrangements return to normal. We have also performed independent research and reviewed a report titled "Fertilizer Outlook 2020 – 2024", published in July 2020 by the International Fertilizer Association (<http://www.fertilizer.org/>), a global fertilizer association with a membership of

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more than 430 entities according to its website, which expects fertilizer demand to rebound in 2021. Having considered the above, we therefore concur with the view of the management of the Group, as set out above.

According to the management of the Group, the projected average price per tonne is determined mainly with reference to the prevailing international market prices of fertilizer products in August 2021. In this respect, we have compared the projected prices for the major products under the Fertilizer Import Framework Agreement to the latest international market price levels available from independent commodity information providers, and note that they are comparable.

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

The annual cap in respect of the transactions between Sinochem Fertilizer (or other domestic subsidiaries of the Company) and Sinochem Group under the Fertilizer Import Framework Agreement is RMB2,600.0 million.

In assessing the reasonableness of the annual cap, we have discussed with the management of the Group the bases and assumptions underlying the projections, which is mainly estimated based on the projected quantities of sales of fertilizer products by Sinochem Group to Sinochem Fertilizer (or other domestic subsidiaries of the Company) and the projected average price per tonne 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 sub-section above, and (b) in respect of sulphur, the prevailing domestic wholesale price at port) during the term of the Fertilizer Import Framework Agreement.

Having considered (i) the projected price of fertilizer products during the term of the Fertilizer Import Framework Agreement, referencing the prevailing international market prices of fertilizer products in August 2021, and (ii) the Group's projected purchase quantities of fertilizer products mainly after taking account into the expected sales quantities of fertilizer products in the second half of 2021, on the basis of the first seven months sales volume, and agreements entered with the fertilizer international suppliers, we consider it reasonable for the Directors to set the annual caps of (i) US\$370.0 million for transactions between the Company's overseas subsidiaries and Sinochem Group and (ii) RMB2,600.0 million for transactions between Sinochem Fertilizer (or other domestic subsidiaries of the Company) and Sinochem Group.

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General comments

Generally speaking, in our opinion, it is in the interests of the Group and the Shareholders to determine the Annual Caps in a way that can take into account the prevailing market conditions and accommodate the potential growth of the Group's business. Although the Group has entered into agreements with the fertilizer international suppliers, for which it is allowed to purchase fertilizer products within the maximum quantity specified in the agreements, 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 in various aspects, some of which are highly unpredictable, for example the delay in global shipping and lockdown policies around the world. Further, we note that the market prices of fertilizer products have exhibited an increasing trend since late 2020, for example, the market price of compound fertilizer, one of the major products under the Fertilizer Import Framework Agreement, increased by approximately 37.5% from approximately US\$400 per tonne in early 2021 to approximately US\$550 per tonne in June 2021. The fluctuation in market price of fertilizer products also creates difficulty for management to accurately estimate the Annual Caps with precision. Provided that the Group has established a set of pricing policies to ensure the Import Arrangements are on normal commercial terms, and the Import Arrangements are subject to annual review by the independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules, we consider it in the interests of the Group and the Shareholders to determine the Annual Caps in a way that can accommodate the potential growth of the Group's revenue. In assessing the reasonableness of the Annual Caps, we have discussed with the management of the Group the factors taken into account as stated earlier in this section. We consider it reasonable for the Company to use the above factors in determining the Annual Caps.

(B) The New Financial Services Framework Agreement

1. Information on Sinochem Finance

Sinochem Finance is a non-bank financial institution established in September 2007 with approval of the PBOC and is subject to the supervision of the CBIRC. Sinochem Finance is principally engaged in the provision of settlement, financing, financial management and financial consulting services to Sinochem Group and its associates. In 2020, Sinochem Finance recorded total revenue and profit after taxation of approximately RMB879.7 million and RMB830.6 million respectively. As at 30 June 2021, Sinochem Finance had registered and fully paid-up capital of RMB6.0 billion, with total assets and total equity amounted to approximately RMB37.6 billion and RMB9.9 billion respectively. For additional business and financial information of Sinochem Finance, please refer to the section below headed "4. Business and financial information on Sinochem Finance".

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2. Background to and reasons for the Deposit Services

Since 2009, Sinochem Finance has been providing various financial services (including the Deposit Services, the Loan Services and settlement services) to the Group pursuant to the financial services framework agreements previously entered into between Sinochem Finance and the Company. Based on our discussions with the management of the Group, during the ordinary and usual course of business, the Group conducted a number of transactions with Sinochem Group companies, and these transactions include sales and purchases of fertilizers (including transactions to be conducted under the Fertilizer Import Framework Agreement), loan arrangements and settlement of various operating expenses (including import services fees and office rental fees). Such transactions and balances between the Group and Sinochem Group companies are mostly settled through their respective accounts maintained with Sinochem Finance.

According to the letter from the Board, Sinochem Finance is regulated by the PBOC and the CBIRC and its services are provided in compliance with the relevant rules and operational requirements promulgated by the above authorities. Further details of Sinochem Finance's financial and regulatory requirements are set out in the section below headed "7. Regulatory environment of Sinochem Finance". In addition, compared to other independent commercial banks, Sinochem Finance (serving as financial service provider of Sinochem Group) is able to provide services to the Group in a timely manner. For instance, the loan drawdown procedures required by Sinochem Finance are convenient and can be completed within one to two days, while it would usually take the Company one week or even longer period, to obtain loans from other independent commercial banks.

We are advised by the management of the Group that it is the Group's capital management strategy to either place deposits with independent commercial banks or Sinochem Finance, and to invest in short-term financial products, in order to generate interest and/or investment income. Sinochem Finance provides a favourable deposit portfolio for the Group that will increase capital returns and give flexibility to the Group as regards its working capital management. As set out in the letter from the Board, the Group will utilise the services of Sinochem Finance on a voluntary, non-exclusive basis and is not obliged to engage Sinochem Finance for any particular service, or at all. The Group may choose to discontinue its use of all or any of such services provided by Sinochem Finance without having to incur extra cost. This means that Sinochem Finance represents an additional source of financial services for the Group to choose from, which in turn serves to enhance flexibility for the Group's capital management.

The current financial services provided by Sinochem Finance to the Group are governed by the existing financial services framework agreement dated 11 December 2020 (the "**Existing Financial Services Framework Agreement**"), which will expire on 31 December 2021. Given that Sinochem Group will become a connected person of the Company as a direct result of the anticipated completion of the Strategic Restructuring, the Company and Sinochem Finance entered into the New Financial

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Services Framework Agreement on 24 August 2021, to continue and govern the financial services available from Sinochem Finance for the three years ending 31 December 2023.

The Group has a number of internal control measures in place to protect the interests of the Shareholders regarding deposits with Sinochem Finance, as further analysed in the section below headed “6. Internal control procedures and corporate governance measures of the Group”. As a licensed financial institution, Sinochem Finance is required to comply with relevant mandatory requirements (such as a minimal capital adequacy ratio) from the PBOC and/or the CBIRC. In addition, Sinochem Corporation has entered into an undertaking in favour of the Company relating to Sinochem Finance’s obligations and performance under the New Financial Services Framework Agreement. In our view, the above provides assurance that the risk of the Group’s deposits placed with Sinochem Finance are properly addressed.

3. Principal terms of the Deposit Services

Pursuant to the New Financial Services Framework Agreement, the Group may utilise the financial services available from Sinochem Finance as it deems necessary, on a non-exclusive basis, including (a) the Deposit Services; (b) the Loan Services where no mortgage, pledge or other security over the assets or interests of members of the Group will be granted; (c) arrangement of entrustment loans for members of the Group whereby Sinochem Finance serves as a financial agency; (d) provision of buyer financing services, in which Sinochem Finance would, among others, extend loans and grant credit to customers of the Group for the purpose of purchasing goods or services from the Group; (e) settlement services between members of the Group and third parties (such as customers of the Group); (f) provision of guarantees for financing, lease financing, bidding activities or the fulfilment of contracts to third parties where no counter-guarantee is required; and (g) any other financial services as approved by the CBIRC. The Group may discontinue its use of all or any such services provided by Sinochem Finance without incurring any extra cost.

Set out below are the major terms of the financial services to be provided by Sinochem Finance under the New Financial Services Framework Agreement:

Provision of Deposit Services

Deposit interest rates offered by Sinochem Finance shall not be lower than (i) the benchmark deposit interest rates of the same tenure and type as promulgated by the PBOC from time to time, or (ii) the deposit interest rates of the same tenure and type as offered by independent commercial banks in the PRC (whichever is higher). As advised by the management of the Group, it is expected that the maximum tenure of any term deposits with Sinochem Finance will not be more than one year. The Deposit Services offered by Sinochem Finance will be on terms at least the same as, or more favourable than, the deposit services offered by other independent commercial banks in the PRC, and the Group has the sole

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discretion to agree the amount of funds to be deposited with Sinochem Finance, when to deposit, when to withdraw, and the amount of funds to be withdrawn, depending on the Group's own working capital position and requirements.

Provision of Loan Services

Loan interest rates offered by Sinochem Finance shall not be higher than the interest rates for loans of the same tenure and type as offered by independent commercial banks with which the Group maintains cooperation in the PRC. No security over the assets or interests of members of the Group will be granted in respect of the financial assistance from Sinochem Finance to the Group.

Provision of other financial services

For the arrangement of entrustment loans, the annual service fee payable by the Group shall not exceed the service fee payable on entrustment loans of the same tenure and under the same terms obtainable from independent commercial banks in the PRC. No service fee is payable by the Group for settlement services.

As to the other financial services, the fees and interests to be charged by Sinochem Finance shall not be higher than the prevailing market rates or standard rates promulgated by the PBOC from time to time (if applicable).

Term

The Deposit Services under the New Financial Services Framework Agreement shall take effect, upon obtaining the approval from the Independent Shareholders and shall expire on 31 December 2023. The terms governing the deposit services under the Existing Financial Services Framework Agreement shall remain in effect until the date when the approval from the Independent Shareholders in respect of the Deposit Services (including the Maximum Daily Balance) under the New Financial Services Framework Agreement is obtained.

In the event that the Deposit Services under the New Financial Services Framework Agreement are not approved by the Independent Shareholders, the Company will ensure that the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance falls within 5% of the applicable percentage ratios as defined in the Listing Rules.

Other financial services under the New Financial Services Framework Agreement, which do not require the approval from the Independent Shareholders, shall take effect on 24 August 2021 and shall expire on 31 December 2023.

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Right of set-off

In the event that any member of the Group fails to recover any amount it deposits with Sinochem Finance, such member of the Group will have the right to offset amounts against any outstanding amounts due to Sinochem Finance by any member of the Group. Sinochem Finance does not have such right of set-off under the New Financial Services Framework Agreement.

Undertakings

Pursuant to the New Financial Services Framework Agreement, Sinochem Finance will apply all the monies deposited by the Group to such activities as approved by the CBIRC in accordance with the relevant laws and regulations of the PRC. If Sinochem Finance decides to deposit any of such monies, it has undertaken to deposit them only with the banking institutions approved by the CBIRC.

Sinochem Finance has also undertaken that the sum of the outstanding amount of the loans it provides to members of Sinochem Group (excluding the Group) shall at all times not exceed the sum of Sinochem Finance's share capital, surplus and reserves, and deposits received from parties other than the Group.

In addition, whenever the Group suffers any financial loss due to the non-performance or default by Sinochem Finance under the New Financial Services Framework Agreement, Sinochem Finance shall compensate the Group for the full amount of the loss suffered.

Guarantee from Sinochem Corporation

According to the relevant laws and regulations promulgated by the CBIRC and as set out in the articles of association of Sinochem Finance, in the event that Sinochem Finance falls into financial difficulty, Sinochem Corporation, being the holding company of Sinochem Finance, has the obligation to take all required steps, such as injecting capital into Sinochem Finance based on its funding needs, to restore its financial position. Sinochem Corporation entered into an undertaking (the "**Undertaking**") in favour of the Company, pursuant to which it will procure Sinochem Finance to perform its obligations under the New Financial Services Framework Agreement.

Our comments

Sinochem Finance has been providing various financial services to the Group since 2009. For over ten years, members of the Group have maintained deposit accounts with Sinochem Finance for daily business operations, such as transaction settlements with their customers and other Sinochem Group companies. The entering into of the New Financial Services Framework Agreement represents a continuation of the existing financial services provided by Sinochem Finance, with the Maximum Daily Balance catering for the daily transaction settlement needs (including the settlements

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under the future transactions to be conducted under the Fertilizer Import Framework Agreement as described in this letter) and the capital management strategy of the Group.

The arrangement under the New Financial Services Framework Agreement is on a non-exclusive basis, such that the Group has the discretion to determine whether to use any services provided by Sinochem Finance. In other words, Sinochem Finance can be regarded as an additional choice of financial services provider. We note that the deposit interest rates of the Deposit Services shall not be lower than those of the same tenure and type as offered by independent commercial banks in the PRC, and therefore will be on terms no less favourable to the Group than those available from independent commercial banks in the PRC.

A number of protection clauses and safeguards are stipulated in the New Financial Services Framework Agreement, such as the right of set-off, which is only available to the Group but not to Sinochem Finance. A number of internal control procedures would be adopted by the Group, such as the restriction that the outstanding amount of the Group's overall financial assistance to Sinochem Group and its associates (including its deposits balance with Sinochem Finance) on each day will not exceed 20% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements (the "**Deposit Restriction**"). As an additional protection and pursuant to the Undertaking, Sinochem Corporation has undertaken to procure the performance of Sinochem Finance under the New Financial Services Framework Agreement and has the obligation to take all required steps to restore Sinochem Finance's financial position when it has financial difficulty. We consider that the Deposit Restriction, together with the right of set-off, forms a mechanism to limit the risk of the Group's bank balances and cash to be deposited with Sinochem Finance. The Group will be entitled to offset such deposit balance against the loan from Sinochem Finance, in order to reduce the Group's maximum risk exposure arising from the Deposit Services. For our further analyses, please refer to the sections below headed "6. Internal control procedures and corporate governance measures of the Group" and "7. Regulatory environment of Sinochem Finance" respectively.

4. Business and financial information on Sinochem Finance

Scope of business

According to its business licence, Sinochem Finance is authorised to provide all services as set out in the New Financial Services Framework Agreement and provide similar services to members of Sinochem Group, and as confirmed by the management of the Group, Sinochem Finance is also allowed to provide limited scope of financial services, such as buyer financing services and discounting services, to downstream customers and upstream suppliers of the Group. We are advised by the management of the Group that Sinochem Finance is not allowed to engage in business other than financial services, such as industrial investment or trading. As at the Latest Practicable Date, Sinochem Finance is not rated by any credit rating agency.

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As at 30 June 2021, Sinochem Finance has a registered and fully paid-up capital of RMB6.0 billion based on its unaudited management account, and has a capital adequacy ratio of approximately 20.6%, which is higher than the requirement promulgated by the CBIRC of 10% for finance companies.

Management of Sinochem Finance

As at the Latest Practicable Date, the board of directors of Sinochem Finance comprises three members. As advised by the management of the Group, all the board members and the senior management of Sinochem Finance have extensive experience in the financial capital markets in the PRC and would be able to understand and monitor the operation and development of Sinochem Finance.

Financial information

The following table set out a summary of the financial information of Sinochem Finance, as extracted and summarised from its audited financial statements for the three years ended 31 December 2020 and its unaudited management accounts for the six months ended 30 June 2020 and 30 June 2021, both of which were prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

	For the six months ended 30 June		For the year ended 31 December		
	2021	2020	2020	2019	2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Net interest income	237.6	225.7	388.4	434.0	395.9
Investment income	66.6	60.0	763.7	561.8	396.4
Reversal of impairment losses/(Impairment loss)	33.9	53.9	(168.8)	(242.5)	(126.1)
Profit after taxation	246.5	235.3	830.6	642.1	571.1

The net interest income of Sinochem Finance fluctuated in the past three years. For the first half of 2021, the net interest income of Sinochem Finance increased by approximately 5.3% to approximately RMB237.6 million. As confirmed by the management of the Group, such fluctuations were broadly in line with the movements of the average daily loan extended by Sinochem Finance to Sinochem Group companies, which directly affecting the interest income generated by Sinochem Finance.

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The impairment loss made in the past three years represented additional allowance for impairment losses prepared in accordance with the regulatory requirements. Sinochem Finance recorded a reversal of impairment losses in the first half of 2020 and 2021 mainly due to less allowance for impairment losses required due to the decrease in overall loan balance. Notwithstanding the above impairment loss, the management of the Group has informed us that Sinochem Finance has not had any non-performing assets and loans during the past three years.

The profit after taxation of Sinochem Finance increased during the three years ended 31 December 2020 and in the first six months of 2021 when compared to the corresponding period in the previous year, mainly due to the increase in investment income and decrease in impairment loss.

	As at 30 June 2021 RMB million (unaudited)	As at 31 December		
	2021	2020	2019	2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Assets				
Loans receivables	20,339	26,749	20,155	19,135
Cash balances with other financial institutions	6,613	3,303	5,407	4,032
Other assets	<u>10,682</u>	<u>8,327</u>	<u>5,554</u>	<u>3,965</u>
	<u><u>37,634</u></u>	<u><u>38,379</u></u>	<u><u>31,116</u></u>	<u><u>27,132</u></u>
Liabilities				
Deposits received	24,124	20,218	22,747	21,861
Other liabilities	<u>3,637</u>	<u>8,535</u>	<u>2,437</u>	<u>246</u>
	<u><u>27,761</u></u>	<u><u>28,753</u></u>	<u><u>25,184</u></u>	<u><u>22,107</u></u>
Equity				
Share capital	6,000	6,000	3,000	3,000
Reserves	<u>3,873</u>	<u>3,626</u>	<u>2,932</u>	<u>2,025</u>
	<u><u>9,873</u></u>	<u><u>9,626</u></u>	<u><u>5,932</u></u>	<u><u>5,025</u></u>
Capital adequacy ratio	20.60%	18.24%	12.31%	13.08%
<i>(Note)</i>				

Note: The capital adequacy ratio is a measurement of capital position of a financial institution in respect of its exposure to risks such as credit risk, market risk and operational risk, and is defined as the financial institution's capital base divided by its risk-weighted assets

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As at 30 June 2021, deposit base of Sinochem Finance was approximately RMB24.1 billion, a substantial portion of which were either extended as loans to Sinochem Group companies or placed with other financial institutions.

Sinochem Group made a capital injection of RMB3.0 billion during 2020 to shore up the capital base of Sinochem Finance, which resulted in the registered capital of Sinochem Finance increased to RMB6.0 billion.

Internal controls

We have obtained and reviewed the operation manual of Sinochem Finance and note that it adopts certain corporate governance and internal control measures to manage its risk profile, including business and financial risk, and to ensure the business operations of Sinochem Finance are in compliance with the relevant laws and regulations promulgated by the CBIRC.

Sinochem Finance has a clear delineation of the roles and responsibilities of major operational departments, segregation of powers and duties, internal review and assessment mechanism, proper training and establishment of a risk assessment policy. We are advised by the management of the Group that Sinochem Finance has not defaulted on any of its credit obligations or, to the knowledge of the Company, breached any rules or operational requirements of such regulatory authorities during the past three years. We have also obtained the audited financial statements of Sinochem Finance for the three years ended 31 December 2020, and did not note any default on credit obligations disclosed in such financial statements.

5. Information on Sinochem Corporation

Sinochem Corporation is a subsidiary of Sinochem Group, one of the largest state-owned enterprises incorporated in the PRC with principal businesses in agriculture, energy, chemicals, finance and real estate in the PRC. Sinochem Group is a “Fortune Global 500” company.

According to its 2020 annual report, Sinochem Corporation had registered and fully paid-up capital of approximately RMB43.2 billion, consolidated net assets attributable to owners of the parent of approximately RMB86.6 billion and a cash balance of approximately RMB50.8 billion as at 31 December 2020. Profit attributable to owners of Sinochem Corporation amounted to approximately RMB5.9 billion in 2020. This suggests that Sinochem Corporation operates substantial business operations with a scale that is much larger than the scale of Sinochem Finance.

According to the credit rating report issued by China ChengXin International Credit Rating Company Limited (“**CCXI**”) dated 28 June 2021, the credit rating of Sinochem Corporation was AAA, the highest rating under CCXI’s credit rating scale.

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According to the website of CCXI, it is a qualified rating agency accepted by PBOC, the CBIRC and National Development and Reform Commission, and we are advised by the management of the Group that CCXI's rating scale follows the relevant credit rating guidance issued by PBOC. According to the credit rating report, an AAA rating implies strong debt repayment capacity, remote default risk and an ability to withstand certain negative economic environment scenarios, which in turn indicate the strong debt repayment capacity of Sinochem Corporation. As confirmed by the management of the Group, Sinochem Corporation has not defaulted on any of its credit obligations during the past three years.

Based on the above and assuming no material change to Sinochem Corporation's financial performance and position, we consider that Sinochem Corporation, as the parent company required to procure Sinochem Finance's obligations pursuant to the Undertaking, has strong financial capabilities to fulfil the above requirement.

6. Internal control procedures and corporate governance measures of the Group

In order to protect the interest of the Shareholders, the Group will continue to adopt certain internal control procedures and corporate governance measures to regulate the utilisation of financial services provided by Sinochem Finance. As confirmed by the management of the Group, there is a proper and complete separation of duties between the Group and Sinochem Finance, and staff, senior management or director of Sinochem Finance will not be involved in the internal control procedures and corporate governance measures of the Group. Below are the key internal control procedures and corporate governance measures summarised from the letter from the Board.

- (a) Prior to placing term deposits with Sinochem Finance, the Group will compare at least three comparable interest rates of deposits of the same tenure and type from independent commercial banks and the deposit benchmark interest rates promulgated by the PBOC at the time of the transaction;
- (b) For the purpose of facilitating settlement service through Sinochem Finance, the Group will also place demand deposits with Sinochem Finance. The Group will compare, on a quarterly basis and whenever there is a change in the deposit benchmark interest rate promulgated by the PBOC, at least three comparable interest rates on such deposits from independent commercial banks with which the Group maintains bank accounts and the deposit benchmark interest rates promulgated by the PBOC, and also take into account the service fee charged by the independent commercial banks for the settlement services and the free-of-charge settlement services offered by Sinochem Finance. The Group will determine whether it will continue to place demand deposits with Sinochem Finance for the next quarter based on the above assessment for the previous quarter;
- (c) Before the Group enters into any loan or credit facilities agreements with Sinochem Finance in relation to its borrowings from Sinochem Finance, it will obtain at least three comparable offers from independent commercial

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banks or financial institutions for a loan of the same term or a credit facility of the same nature (as the case may be). The terms of such offers, together with the offer from Sinochem Finance, will forthwith be submitted to the chief financial officer of the Company for review, who in turn will seek approval from the chief executive officer of the Company as appropriate on whether to accept Sinochem Finance's offer, after taking into account a number of factors including interest rate being offered, and quality and flexibility of the services to be provided by Sinochem Finance and independent commercial banks or financial institutions based on previous experience;

- (d) All borrowings of the Group from Sinochem Finance (including drawdowns from credit facilities) will be conducted in accordance with the terms approved by the chief financial officer or the Board, as appropriate;
- (e) Sinochem Finance shall provide the Company with (i) a report on any changes in its credit ratings every six months, (ii) monthly financial statements of Sinochem Finance, and (iii) a monthly report on the status of the Group's deposits placed with Sinochem Finance on the third day of each month, pursuant to the New Financial Services Framework Agreement;
- (f) Sinochem Finance will provide reports on operational ratios under regulatory requirements (including capital adequacy ratio, non-performing asset ratio, impaired loan ratio, asset impairment adequacy ratio, etc.) to the Company on a quarterly basis;
- (g) The Company will monitor the status of the deposits placed with Sinochem Finance on a daily basis and the status of the loans and other transactions with Sinochem Finance on a monthly basis through the internet banking services provided by Sinochem Finance;
- (h) The internal control department of the Company will conduct an annual review of the relevant internal control measures and report the review results to the independent non-executive Directors;
- (i) The Company will monitor the status of its financial assistance to Sinochem Group and its subsidiaries (including its deposits with Sinochem Finance under the New Financial Services Framework Agreement, as well as any other form of financial assistance provided to Sinochem Group and its associates). As disclosed in the announcement of the Company dated 17 August 2020 and the circular dated 2 September 2020, Sinochem Fertilizer agreed to provide a loan of no more than RMB1,000 million to Sinochem Agriculture Holdings Limited, an associate of Sinochem Group upon completion of the Strategic Restructuring, for a term of two years from 17 September 2020. As at the Latest Practicable Date, the outstanding balance of such loan was RMB620 million. The Company will ensure that the outstanding amount of its overall financial assistance to Sinochem Group and

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its associates on each day will not exceed 20% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements.

Based on our discussions with the management of the Group, during the terms of the Existing Financial Services Framework Agreement and up to the Latest Practicable Date, Sinochem Finance has been offering more favourable deposit interest rate than those offered by other independent commercial banks which the Group maintains bank accounts with, to the extent that quotations are available to the Group. We consider the measures relating to the comparison of interest rates with independent commercial banks to be important to ensure that the interest rates offered by Sinochem Finance shall not be lower than the deposit benchmark interest rates, and the interest rates offered by independent commercial banks in the PRC, and that the interest rates available from Sinochem Finance are no less favourable to the Group from time to time.

Having considered the above internal control procedures and corporate governance measures of the Group, particularly (i) the comparison of at least three offers from independent commercial banks or financial institutions in relation to the loan of the same term or a credit facility of the same nature, (ii) the comparison of at least three comparable interest rates on deposits from independent commercial banks and the then deposit benchmark interest rate, (iii) the involvement of the independent non-executive Directors, who will review the implementation of the relevant internal controls and related report(s) annually, (iv) the regular monitoring of the financial information and business performance of Sinochem Finance, and (v) the Deposit Restriction as an additional safeguard in place to limit the risk exposures arising from the Deposit Services and other financial assistance with Sinochem Group, we concur with the Directors' view that the above internal control procedures and corporate governance measures currently and to be adopted by the Group during the term of the New Financial Services Framework Agreement are appropriate and sufficient, and that the procedures and measures give assurance to the Independent Shareholders that the continuing connected transactions under the New Financial Services Framework Agreement will be appropriately monitored.

7. Regulatory environment of Sinochem Finance

The banking industry of the PRC is regulated by the CBIRC and the PBOC. According to the relevant requirements under “Measures for the Administration of Finance Companies of Enterprise Group” promulgated by the China Banking Regulatory Commission (the “CBRC”) (a predecessor of the CBIRC, before its merging with the China Insurance Regulatory Commission in April 2018), finance companies of enterprise groups are not allowed to engage in non-financial services business and are required to meet certain ratio requirements. The major regulatory ratio requirements and the relevant ratios of Sinochem Finance as at 31 December 2018, 2019 and 2020 and as at 30 June 2021 are set out in the table below:

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	Requirements for PRC licensed finance companies	As at 30 June 2021	Sinochem Finance		
			As at 31 December 2020	2019	2018
Capital adequacy ratio	Not lower than 10%	20.60%	18.24%	12.31%	13.08%
Inter-bank borrowing balances shall not exceed total capital	Not higher than 100%	32.95%	80.01%	30.66%	0.00%
Outstanding guarantee amounts shall not exceed total capital	Not higher than 100%	2.87%	5.29%	40.86%	54.29%
Non-performing asset ratio	Not higher than 4%	0.00%	0.00%	0.00%	0.00%
Impaired loan ratio	Not higher than 5%	0.00%	0.00%	0.00%	0.00%
Asset impairment adequacy ratio <i>(Note)</i>	Not lower than 100%	N/A	N/A	N/A	N/A
Current ratio	Not lower than 25%	41.20%	51.90%	70.05%	67.08%
Investment to total capital ratio	Not higher than 70%	61.87%	38.94%	50.04%	45.18%
Self-owned fixed assets to total capital ratio	Not higher than 20%	0.04%	N/A	N/A	0.14%

Note: As advised by the management of the Group, Sinochem Finance did not record any assets (other than loans receivables) that have credit risk exposure under the Guidelines of Risk-based Classification of Loans promulgated by the CBRC, for the purpose of calculating the asset impairment adequacy ratio during the years 2018 to 2020. Accordingly, such ratio is not applicable during the corresponding periods

As advised by the management of the Group, the CBIRC monitors Sinochem Finance's compliance with the applicable requirements of the relevant regulatory authorities and conducts on-site visits from time to time, and may issue opinions on corrective measures (mainly representing the CBIRC's advice and improvement suggestions on the operation and management of Sinochem Finance, which will not affect its credibility and repayment ability) to Sinochem Finance. As shown in the table above, we note that all applicable ratios of Sinochem Finance are in compliance with the regulatory requirements for PRC licensed finance companies as promulgated by the CBIRC. In particular, the capital adequacy ratio of Sinochem Finance improved during the periods presented above, increasing from approximately 13.1% as at 31 December 2018 to approximately 20.6% as at 30 June 2021, significantly higher than the 10% minimum requirement for PRC licensed finance companies. A major reason of the improvement of capital adequacy ratio was the capital injection of RMB3.0 billion by Sinochem Group to Sinochem Finance in 2020.

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As confirmed by the management of the Group, other than the opinions on corrective measures issued by the CBIRC during its on-site visits, the CBIRC has not taken any disciplinary actions, or imposed penalties or fines on Sinochem Finance since its incorporation. The opinions on corrective measures issued by the CBIRC refer to its advice and improvement suggestion on the operation and management of Sinochem Finance, which will not affect the credibility and repayment ability of Sinochem Finance. In addition, Sinochem Finance has not received any further opinions on corrective measures from the CBIRC during the past three years.

8. The maximum daily deposit balances

Review of historical figures

Set out below are the historical maximum daily deposit balances placed by the Group with Sinochem Finance and the relevant cap amounts for the two years ended 31 December 2020 and the seven months ended 31 July 2021:

	For the year ended		For the
	31 December		seven
	2019	2020	months
	(RMB	(RMB	ended
	million)	million)	31 July
			2021
			(RMB
			million)
Maximum daily deposit balance placed by the Group with Sinochem Finance	840.1	930.2	901.0
Relevant caps	1,000	1,000	1,000
Utilisation rates	84.0%	93.0%	90.1%

As set out in the table above, we note that the relevant caps had been substantially utilised during the periods under review, and the maximum daily deposit balance placed by the Group with Sinochem Finance increased from approximately RMB840.1 in 2019 to approximately RMB901.0 million in the first seven months of 2021. Based on our discussions with the management of the Group, this was mainly due to an increase in business transactions with Sinochem Finance, as driven by higher volume of transaction settlements with customers of the Group which resulted in an increase in demand for the free of charge settlement services offered by Sinochem Finance.

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Assessment of the Maximum Daily Balance

The Maximum Daily Balance is proposed to be RMB1.0 billion for the three years ending 31 December 2023.

In assessing the reasonableness of such Maximum Daily Balance, we have discussed with the management of the Group the reasons underlying this projection. The Directors have taken into account, among other things, (i) the estimated maximum bank balances and cash of the Group during the peak season in the past three years; (ii) the intention to deposit funds with Sinochem Finance for the purpose of utilising the free of charge settlement services, (iii) the more favourable and flexible financial services provided by Sinochem Finance under the New Financial Services Framework Agreement and at the same time limiting the maximum risk exposure as compared to other independent commercial banks, and (iv) the nature of the Deposit Services, which is on a voluntary and non-exclusive basis and not an obligation to the Group.

We note from annual and interim reports of the Company that the profit of the Group has been improving in recent years, increasing from approximately RMB489.0 million in 2018 to approximately RMB644.3 million in 2019 and approximately RMB653.4 million in 2020. For the six months ended 30 June 2021, the Group recorded a profit of approximately RMB674.7 million, an increase of approximately 49.0% compared to the same period last year. As at 30 June 2021, the Group recorded bank balances and cash of approximately RMB2.1 billion, up by approximately 1.7 times compared to approximately RMB0.8 billion as at 31 December 2020, primarily due to net cash generated from its business operations. Against the background above and on the management's assumption that the interest-bearing liabilities will be refinanced in the near future, management of the Group expects that the trend of increase in bank balances and cash will continue in the upcoming years. To substantiate the above, we have obtained the expected future cash flows of the Group for the three years ending 31 December 2023, indicating the future cash requirements for the strategic development projects and normal business operations.

As mentioned in the earlier section, a number of intercompany transactions and balances between the Group and Sinochem Group companies, and receivable from customers of the Group, are settled through accounts maintained with Sinochem Finance. For example, over the past years, the Group has been importing fertilizer products from overseas suppliers through Sinochem Group, with an aggregate transaction amount of over RMB4.0 billion in 2020. Given the ongoing business relationship with Sinochem Group companies and the favourable and flexible financial services from Sinochem Finance (especially the free of charge settlement services), the Group intends to maintain deposits with Sinochem Finance, for the purpose of transacting and settling payments and receipts with Sinochem Group companies.

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The Maximum Daily Balance means the maximum amount of cash the Group would maintain in accounts with Sinochem Finance. Shareholders should note that the Group has no obligation to place its deposits with Sinochem Finance at that maximum amount. To limit the risk exposures arising from the Deposit Services, as mentioned in the section above headed “6. Internal control procedures and corporate governance measures of the Group”, the Group will ensure that the outstanding amount of its overall financial assistance to Sinochem Group and its associates (including ChemChina and its associates) on each day will not exceed 20% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements, which was approximately RMB1,763.5 million as at 30 June 2021.

Having considered the above, including the commercial needs for settlements with customers and members of Sinochem Group and the estimated continued trend of increase in bank balances and cash in the upcoming years, we concur with the management of the Group the rationale behind the determination of the Maximum Daily Balance.

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;
- (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;

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- (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 cap amounts.
- (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 cap amounts (i.e. the Annual Caps and the Maximum Daily Balance); and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms for each of the Fertilizer Import Framework Agreement and the New Financial Services 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.

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 Cap and the Maximum Daily Balance) 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 Cap and the Maximum Daily Balance).

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 AVAILABLE FOR INSPECTION

A copy of each of (i) the Fertilizer Import Framework Agreement and (ii) the New Financial Services Framework Agreement is available for inspection during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the principal place of business of the Company at Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong 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 Drawing Room, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 30 September 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 Fertilizer Import Framework Agreement (as defined and described in the circular to the shareholders of the Company dated 14 September 2021 (the “**Circular**”), a copy of which has been produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification) and the execution thereof and implementation of all transactions thereunder be and are hereby approved, ratified and confirmed;
- (b) the proposed cap amounts 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.”

NOTICE OF SPECIAL GENERAL MEETING

2. “**THAT:**

- (a) the Deposit Services under the New Financial Services Framework Agreement (as defined and described in the Circular, a copy of which has been produced to the meeting marked “B” and signed by the Chairman of the meeting for the purpose of identification) be and are hereby approved, ratified and confirmed;
- (b) the maximum daily outstanding balance of the Deposit Services under the New Financial Services Framework Agreement be and is 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 Deposit Services under the New Financial Services Framework Agreement and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to the Deposit Services under the New Financial Services 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

14 September 2021

Notes:

- 1 The register of members of the Company will be closed from 27 September 2021 to 30 September 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 24 September 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.
- 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 (excluding any part of a day that is a public holiday) before the time appointed for the holding of the meeting or any adjournment thereof.

NOTICE OF SPECIAL GENERAL MEETING

- 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.