
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)

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
(AS REVISED AND RENEWED BY THE SUPPLEMENTAL AGREEMENT)
MAJOR AND CONTINUING CONNECTED TRANSACTIONS
UNDER THE NEW SINOCEM AGRICULTURE AGREEMENT AND
THE CNSG 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 33 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 34 to 35 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 36 to 82 of this circular.

A notice convening the SGM of Sinofert Holdings Limited to be held at 24th Floor, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on 21 December 2023 at 10:00 a.m. is set out on pages 91 to 93 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, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy as instructed will not preclude you from subsequently attending and voting at the meeting or any adjourned meeting if you so wish.

6 December 2023

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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
“CNSG”	中國種子集團有限公司 (China National Seed Group Co., Ltd.), a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of Syngenta Group
“CNSG Agreement”	the agreement for the use of fund dated 11 October 2023 entered into between Sinochem Fertilizer, as the lender, and CNSG, as the borrower
“CNSG Guarantee Letter”	the guarantee letter signed by Syngenta Group on 15 November 2023 with respect to the performance by CNSG of all of its contractual obligations under the CNSG Agreement
“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 transaction”	has the same meaning ascribed to it under the Listing Rules
“continuing connected transaction”	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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement)
“Director(s)”	the director(s) of the Company
“Existing Sinochem Agriculture Agreement”	the agreement for the use of fund dated 5 August 2022 entered into between Sinochem Fertilizer, as the lender, and Sinochem Agriculture, as the borrower

DEFINITIONS

“Financial Services Framework Agreement”	the financial services framework agreement dated 24 August 2021 entered into between the Company and Sinochem Finance (as revised and renewed by the first supplemental agreement dated 5 August 2022 entered into between the parties)
“Fund”	the fund in an amount of not more than RMB1,000,000,000 to be provided by Sinochem Fertilizer to Sinochem Agriculture pursuant to the New Sinochem Agriculture Agreement and/or the fund in an amount of not more than RMB500,000,000 to be provided by Sinochem Fertilizer to CNSG pursuant to the CNSG Agreement (as the case may be)
“Group”	the Company and its subsidiaries
“Guarantee Letters”	the CNSG Guarantee Letter and Sinochem Agriculture Guarantee Letter
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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 Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the transaction under the New Sinochem Agriculture Agreement, and (iii) the transaction under the CNSG 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, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the transaction under the New Sinochem Agriculture Agreement, and (iii) the transaction under the CNSG Agreement
“Independent Shareholders”	shareholders other than Sinochem Holdings and its associates

DEFINITIONS

“Latest Practicable Date”	28 November 2023, 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 Financial Services Framework Agreement (as revised and renewed by the Supplemental 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 24:00 on a daily basis
“NAFR”	the National Administration of Financial Regulation, the predecessor of which is the China Banking and Insurance Regulatory Commission
“New Sinochem Agriculture Agreement”	the agreement for the use of fund dated 11 October 2023 entered into between Sinochem Fertilizer, as the lender, and Sinochem Agriculture, as the borrower
“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 Financial Services Framework Agreement (as revised and renewed by the Supplemental 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 NAFR
“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)

DEFINITIONS

“SGM”	the special general meeting of the Company proposed to be held at 24th Floor, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on 21 December 2023 at 10:00 a.m. or any adjournment thereof, the notice of which is set out on pages 91 to 93 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 Agriculture”	中化現代農業有限公司 (Sinochem Agriculture Holdings Limited), a limited liability company incorporated in the PRC, and a wholly-owned subsidiary of Syngenta Group
“Sinochem Agriculture Guarantee Letter”	the guarantee letter signed by Syngenta Group on 15 November 2023 with respect to the performance by Sinochem Agriculture of all of its contractual obligations under the Sinochem Agriculture Agreement
“Sinochem Corporation”	中國中化股份有限公司 (Sinochem Corporation), a limited liability company incorporated in the PRC, and a subsidiary of Sinochem Group
“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 Finance”	中化集團財務有限責任公司 (Sinochem Group Finance Co., Ltd.), a limited liability company incorporated in the PRC, and a subsidiary of Sinochem Holdings
“Sinochem Group”	中國中化集團有限公司 (Sinochem Group Co., Ltd.), a state-owned enterprise incorporated in the PRC, and a subsidiary of Sinochem Holdings
“Sinochem Holdings”	中國中化控股有限責任公司 (Sinochem Holdings Corporation Ltd.), a state-owned enterprise incorporated in the PRC, which is wholly owned by the SASAC, and is the ultimate controlling shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules

DEFINITIONS

“Supplemental Agreement”	the second supplemental agreement to the Financial Services Framework Agreement dated 11 October 2023 entered into between the Company and Sinochem Finance
“Syngenta Group”	先正達集團股份有限公司 (Syngenta Group Co., Ltd.), a limited liability company incorporated in the PRC, an indirect wholly-owned subsidiary of Sinochem Holdings, and the indirect controlling shareholder of the Company
“%”	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:

WANG Jun

WANG Ling

Non-executive Director:

LIU Hongsheng (*Chairman*)

Independent Non-executive Directors:

KO Ming Tung, Edward

LU Xin

TSE Hau Yin, Aloysius

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal place of business:

Unit 4705, 47th Floor

Office Tower

Convention Plaza

1 Harbour Road

Wanchai

Hong Kong

6 December 2023

To: the shareholders

Dear Sir or Madam,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
(AS REVISED AND RENEWED BY THE SUPPLEMENTAL AGREEMENT)
AND
MAJOR AND CONTINUING CONNECTED TRANSACTIONS
UNDER THE NEW SINOCHEM AGRICULTURE AGREEMENT AND
THE CNSG AGREEMENT**

INTRODUCTION

Reference is made to the announcement of the Company dated 11 October 2023 in relation to (i) the Deposit Services to be provided by Sinochem Finance to the Group under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), and (ii) the Fund to be provided by Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, to Sinochem Agriculture and CNSG under the New Sinochem Agriculture Agreement and the CNSG Agreement, respectively. The utilization of the Deposit Services and the provision of the Fund constitute the provision of financial assistance by the Group, and are therefore subject to the requirements under Chapter 14 and Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further information on the details of the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement); (ii) further information on the details of the New Sinochem Agriculture Agreement and the CNSG 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.

FINANCIAL SERVICES FRAMEWORK AGREEMENT (AS REVISED AND RENEWED BY THE SUPPLEMENTAL AGREEMENT)

References are made to the announcements of the Company dated 24 August 2021 and 5 August 2022 in relation to the Financial Services Framework Agreement entered into between the Company and Sinochem Finance. Pursuant to the Financial Services Framework Agreement, the Group may utilize the financial services available from Sinochem Finance as it deems necessary for a term up to 31 December 2024.

On 11 October 2023, the Company and Sinochem Finance entered into the Supplemental Agreement to revise the maximum daily outstanding balance of deposits placed by the Group with Sinochem Finance under the Financial Services Framework Agreement for the year ending 31 December 2024, and to renew the term of the Financial Services Framework Agreement to 31 December 2026. Save for the above mentioned amendments, all the major terms of the financial services to be provided by Sinochem Finance under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) will remain the same.

Principal Terms of the Financial Services Framework Agreement (as Revised and Renewed by the Supplemental Agreement)

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, the settlement of transactions between the Group and subsidiaries of Sinochem Holdings, 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, 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 NAFR.

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 Financial Services Framework Agreement (as revised and renewed by the Supplemental 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 at least three 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 at least three independent commercial banks in the PRC;
- (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 at least three independent commercial banks in the PRC;
- (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 at least three independent commercial banks in the PRC;
- (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 NAFR: 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

Subject to obtaining the approval from the Independent Shareholders at the SGM in respect of the Supplemental Agreement, the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) will take effect from 1 January 2024 and remain in force until 31 December 2026.

In the event that the Deposit Services under the Financial Services Framework Agreement (as revised and renewed by the Supplemental 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 will not exceed the original cap amount of the deposit services under the Financial Services Framework Agreement up to its original expiry date of 31 December 2024. In order to ensure the maximum daily outstanding balance of deposits will not exceed the original cap amount of RMB2,000,000,000, the Treasury Department of the Company has set up an instruction to Sinochem Finance, requesting any amounts above the threshold amount of RMB2,000,000,000 being transferred automatically to the Group's designated account in an independent commercial bank at 24:00 each day. Such instruction on the threshold amount will be adjusted, subject to the approval of the relevant resolutions in respect of the continuing connected transactions by the Independent Shareholders. In addition, the Treasury Department monitors the outstanding balance of the deposit on a daily basis and checks the outstanding balance each business day close to and before 17:00 (the business closing hours

LETTER FROM THE BOARD

of commercial banks) and will make arrangement (for example, transferring fund out from the Group's account with Sinochem Finance) if there is a possibility that the outstanding balance will exceed the original cap amount.

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 Financial Services Framework Agreement (as revised and renewed by the Supplemental 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 NAFR 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 NAFR.

Sinochem Finance has also undertaken that at all times the sum of the outstanding amount of the loans it provides to its customers (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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), Sinochem Finance shall compensate the Group for the full amount of the loss suffered. Sinochem Group (as an indirect holding company of Sinochem Finance) has also issued an undertaking in favour of the Company on 17 November 2023, pursuant to which Sinochem Group will procure Sinochem Finance to perform its obligations under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement).

Annual Caps

Deposit Services

The Company intends to revise the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for the year ending 31 December 2024 from RMB2,000,000,000 to RMB3,000,000,000, and to set the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for each of the two years ending 31 December 2026 as RMB3,000,000,000. Such maximum daily outstanding balance has been determined after taking into account several factors, including:

LETTER FROM THE BOARD

- (i) The Group maintains sufficient bank balances and cash. During the peak season for the sale of fertilizer products in 2023, its maximum bank balance and cash reached approximately RMB4,957 million. The profitability and cash flow position of the Group have continued to improve in recent years. The profit attributable to owners of the Company grew by approximately 28.84% from approximately RMB867 million for the year ended 31 December 2021 to approximately RMB1,117 million for the year ended 31 December 2022, and its net cash inflow generated from operating activities increased by approximately 27.66% from approximately RMB1,569 million for the year ended 31 December 2021 to approximately RMB2,003 million for the year 31 December 2022;
- (ii) The Group is committed to becoming an innovative leading crop nutrition enterprise in the PRC. It plans to further proceed with its strategy of centralized procurement to ensure the supply of fertilizer products in the PRC, and continues to optimize its product structure to focus on fertilizer products with a high profit margin. With the business development of the Group, the scale of purchase and sale between the Group and the subsidiaries of Sinochem Holdings has continued to expand. For example, the transaction amount for the purchase of agricultural products in the PRC by the Group from the subsidiaries of Sinochem Holdings is expected to increase substantially from approximately RMB337 million for the year ended 31 December 2022 to no more than RMB1,326 million for the year ending 31 December 2024 (please refer to the circular of the Company dated 25 August 2023 for details); and the transaction amount for the import of fertilizer and other fertilizer raw materials by the Group through Sinochem Group is expected to increase substantially from approximately RMB5,147 million for the year ended 31 December 2022 to no more than RMB15,523 million for the year ending 31 December 2024 (please refer to the circular of the Company dated 13 December 2021 for details). The expected expansion of transaction scale will result in the growth of demands for settlement. 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. Increasing the cap on the Deposit Services under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) will facilitate the Group to fully utilize the convenient and free-of-charge settlement services offered by Sinochem Finance;
- (iii) Sinochem Finance has set the interest rates of its various deposit products to the maximum limit stipulated in the regulation of the market interest rate pricing self-regulatory mechanism of the PBOC, so that the interest rates of its deposit products are the highest among the deposit products of the same type and with the same duration in the market. Meanwhile, Sinochem Finance is also able to provide flexible and convenient procedures for withdrawals to meet the funding requirement of the Group for its business development in a timely manner. Increasing the cap on the Deposit Services under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) will allow the Group to fully enjoy the advantageous Deposit Services offered by Sinochem Finance, so as to create the greatest value for its shareholders; and

LETTER FROM THE BOARD

- (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 2022 and the six months ended 30 June 2023, the maximum daily outstanding balances of the deposits placed by the Group with Sinochem Finance were approximately RMB934,148,000, RMB1,960,000,000 and RMB1,973,525,000, respectively.

As at the Latest Practicable Date, the maximum daily outstanding balance of the Deposit Services under the Financial Services Framework Agreement has not exceeded the original cap disclosed in the announcement of the Company dated 5 August 2022.

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 2026 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 2022 and the six months ended 30 June 2023, the historical transaction amounts of such services provided by Sinochem Finance in aggregate were approximately RMB626,000, RMB795,000 and RMB132,000, respectively. When setting the annual cap in respect of the Other Financial Services, the Company has considered not only the amounts of its historical transactions with Sinochem Finance, but also the scale of its transactions with independent commercial banks, and assumed that all of the entrustment loan services, commercial bills of exchange services, buyer financing services, guarantee and other financial services that are currently provided to the Group by independent commercial banks or may be required by the Group during the three years ending 31 December 2026 will be provided by Sinochem Finance. For the two years ended 31 December 2022 and the six months ended 30 June 2023, the historical transaction amounts of such services provided to the Group by independent commercial banks amounted to approximately RMB4,424,000, RMB9,406,000 and RMB300,000, respectively. As the Group will utilize the services of Sinochem Finance on a voluntary and non-exclusive basis and is not obliged to engage Sinochem Finance for any particular services, the Company considers that it is appropriate to take into account its historical transactions with both Sinochem Finance and independent commercial banks when setting the maximum amount payable to Sinochem Finance in respect of the Other Financial Services, which will allow the Group to have a greater flexibility in selecting service providers and allocating its resources.

LETTER FROM THE BOARD

Financial Effects of the Transaction

Given that the interest rates offered by Sinochem Finance to the Group in respect of the Deposit Services 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), the return of the surplus funds of the Group will be enhanced due to the possibly higher deposit interests from Sinochem Finance.

Save for the aforesaid, there would be no material effect of the Deposit Services under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) on the earnings, assets and liabilities of the Group.

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 in the PRC 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 quoted by independent commercial banks in the PRC 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 (the settlement services offered by Sinochem Finance are free of charge). 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 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

LETTER FROM THE BOARD

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. The terms of loans subject to disclosures requirements under the Listing Rules will be reviewed and approved by the Board and the rest will be approved by the chief financial officer of the Company;
- Sinochem Finance is required to (i) provide a report on any changes in its credit ratings, if available, to the Company every six months, (ii) provide the Company each month with its financial statements for the previous month, (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, (iv) inform the Company of any disciplinary actions taken by the NAFR against Sinochem Finance, or any penalties or fines imposed on Sinochem Finance, and (v) provide the Company with a risk assessment report on Sinochem Finance prepared by PRC certified public accountants on a semi-annual basis;
- Sinochem Finance will provide operational ratios under regulatory requirements, including capital adequacy ratio, non-performing asset 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;
- In the case of any significant credit risk events involving Sinochem Finance and its significant shareholders and de facto controller (being Sinochem Holdings, Sinochem Group and Sinochem Corporation), including but not limited to its bonds issued in the open market being overdue for more than seven business days or its obligation to make repayment for any large amount of debts guaranteed by it being triggered, the Group will not continue to place additional deposits with Sinochem Finance and will arrange to withdraw its existing deposits;
- The Company will monitor the status of its financial assistance to Sinochem Holdings and its associates (including its deposits with Sinochem Finance under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) and the provision of the Fund to Sinochem Agriculture and CNSG under the New Sinochem Agriculture Agreement and the CNSG Agreement, respectively (as described below under the section headed "**New Sinochem Agriculture Agreement and the CNSG Agreement**")) on a daily basis to ensure that the outstanding amount of its overall financial assistance to Sinochem Holdings and its associates on each day will not exceed 30% of the consolidated net assets of the Company as set out in its latest published

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consolidated financial statements, so as to limit the maximum risk exposure arising from its financial assistance to Sinochem Holdings and its associates (including the Deposit Services and the provision of the Fund to Sinochem Agriculture and CNSG); 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 for and Benefits of the Transaction

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 NAFR 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;
- (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 NAFR (including its predecessor, the China Banking and Insurance Regulatory Commission) monitors Sinochem Finance's operational performance, compliance with relevant regulatory authorities and conducts on-site visits from time to time, and the NAFR will provide suggestions or issue reminders to Sinochem Finance in respect of its operational performance. To the knowledge of the Company, the NAFR has not taken any disciplinary actions, or imposed penalties or fines on Sinochem Finance since its incorporation;
- (iii) According to the relevant laws and regulations promulgated by the NAFR and as set out in the articles of association of Sinochem Finance, in the event that Sinochem Finance falls into financial difficulty, Sinochem Holdings, being the ultimate 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; and
- (iv) Sinochem Group, being the indirect holding company of Sinochem Finance, has issued an undertaking in favour of the Company, pursuant to which Sinochem Group will procure Sinochem Finance to perform its obligations under the Financial Services Framework Agreement (as revised and renewed by the

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Supplemental Agreement). Sinochem Group is a state-owned enterprise with solid financial track records. Based on its unaudited consolidated management accounts, as at 30 September 2023, Sinochem Group had registered and fully paid-up capital of approximately RMB47.8 billion, consolidated net assets attributable to owners of Sinochem Group of approximately RMB78.1 billion, and bank balances, and cash of approximately RMB41.4 billion as at 30 September 2023. Gearing ratio of Sinochem Group, calculated as total borrowings divided by total assets, was approximately 22.0% as at 30 September 2023. Profit attributable to owners of Sinochem Group amounted to approximately RMB5.6 billion, RMB12.8 billion and approximately RMB5.0 billion in 2020, 2021 and 2022 respectively, and approximately RMB1.3 billion for the first nine months of 2023. To the knowledge of the Company, Sinochem Group has not defaulted on any of its credit obligations in the past five years.

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

- (i) 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 and principal-guaranteed financial products, in order to generate interest and/or investment income through utilizing the Group's surplus funds. 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.

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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), the Group may discontinue its use of all or any of such services provided by Sinochem Finance without having to incur extra cost.

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The Directors, including the independent non-executive Directors, are of the view that the transactions contemplated under the Financial Services Framework Agreement (as revised and renewed by the Supplemental 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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) are fair and reasonable.

None of the Directors is regarded as having a material interest in the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) and the transactions contemplated thereunder, and hence none of the Directors has abstained from voting on the Board resolution to approve the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) and the transactions contemplated thereunder.

NEW SINOCHEM AGRICULTURE AGREEMENT AND THE CNSG AGREEMENT

The New Sinochem Agriculture Agreement

Reference is made to the announcement of the Company dated 5 August 2022 in relation to the Existing Sinochem Agriculture Agreement entered into between Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, and Sinochem Agriculture. Pursuant to the Existing Sinochem Agriculture Agreement, Sinochem Fertilizer agreed to provide the fund in an amount of not more than RMB1,000,000,000 to Sinochem Agriculture. The Existing Sinochem Agriculture Agreement will expire on 31 December 2024.

On 11 October 2023, Sinochem Fertilizer (as the lender) and Sinochem Agriculture (as the borrower) entered into the New Sinochem Agriculture Agreement, pursuant to which Sinochem Fertilizer agreed to continue to provide the Fund in an amount of not more than RMB1,000,000,000 to Sinochem Agriculture. The New Sinochem Agriculture Agreement will take effect from 1 January 2024 and remain in force until 31 December 2026. The Existing Sinochem Agriculture Agreement will be terminated and replaced by the New Sinochem Agriculture Agreement, after the latter comes into effect.

The principal terms of the New Sinochem Agriculture Agreement are set forth as follows:

- | | |
|----------------------------------|---|
| Parties: | (a) Sinochem Fertilizer (as the lender); and

(b) Sinochem Agriculture (as the borrower) |
| Total amount of the Fund: | Not more than RMB1,000,000,000 of a revolving nature. Sinochem Agriculture may re-borrow any portion of the total amount of the Fund that has been repaid or prepaid. |

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Interest rate: The interest rate of each Fund shall be the highest interest rate of the Comparable Loans (as defined below) obtained by Sinochem Agriculture from independent third-party banks one month prior to the date of release of such Fund. If no Comparable Loan is available during the one-month period prior to the date of release of the Fund, the interest rate shall be determined by reference to the highest interest rate of the Comparable Loans available in the most recent month before such one-month period. The interest rate adjustment mechanism of the Fund, if any, shall be the same as that of the relevant Comparable Loan. For example, where the interest rate of a Comparable Loan is based on floating rate with reference to Loan Prime Rate in the PRC (“**LPR**”), the interest rate of the relevant Fund shall be adjusted in a manner similar to that of the Comparable Loan, with reference to any subsequent changes in the LPR.

Comparable Loan refers to any precedent loan obtained by Sinochem Agriculture from an independent third-party bank that is similar to the Fund provided under the New Sinochem Agriculture Agreement in terms of, among others, duration, use of funds and form of guarantee, or any loan granted on conditions no less favourable to Sinochem Agriculture than those specified in the New Sinochem Agriculture Agreement.

Term: Subject to obtaining the Sinochem Agriculture Guarantee Letter from Syngenta Group (as further described below under the section headed “**Provision of Guarantee**”) and the approval from the Independent Shareholders at the SGM, the New Sinochem Agriculture Agreement will take effect from 1 January 2024 and remain in force until 31 December 2026. The Existing Sinochem Agriculture Agreement will be terminated and replaced by the New Sinochem Agriculture Agreement, after the latter comes into effect.

The duration of each Fund shall be no more than one year and its maturity date shall not exceed the term of the New Sinochem Agriculture Agreement.

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Repayment: Sinochem Agriculture shall repay each Fund to Sinochem Fertilizer on the maturity date of such Fund. Sinochem Agriculture may, by serving a prior written notice of two business days to Sinochem Fertilizer and upon obtaining the written consent from Sinochem Fertilizer, repay the Fund and any interest accrued thereon, in whole or in part, prior to the maturity date. In addition, Sinochem Fertilizer may, by serving a prior written notice of five business days to Sinochem Agriculture, require Sinochem Agriculture to repay the Fund and any interest accrued thereon, in whole or in part, prior to the maturity date.

Use of Fund: Sinochem Agriculture shall use the Fund for grain purchasing and storage, as well as its daily operations.

Other provisions: Sinochem Agriculture shall make withdrawal applications to Sinochem Fertilizer in writing within the total amount of the Fund and during the term of the New Sinochem Agriculture Agreement, and provide Sinochem Fertilizer with accounts and breakdowns in connection with the loans obtained by it from independent third-party banks, as well as the information associated with the Comparable Loans (including their interest rate, duration, use of funds and form of guarantee). Sinochem Fertilizer shall issue a written confirmation for the release of each Fund at the time of its release, setting out the amount of each Fund, interest rate, date of release and maturity date.

Sinochem Agriculture shall also provide detailed information concerning the use of each Fund to Sinochem Fertilizer at the time of applying for such Fund. Sinochem Fertilizer shall have the right to decide whether to release the Fund to Sinochem Agriculture based on the information provided by it. If, during the term of the New Sinochem Agriculture Agreement, Sinochem Agriculture intends to invest any project, its investment amount in which will exceed 25% of its total assets value, Sinochem Agriculture shall obtain a prior written consent from Sinochem Fertilizer for its investment in such project.

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Sinochem Agriculture shall notify Sinochem Fertilizer when any of the following events occurs or is likely to occur: (a) the gearing ratio of Sinochem Agriculture exceeds 80% after its registered capital has been paid up, (b) its liquidity ratio is less than 1, (c) there is a change in its effective controller, (d) its annual gross profit margin is negative, and (e) there is an adverse change in its long-term investments. In any of such cases, Sinochem Fertilizer shall have the right to cease the release of the Fund to Sinochem Agriculture and to require Sinochem Agriculture to repay the Fund that has been released and any interest accrued thereon prior to the maturity date.

**Liabilities for
breach of
contract:**

If Sinochem Agriculture fails to perform its obligations under the New Sinochem Agriculture Agreement, Sinochem Fertilizer shall have the right to cease the release of the Fund to Sinochem Agriculture and to require Sinochem Agriculture to repay the Fund that has been released and any interest accrued thereon prior to the maturity date. In addition, if Sinochem Agriculture is unable to repay the Fund and any interest accrued thereon as scheduled or fails to use the Fund in accordance with the use specified in the New Sinochem Agriculture Agreement, Sinochem Fertilizer shall also have the right to impose on Sinochem Agriculture an additional interest of 50% on the overdue amount or the amount used in breach of the New Sinochem Agriculture Agreement.

The CNSG Agreement

On 11 October 2023, Sinochem Fertilizer (as the lender) and CNSG (as the borrower) entered into the CNSG Agreement, pursuant to which Sinochem Fertilizer agreed to provide the Fund in an amount of not more than RMB500,000,000 to CNSG. The CNSG Agreement will take effect from 1 January 2024 and remain in force until 31 December 2026.

The principal terms of the CNSG Agreement are set forth as follows:

- Parties:**
- (a) Sinochem Fertilizer (as the lender); and
 - (b) CNSG (as the borrower)

Total amount of the Fund: Not more than RMB500,000,000 of a revolving nature. CNSG may re-borrow any portion of the total amount of the Fund that has been repaid or prepaid.

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- Interest rate:** The interest rate of each Fund shall be the highest interest rate of the Comparable Loans (as defined below) obtained by CNSG from independent third-party banks one month prior to the date of release of such Fund. If no Comparable Loan is available during the one-month period prior to the date of release of the Fund, the interest rate shall be determined by reference to the highest interest rate of the Comparable Loans available in the most recent month before such one-month period. The interest rate adjustment mechanism of the Fund, if any, shall be the same as that of the relevant Comparable Loan. For example, where the interest rate of a Comparable Loan is based on floating rate with reference to LPR, the interest rate of the relevant Fund shall be adjusted in a manner similar to that of the Comparable Loan, with reference to any subsequent changes in the LPR.
- Comparable Loan refers to any precedent loan obtained by CNSG from an independent third-party bank that is similar to the Fund provided under the CNSG Agreement in terms of, among others, duration, use of funds and form of guarantee, or any loan granted on conditions no less favourable to CNSG than those specified in the CNSG Agreement.
- Term:** Subject to obtaining the CNSG Guarantee Letter from Syngenta Group (as further described below under the section headed “**Provision of Guarantee**”) and the approval from the Independent Shareholders at the SGM, the CNSG Agreement will take effect from 1 January 2024 and remain in force until 31 December 2026.
- The duration of each Fund shall be no more than one year and its maturity date shall not exceed the term of the CNSG Agreement.
- Repayment:** CNSG shall repay each Fund to Sinochem Fertilizer on the maturity date of such Fund. CNSG may, by serving a prior written notice of two business days to Sinochem Fertilizer and upon obtaining the written consent from Sinochem Fertilizer, repay the Fund and any interest accrued thereon, in whole or in part, prior to the maturity date. In addition, Sinochem Fertilizer may, by serving a prior written notice of five business days to CNSG, require CNSG to repay the Fund and any interest accrued thereon, in whole or in part, prior to the maturity date.
- Use of Fund:** CNSG shall use the Fund for its daily operations.

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Other provisions:

CNSG shall make withdrawal applications to Sinochem Fertilizer in writing within the total amount of the Fund and during the term of the CNSG Agreement, and provide Sinochem Fertilizer with accounts and breakdowns in connection with the loans obtained by it from independent third-party banks, as well as the information associated with the Comparable Loans (including their interest rate, duration, use of funds and form of guarantee). Sinochem Fertilizer shall issue a written confirmation for the release of each Fund at the time of its release, setting out the amount of each Fund, interest rate, date of release and maturity date.

CNSG shall also provide detailed information concerning the use of each Fund to Sinochem Fertilizer at the time of applying for such Fund. Sinochem Fertilizer shall have the right to decide whether to release the Fund to CNSG based on the information provided by it. If, during the term of the CNSG Agreement, CNSG intends to invest any project, its investment amount in which will exceed 25% of its total assets value, CNSG shall obtain a prior written consent from Sinochem Fertilizer for its investment in such project.

CNSG shall notify Sinochem Fertilizer when any of the following events occurs or is likely to occur: (a) the gearing ratio of CNSG exceeds 80%, (b) its liquidity ratio is less than 1, (c) there is a change in its effective controller, (d) its annual gross profit margin is negative, and (e) there is an adverse change in its long-term investments. In any of such cases, Sinochem Fertilizer shall have the right to cease the release of the Fund to CNSG and to require CNSG to repay the Fund that has been released and any interest accrued thereon prior to the maturity date.

**Liabilities for
breach of
contract:**

If CNSG fails to perform its obligations under the CNSG Agreement, Sinochem Fertilizer shall have the right to cease the release of the Fund to CNSG and to require CNSG to repay the Fund that has been released and any interest accrued thereon prior to the maturity date. In addition, if CNSG is unable to repay the Fund and any interest accrued thereon as scheduled or fails to use the Fund in accordance with the use specified in the CNSG Agreement, Sinochem Fertilizer shall also have the right to impose on CNSG an additional interest of 50% on the overdue amount or the amount used in breach of the CNSG Agreement.

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Pricing Basis

The terms of the New Sinochem Agriculture Agreement and the CNSG Agreement are agreed upon by the parties after arm's length negotiations and having regard to the prevailing market price and market practices.

When determining the maximum daily loan balance under the New Sinochem Agriculture Agreement and the CNSG Agreement, being not more than RMB1,000,000,000 and RMB500,000,000 respectively, the Group has taken into account its bank balances and cash and loans and other borrowings, the interest income available to the Group for placing deposits with banks and Sinochem Finance, the assessment of the Group on the financial and business conditions of Sinochem Agriculture and CNSG, as well as the financial needs of Sinochem Agriculture and CNSG and their respective use of funds.

When determining the interest rate of the Fund, the Group will base on the highest interest rate of the Comparable Loans obtained by Sinochem Agriculture and CNSG from independent third-party banks. Sinochem Agriculture and/or CNSG (as the case maybe) is required to submit a list of loans they obtained from independent third-party banks one month prior to the date of release of such Fund for the Company to select the Comparable Loans. The Treasury Department of the Company will check the total loan amount in the list against the loan balance as recorded in the balance sheet of the monthly management account of Sinochem Agriculture and/or CNSG to ensure the completeness of the list of loans obtained, i.e., all the loans recorded in the accounting record of Sinochem Agriculture and/or CNSG are in such list. The Comparable Loans will then be decided by the Group in its sole discretion. Sinochem Agriculture and/or CNSG (as the case maybe) also need to submit to the Group the relevant underlying loan agreements and other information relating to the relevant Comparable Loans upon request.

The interest rates of loans obtained by Sinochem Agriculture and/or CNSG are usually determined by relevant independent third-party banks based on (i) the latest LPR together with the discount or premium, determined with reference to the specific situations of Sinochem Agriculture and/or CNSG (such as their financial positions and credibility), offered by the relevant independent third-party banks, and (ii) the other terms of the relevant loans (such as the duration, usage and/or form of guarantee). The Company is of the view that the interest rates offered by the relevant independent third-party banks to Sinochem Agriculture and/or CNSG, which took into account the market rate (i.e. LPR) that will be adjusted with reference to any subsequent changes in LPR and reflected the specific situations of Sinochem Agriculture and/or CNSG (such as their financial positions and credibility), are in line with the market rates and the more suitable reference for Sinochem Fertilizer to determine the interest rate of Funds to be granted to Sinochem Agriculture and/or CNSG.

The interest rate of 50% on overdue amount or the amount used in breach of the relevant agreement, was determined by taking into consideration of (i) the interest rate on overdue amount or the amount used in breach of the relevant agreement under the Existing Sinochem Agriculture Agreement, which is also 50%; and (ii) the penalty interest rates of the precedent Comparable Loans. The penalty interest rates of such Comparable Loans for the period from July to October of 2023, which are the latest available Comparable Loans,

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included 30%, 40%, 50%, 80% and 100%, and most of them are 50%. The Company is of the view that such period represents an appropriate period to demonstrate the borrowing terms of Sinochem Agriculture and CNSG under recent financial and market condition. Based on the above, the Group considers such penalty interest rate of 50% is on normal commercial terms, fair and reasonable.

For the purpose of reference, (i) with respect to the latest relevant loans obtained by Sinochem Agriculture from independent third-party banks, which is in October 2023, the interest rates of such loans are in a range from approximately 2.15%-2.75% per annum and the terms are from one (1) day to one (1) year; and (ii) with respect to the latest relevant loans obtained by CNSG from independent third-party banks, which is in June 2023, the interest rates of such loans are in a range from approximately 3.00%-4.35% per annum and the terms are around one (1) year.

Provision of Guarantee

On 15 November 2023, Syngenta Group signed the Guarantee Letters, so as to provide a guarantee in favour of Sinochem Fertilizer for the joint and several liabilities in connection with the contractual obligations of Sinochem Agriculture and CNSG under the New Sinochem Agriculture Agreement and the CNSG Agreement, respectively. If Sinochem Agriculture or CNSG fails to repay the Fund and any interest accrued thereon pursuant to the New Sinochem Agriculture Agreement or the CNSG Agreement (as the case may be), Sinochem Fertilizer shall have the right to require Syngenta Group to make repayments for Sinochem Agriculture or CNSG by serving a prior written notice of ten business days to Syngenta Group. The liabilities of Syngenta Group under the Guarantee Letters shall be limited to the outstanding portion of the amount actually released by Sinochem Fertilizer to Sinochem Agriculture and CNSG and any interest accrued thereon pursuant to the New Sinochem Agriculture Agreement and the CNSG Agreement, respectively.

Other than the guarantees provided by Syngenta Group under the Guarantee Letters, there is no collateral required under the New Sinochem Agriculture Agreement and the CNSG Agreement.

Annual Caps

The proposed annual caps of the maximum daily loan balance under the New Sinochem Agriculture Agreement for each of the three years ending 31 December 2024, 2025 and 2026 shall not exceed RMB1,000,000,000 and the proposed annual caps of the maximum daily loan balance under the CNSG Agreement for each of the three years ending 31 December 2024, 2025 and 2026 shall not exceed RMB500,000,000.

Such annual caps have been determined after taking into account several factors, including:

- (i) the historical transaction amounts under the Existing Sinochem Agriculture Agreement. The Existing Sinochem Agriculture Agreement took effect on 29 September 2022. For the three months ended 31 December 2022 and nine months

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ended 30 September 2023, the maximum daily loan balance borrowed by Sinochem Agriculture under Existing Sinochem Agriculture Agreement is RMB0 and RMB800,000,000, respectively;

- (ii) the Group's internal financial resources currently available. As stated above, the Group maintains sufficient bank balances and cash;
- (iii) the financial and business conditions of Sinochem Agriculture and CNSG as stated in the section headed "Internal Control Measures" below;
- (iv) the financial needs of Sinochem Agriculture and CNSG as stated in the section headed "Reasons for and Benefits of the Transactions" below; and
- (v) other reason and benefits of entering into the New Sinochem Agriculture Agreement and the CNSG Agreement as discussed in the section headed "Reasons for and Benefits of the Transactions" below.

Financial Effects of the Transaction

The Fund will be recorded as loan receivables under current assets of the Group. The provision of the Fund will increase the loan receivables of the Group and will decrease the bank balances and cash of the Group. The interest income from the Fund will be recorded as interest income of the Group.

Save for the aforesaid, there would be no material effect of the transactions under the New Sinochem Agriculture Agreement and the CNSG Agreement on the earnings, assets and liabilities of the Group.

Reasons for and Benefits of the Transactions

After taking into account the following factors, the Company believes that the transactions under the New Sinochem Agriculture Agreement and the CNSG Agreement will enable the Group to make use of its surplus funds in a better way at an acceptable level of risk:

- (i) As Sinochem Agriculture has established its business nationwide, it can promote Sinochem Fertilizer's products in an effective manner during its provision of agricultural services to its customers. With the establishment of its modern agricultural technological platform that integrates offline and online functions, Sinochem Agriculture has consistently expanded its service areas, and optimized its business process and profit model. CNSG has modernized seed processing centers, as well as research and development and innovation centers that lead the industry, with its products covering five main types of crops, namely corn, rice, wheat, oil and vegetables. CNSG possesses the advantages of making deployment under the whole industry chain and collaborating global resources, and has formed synergies with Sinochem Fertilizer in the sale of nearly 20 varieties. The provision of the Fund by Sinochem Fertilizer to Sinochem Agriculture and CNSG can further promote the business development of Sinochem Agriculture and

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CNSG, which will in turn facilitate Sinochem Fertilizer to further extend its sales channels through Sinochem Agriculture and increase the variety and competitiveness of the products it sells in collaboration with CNSG, and therefore improve the operating revenue and profitability of Sinochem Fertilizer;

- (ii) The Fund will be financed by the Group from its surplus funds. Therefore, the Company is of the view that the provision of the Fund will not affect the working capital or daily operations of the Group during the term of the New Sinochem Agriculture Agreement and the CNSG Agreement. Moreover, pursuant to the New Sinochem Agriculture Agreement and the CNSG Agreement, Sinochem Fertilizer may, by serving a prior written notice of five business days to Sinochem Agriculture and CNSG, require Sinochem Agriculture and CNSG to repay their respective Fund and any interest accrued thereon, in whole or in part, prior to the maturity date, which increases the flexibility of fund management by Sinochem Fertilizer. Sinochem Fertilizer can recover the Fund within a short period of time when there is any funding requirement to conduct its daily operations. Such arrangement is not normally available to lenders in usual loan agreements with independent third parties, and is more favourable to the Group as compared to the terms with independent third parties; and
- (iii) The Group has also considered the possibility of increasing its rate of return by investing in industry-related projects, but there are no projects requiring significant capital investment in recent years and up to the Latest Practicable Date. In addition, the Group has also considered revenue management such as placing deposits, but principal-guaranteed products such as deposits usually have a fixed term, which restricts the Group's ability to withdraw its funds before the maturity date. The interest rate of the Fund will be determined based on the highest interest rate of the Comparable Loans obtained by Sinochem Agriculture and CNSG from independent third-party banks, which is higher than the interest rate available to the Group for placing cash deposits with commercial banks in the PRC and Sinochem Finance. The Group may obtain a higher interest income through the transactions under the New Sinochem Agriculture Agreement and the CNSG Agreement to increase its rate of return on bank balances and cash, thereby improving its investment income.

Internal Control Measures

In order to properly mitigate investment risks while generating investment returns, the Group will take the following risk control measures:

- (i) Sinochem Fertilizer shall have the right to decide whether to release the Fund to Sinochem Agriculture and CNSG based on the information provided by Sinochem Agriculture and CNSG at the time of their respective applications for the Fund, so as to ensure the safe use of the Fund and to mitigate the recovery risks during the process of determining the release of the Fund. Sinochem Fertilizer shall be under no obligation to provide the Fund, in whole or in part, to Sinochem Agriculture and CNSG, and shall have the absolute right to reject the applications of Sinochem Agriculture and CNSG for the Fund if it is not satisfied with the

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information provided by Sinochem Agriculture and CNSG or has any concern about their repayment ability. Before releasing the Fund, the manager of the Treasury Department of the Company will review the details of the applications and analyze the Group's position of bank balances and cash. The manager will then report to the general manager of the Finance Department and the chief financial officer of the Company for approval. The chief financial officer will seek approval from the chief executive officer of the Company should there be any concern about the business or financial position of Sinochem Agriculture and CNSG;

- (ii) Sinochem Agriculture and CNSG shall use their respective Fund strictly in accordance with the use specified in the New Sinochem Agriculture Agreement and the CNSG Agreement, respectively, and Sinochem Agriculture and CNSG shall provide their respective business operation reports or financial reports to Sinochem Fertilizer on a monthly basis. The Company will monitor the use of Fund by Sinochem Agriculture and CNSG to ensure that the Fund will be used for specified purposes;
- (iii) The Group has conducted due diligence and assessment on the repayment capability of Sinochem Agriculture and CNSG.

With respect to Sinochem Agriculture, although it is still in a loss making situation and recorded net loss of approximately RMB43 million, approximately RMB358 million and approximately RMB356 million for the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2023, respectively, its revenue has increased substantially from approximately RMB13,849 million for the year ended 31 December 2021 to approximately RMB20,578 million for the year ended 31 December 2022, and further increased to approximately RMB22,994 million for the nine months ended 30 September 2023. As at 30 September 2023, Sinochem Agriculture had total assets, total liabilities and net assets of approximately RMB12,252 million, RMB11,931 million and RMB321 million, respectively. In addition, since Sinochem Fertilizer provided the fund to Sinochem Agriculture for the first time in December 2018, Sinochem Agriculture has not violated any agreement for the use of fund entered into with Sinochem Fertilizer, or failed to repay any fund to Sinochem Fertilizer on a timely basis.

With respect to CNSG, its revenue for the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2023 amounted to RMB3,454 million, RMB4,767 million and RMB2,467 million, respectively. Its net profit for the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2023 amounted to RMB23 million, RMB199 million and RMB40.3 million, respectively. As at 30 September 2023 CNSG had total assets, total liabilities and net assets of approximately RMB9,916 million, RMB6,357 million and RMB3,560 million, respectively.

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Based on the above due diligence results, and taking into account the guarantee provided by Syngenta Group pursuant to the Guarantee Letters and the bank facilities available to Sinochem Agriculture and CNSG as further described in the paragraphs (iv) and (v) below, the Company is optimistic about the repayment capabilities of Sinochem Agriculture and CNSG;

- (iv) As at 30 September 2023, Sinochem Agriculture obtained the facilities in a total amount of approximately RMB23,240 million from various financial institutions, and the available credit under such facilities amounted to RMB11,098 million. As at 30 September 2023, CNSG obtained the facilities in a total amount of approximately RMB1,300 million from various financial institutions, and the available credit under such facilities amounted to RMB670 million. Sinochem Agriculture and CNSG may utilize such facilities to make repayment (or even early repayment) of the Fund to Sinochem Fertilizer when necessary;
- (v) Syngenta Group has agreed to provide a guarantee in favour of Sinochem Fertilizer for the joint and several liabilities in connection with the contractual obligations of Sinochem Agriculture and CNSG under the New Sinochem Agriculture Agreement and the CNSG Agreement, respectively, thus further mitigating the risks of the Group in the transactions under the New Sinochem Agriculture Agreement and the CNSG Agreement. Syngenta Group has solid financial track records. Based on the draft prospectus of Syngenta Group published on the website of the Shanghai Stock Exchange, Syngenta Group recorded a total revenue of approximately RMB224,844 million and net profit of approximately RMB11,405 million for the year ended 31 December 2022. Syngenta Group had total assets of approximately RMB573,101 million and net assets of approximately RMB269,392 million as at 31 December 2022. In addition, Syngenta Group had total assets of RMB611.4 billion, total liabilities of RMB332.8 billion and total equity of RMB278.5 billion as at 30 June 2023. Gearing ratio of Syngenta Group, calculated as total liabilities divided by total assets, was approximately 54.4% as at 30 June 2023. In the first half of 2023, total revenue and net profit attributable to its shareholders amounted to approximately RMB122.0 billion and RMB6.2 billion, respectively;
- (vi) Furthermore, Syngenta Group's corporate rating is AAA grade, which is the highest level in corporate credit ratings;
- (vii) Before deciding whether to release the Fund to Sinochem Agriculture and/or CNSG (as the case maybe) each time, the Treasury Department of the Company will (a) review the list of loans obtained from Sinochem Agriculture and/or CNSG one month prior to the date of release of such Fund and check the total loan amount in the list against the loan balance as recorded in the balance sheet of the monthly management account of Sinochem Agriculture and/or CNSG; (b) select the Comparable Loans from the list by taking into consideration of duration, use of funds and form of guarantee, to ensure the Comparable Loans to be selected have similar terms to the Fund to be provided; (c) if no Comparable Loan is available during the one-month period prior to the date of release of the Fund, the interest rate shall be determined by reference to the highest interest rate of the

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Comparable Loans available in the most recent month before such one-month period; (d) compare the highest interest rate among those Comparable Loans obtained by Sinochem Agriculture and/or CNSG from independent third-party banks against the highest interest rate available to the Group for placing deposits with at least three independent commercial banks in the PRC or Sinochem Finance, as well as other short-term and principal-guaranteed financial products, to ensure that the interest rate of such Fund are determined in accordance with the respective agreements and are in the interests of the Group; and (e) take into account any adjustment to the interest rate of the Fund required resulting from any change in market rate (including the LPR) between the date of the Comparable Loan(s) and the date of release of the Fund;

- (viii) During the duration of each Fund, the interest rate of such Fund will be adjusted, if applicable, in accordance with the adjustment mechanism of the relevant Comparable Loan. For example, where the interest rate of a Comparable Loan is based on floating rate with reference to LPR, the interest rate of the relevant Fund shall be adjusted in a manner similar to that of the Comparable Loan, with reference to any subsequent change in LPR; and
- (ix) the Company's independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the New Sinochem Agriculture Agreement and the CNSG Agreement to ensure that the Company has complied with its internal approval process and the relevant requirements under the Listing Rules.

As such, the Directors, including the independent non-executive Directors, are of the view that the transactions under the New Sinochem Agriculture Agreement and the CNSG Agreement are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Mr. Liu Hongsheng, being a Director of the Company and a management member of Syngenta Group, has abstained from voting on the relevant Board resolution to approve the transactions under the New Sinochem Agriculture Agreement and the CNSG Agreement.

IMPLICATIONS OF THE LISTING RULES

Sinochem Holdings is the ultimate controlling shareholder of the Company, indirectly holding approximately 52.65% of the total issued shares of the Company, and is therefore a connected person of the Company. As Sinochem Finance is owned as to 37% by Sinochem Holdings and as to 63% in aggregate by Sinochem Corporation (an indirect subsidiary of Sinochem Holdings) and its subsidiary, Sinochem Finance is a connected person of the Company. Each of Sinochem Agriculture and CNSG is a wholly-owned subsidiary indirectly held by Sinochem Holdings (through Syngenta Group), and is also a connected person of the Company. As such, the transactions contemplated under each of the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), the New Sinochem Agriculture Agreement and the CNSG Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Given that the applicable percentage ratios in respect of the maximum daily outstanding balance of the Deposit Services under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) are more than 25%, the Deposit Services are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules and on standalone basis, constitute major transactions of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements.

Given that the applicable percentage ratios in respect of the maximum daily loan balance under the New Sinochem Agriculture Agreement and the CNSG Agreement in aggregate are more than 25%, the transactions under the New Sinochem Agriculture Agreement and the CNSG Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules and on standalone basis, constitute major transactions of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements.

As the Deposit Services are regarded as the Group providing financial assistance under the Listing Rules, the Company has aggregated the Deposit Services under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) and the transactions under the New Sinochem Agriculture Agreement and the CNSG Agreement to assess the classification of the transactions under Chapter 14 of the Listing Rules. Given that the applicable percentage ratios in respect of the maximum daily outstanding balance of the Deposit Services under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) and the maximum daily loan balance under the New Sinochem Agriculture Agreement and the CNSG Agreement in aggregate are more than 25% but less than 100%, such transactions in aggregate also constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements.

Pursuant to Rule 14A.90 of the Listing Rules, the Loan Services (excluding entrustment loans) provided by Sinochem Finance to the Group under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) 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 under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) 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.

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INFORMATION OF THE PARTIES

Information of Parties Related to Financial Services Framework Agreement (as Revised and Renewed by the Supplemental Agreement)

The Company is principally engaged in the production, import and export, distribution and retail of raw materials and finished products of crop nutrition products, provision of technological research and development and services relating to crop nutrition business and products, exploration and exploitation of phosphate mine, and production of monocalcium/dicalcium phosphate (MCP/DCP).

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 NAFR. 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.

Sinochem Corporation is a subsidiary of Sinochem Group. It is principally engaged in the investment and management of exploration and production of petroleum and natural gas; investment and management of oil refining, gas stations, storage and warehousing; research, development, investment and management of fertilizer, seeds, pesticides and agricultural products; research, development, investment and management of rubber, plastics, chemical materials, fluorine chemicals, coal chemicals and pharmaceuticals; and development, investment and management of mineral resources and new energy.

Sinochem Group, which issued an undertaking in favour of the Company with respect to the performance of obligations by Sinochem Finance under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), is a key state-owned enterprise established in 1950. Sinochem Group's core businesses include: the businesses of energy, chemical, agriculture, real estate and finance, etc. The sole shareholder of Sinochem Group is Sinochem Holdings.

Information of Parties Related to New Sinochem Agriculture Agreement and CNSG Agreement

Sinochem Fertilizer is engaged in the production, import and export, distribution and retail of raw materials and finished products of crop nutrition products, as well as research and development and services relating to crop nutrition business and products.

Sinochem Agriculture's core businesses include the promotion of integrated planting solutions, land trust, design of agricultural input packages, auxiliary facilities for agricultural mechanization, technology tracking, as well as the services in relation to the sale of agricultural products, food banks and agricultural informatization, and the businesses such as agricultural and production credit, agricultural and financial leasing, and agricultural insurance. Sinochem Agriculture also carries out projects on the renovation of low- and

LETTER FROM THE BOARD

medium-yield farmlands, improvement of soil, demonstration of precision agriculture and utilization of agricultural waste as resources. Sinochem Agriculture is a wholly-owned subsidiary of Syngenta Group.

CNSG is the first seed company established in the PRC with the approval of the State Council and has currently developed into a large-scale seed group with a complete industry chain that integrates scientific research, production, processing, marketing and technical services. CNSG is a wholly-owned subsidiary of Syngenta Group.

Syngenta Group is mainly engaged in the technological development, transfer and advisory service in the fields of agricultural technology, biotechnology and information technology; the production and operation of crop seeds; the production of genetically modified crop seeds; and the research and development, and sale of chemical raw materials and products (excluding hazardous chemicals, controlled chemicals, civil explosives and precursor chemicals). Syngenta Group is an indirect wholly-owned subsidiary of Sinochem Holdings and does have any shareholding (either direct or indirect) in Sinochem Finance.

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

SGM

Ordinary resolutions approving (i) the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the transactions under the New Sinochem Agriculture Agreement and (iii) the transactions under the CNSG Agreement shall be proposed at the SGM.

In view of Sinochem Holdings' interests in the transactions under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) and the New Sinochem Agriculture Agreement and the CNSG Agreement, Sinochem Holdings 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 Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the transactions under the New Sinochem Agriculture Agreement and (iii) the transactions under the CNSG Agreement. As Sinochem Holdings indirectly holds 3,698,660,874 Shares, representing approximately 52.65% of the total issued shares of the Company, through Syngenta Group (HK) Holdings Company Limited ("**Syngenta HK**") which is an indirect wholly-owned subsidiary of Sinochem Holdings and the immediate controlling shareholder of the Company, Syngenta HK shall abstain from voting at the SGM. Save for Syngenta HK, Sinochem Holdings and its associates, none of the shareholders would be required to abstain from voting at the SGM.

LETTER FROM THE BOARD

A notice convening the SGM to be held at 24th Floor, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on 21 December 2023 at 10:00 a.m. is set out on pages 91 to 93 of this circular.

A form of proxy for the SGM is enclosed herewith. Whether or not shareholders are able to attend and vote at the SGM, they are requested to complete the enclosed form of proxy and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM 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 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 Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the transactions under the New Sinochem Agriculture Agreement and (iii) the transactions under the CNSG 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 34 to 35 of this circular, which contains its advice to the Independent Shareholders, and the letter from Somerley set out on pages 36 to 82 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Sinofert Holdings Limited
Liu Hongsheng
Chairman

SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

6 December 2023

To: the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
(AS REVISED AND RENEWED BY THE SUPPLEMENTAL AGREEMENT)
AND
MAJOR AND CONNECTED CONTINUING TRANSACTIONS
UNDER THE SINOCEM AGRICULTURE AGREEMENT AND
THE CNSG AGREEMENT**

We refer to the circular of the Company dated 6 December 2023 (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 Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the transactions under the New Sinochem Agriculture Agreement and (iii) the transactions under the CNSG 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 Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the transactions under the New Sinochem Agriculture Agreement and (iii) the transactions under the CNSG Agreement.

We wish to draw your attention to the letter from the Board set out on pages 6 to 33 of the Circular, and the letter from Somerley to the Independent Board Committee and the Independent Shareholders set out on pages 36 to 82 of the Circular which contains its opinion in respect of (i) the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the transactions under the New Sinochem Agriculture Agreement and (iii) the transactions under the CNSG 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 Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the transactions under the New Sinochem Agriculture Agreement and (iii) the transactions under the CNSG 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

6 December 2023

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

Dear Sirs,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
(AS REVISED AND RENEWED BY THE SUPPLEMENTAL AGREEMENT)
AND
THE NEW SINOCEM AGRICULTURE AGREEMENT AND
THE CNSG AGREEMENT**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the provision of the Deposit Services (including the proposed maximum daily outstanding balance of the Deposit Services (the “**Maximum Daily Deposit Balance**”)) by Sinochem Finance to the Group under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), (ii) the provision of the Fund by Sinochem Fertilizer to Sinochem Agriculture under the New Sinochem Agriculture Agreement, and (iii) the provision of the Fund by Sinochem Fertilizer to CNSG under the CNSG Agreement ((ii) and (iii) collectively, the “**Funds Provision**”) ((i), (ii) and (iii) collectively, the “**Transactions**”), for which the Independent Shareholders’ approval is being sought. Details of the Transactions are contained in the circular of the Company to the Shareholders dated 6 December 2023 (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.

As at the Latest Practicable Date, Sinochem Holdings is the ultimate controlling shareholder of the Company, indirectly holding approximately 52.7% of the total issued shares of the Company, and is therefore a connected person of the Company. Each of Sinochem Finance, Sinochem Agriculture and CNSG is a subsidiary of Sinochem Holdings, and is also a connected person of the Company. As such, the transactions contemplated under the Financial Services Framework Agreement (as revised and renewed by the

LETTER FROM SOMERLEY

Supplemental Agreement), the New Sinochem Agriculture Agreement and the CNSG Agreement 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 Maximum Daily Deposit Balance under the Financial Services Framework Agreement (as revised and renewed by the Supplemental 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.

Given that the applicable percentage ratios in respect of the maximum daily loan balance under the New Sinochem Agriculture Agreement and the CNSG Agreement in aggregate are more than 5%, the Funds Provision is subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As both the Deposit Services and the Funds Provision are regarded as the Group providing financial assistance under the Listing Rules, the Company has aggregated the Transactions to assess the classification of the transactions under Chapter 14 of the Listing Rules. Given that the applicable percentage ratios in respect of the Maximum Daily Deposit Balance under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) and the maximum daily loan balance under the New Sinochem Agriculture Agreement and the CNSG Agreement in aggregate are more than 25% but less than 100%, such transactions in aggregate also constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements.

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of the Transactions. As Sinochem Holdings has material interest in the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), the New Sinochem Agriculture Agreement and the CNSG Agreement, Sinochem Holdings and its associates are required to abstain and shall abstain from voting on the relevant ordinary resolutions to be proposed at the SGM to approve the 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 Transactions 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 Company, details of which were set out in the circulars of the Company dated 13 December 2021, 8 April 2022, 14 September 2022 and 25 August 2023. The above engagements were limited to providing independent advisory services to the independent board committee and independent shareholders of the Company

LETTER FROM SOMERLEY

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 do not affect the objectivity of our advice to the Independent Board Committee and the Independent Shareholders in relation to the Transactions. Notwithstanding the past engagements, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) any of the Group, Sinochem Holdings, Sinochem Group, Sinochem Corporation, Sinochem Finance, Syngenta Group, Sinochem Agriculture, CNSG, or 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 reviewed, among others, (i) the Supplemental Agreement, (ii) the New Sinochem Agriculture Agreement, (iii) the CNSG Agreement, (iv) the annual report of the Company for the year ended 31 December 2022, (v) the interim report of the Company for the six months ended 30 June 2023, and (vi) other relevant information contained in the Circular. 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 Holdings, Sinochem Group, Sinochem Corporation, Sinochem Finance, Syngenta Group, Sinochem Agriculture, CNSG, 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 Transactions, we have taken the following principal factors and reasons into consideration:

A. INFORMATION ON THE PARTIES

The Group

The Group is principally engaged in the production, import and export, distribution and retail of raw materials and finished products of crop nutrition products, provision of technological research and development and services relating to crop nutrition business and products, exploration and exploitation of phosphate mine, and production of monocalcium/dicalcium phosphate. Shares of the Company are listed on the Stock Exchange and the Company had a market capitalisation of approximately HK\$6.3 billion as at the Latest Practicable Date.

LETTER FROM SOMERLEY

The Group's total revenue increased by approximately 1.6% year-on-year to approximately RMB23.0 billion in 2022. Profit attributable to owners of the Company grew by approximately 28.9% to approximately RMB1.1 billion in 2022, from approximately RMB0.9 billion in 2021. The profit growth in 2022 was mainly due to the Group's efforts to increase the proportion of sale of differentiated products, enhance customer service capabilities and promote technical reform as well as product innovations. In the first half of 2023, total revenue of the Group was approximately RMB13.1 billion, representing a decrease of approximately 14.2% year-on-year, and profit attributable to owners of the Company was approximately RMB1.0 billion, a similar level as compared to the first half of 2022. As set out in the Company's announcement dated 30 October 2023, total revenue and net profit of the Group for the nine months ended 30 September 2023 were approximately RMB17.9 billion and RMB1.2 billion respectively, and net profit of the Group during the period increased by approximately 4% as compared with the first nine months of 2022, mainly due to the modest rebound of market demand for fertilizers.

The Group has been generating substantial cash inflows from its operating activities. The Group's net cash generated from operating activities was approximately RMB2.0 billion in 2022 and approximately RMB1.2 billion in the first half of 2023.

As a result of its continued profitability and strong cash inflows from its operating activities in recent years, the Group's liquidity position has been continuously enhanced. While bank loans and other borrowings of the Group increased from approximately RMB1.0 billion as at 31 December 2021 to approximately RMB1.8 billion as at 30 June 2023, bank balances and cash (including restricted bank deposits) of the Group increased to a greater extent, from approximately RMB1.3 billion as at 31 December 2021 to approximately RMB4.1 billion as at 30 June 2023. The Group achieved net cash position (bank balances and cash less bank loans and other borrowings) in 2021 for the first time in several financial year ends. Net cash of the Group continued to increase since then, reaching approximately RMB2.3 billion as at 30 June 2023. As advised by the management of the Group, the bank balances and cash of the Group was approximately RMB4.0 billion as at 31 October 2023.

Sinochem Fertilizer

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company and principally engaged in the production, import, export, distribution, retail of raw materials and finished products of crop nutrition products, as well as research and development and services relating to crop nutrition business and products.

Sinochem Holdings

Sinochem Holdings is a Fortune Global 500 company and the ultimate controlling shareholder of the Company. It is a large-scale chemical conglomerate operating in eight business sectors covering life science, materials science, basic chemicals, environmental science, rubber and tire, machinery and equipment, city operation, and industrial finance. The sole shareholder of Sinochem Holdings is the SASAC.

LETTER FROM SOMERLEY

Sinochem Group

Sinochem Group is a key state-owned enterprise established in 1950 and a wholly-owned subsidiary of Sinochem Holdings. Its core business areas include, among others, energy, chemical, real estate and finance.

Sinochem Corporation

Sinochem Corporation is a subsidiary of Sinochem Group. It is principally engaged in the investment and management of exploration and production of petroleum and natural gas; investment and management of oil refining, gas stations, storage and warehousing; research, development, investment and management of fertilizer, seeds, pesticides and agricultural products; research, development, investment and management of rubber, plastics, chemical materials, fluorine chemicals, coal chemicals and pharmaceuticals; and development, investment and management of mineral resources and new energy.

Sinochem Finance

Sinochem Finance is owned as to 37% by Sinochem Holdings and 63% in aggregate by Sinochem Corporation and its subsidiary. It is a non-bank financial institution established in the PRC with the approval of the PBOC and subject to the supervision of the NAFR. It 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; and loan.

For further information on Sinochem Finance, please refer to the section below headed “B.3. Business and financial information on Sinochem Finance”.

Syngenta Group

Syngenta Group is an indirect wholly-owned subsidiary of Sinochem Holdings. It is mainly engaged in the technological development, transfer and advisory service in the fields of agricultural technology, biotechnology and information technology; the production and operation of crop seeds; the production of genetically modified crop seeds; and the research and development, and sale of chemical raw materials and products (excluding hazardous chemicals, controlled chemicals, civil explosives and precursor chemicals).

Sinochem Agriculture

Sinochem Agriculture is a wholly-owned subsidiary of Syngenta Group. Its core businesses include the promotion of integrated planting solutions, land trust, design of agricultural input packages, auxiliary facilities for agricultural mechanization, technology tracking, as well as the services in relation to the sale of agricultural products, food banks and agricultural informatization, and the businesses such as agricultural and production credit, agricultural and financial leasing, and agricultural

LETTER FROM SOMERLEY

insurance. Sinochem Agriculture also carries out projects on the renovation of low- and medium-yield farmlands, improvement of soil, demonstration of precision agriculture and utilisation of agricultural waste as resources.

CNSG

CNSG is a wholly-owned subsidiary of Syngenta Group. It is the first seed company established in the PRC with the approval of the State Council and has currently developed into a large-scale seed group with a complete industry chain that integrates scientific research, production, processing, marketing and technical services.

For further information on Sinochem Agriculture, CNSG and Syngenta Group, please refer to the section below headed “C.3. Business and financial information on Sinochem Agriculture, CNSG and Syngenta Group”.

B. THE FINANCIAL SERVICES FRAMEWORK AGREEMENT (AS REVISED AND RENEWED BY THE SUPPLEMENTAL AGREEMENT)

1. Background to and reasons for the Deposit Services

Sinochem Finance has been providing various financial services (including the Deposit Services, the Loan Services and settlement services) to the Group for over ten years, pursuant to the financial services framework agreements and related supplemental agreements previously entered into between Sinochem Finance and the Company. According to the letter from the Board, Sinochem Finance is regulated by the PBOC and the NAFR, and its services are provided in compliance with the relevant rules and operational requirements promulgated by the above authorities, including capital risk guidelines and requisite capital adequacy ratio requirements. Further details of Sinochem Finance’s financial and regulatory requirements are set out in the section below headed “B.6. Regulatory environment of Sinochem Finance”.

As stated in the letter from the Board, 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 and principal-guaranteed financial products, in order to generate interest and/or investment income through utilising the Group’s surplus funds. Sinochem Finance can provide a more favourable deposit portfolio for the Group, which will increase returns on the Group’s liquidity and give flexibility to the Group. Sinochem Finance is also able to provide flexible and convenient procedures for withdrawals to meet the funding requirements of the Group for its business development in a timely manner.

The Group utilises the services of Sinochem Finance on a voluntary and non-exclusive basis, and is not obliged to engage Sinochem Finance for any particular service, or at all. The Group may 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 choice of financial service provider for the Group to choose from, which in turn serves to enhance flexibility for the Group’s capital management strategy.

LETTER FROM SOMERLEY

Based on our discussions with the management of the Group, in its ordinary and usual course of business, the Group conducts a number of transactions with subsidiaries of Sinochem Holdings, and these transactions include sale and purchase of fertilizers and agricultural products, loan arrangements and settlement of various operating expenses (including import services fees and office rental fees). Such transactions and balances between the Group and subsidiaries of Sinochem Holdings are mostly settled through their respective accounts maintained with Sinochem Finance. As set out in the letter from the Board, the purchase of agricultural products in the PRC by the Group from, and the import of fertilizer and other fertilizer raw materials by the Group through, subsidiaries of Sinochem Holdings are expected to increase substantially. The increase in transaction scale with subsidiaries of Sinochem Holdings is expected to drive the demands for free-of-charge settlement services offered by Sinochem Finance.

The current financial services, including the Deposit Services, provided by Sinochem Finance to the Group are governed by the existing Financial Services Framework Agreement for a term up to 31 December 2024. On 11 October 2023, the Company and Sinochem Finance entered into the Supplemental Agreement to revise the Maximum Daily Deposit Balance, and to extend the term of the Financial Services Framework Agreement, covering for the period from 1 January 2024 to 31 December 2026.

The Group has a number of internal control procedures and corporate governance measures in place to protect the interests of the Shareholders regarding deposits with Sinochem Finance, as further analysed in the section below headed “B.5. Internal control procedures and corporate governance measures”. As a licensed financial institution, Sinochem Finance is required to comply with the relevant rules and operational requirements (such as a minimum capital adequacy ratio) from the PBOC and the NAFR. In addition, Sinochem Group has issued an undertaking in favour of the Company relating to Sinochem Finance’s performance and obligations under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement). In our view, the above measures provide further protection, such that the risk of the Group’s deposits placed with Sinochem Finance is properly addressed.

2. Principal terms of the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement)

Pursuant to the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), the Group may, from time to time, 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 (excluding entrustment loans) to members of the Group 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 members of the Group for the purposes of purchasing goods or services from members of the Group only; (e) settlement services between members of the Group and subsidiaries of Sinochem Holdings or other third parties (such as customers

LETTER FROM SOMERLEY

of the Group); (f) provision of guarantees at the request of members of the Group for financing, bidding activities or the fulfilment of contracts to third parties, where no counter-guarantee by members of the Group is required; and (g) any other financial services as approved by the NAFR.

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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement). The Group may discontinue its use of all or any such services provided by Sinochem Finance without having to incur any extra cost.

Set out below are the major terms of the financial services to be provided by Sinochem Finance under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement). For further details, please refer to the section headed “Principal Terms of the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement)” in the letter from the Board.

Provision of the Deposit Services

Deposit interest rates offered by Sinochem Finance shall not be lower than (i) the benchmark interest rates for deposits of the same tenure and type as promulgated by the PBOC from time to time, or (ii) the interest rates for deposits 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, that of the deposit services offered by independent commercial banks in the PRC, and the Group has the sole discretion, subject to the relevant caps, 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 at least three independent commercial banks with which the Group maintains cooperation in the PRC. No mortgage, pledge or other 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.

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Provision of other financial services

For the 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 at least three independent commercial banks in the PRC. No service fee is payable by the Group for the settlement services.

As to the other financial services, the fee and interest payable by the Group to Sinochem Finance shall not (i) be higher than the prevailing market rates or standard rates promulgated by the PBOC from time to time (if applicable), or (ii) exceed the fee and interest payable on such services under the same terms obtainable from independent commercial banks in the PRC, depending on the type of the subject services.

Term

Subject to obtaining the approval from the Independent Shareholders at the SGM, the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) will take effect from 1 January 2024 and remain in force until 31 December 2026.

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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) (including the Maximum Daily Deposit Balance) is obtained. In the event that such transactions 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 will not exceed the original cap of RMB2.0 billion under the existing Financial Services Framework Agreement up to its original expiry date of 31 December 2024.

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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement).

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Undertakings

Sinochem Finance has undertaken that it will apply all the monies deposited by the Group to such activities as approved by the NAFR 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 banking institutions approved by the NAFR.

Sinochem Finance has also undertaken that at all times the sum of the outstanding amount of the loans it provides to its customers (excluding the Group) shall 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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), Sinochem Finance shall compensate the Group for the full amount of the loss suffered.

On 17 November 2023, Sinochem Group, as an indirect holding company of Sinochem Finance, has issued an undertaking (the "**Undertaking**") in favour of the Company, pursuant to which Sinochem Group will procure Sinochem Finance to perform its obligations under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement).

As set out in the articles of association of Sinochem Finance, in the event that Sinochem Finance falls into financial difficulty, Sinochem Holdings, being the ultimate holding company of Sinochem Group and 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.

Our comments

Sinochem Finance has been providing various financial services to the Group for over ten years. Members of the Group maintain accounts with Sinochem Finance for daily business operations, such as settlements of transactions and balances with subsidiaries of Sinochem Holdings. In its ordinary and usual course of business, the Group conducts business transactions with subsidiaries of Sinochem Holdings, including purchase of agricultural products and import of fertilizers. The volume of such transactions is expected to rise in coming years, which will in turn increase the demands for settlement services through accounts maintained with Sinochem Finance. On the other hand, the continued profitability and strong cash inflows from operating activities have resulted in the Group having an increasingly substantial bank balances and cash, amounting to approximately RMB4.0 billion as at 31 October 2023. With the above in mind, the purposes of entering into of the Supplemental Agreement are (i) to revise the Maximum Daily Deposit Balance in order to cater for the increasing procurement and settlement needs for agricultural products with subsidiaries of Sinochem

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Holdings and provide a greater flexibility for the Group's capital management strategy, and (ii) to extend the term of the Financial Services Framework Agreement from 31 December 2024 to 31 December 2026. As confirmed with the management of the Group, save for these amendments, all the major terms of the financial services to be provided by Sinochem Finance will remain the same.

The arrangement under the Financial Services Framework Agreement (as revised and renewed by the Supplemental 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 service provider. In particular, we note that the interest rates of the Deposit Services shall be at least the same as, or more favourable than, the interest rates for deposits of the same tenure and type as offered by independent commercial banks in the PRC.

A number of protection clauses and safeguards are stipulated in the Financial Services Framework Agreement (as revised and renewed by the Supplemental 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 and corporate governance measures will continue to be adopted by the Group, such as the restriction that (i) the outstanding amount of the Group's overall financial assistance to Sinochem Holdings and its associates on each day will not exceed 30% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements (the "**Overall Limit**"), and (ii) the Group will not continue to place additional deposits with Sinochem Finance and will arrange to withdraw its existing deposits if any significant credit risk events involving Sinochem Finance and its significant shareholders and de facto controller (being Sinochem Holdings, Sinochem Group and Sinochem Corporation) come to the Group's attention. In particular, the Overall Limit, which stood at approximately RMB3.1 billion (based on 30% of the consolidated net assets of the Company of approximately RMB10.4 billion as at 30 June 2023 as extracted from the Company's 2023 interim report), applies to the aggregate financial assistance to Sinochem Holdings and its associates, including the deposits with Sinochem Finance (with the proposed Maximum Daily Deposit Balance of RMB3.0 billion) and the Funds to be provided to Sinochem Agriculture and CNSG (with the proposed maximum daily loan balance of RMB1.5 billion in total). As such, despite the two maximum amounts above adding up to a hypothetical sum of RMB4.5 billion, in practice the overall financial assistance to Sinochem Holdings and its associates would be restricted to the Overall Limit, currently at a much lower level of approximately RMB3.1 billion. We consider the Overall Limit to be an appropriate internal control to limit the risk of the Group's funds provided to Sinochem Holdings and its associates.

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On top of the protection clauses and safeguards as mentioned above, Sinochem Group has issued the Undertaking to procure Sinochem Finance to perform its obligations under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) and Sinochem Holdings has the obligation to take all required steps to restore Sinochem Finance's financial position in the event it has any financial difficulty.

For our further analyses, please refer to the sections below headed "B.5. Internal control procedures and corporate governance measures" and "B.6. Regulatory environment of Sinochem Finance".

3. 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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) and provide similar services to members of Sinochem Holdings. As confirmed by the management of the Group, Sinochem Finance is also allowed to provide a limited scope of financial services, such as buyer financing services and discounting services, to customers and 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.

According to its unaudited consolidated management account, as at 30 September 2023, Sinochem Finance had registered and paid-up capital and total assets of RMB6.0 billion and approximately RMB60.1 billion respectively, and had a capital adequacy ratio of approximately 14.3%, which is higher than the minimum requirement promulgated by the NAFR of 10% for finance companies.

Management of Sinochem Finance

As at the Latest Practicable Date, the board of directors of Sinochem Finance comprises five members. As advised by the management of the Group, the majority of the board members and the senior management of Sinochem Finance have extensive experience in the financial capital markets in the PRC and are fully competent to understand and monitor the operation and development of Sinochem Finance.

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Financial performance

The following table set out a summary of consolidated statements of profit or loss of Sinochem Finance, as extracted and summarised from its audited consolidated financial statements for the years ended 31 December 2020, 2021 and 2022, and its unaudited consolidated management accounts for the nine months ended 30 September 2022 and 2023, all of which were prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

	For the nine months ended		For the year ended		
	30 September		31 December		
	2023	2022	2022	2021	2020
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Net interest income	302	337	451	428	388
Investment income	186	234	486	791	764
Reversal of impairment losses/(impairment losses)	(62)	(283)	(265)	6	(169)
Profit after taxation	249	131	447	1,082	831

Net interest income of Sinochem Finance showed a steady rising trend in the past three years. For the first nine months of 2023, net interest income decreased by approximately 10.4% year-on-year to approximately RMB302 million. As advised by the management of the Group, such fluctuations were partly due to the lower average daily loan extended by Sinochem Finance to members of Sinochem Holdings, and partly due to the decreasing Loan Prime Rate (“LPR”) in the PRC, which certain loans extended by Sinochem Finance were referenced to. In particular, the one-year LPR and the over-five-year LPR decreased from 3.80% and 4.65% respectively in the beginning of 2022, to approximately 3.45% and 4.20% respectively as at the Latest Practicable Date.

Investment income of Sinochem Finance mainly represented share of results from its associate under equity accounting method and interest income derived from investment funds, corporate and perpetual bonds and other debt instruments. Such investment income slightly increased from approximately RMB764 million in 2020 to approximately RMB791 million in 2021, but dropped to approximately RMB486 million in 2022. For the first nine months of 2023, investment income of Sinochem Finance was approximately RMB186 million, a decrease of approximately 20.5% from the same period in 2022. The decreases in investment income in 2022 and the first nine months of 2023 were mainly due to the reduced profits shared from its associate during the respective periods.

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Impairment losses of Sinochem Finance made represented changes in allowances for impairment losses prepared in accordance with the regulatory requirements. Compared the reversal of impairment losses in 2021, impairment losses of approximately RMB265 million was recorded in 2022, mainly due to additional provision required following an increase in overall balance of loans outstanding. Notwithstanding the above allowance for impairment losses, the management of the Group informed us that Sinochem Finance did not have any actual non-performing assets or loans during the past three years. For the first nine months of 2023, Sinochem Finance recorded impairment losses of approximately RMB62 million, substantially lower than the impairment losses of approximately RMB283 million for the first nine months of 2022, mainly due to the decrease in loans receivables.

Profit after taxation of Sinochem Finance fluctuated during the three years ended 31 December 2022, affected by the fluctuations in investment income and impairment losses as discussed above. Nevertheless, Sinochem Finance has been profitable during the periods under review, recording a profit after taxation of approximately RMB447 million in 2022 and approximately RMB249 million in the first nine months of 2023.

The above shows that while the profitability of Sinochem Finance can be significantly affected by the level of investment income and (to a lesser extent) impairment losses, Sinochem Finance has managed to achieve resilience in terms of net interest income, and has consistently recorded profits in recent years.

Financial position

The following table set out a summary of the consolidated financial position of Sinochem Finance, as extracted and summarised from its audited consolidated financial statements as at 31 December 2020, 2021 and 2022, and its unaudited consolidated management accounts as at 30 September 2023, all of which were prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

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	As at 30 September 2023	As at 31 December		
	2023	2022	2021	2020
	<i>RMB million</i> (unaudited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)
Assets				
Long-term equity investments	4,170	4,170	4,756	3,899
Loans receivables	39,152	43,236	23,974	26,750
Financial investments	7,867	5,756	8,154	4,512
Cash balances with other financial institutions	7,275	3,447	2,419	3,303
Other assets	1,679	1,144	1,469	303
	<u>60,143</u>	<u>57,753</u>	<u>40,772</u>	<u>38,767</u>
Liabilities				
Deposits received	46,614	45,683	23,969	20,545
Other liabilities	3,348	1,783	5,762	8,313
	<u>49,962</u>	<u>47,466</u>	<u>29,731</u>	<u>28,858</u>
Equity				
Share capital	6,000	6,000	6,000	6,000
Reserves	4,181	4,287	5,041	3,909
	<u>10,181</u>	<u>10,287</u>	<u>11,041</u>	<u>9,909</u>
Capital adequacy ratio (Note)	14.3%	13.9%	20.3%	18.2%

Note: 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 calculated as the financial institution's capital base divided by its risk-weighted assets

As at 30 September 2023, Sinochem Finance had (i) loans receivables of approximately RMB39.2 billion, mainly representing loans extended to members of Sinochem Holdings, and (ii) financial investments of approximately RMB7.9 billion, mainly representing investment funds, corporate and perpetual bonds and other debt instruments.

As at 30 September 2023, Sinochem Finance had a deposit base of approximately RMB46.6 billion, a substantial portion of which were either extended as loans to members of Sinochem Holdings or placed with other financial institutions. As at 30 September 2023, the registered and paid-up capital of Sinochem Finance was RMB6.0 billion, and the total equity of Sinochem Finance was approximately RMB10.2 billion.

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Corporate governance and internal control procedures

We have obtained and reviewed the operation manual of Sinochem Finance and note that it adopts certain corporate governance and internal control procedures to manage its risk profile, including business and financial risk, and to ensure that the business operations of Sinochem Finance are in compliance with, among others, the relevant laws and regulations of the PRC, as well as the relevant rules and operational requirements promulgated by the NAFR.

Sinochem Finance has a 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. As set out in the letter from the Board, Sinochem Finance has not defaulted on any of its credit obligations or breached any rules or operational requirements of the regulatory authorities during the past three years. We have also obtained and reviewed the audited consolidated financial statements of Sinochem Finance for the three years ended 31 December 2022, and did not note any default on credit obligations disclosed in such financial statements.

4. Information on Sinochem Group

Sinochem Group, which has issued the Undertaking in favour of the Company with respect to procure the performance and obligations by Sinochem Finance under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), is one of the key state-owned enterprises incorporated in the PRC and a subsidiary of Sinochem Holdings. Its principal business activities include, among others, energy, chemicals, real estate and finance.

According to its unaudited consolidated management accounts as at 30 September 2023, Sinochem Group had fully paid-up capital of approximately RMB47.8 billion, consolidated net assets attributable to owners of Sinochem Group of approximately RMB78.1 billion, and bank balances and cash of approximately RMB41.4 billion as at 30 September 2023. Gearing ratio of Sinochem Group, calculated as total borrowings divided by total assets, was approximately 22.0% as at 30 September 2023. Profit attributable to owners of Sinochem Group amounted to approximately RMB5.6 billion, RMB12.8 billion and approximately RMB5.0 billion in 2020, 2021 and 2022 respectively, and approximately RMB1.3 billion for the first nine months of 2023. On this basis, Sinochem Group operates substantial business operations with a scale that is much larger than the scale of Sinochem Finance, and has been generating substantial profits in recent years. To the knowledge of the Company, Sinochem Group has not defaulted on any of its credit obligations in the past five years.

Based on the above and assuming no material change to Sinochem Group's financial performance and position, we consider that Sinochem Group has strong financial capabilities to procure Sinochem Finance to perform its obligations under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) pursuant to the Undertaking.

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5. Internal control procedures and corporate governance measures

In order to safeguard the deposits with Sinochem Finance and 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, which are summarised below 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 in the PRC 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 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 quoted by independent commercial banks with which the Group maintains bank accounts in the PRC and the deposit benchmark interest rates promulgated by the PBOC, and also take into account the service fee charged by independent commercial banks for the settlement services (whereas the settlement services offered by Sinochem Finance are free of charge). 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 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 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 of the Company or the Board, as appropriate. The terms of loans subject to disclosures requirements under the Listing Rules will be reviewed and approved by the Board and the rest will be approved by the chief financial officer of the Company;

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- (e) Pursuant to the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), Sinochem Finance shall provide the Company with (i) a report on any changes in its credit ratings, if available, every six months, (ii) its monthly financial statements, and (iii) a monthly report on the status of the Group's deposits placed with Sinochem Finance. As confirmed by the management of the Group, Sinochem Finance will also inform the Company of any disciplinary actions taken by the NAFR against Sinochem Finance, or any penalties or fines imposed on Sinochem Finance, and provide the Company with a risk assessment report on Sinochem Finance prepared by PRC certified public accountants on a semi-annual basis;
- (f) Sinochem Finance shall provide operational ratios under regulatory requirements, including capital adequacy ratio and non-performing asset ratio, 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) In the case of any significant credit risk events involving Sinochem Finance and its significant shareholders and de facto controller (being Sinochem Holdings, Sinochem Group and Sinochem Corporation), including but not limited to its bonds issued in the open market being overdue for more than seven business days or its obligation to make repayment for any large amount of debts guaranteed by it being triggered, the Group will not continue to place additional deposits with Sinochem Finance and will arrange to withdraw its existing deposits;
- (i) The Company will monitor the status of its financial assistance to Sinochem Holdings and its associates (including the deposits with Sinochem Finance and the Funds Provision to Sinochem Agriculture and CNGS, as further discussed in the section below headed "C. The New Sinochem Agriculture Agreement and the CNSG Agreement") on a daily basis to ensure that the outstanding amount of its overall financial assistance to Sinochem Holdings and its associates on each day will not exceed the Overall Limit, being 30% 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 Holdings and its associates; and
- (j) 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.

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As confirmed by the management of the Group, during the terms of the Financial Services Framework Agreement and up to the Latest Practicable Date, Sinochem Finance has been offering more favourable deposit interest rates than those offered by other independent commercial banks with which the Group maintains bank accounts in the PRC, to the extent that quotations are available to the Group. We have also obtained, on a random basis, three sets of documentations showing the comparison of fixed term deposit interest rates quoted by three independent commercial banks and Sinochem Finance during each of the first three quarters of 2023, to substantiate the above. We consider the measures relating to the comparison of deposit interest rates with independent commercial banks to be important to ensure that the interest rates offered by Sinochem Finance shall be at least the same as, or more favourable than, the then 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, particularly (i) the comparison of interest rates being offered by Sinochem Finance with at least three interest rates on comparable deposits from independent commercial banks in the PRC and the then deposit benchmark interest rate, (ii) the comparison of any loan from Sinochem Finance with at least three offers from independent commercial banks or financial institutions, (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 Overall Limit as an additional safeguard in place to limit the maximum risk exposure arising from the Deposit Services and other financial assistance to Sinochem Holdings and its associates, 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 Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) are reasonable and appropriate, and that the procedures and measures ensure that the continuing connected transactions under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) will be appropriately monitored.

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6. Regulatory environment of Sinochem Finance

The banking industry in the PRC is highly regulated, and the current principal regulatory authorities include the NAFR (the successor of the China Banking and Insurance Regulatory Commission (the “CBIRC”)), responsible for supervising and regulating banking institutions, and the PBOC, responsible for formulating and implementing monetary policies and preparing drafts of important laws and regulations in the banking industry and prudently regulating basic systems, as advised by the management of the Group. Licensed finance companies of enterprise groups, including Sinochem Finance, are required to meet certain regulatory ratio requirements. Major applicable regulatory ratio requirements under the prior years’ measures and the actual ratios of Sinochem Finance as at 31 December 2020 and 2021 are set out in the table below:

Risk monitoring indicators	Requirements for PRC licensed finance companies	As at 31 December	
		2021	2020
Capital adequacy ratio	Not lower than 10%	20.29%	18.24%
Inter-bank borrowing balances shall not exceed total capital	Not higher than 100%	48.53%	80.01%
Outstanding guarantee amounts shall not exceed total capital	Not higher than 100%	3.72%	5.29%
Non-performing asset ratio	Not higher than 4%	0.00%	0.00%
Impaired loan ratio	Not higher than 5%	0.00%	0.00%
Current ratio	Not lower than 25%	38.15%	51.90%
Asset impairment adequacy ratio (<i>Note</i>)	Not lower than 100%	N/A	N/A
Investment to total capital ratio	Not higher than 70%	44.46%	38.94%
Self-owned fixed assets to total capital ratio	Not higher than 20%	0.03%	N/A

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 for the purpose of calculating the asset impairment adequacy ratio during the years 2020 to 2021. Accordingly, such ratio was not applicable during the corresponding periods

In the fourth quarter of 2022, the CBIRC issued certain measures and notices, including the revised “Measures for the Administration of Finance Companies of Enterprise Groups” (the “Revised Measures”) which came into effect on 13 November 2022 and superseded the prior years’ measures. Licensed finance companies are allowed different transition periods to meet the new regulatory requirements. As advised by the management of the Group, the Revised Measures strengthened the risk monitoring indicators for licensed finance companies. Major applicable regulatory ratio requirements under the Revised Measures and the actual ratios of Sinochem Finance as at 31 December 2022 and 30 June 2023 are set out in the table below:

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Risk monitoring indicators	Requirements for PRC licensed finance companies	As at 30 June 2023	As at 31 December 2022
Capital adequacy ratio	Not lower than 10%	14.85%	13.88%
Current ratio	Not lower than 25%	38.63%	43.57%
Loans receivable to the sum of total deposits received and paid-up capital	Not higher than 80%	74.49%	85.96% (Note 1)
Off balance sheet liabilities to net equity	Not higher than 100%	2.56%	18.88%
Bills acceptance balance to total assets	Not higher than 15%	2.20%	2.86%
Bills acceptance balance to interbank deposits balance	Not higher than 300%	32.84%	175.85%
Bills acceptance and discount balance to net equity	Not higher than 100%	17.85%	21.51%
Deposits for bills acceptance to total deposits received	Not higher than 10%	N/A (Note 2)	N/A (Note 2)
Total investment to net equity	Not higher than 70%	66.82%	76.27% (Note 1)
Fixed assets to net equity	Not higher than 20%	0.04%	0.04%

Notes:

- (1) *As confirmed by the management of the Group, the two risk monitoring indicators as recorded by Sinochem Finance as at 31 December 2022 were not within the relevant requirements pursuant to the Revised Measures which became effective on 13 November 2022, but Sinochem Finance was allowed to meet the new regulatory requirements within six months from the effective date of the Revised Measures. As stated in a report issued by an independent auditor, Sinochem Finance met the transitional regulatory requirements according to the Revised Measures*
- (2) *As confirmed by the management of the Group, there were no deposits for bills acceptance as at 31 December 2022 and 30 June 2023*

As advised by the management of the Group, the NAFR (including its predecessor, the China Banking and Insurance Regulatory Commission) monitors Sinochem Finance's operational performance, compliance with the applicable requirements of the relevant regulatory authorities and conducts on-site visits from time to time, and the NAFR will provide suggestions or issue reminders to Sinochem Finance in respect of its operational performance. We note that all applicable ratios of Sinochem Finance as at 30 June 2023 were in compliance with the Revised Measures or the transitional regulatory requirements. In particular, the capital adequacy ratio of Sinochem Finance was approximately 13.9% as at 31 December 2022 and approximately 14.9% as at 30 June 2023, both higher than the 10% minimum requirement for PRC licensed finance companies.

As set out in the letter from the Board, to the knowledge of the Company, the NAFR has not taken any disciplinary actions, or imposed penalties or fines on Sinochem Finance since its incorporation.

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7. The Maximum Daily Deposit Balance

Review of historical figures

Set out below are the historical maximum daily deposit balance placed by the Group with Sinochem Finance and the relevant cap amounts for the two years ended 31 December 2021 and 2022, and for the six months ended 30 June 2023:

	For the year ended 31 December		For the six months ended 30 June
	2021	2022	2023
	RMB million	RMB million	RMB million
Maximum daily deposit balance placed by the Group with Sinochem Finance	934.1	1,960.0	1,973.5
Relevant caps	1,000	2,000	2,000
Utilisation rates	93.4%	98.0%	98.7%

As shown in the table above, we note that the relevant caps had been substantially utilised during the periods under review, ranging from approximately 93.4% to 98.7%. The high utilisation rate was mainly due to the high volume of transaction settlements with subsidiaries of Sinochem Holdings. As advised by the management of the Group, the Group has been constantly monitoring its various accounts with Sinochem Finance, and transferring out significant amount of cash balance to accounts with designated commercial banks, to ensure that the relevant cap would not be exceeded. During the period from 1 January 2023 and up to the Latest Practicable Date, the maximum daily deposit balance placed by the Group with Sinochem Finance was RMB1,973.5 million.

Assessment of the Maximum Daily Deposit Balance

It is proposed that the Maximum Daily Deposit Balance will be revised from RMB2.0 billion to RMB3.0 billion for the year ending 31 December 2024, and will be RMB3.0 billion for each of the two years ending 31 December 2025 and 2026.

In assessing the reasonableness of such Maximum Daily Deposit 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 expected increase in scale of transactions with subsidiaries of Sinochem Holdings which will drive the needs for settlement services, (ii) the estimated maximum bank balances and cash of the Group during the peak season in 2023, (iii) the Group's intention to deposit funds with Sinochem Finance for the purpose of utilising the free-of-charge settlement services, (iv) the fact that the interest rates of Sinochem Finance's various deposit products reached the maximum limit stipulated in the regulation of the market interest rate pricing self-regulatory

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mechanism of the PBOC, (v) the flexible and convenient procedures for withdrawals to meet the Group's funding requirement, and (vi) the nature of the Deposit Services, which are on a voluntary and non-exclusive basis and not an obligation to the Group.

A number of transactions and balances between the Group and subsidiaries of Sinochem Holdings are settled through accounts maintained with Sinochem Finance. We understand from the management of the Group that the Group has been constantly monitoring its various deposit balances with Sinochem Finance, and that due to the current maximum balance of RMB2.0 billion being insufficient for the above daily transactions with subsidiaries of Sinochem Holdings, the Group is required to, from time to time, transfer funds from such accounts to other independent banks to ensure that the deposit balance would not exceed the relevant cap. As referenced to the letter from the Board, (i) during the peak season for the sale of fertilizer products in 2023, the Group's maximum bank balances and cash closed to approximately RMB5.0 billion, and (ii) the purchase of agricultural products in the PRC by the Group from subsidiaries of Sinochem Holdings is expected to increase substantially from approximately RMB337 million in 2022 to no more than RMB1,326 million in 2024, and the import of fertilizer and other fertilizer raw materials by the Group through Sinochem Group is expected to increase substantially from approximately RMB5,147 million in 2022 to no more than RMB15,523 million in 2024. As such, if the current maximum balance of RMB2.0 billion is maintained, the expected increase in transactions may require more frequent fund transfers between the Group and subsidiaries of Sinochem Holdings, which lead to increase in administrative costs relating to the monitoring of such deposit balances and the above fund transfer requirement. The higher Maximum Daily Deposit Balance would provide the Group with a greater flexibility and a reduced need to effect such inter-bank fund transfers purely for compliance purpose.

Profitability and cash flows of the Group have continued to improve in recent years. As discussed in earlier section, the Group recorded profit attributable to owners of the Company of approximately RMB1.1 billion in 2022 and approximately RMB1.0 billion in the first half of 2023. Net cash generated from the Group's operating activities was approximately RMB2.0 billion in 2022 and approximately RMB1.2 billion in the first half of 2023. As a result, the Group records an increasingly substantial cash position, with its bank balances and cash (including restricted bank deposits) increased from approximately RMB1.3 billion as at 31 December 2021 to approximately RMB4.1 billion as at 30 June 2023 and approximately RMB4.0 billion as at 31 October 2023.

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To further substantiate that the need for the higher Maximum Daily Deposit Balance in the coming three years, we have obtained and discussed with the management the future cash flow projection of the Group for the three years ending 31 December 2026. Based on the projection, the management of the Group expects that the trend of increase in bank balances and cash will continue in the coming years.

The Maximum Daily Deposit Balance represents the maximum amount of cash the Group may 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 (or any) amount. To limit the risk exposures arising from the Deposit Services, as mentioned in the section above headed “B.5. Internal control procedures and corporate governance measures”, the Group will ensure that the outstanding amount of its overall financial assistance to Sinochem Holdings and its associates (including the Group’s deposits with Sinochem Finance and the Funds Provision to Sinochem Agriculture and CNSG, as analysed in the section below headed “C. The New Sinochem Agriculture Agreement and the CNSG Agreement”) on each day will not exceed the Overall Limit, being 30% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements which currently stood at approximately RMB3.1 billion. Given the ongoing business relationship with subsidiaries of Sinochem Holdings and the flexible and convenient procedures for withdrawals, the Group intends to maintain deposits with Sinochem Finance for the purpose of transacting and settling payments and receipts with subsidiaries of Sinochem Holdings.

Having considered the above, in particular (i) the expected increase in transaction volume and the commercial needs for settlements with subsidiaries of Sinochem Holdings, and (ii) the substantial increase in the Group’s bank balances and cash in recent years, which is expected to continue in the coming years, we concur with the management of the Group regarding the rationale behind determining a higher Maximum Daily Deposit Balance for the years 2024 to 2026.

8. Reporting requirements and conditions of the Deposit Services

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Deposit Services are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Deposit Services every year and confirm in the Company’s annual report whether the Deposit Services 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;

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- (b) the Company must engage its auditors to report on the Deposit Services 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 Deposit Services:
 - (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 Deposit Services involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Deposit Services; and
 - (iv) have exceeded the Maximum Daily Deposit Balance.
- (c) the Company must allow, and ensure that the counterparties to the Deposit Services allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Deposit Services 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 requirements attached to the Deposit Services, in particular, (i) the restriction of the value of the Deposit Services by way of the Maximum Daily Deposit Balance and the Overall Limit; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement), 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.

C. The New Sinochem Agriculture Agreement and the CNSG Agreement

1. Background to and reasons for the Funds Provision

As discussed in the earlier section headed "A. INFORMATION ON THE PARTIES", the Group has continued to record net cash position since 2021 as a result of strong cash inflows generated from its operations in recent years. As at 31 October 2023, the Group had bank balances and cash of approximately RMB4.0 billion. The need to manage and/or utilise surplus funds has therefore become increasingly important. The Treasury Department of the Company is responsible to monitor and analyse the Group's bank balances and cash position, and the Group has been managing its surplus funds in various ways from time to time, such as placing deposits

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with independent commercial banks and Sinochem Finance, and investing in short-term and principal-guaranteed financial products, based on our discussions with the management of Group.

The Group has considered the possibility of increasing its rate of return by investing in industry-related projects, but there were no projects requiring significant capital investment in recent years and up to the Latest Practicable Date. The Group has also considered alternatives such as principal-guaranteed products which, however, have a fixed term that restrict the Group's ability to withdraw its funds before the maturity date. In contrast, the Funds Provision would maintain Sinochem Fertilizer's fund management flexibility, allowing Sinochem Fertilizer to recover the Funds within a short period of time when there is any funding requirement to conduct its daily operations. Such arrangement is not normally available to lenders in usual loan agreements with independent third parties, and is more favourable to the Group as compared to the terms with independent third parties.

We have discussed with the management of the Group as regards a further increase in dividend distribution to the Shareholders using surplus funds, and are advised that a substantial increase in dividend distribution to the Shareholders could be seen in recent years, from HK\$0.0327 per Share for the year 2020 to HK\$0.0623 per Share for the year 2022, which were in line with the Company's stated dividend policy with dividend pay-out ratio generally in the range from 15% to 30% of profit attributable to owners of the Company. Given the above, the management considered that the surplus funds of the Group should be kept to maintain flexibility for the purpose of making any significant investments in future.

In its ordinary and usual course of business, Sinochem Fertilizer (i) sells fertilizer products to Sinochem Agriculture, which would then sell such products to Sinochem Agriculture's customers in its product line, and (ii) purchases crop seeds from CNSG in order to enhance the variety and competitiveness of Sinochem Fertilizer's product offering to its customers. As set out in the letter from the Board, Sinochem Agriculture has established business nationwide, and continued to expand its service areas and to optimize its business process and model. On the other hand, CNSG has modernized seed processing centres and the leading research and development and innovation centers in the industry, with products covering five main types of crops. The Directors believe that the Funds Provision to Sinochem Agriculture and CNSG can further promote their respective business development, which will in turn facilitate Sinochem Fertilizer to further extend its sales channels through Sinochem Agriculture and increase the variety and competitiveness of the products it sells in collaboration with CNSG, and therefore improve the revenue performance and profitability of Sinochem Fertilizer. As advised by the management of the Group, for the year 2022 and the first half of 2023, the sale of fertilizer products by the Group to Sinochem Agriculture amounted to approximately RMB971.7 million and RMB460.9 million respectively, and the purchase of crop seeds by the Group from CNSG amounted to approximately RMB12.8 million and RMB3.8 million respectively.

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Currently, the Group provides the Fund in an amount of not more than RMB1.0 billion to Sinochem Agriculture, as governed under the Existing Sinochem Agriculture Agreement, which will expire on 31 December 2024. As advised by the management of the Group, the outstanding balance as at 31 October 2023 was RMB800 million.

Against the above background, the Group entered into the New Sinochem Agriculture Agreement and the CNSG Agreement on 11 October 2023 to facilitate the Funds Provision, subject to the approval from the Independent Shareholders at the SGM. The Fund Provisions on one hand is expected to support Sinochem Fertilizer's business partners in the industry chain of synergistic importance, which in turn would be beneficial to the business growth of the Group, and on the other hand would enable the Group to earn a higher rate of return as compared to cash deposits and other short-term and principal guaranteed financial products, while still keeping control over the use of funds and retaining the right to demand repayment at short notice. The interest rate of the Funds will be determined based on the then highest interest rate of the Comparable Loans obtained by Sinochem Agriculture and CNSG from independent third-party banks, and as confirmed with the management of the Group, Sinochem Fertilizer will only provide the Funds to Sinochem Agriculture and CNSG when the respective loan interest rate is higher than (i) the then rate of return of the short-term and principal-guaranteed financial products available to the Group, and (ii) the then deposit interest rate available to the Group for placing cash deposits with independent commercial banks in the PRC and Sinochem Finance.

As stated in the letter from the Board, all of the Funds will be financed by the Group from its surplus funds, such that the working capital and daily operations of the Group will not be affected. Further, Sinochem Fertilizer shall have the right to (i) decide whether to release the Funds to Sinochem Agriculture and CNSG, on a case-by-case basis, and (ii) require Sinochem Agriculture and CNSG to repay their respective Funds and any interest accrued thereon, in whole or in part, any time prior to the maturity date.

The Group has a number of internal control measures in place to protect the interests of the Shareholders regarding the Funds Provision, as more particularly described and analysed in the section below headed "C.5. Internal control measures". Moreover, Syngenta Group has issued the Guarantee Letters in favour of Sinochem Fertilizer for the joint and several liabilities in connection with the contractual obligations of Sinochem Agriculture and CNSG under the New Sinochem Agriculture Agreement and the CNSG Agreement, respectively. In our view, the above provides further protection that the potential credit risk of the Funds Provision faced by the Group is properly addressed.

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2. Principal terms of the New Sinochem Agriculture Agreement and the CNSG Agreement

On 11 October 2023, Sinochem Fertilizer and Sinochem Agriculture entered into the New Sinochem Agriculture Agreement, pursuant to which Sinochem Fertilizer agreed to continue to provide the Fund in an amount of not more than RMB1,000 million to Sinochem Agriculture for a term up to 31 December 2026. The Existing Sinochem Agriculture Agreement will be terminated and replaced by the New Sinochem Agriculture Agreement, after the latter comes into effect.

On the same date, Sinochem Fertilizer and CNSG entered into the CNSG Agreement, pursuant to which Sinochem Fertilizer agreed to provide the Fund in an amount of not more than RMB500 million to CNSG for a term up to 31 December 2026.

As set out in the letter from the Board, the terms of the New Sinochem Agriculture Agreement and the CNSG Agreement are agreed upon by the parties after arm's length negotiations and having regard to the prevailing market price and market practices. Set out below is a summary of the principal terms of the New Sinochem Agriculture Agreement and the CNSG Agreement. For further details, please refer to the sections headed "New Sinochem Agriculture Agreement" and "The CNSG Agreement" in the letter from the Board.

	<u>New Sinochem Agriculture Agreement</u>	<u>CNSG Agreement</u>
Parties:	(a) Sinochem Fertilizer (as the lender); and (b) Sinochem Agriculture (as the borrower)	(a) Sinochem Fertilizer (as the lender); and (b) CNSG (as the borrower)
Total amount of the Fund:	Not more than RMB1,000 million of a revolving nature. Sinochem Agriculture may re-borrow any portion of the total amount of the Fund that has been repaid or prepaid.	Not more than RMB500 million of a revolving nature. CNSG may re-borrow any portion of the total amount of the Fund that has been repaid or prepaid.

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New Sinochem Agriculture Agreement

CNSG Agreement

Interest rate: The interest rate of each Fund shall be the highest interest rate of the Comparable Loans obtained by the relevant borrower from independent third-party banks one month prior to the date of release of such Fund.

If no Comparable Loan is available during the one-month period prior to the date of release of the Fund, the interest rate shall be determined by reference to the highest interest rate of the Comparable Loans available in the most recent month before such one-month period. Any interest rate adjustment mechanism of the Fund shall be the same as that of the relevant Comparable Loan. For example, where the interest rate of a Comparable Loan is based on floating rate with reference to the LPR, the interest rate of the relevant Fund shall be adjusted in a manner similar to that of the Comparable Loan, with reference to any subsequent changes in the LPR.

Comparable Loan refers to any precedent loan obtained by the relevant borrower from an independent third-party bank that is similar to the Fund provided under the relevant agreement in terms of, among other things, duration, use of funds and form of guarantee, or any loan granted on conditions no less favourable to the relevant borrower than those specified in the relevant agreement.

Term: Subject to obtaining the relevant Guarantee Letter from Syngenta Group (as further described below) and the approval from the Independent Shareholders at the SGM, the relevant agreement will take effect from 1 January 2024 and remain in force until 31 December 2026.

The Existing Sinochem Agriculture Agreement will be terminated and replaced by the New Sinochem Agriculture Agreement, after the latter comes into effect.

The duration of each Fund shall be no more than one year and its maturity date shall not exceed the term of the relevant agreement.

Repayment: The relevant borrower shall repay each Fund to Sinochem Fertilizer on the maturity date of such Fund. The relevant borrower may, by serving a prior written notice of two business days to Sinochem Fertilizer and upon obtaining the written consent from Sinochem Fertilizer, repay the Fund and any interest accrued thereon, in whole or in part, prior to the maturity date. In addition, Sinochem Fertilizer may, by serving a prior written notice of five business days, require the relevant borrower to repay the Fund and any interest accrued thereon, in whole or in part, prior to the maturity date.

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New Sinochem

Agriculture Agreement

CNSG Agreement

Use of Fund: For grain purchasing and storage, as well as daily operations of Sinochem Agriculture. For daily operations of CNSG.

Other provisions: The relevant borrower shall make withdrawal applications to Sinochem Fertilizer in writing within the total amount of the Fund and during the term of the relevant agreement, and provide Sinochem Fertilizer with accounts and breakdowns in connection with the loans obtained by it from independent third-party banks, as well as the information associated with the Comparable Loans (including their interest rate, duration, use of funds and form of guarantee).

Sinochem Fertilizer shall issue a written confirmation for the release of each Fund at the time of its release, setting out the amount of each Fund, interest rate, date of release and maturity date.

The relevant borrower shall also provide detailed information concerning the use of each Fund to Sinochem Fertilizer at the time of applying for such Fund. Sinochem Fertilizer shall have the right to decide whether to release the Fund to the relevant borrower based on the information provided. If, during the term of the relevant agreement, the relevant borrower intends to invest any project, its investment amount in which will exceed 25% of its total assets value, the relevant borrower shall obtain a prior written consent from Sinochem Fertilizer for its investment in such project.

The relevant borrower shall notify Sinochem Fertilizer when any of the following events occurs or is likely to occur: (a) the relevant borrower's gearing ratio, calculated as total liabilities divided by total assets as advised by the management, exceeds 80% after its registered capital has been paid up, (b) the relevant borrower's current ratio, calculated as current assets divided by current liabilities as advised by the management, is less than 1, (c) there is a change in the relevant borrower's effective controller, (d) the relevant borrower's annual gross profit margin is negative, and (e) there is an adverse change in the relevant borrower's long-term investments. In any of such cases, Sinochem Fertilizer shall have the right to cease the release of the Fund to the relevant borrower and to require the relevant borrower to repay the Fund that has been released and any interest accrued thereon prior to the maturity date.

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	New Sinochem Agriculture Agreement	CNSG Agreement
Liabilities for breach of contract:	If the relevant borrower fails to perform its obligations under the relevant agreement, Sinochem Fertilizer shall have the right to cease the release of the Fund to the relevant borrower and to require the relevant borrower to repay the Fund that has been released and any interest accrued thereon prior to the maturity date. In addition, if the relevant borrower is unable to repay the Fund and any interest accrued thereon as scheduled or fails to use the Fund in accordance with the use specified in the relevant agreement, Sinochem Fertilizer shall also have the right to impose on the relevant borrower an additional interest of 50% on the overdue amount or the amount used in breach of the relevant agreement.	

Pricing policies

Based on our discussions with the management of the Group, when determining the maximum daily loan balance under the New Sinochem Agriculture Agreement and the CNSG Agreement, being not more than RMB1,000 million and RMB500 million respectively, the Group has taken into account its bank balances and cash and bank loans and other borrowings, the interest income available to the Group for placing deposits with banks and Sinochem Finance, the Group's assessment on the financial and business conditions of Sinochem Agriculture and CNSG, as well as the financial needs of Sinochem Agriculture and CNSG and their respective use of funds.

The Group will determine the interest rate of the Fund(s) based on the then highest interest rate of the Comparable Loans obtained by Sinochem Agriculture and CNSG from independent third-party banks. As set out in the letter from the Board, Sinochem Agriculture and/or CNSG (as the case maybe) is required to submit a list of loans they obtained from independent third-party banks one month prior to the date of release of such Fund for the Group to select the Comparable Loans. The Treasury Department of the Company will check the total loan amount in the list against the loan balance as recorded in the balance sheet of the monthly management account of Sinochem Agriculture and/or CNSG to ensure the completeness of the list of loans obtained, i.e., all the loans recorded in the accounting record of Sinochem Agriculture and/or CNSG are in such list. As advised by the management of the Group, Sinochem Fertilizer shall have the right to request Sinochem Agriculture and/or CNSG (as the case maybe) to submit to the Group the underlying agreements of the relevant Comparable Loans, and/or any information that are important to Sinochem Fertilizer in determining the terms of the Funds Provision.

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Given that the interest rates of precedent loans obtained by Sinochem Agriculture and/or CNSG from independent third-party banks are usually determined by relevant banks after taking into account, among others, (i) the latest LPR and (ii) the specific situations of Sinochem Agriculture and/or CNSG (such as their financial positions and credibility). In the event that the Comparable Loan is based on a floating interest rate with reference to the LPR, the interest rate of the relevant Fund shall be adjusted in a manner similar to that of the Comparable Loan, with reference to any subsequent changes in the LPR. As such, we consider the referencing of the then highest interest rate of the Comparable Loans obtained by Sinochem Agriculture and CNSG from independent third-party banks to be appropriate. All in all, Sinochem Fertilizer shall have the final decision in determining the set of the Comparable Loans and the final interest rate of each Fund to be offered to the relevant borrower, as further discussed in the sub-section below.

As confirmed by the management of the Group, Sinochem Fertilizer will only provide the Funds to Sinochem Agriculture and CNSG when the related loan interest rate is higher than (i) the then rate of return of the short-term and principal guaranteed financial products available to the Group, and (ii) the then deposit interest rate available to the Group for placing cash deposits with independent commercial banks in the PRC and Sinochem Finance.

Provision of Guarantee

On 15 November 2023, Syngenta Group has issued the Guarantee Letters, so as to provide a guarantee in favour of Sinochem Fertilizer for the joint and several liabilities (the “**Joint and Several Guarantee**”) in connection with the contractual obligations of Sinochem Agriculture and CNSG under the New Sinochem Agriculture Agreement and the CNSG Agreement, respectively. If Sinochem Agriculture or CNSG fails to repay the Fund and any interest accrued thereon pursuant to the New Sinochem Agriculture Agreement or the CNSG Agreement (as the case may be), Sinochem Fertilizer shall have the right to require Syngenta Group to make repayments for Sinochem Agriculture or CNSG by serving a prior written notice of ten business days.

Other than the Joint and Several Guarantee, there is no collateral required under the New Sinochem Agriculture Agreement and the CNSG Agreement.

The liabilities of Syngenta Group under the Joint and Several Guarantee shall be limited to the amount actually released by Sinochem Fertilizer to Sinochem Agriculture and CNSG and any interest accrued thereon pursuant to the New Sinochem Agriculture Agreement and the CNSG Agreement, respectively.

We have discussed with the Company’s PRC legal adviser, Junhe LLP (the “**PRC Legal Adviser**”), and understand that the Joint and Several Guarantee, compared to an ordinary guarantee, provides a higher level of protection to the lender under PRC law. In a situation where the relevant borrower defaults on a loan repayment, the guarantor under ordinary guarantee arrangements may refuse

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the lender's demand of assuming guarantee responsibilities before the judicial or arbitration procedures confirming that the relevant borrower is incapable of repaying the loan, except for certain circumstances as required under the applicable PRC laws and regulations, including, among others, (a) the relevant borrower has disappeared and has no property to compensate, or (b) the People's Court has accepted the bankruptcy case of the relevant borrower. Under the Joint and Several Guarantee arrangements, if Sinochem Agriculture or CNSG (the borrower) fails to perform its obligations at the maturity of the loan, Syngenta Group (the guarantor), upon request from Sinochem Fertilizer (the lender), will be required to assume guarantee responsibilities within the scope of the relevant Guarantee Letters without any such judicial or arbitration procedures.

The PRC Legal Adviser further stated in its opinion letter that, among others, (i) the New Sinochem Agriculture Agreement and the CNSG Agreement are legally binding on the parties thereto when they become effective, (ii) the Guarantee Letters are legally binding on Syngenta Group when they become effective, and (iii) Syngenta Group, as the guarantor, has provided the Joint and Several Guarantee to Sinochem Fertilizer as regards Sinochem Agriculture and CNSG's contractual liabilities under the New Sinochem Agriculture Agreement and the CNSG Agreement respectively, such that in the event that Sinochem Agriculture or CNSG fails to perform its obligations, Syngenta Group is required to assume the contractual liabilities for and on behalf of Sinochem Agriculture or CNSG in accordance with the relevant guarantee scope, period, amount and form under the Guarantee Letters.

Our comments

As discussed in earlier sections, the Group records an increasingly substantial cash position, with its bank balances and cash (including restricted bank deposits) increased from approximately RMB1.3 billion as at 31 December 2021 to approximately RMB4.1 billion as at 30 June 2023 and approximately RMB4.0 billion as at 31 October 2023. In addition, based on the future cash flow projection of the Group for the three years ending 31 December 2026, the trend of increase in bank balances and cash will continue in the coming years. Given the strong cash inflows from operations and the fact that there were no significant capital investment requirements in recent years, the Group has been managing its increasing amount of surplus funds by way of, for example, placing deposits with independent commercial banks and Sinochem Finance, and investing in short-term principal-guaranteed financial products. The provision of financial assistance to Sinochem Holdings and its associates also became one of the alternatives for the Group's capital management strategy in recent years, to generate appropriate investment returns from its surplus funds not currently required by its principal businesses, and to maintain flexibility for the Group to recover such funds should it have any funding needs or should any investment opportunities arise.

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In respect of the maximum daily loan balance under the New Sinochem Agriculture Agreement and the CNSG Agreement to Sinochem Agriculture and CNSG, being not more than approximately RMB1,000 million and RMB500 million respectively, the financial needs of Sinochem Agriculture and CNSG and their respective use of proceeds in each of the coming three years, as well as the outstanding loan balance with Sinochem Agriculture, being RMB800 million as at 31 October 2023, have also been taken into account. In order to substantiate the financing needs of Sinochem Agriculture and CNSG, we have looked into their respective financial performance and position in recent years, and note that Sinochem Agriculture and CNSG continued to grow its business and register revenue growth in the past three years and the first nine months of 2023, which in turn drive the working capital needs for their respective business development and expansion. For further details, please refer to the section below headed “C.3 Business and financial information on Sinochem Agriculture, CNSG and Syngenta Group” Independent Shareholders should also be reminded that the Overall Limit (which stood at approximately RMB3.1 billion) would govern the aggregate financial assistance to Sinochem Holdings and its associates, including the deposits with Sinochem Finance, as discussed in the section headed above “B. THE FINANCIAL SERVICES FRAMEWORK AGREEMENT (AS REVISED AND RENEWED BY THE SUPPLEMENTAL AGREEMENT)”. The maximum daily loan balance represents the maximum amount of Funds the Group may lend to Sinochem Agriculture and CNSG, and Sinochem Fertilizer shall have no obligation and the right to decide whether to release the Funds to Sinochem Agriculture and CNSG based on the information provided by them at the time of their respective applications for the Funds.

In respect of interest rate, we understand from the management of the Group that, based on the information available up to the Latest Practicable Date, (i) the interest rates for one-year fixed term deposit with independent commercial banks in the PRC and Sinochem Finance were in a range of between approximately 1.7% and 1.75%, and (ii) the yields of short-term and principal-guaranteed financial products available to the Group were in a range from approximately 1.1% to 1.99%.

The interest rate of each Fund shall be determined based on the then highest interest rate of the Comparable Loans obtained by Sinochem Agriculture and CNSG respectively from independent third-party banks and the duration of each Fund shall be no more than one year. As the interest rates of the Comparable Loans were determined (i) based on specific situations of Sinochem Agriculture or CNSG (as the case may be) including their respective financial position and credibility as well as other relevant terms (such as duration, use of funds and form of guarantee), which are also directly relevant to the determination of the interest rates of the Funds, and (ii) after arm’s length negotiations between Sinochem Agriculture or CNSG on one hand and independent third-party banks on the other hand, we concur with the Directors’ view that the use of Comparable Loans represents a suitable reference in deciding the interest rate of the Funds.

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In order to understand the pricing policies, we have discussed with the management of the Group and reviewed (i) the lists of the latest relevant precedent loans obtained by Sinochem Agriculture and CNSG from independent third-party banks, and (ii) the internal control measures in identifying the highest interest rate charged by Comparable Loans (which are decided by the Group in its sole discretion after taking into consideration, among others, term, duration, form of guarantee and amount of each Fund) for the purpose of determining the interest rates of the Funds.

For illustrative purpose only, based on the terms and information associated with the latest relevant precedent loans obtained from independent third-party banks as identified up to the Latest Practicable Date, the indicative interest rate applicable to Sinochem Agriculture was in the range between approximately 1.95% and 2.75% per annum, and the indicative interest rate applicable to CNSG was in the range between approximately 3.0% and 4.35% per annum. From the above, the rate of return currently available from fixed term deposit and short-term and principal-guaranteed financial products are lower than the ranges of indicative interest rates of the Funds. Independent Shareholders should note that the above ranges of indicative interest rates are to illustrate the indicative level of interest rates of the Funds had they been determined as at the Latest Practicable Date, and that before deciding whether to release the Fund to Sinochem Agriculture and/or CNSG, the Group will conduct a separate review and compare the interest rate of such Fund against the then rate of return available from cash deposits and other short-term and principal guaranteed financial products, and the interest rates of any Fund to be offered shall be based on a review of the then latest set of the Comparable Loans, subject to Sinochem Fertilizer's final decision on the set of Comparable Loans to be chosen and the final interest rate to be offered, to ensure that the Funds Provision is the interests of the Group, as further discussed in the section below headed "C.5. Internal control measures".

In respect of Sinochem Fertilizer's right to impose an additional interest of 50% on the overdue amount or the amount used in breach of the relevant agreement, we have discussed with the management of the Group, and obtained and reviewed a list of precedent loans obtained by Sinochem Agriculture and CNSG from independent third-party banks during the period from July 2023 to October 2023 (in our opinion, such period represents an appropriate period to demonstrate the borrowing terms of Sinochem Agriculture and CNSG under recent financial and market condition), showing an additional interest of between 30% and 100% to be charged on the overdue amount or the amount used in breach of the relevant loan agreement. The additional penalty interest of 50% that Sinochem Fertilizer will have the right to impose falls well within the range, and is close to the average and median, of additional interest to be charged by independent third-party banks, which we consider to be fair and reasonable.

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In respect of fund management flexibility, compared to one-year fixed deposits and short-term and principal-guaranteed financial products where funds would be locked up before maturity, the New Sinochem Agriculture Agreement and the CNSG Agreement offer Sinochem Fertilizer a right to demand early repayment with only five business days prior notice, which provides the Group with a greater flexibility to adjust its capital management strategy. Based on our experience, the right to require early repayment is not normally available to lenders with independent third parties in normal term loan facilities. In our opinion, such early repayment right given to Sinochem Fertilizer is a favourable term to the Group in the context of the Funds Provision, allowing it to reduce or terminate the borrowings extended to Sinochem Agriculture and/or CNSG, if its own capital and investment needs unexpectedly exceed the Group's projections.

In respect of fund security, in the event that Sinochem Agriculture or CNSG fails to perform its obligations under the relevant agreements, Syngenta Group is required to make repayments of the Funds on behalf of them pursuant to the Guarantee Letters. Syngenta Group will be liable for the joint and several obligations of Sinochem Agriculture or CNSG under the relevant agreements, including any early repayment or repayment of the total outstanding principal amount of the Funds and any interest accrued thereon as if Syngenta Group is the borrower under the Funds Provision. Sinochem Fertilizer is also allowed to demand Syngenta Group to settle the same for and on behalf of Sinochem Agriculture or CNSG under the relevant agreements. In our opinion, given the strong financial capabilities of Syngenta Group, as further discussed in the section below headed "C.3. Business and financial information on Sinochem Agriculture, CNSG and Syngenta Group", the credit risk associated with the Funds Provision to Sinochem Agriculture and CNSG is properly addressed.

Moreover, there are certain covenants in the New Sinochem Agriculture Agreement and the CNSG Agreement, which are the same as those in the Existing Sinochem Agriculture Agreement, to protect the interests of the Company and the Shareholders as a whole. For example, Sinochem Agriculture and CNSG shall notify Sinochem Fertilizer when their respective gearing ratio exceeds 80%, liquidity ratio is lower than 1, or there is a change in their respective effective controller. Such covenants allow the Group to closely monitor the financial liquidity and business operation of Sinochem Agriculture and CNSG.

Having considered the above, in particular the reasons and benefits to be accrued to the Group, we are of the view that the Funds Provision represents an appropriate means of liquidity management by the Group to bring synergistic benefits of supporting the Group's business partners in the industry chain, and to generate reasonable interest income while keeping control over the use of funds, and that the respective maximum daily loan balance under the New Sinochem Agriculture Agreement and the CNSG Agreement are fair and reasonable.

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3. Business and financial information on Sinochem Agriculture, CNSG and Syngenta Group

Sinochem Agriculture

Since its incorporation in 2015, Sinochem Agriculture has been pursuing its business development and expansion plans. According to its website, Sinochem Agriculture has a modern agricultural technological platform (“MAP”) which, among others, provides online and offline comprehensive solutions to its customers and partners in the agriculture sectors of the PRC. We understand from management of the Group that the number of Sinochem Agriculture’s MAP technical service centres increased from 325 in 2020 to 628 in 2022. As at 31 December 2022, the service network of the MAP demonstration farms across the PRC covered around 2.3 million farm households and over 200 million mu of cultivated land.

The following table set out a summary of the consolidated statements of profit or loss of Sinochem Agriculture, as extracted and summarised from its audited consolidated financial statements for the three years ended 31 December 2020, 2021 and 2022, and its unaudited consolidated management accounts for the nine months ended 30 September 2022 and 2023, all of which were prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

	For the nine months ended 30		For the year ended 31 December		
	September		2022	2021	2020
	2023	2022	2022	2021	2020
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Revenue	22,994	17,258	20,578	13,849	5,094
Gross profit	1,653	1,599	2,009	1,876	480
<i>Gross profit margin</i>	7.2%	9.3%	9.8%	13.5%	9.4%
Loss for the period/year	(356)	(174)	(358)	(43)	(243)

Revenue of Sinochem Agriculture is mainly derived from the sale of agricultural products (including fertilizers, seeds and pesticides) and the provision of agricultural related services. Revenue increased substantially from approximately RMB5.1 billion in 2020 to approximately RMB13.8 billion in 2021, and further to approximately RMB20.6 billion in 2022. Such increases were primarily attributable to the revenue growth of Sinochem Agriculture as driven by the expanding service network coverage of Sinochem Agriculture’s MAP technical service centres and demonstration farms. For the first nine months of 2023, revenue of Sinochem Agriculture increased to approximately RMB23.0 billion, surpassing the full year revenue in 2022. The Group has benefited from Sinochem

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Agriculture's significant growth in revenue in recent years, and as advised by management of the Group, the sale of fertilizer products by the Group to Sinochem Agriculture in 2022 increased by approximately 42.1% year-on-year to approximately RMB1.0 billion.

Gross profit of Sinochem Agriculture rose from approximately RMB0.5 billion in 2020 to approximately RMB1.9 billion in 2021, and further to approximately RMB2.0 billion in 2022. The gross profit margin fluctuated between a range of approximately 9.4% and 13.5% during the past three years, chiefly affected by the market environment, the policy amendments and the price fluctuations in the agricultural products market, based on our understanding from the management of the Group. For the first nine months of 2023, gross profit of Sinochem Agriculture slightly increased to approximately RMB1.7 billion. In term of gross profit margin, the decrease to approximately 7.2% was mainly due to the decline in the overall selling prices of agricultural products in 2023.

Net loss of Sinochem Agriculture first narrowed from approximately RMB243 million in 2020 to approximately RMB43 million in 2021, mainly due to the substantial increase in Sinochem Agriculture's scale of operation, resulting in substantial increase in revenue and improvement in gross profit margin as mentioned above. The net loss widened to approximately RMB358 million in 2022 and was approximately RMB356 million in the first nine months of 2023, mainly caused by the increase in the selling and marketing expenses, primarily associated with the increase in the number of Sinochem Agriculture's MAP technical service centres and demonstration farms. Based on our understandings from the management of the Group, the increase in selling and marketing expenses is expected to benefit the future business volume and profitability of Sinochem Agriculture.

The following table set out a summary of consolidated statements of financial position of Sinochem Agriculture, as extracted and summarised from its audited consolidated financial statements as at 31 December 2020, 2021 and 2022, and its unaudited consolidated management accounts as at 30 September 2023, all of which were prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

	As at 30 September 2023	As at 31 December		
	2022	2021	2020	
	<i>RMB million</i> (unaudited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)
Total assets	12,252	19,909	18,376	8,156
Total liabilities	11,931	19,232	18,340	8,076
Total equity	321	677	36	80

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As at 30 September 2023, total assets of Sinochem Agriculture primarily included (i) inventories of approximately RMB4.5 billion, mainly representing agricultural products, such as fertilizers, seeds and pesticides, (ii) prepayments of approximately RMB1.5 billion, mainly representing advance payments for the procurement of crops, (iii) property, plant and equipment and construction in progress of approximately RMB0.9 billion in aggregate, mainly relating to MAP technical service centres, farm machines and demonstration farms, and (iv) bank balances and cash of approximately RMB0.2 billion.

As at 30 September 2023, total liabilities of Sinochem Agriculture mainly included (i) borrowings from financial institutions and members of Sinochem Holdings of approximately RMB8.3 billion, out of which approximately RMB8.2 billion, or approximately 99.2% of total, were repayable within one year, and (ii) contract liabilities of approximately RMB1.7 billion, mainly relating to payments received in advance from its customers. As at 30 September 2023, its borrowings with a term of less than one year bore interest rate ranging from approximately 1.1% and 3.6% per annum. To the knowledge of the Company, Sinochem Agriculture has not defaulted on any of its credit obligations since incorporation.

As advised by the management of the Group, Syngenta Group entered into a capital increase agreement with Sinochem Agriculture, pursuant to which Syngenta Group would inject capital of RMB3.0 billion to shore up the capital base of Sinochem Agriculture. Out of which, RMB2.0 billion has been injected by Syngenta Group into Sinochem Agriculture as of 30 September 2023, and we are given to understand that the remaining RMB1.0 billion is expected to be injected by Syngenta Group in the year 2024.

As set out in the letter from the Board, the Group has conducted due diligence and assessment on the repayment capability of Sinochem Agriculture. Sinochem Agriculture has not violated any agreement with Sinochem Fertilizer or failed to repay any fund to Sinochem Fertilizer on time, since the first release of Fund in December 2018. We have been provided with the relevant due diligence materials, including detailed analysis on Sinochem Agriculture's historical financial performance and position and future business plan. As at 30 September 2023, Sinochem Agriculture had available and undrawn credit under facilities from various financial institutions of approximately RMB11.1 billion.

CNSG

According to the letter from the Board, CNSG is the first seed company with the approval of the government authority that is principally engaged in the scientific research, production, processing, marketing and technical services in the PRC seed industry. According to its website, CNSG established China Seed Life Science and Technology Center (中國種子生命科學技術中心) in Wuhan, Hubei Province, and continued to increase spending on research and development on the plant breeding in recent years. As advised by the management of the Group, as at

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31 December 2022, CNSG had 14 breeding bases across the PRC, more than 280 screening testing sites and around 1,500 mu of cultivated land for testing purposes.

The following table set out a summary of the consolidated statements of profit or loss of CNSG, as extracted and summarised from its audited consolidated financial statements for the three years ended 31 December 2020, 2021 and 2022, and its unaudited consolidated management accounts for the nine months ended 30 September 2022 and 2023, all of which were prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

	For the nine months ended 30		For the year ended 31 December		
	September		2022	2021	2020
	2023	2022	2022	2021	2020
	<i>RMB million</i> (unaudited)	<i>RMB million</i> (unaudited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)
Revenue	2,467	2,160	4,767	3,454	831
Gross profit	667	501	1,305	962	253
<i>Gross profit margin</i>	27.0%	23.2%	27.4%	27.9%	30.5%
Profit/(loss) for the period/year	40	(23)	199	23	(172)

Revenue of CNSG is mainly derived from the sale of seeds and the provision of contract farming, plant variety rights, and other agricultural related services. Revenue increased substantially from approximately RMB0.8 billion in 2020 to approximately RMB3.5 billion in 2021, and further to approximately RMB4.8 billion in 2022. For the first nine months of 2023, revenue of CNSG increased to approximately RMB2.5 billion, representing an increase of approximately 14.2% compared to the same period in 2022. The above increases were primarily attributable to (i) the revenue contribution from Winall Hi-tech Seed Co., Ltd (安徽荃銀高科種業股份有限公司) (“**Winall Hi-tech Seed**”, a Shenzhen listed company principally engaged in the research and development, breeding, promotion and services of crop seeds that became a subsidiary of CNSG since 2021), and (ii) the increase in sale of seeds as driven by the improvement of seed quality, manufacturing and logistic capacities of CNSG.

Gross profit of CNSG grew broadly in line with revenue growth in the past three years, from approximately RMB0.3 billion in 2020 to approximately RMB1.0 billion in 2021, and further to approximately RMB1.3 billion in 2022. The gross profit margin remained stable, at around 27% to 28% in 2021, 2022 and the first nine months of 2023.

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Given the substantial increase in CNSG's revenue and gross profit as mentioned above, CNSG turned around from a net loss of approximately RMB172 million into a net profit of approximately RMB23 million in 2021, and the net profit was further increased to approximately RMB199 millions in 2022, mainly benefiting from the improvement in operating efficiency and the effect of economies of scale. For the first nine months of 2023, CNSG recorded a profit of RMB40 million as opposed to a loss of approximately RMB23 million in the same period in 2022.

The following table set out a summary of consolidated statements of financial position of CNSG, as extracted and summarised from its audited consolidated financial statements as at 31 December 2020, 2021 and 2022, and its unaudited consolidated management accounts as at 30 September 2023, all of which were prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

	As at 30 September 2023	As at 31 December		
	2022	2021	2020	
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(audited)	(audited)	(audited)
Total assets	9,916	8,260	6,255	2,214
Total liabilities	6,357	4,755	3,223	1,510
Total equity	3,560	3,504	3,032	704

As at 30 September 2023, total assets of CNSG mainly included (i) bank balances and cash of approximately RMB2.4 billion, (ii) inventories of approximately RMB2.1 billion, mainly representing seeds products such as rice seeds, corn seeds and wheat seeds, (iii) property, plant and equipment and construction in progress of approximately RMB1.0 billion in aggregate, mainly relating to its manufacturing and logistic facilities in the PRC, and (iv) goodwill of approximately 0.9 billion, mainly arising from the acquisition of equity interests in Winall Hi-tech Seed from Sinochem Agriculture in 2021.

As at 30 September 2023, total liabilities of CNSG mainly included (i) contract liabilities of approximately RMB2.1 billion, mainly relating to payments received in advance from its customers, (ii) borrowings from financial institutions and members of Sinochem Holdings of approximately RMB1.6 billion, out of which approximately RMB1.0 billion, or approximately 60.4% of total, were repayable within one year, and (iii) account payable of approximately RMB0.8 billion. As at 30 September 2023, its borrowings with a term of less than one year bore interest rate ranging from approximately 3.0% and 3.2% per annum. To the knowledge of the Company, CNSG has not defaulted on any of its credit obligations since incorporation.

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As set out in the letter from the Board, the Group has conducted due diligence and assessment on the repayment capability of CNSG. We have been provided with the relevant due diligence materials, including detailed analysis on CNSG's historical financial performance and position and future business plan. As at 30 September 2023, CNSG was in net cash position of approximately RMB0.8 billion and had available and undrawn credit under facilities from various financial institutions of approximately RMB670 million.

Syngenta Group

Syngenta Group, which has provided the Joint and Several Guarantee in favour of Sinochem Fertilizer in connection with the obligations of Sinochem Agriculture and CNSG under the New Sinochem Agriculture Agreement and the CNSG Agreement, is a group with a substantial scale of operation. We note that Syngenta Group in May 2023 filed a listing application to the Shanghai Stock Exchange, with a view to raise proceeds mainly for potential merger and acquisition projects globally, loan repayment, and development of agricultural related technologies.

According to its unaudited consolidated management accounts as at 30 September 2023, Syngenta Group had fully paid-up capital of approximately RMB11.1 billion, consolidated net assets attributable to its shareholders of approximately RMB219.6 billion and bank balances and cash of approximately RMB33.0 billion as at 30 September 2023. Gearing ratio of Syngenta Group, calculated as total liabilities divided by total assets, was approximately 60.7% as at 30 September 2023. Profit attributable to owners of Syngenta Group amounted to approximately RMB4.5 billion, RMB4.3 billion and approximately RMB7.9 billion in 2020, 2021 and 2022 respectively, and approximately RMB1.3 billion for the first nine months of 2023.

Syngenta Group generated net cash inflows from operating activities of approximately RMB17.3 billion in 2020, RMB24.4 billion in 2021 and RMB13.7 billion in 2022, and net cash used in operating activities was approximately RMB9.0 billion in the first half of 2023. To the knowledge of the Company, Syngenta Group has not defaulted on any of its credit obligations in the past five years.

On the basis of the above, Syngenta Group has been generating substantial profits in recent years, and assuming no material change to Syngenta Group's financial performance and position, we consider that Sinochem Agriculture and CNSG, taking into account the Joint and Several Guarantee from Syngenta Group, have sufficient financial resources and substantial backing from Syngenta Group to honour their obligations under the New Sinochem Agriculture Agreement and the CNSG Agreement.

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4. Financial effects of the Funds Provision

Earnings, net assets and gearing

As the Group is entitled to receive interest income from the Funds Provision, at an interest rate higher than the existing deposit interest rate earned by the Group's surplus cash, there should be a positive impact on the Group's future earnings.

As advised by the management of the Group, the Group has right to demand early repayment under the Funds Provision and the duration of each Fund shall be no more than one year, such that the Funds will be accounted for as loan receivables under current assets in the Group's consolidated statement of financial position, with a corresponding decrease in bank balances and cash of the Group. There would be no material impact on both current assets and net assets of the Group.

As set out in the Company's 2023 interim report, as at 30 June 2023, the current ratio and the debt-to-equity ratio of the Group was approximately 1.5 times and approximately 18.0% respectively. Given that the Funds would be classified as current assets, it is expected that there will be no material impact arising from the Funds Provision on the Group's current ratios and debt-to-equity ratio.

Working capital

We are advised by the management of the Group that the Group maintains significant bank balances and cash, amounting to approximately RMB4.0 billion as at 31 October 2023. As stated in the indebtedness statement in Appendix I to the Circular, as at 31 October 2023, the Group had total outstanding debts (including secured and unguaranteed bank borrowings) of approximately RMB1.8 billion. Further, we note from the Company's 2023 interim report that as at 30 June 2023, the Group had capital commitments of approximately RMB0.5 billion (mainly relating to the purchase of property, plant and equipment).

In this respect, we have reviewed, and discussed with the management of the Group, the cash flow projections of the Group for the three years ending 31 December 2026. Based on our discussion with the management of the Group, (i) having considered the Group's capital commitments and capital management strategy (including the Funds Provision), it is expected that the Group still maintains sufficient working capital for its business operations, and (ii) in the event that the bank borrowings of the Group need to be refinanced, the Group believes that the relevant interest rates will be lower than those under the Funds Provision. The auditors of the Company have provided a comfort letter on such working capital projections by the Group.

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5. Internal control measures

The Group will continue to implement certain internal control measures to monitor and mitigate the investment risks while generating investment returns through the Funds Provision, which are summarised below from the letter from the Board:

- (a) Sinochem Fertilizer shall have the right to decide whether to release the Funds to Sinochem Agriculture and CNSG based on the information provided by them at the time of their respective applications for the Funds, so as to ensure the safe use of the Funds and to mitigate the recovery risks during the process of determining the release of the Funds. Sinochem Fertilizer shall be under no obligation to provide the Funds, in whole or in part, to Sinochem Agriculture and CNSG under the New Sinochem Agriculture Agreement and the CNSG Agreement, and shall have the absolute right to reject the applications of Sinochem Agriculture and CNSG for the Funds if Sinochem Fertilizer is not satisfied with the information provided by them or has any concern about their repayment ability;
- (b) Before releasing the Funds, the manager of the Treasury Department of the Company will review the details of the applications and analyse the Group's bank balances and cash position. The manager will then report to the general manager of the Finance Department and the chief financial officer of the Company for approval. The chief financial officer will seek approval from the chief executive officer of the Company should there be any concern about the business or financial position of Sinochem Agriculture and CNSG;
- (c) Sinochem Agriculture and CNSG shall use their respective Funds strictly in accordance with the use specified in the New Sinochem Agriculture Agreement and the CNSG Agreement respectively, and Sinochem Agriculture and CNSG shall provide their respective business operation reports or financial reports to Sinochem Fertilizer on a monthly basis. The Company will monitor the use of the Funds by Sinochem Agriculture and CNSG to ensure that the Funds will be used for specified purposes;
- (d) Before deciding whether to release the Fund to Sinochem Agriculture and/or CNSG (as the case maybe) each time, the Treasury Department of the Company will (i) review the list of loans obtained from Sinochem Agriculture and/or CNSG from independent third-party banks one month prior to the date of release of such Fund. If no Comparable Loan is available during the one-month period prior to the date of release of the Fund, the interest rate shall be determined by reference to the highest interest rate of the Comparable Loans available in the most recent month before such one-month period. The Treasury Department of the Company will check such loans list against the financial records of Sinochem Agriculture and/or CNSG during the relevant period to ensure the completeness of such loans list, as stated above; (ii) select the Comparable Loans from loans listed out in such list by taking into consideration of duration, use of funds and form of guarantee, to make sure the Comparable Loans have similar terms to the

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Fund to be provided; and (iii) compare the interest rate of such Fund against (aa) the highest among those Comparable Loans obtained by Sinochem Agriculture and/or CNSG from independent third-party banks; and (bb) the highest interest rate available to the Group for placing deposits with at least three independent commercial banks in the PRC or Sinochem Finance, as well as other short-term and principal-guaranteed financial products, to ensure that the interest rate of such Fund is in line with the market rates and the individual loan agreements are entered into on normal commercial terms and would be no less favourable to the Group than those available from independent third parties and (iv) take into account any adjustment to the interest rate of the Fund required resulting from any change in market rate (including the LPR) between the date of the Comparable Loan(s) and the date of release of the Fund;

- (e) During the duration of each Fund, the interest rate of such Fund will be adjusted in accordance with the adjustment mechanism of the relevant Comparable Loan. For example, where the interest rate of a Comparable Loan is based on floating rate with reference to LPR, the interest rate of the relevant Fund shall be adjusted in a manner similar that of the Comparable Loan, with reference to any subsequent change in LPR; and
- (f) the Company's independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the New Sinochem Agriculture Agreement and the CNSG Agreement to ensure that the Company has complied with the above internal control measures and the relevant requirements under the Listing Rules, as further discussed in the section below headed "C.6. Reporting requirements and conditions of the Funds Provision".

The comparison of interest rate of the Funds with those obtained by Sinochem Agriculture and CNSG from independent third-party banks and the Group's other capital management alternatives, such as placing deposits with independent commercial banks and Sinochem Finance, and investing in short-term and principal guaranteed financial products, in our opinion, is important for the Group to ensure a reasonable level of investment returns from its surplus funds can be generated from the Funds Provision.

Having considered the above internal control measures, the due diligence and assessment on the repayment capability of Sinochem Agriculture and CNSG conducted by the Group, and the review of relevant financial information of Syngenta Group, as discussed in the section headed above "C.3 Business and financial information on Sinochem Agriculture, CNSG and Syngenta Group", we concur with the Directors view that the above internal control procedures to be adopted by the Group during the term of the New Sinochem Agriculture Agreement and the CNSG Agreement assist the Group to appropriately monitor and limit the credit risks associated with the Funds Provision, and protect the interests of the Company and the Shareholders as a whole. In

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addition, having considered the Joint and Several Guarantee provided by Syngenta Group in favour of Sinochem Fertilizer, such credit risk is further reduced to an acceptable level.

6. Reporting requirements and conditions of the Funds Provision

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Funds Provision is subject to the following annual review requirements:

- (a) The independent non-executive Directors must review the Funds Provision every year and confirm in the Company's annual report whether the Funds Provision has 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 Funds Provision 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 Funds Provision:
 - (i) has not been approved by the Board;
 - (ii) was not, in all material respects, in accordance with the pricing policies of the Group if the Funds Provision involve the provision of goods or services by the Group;
 - (iii) was not entered into, in all material respects, in accordance with the relevant agreements governing the Funds Provision; and
 - (iv) has exceeded the relevant maximum daily loan balance.
- (c) the Company must allow, and ensure that the counterparties to the Funds Provision allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Funds Provision 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.

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In light of the requirements attached to the Funds Provision, in particular, (i) the restriction of the value of the Funds Provision by way of the relevant maximum daily loan balance and the Overall Limit; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the New Sinochem Agriculture Agreement and the CNSG Agreement, 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 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 Transactions are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Transactions.

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 fifteen years of experience in the corporate finance industry.

FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.sinofert.com):

- the Annual Report 2020 dated 30 March 2021 (pages 110 to 207) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0416/2021041600321.pdf>);
- the Annual Report 2021 dated 22 March 2022 (pages 103 to 207) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0420/2022042000797.pdf>);
- the Annual Report 2022 dated 20 March 2023 (pages 101 to 203) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0421/2023042100435.pdf>); and
- the Interim Report 2023 dated 28 August 2023 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0914/2023091400412.pdf>).

INDEBTEDNESS

As at the close of business on 31 October 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of this circular, the indebtedness of the Group was as follows:

- the Group had total outstanding debts of approximately RMB1,763 million (including secured and unguaranteed bank borrowings of approximately RMB1,399 million);
- the Group had lease liabilities of approximately RMB62.5 million;
- the Group pledged its bank deposits to banks for an aggregated amount of approximately RMB362 million to secure bank loans granted to an associate of the Group; and
- the Group pledged its right-of-use assets of approximately RMB186.3 million and property, plant and equipment of approximately RMB22.3 million to secure bank loans of the Group.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, no member of the Group had outstanding at the close of business on 31 October 2023 any mortgages, charges, debentures or other loan capital or bank overdrafts, loans, debt securities or other similar indebtedness, or any obligations under hire purchase contracts or finance leases payable or any guarantees or other contingent liabilities.

WORKING CAPITAL

Taking into account the Group's cash and cash equivalents on hand, financial resources available to the Group and cash generated from future operations, the Directors after due and careful enquiry, are of the view that, in the absence of unforeseeable circumstances, the Group has sufficient working capital for the Group's present requirements, that is, for at least 12 months from the date of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The operating results of the Group have maintained steady growth in recent years, with its profit attributable to owners of the Company increasing from approximately RMB867 million for the year ended 31 December 2021 to approximately RMB1,117 million for the year ended 31 December 2022. As disclosed in the interim results announcement published by the Company on 28 August 2023, the profit attributable to owners of the Company continued to grow, and the Group recorded a slight increase for the six months ended 30 June 2023 as compared to the six months ended 30 June 2022.

The Group is committed to becoming an innovative leading crop nutrition enterprise in China. Looking forward, the Group will continue to focus on the business transformation and upgrading, follow the trend of the rapidly changing fertilizer industry in China, and take root in modern agriculture to promote healthy and sustainable development of arable land. The basic segment will further explore the strategic procurement channels and exert its strengths of supply chain to secure stable supply of quality product resources and satisfy the demand of industrial and agricultural production. The growth segment will continue to adhering to the implementation of differentiation strategy and optimizing the product structure, and promote the integration of research, production and sales to improve the gross profit of products. The production segment will seize market opportunities and give full play to its resource advantages to ensure stable, long-lasting and optimal operations. Meanwhile, the Group will strengthen its strategic collaboration with Syngenta Group to further promote the sales growth.

In the course of its business development, the Group intends to make certain risk-controllable financial investments, such as deposits or short-term and principal-guaranteed financial products, with its surplus funds according to its cash management policies. The use of Sinochem Finance as a platform to manage the funds of the Group under the Financial Services Framework Agreement (as revised and renewed by the Supplemental Agreement) will allow for better monitoring and control of the funds and more efficient deployment of funds between member companies of the Group. Given that the interest rates offered by Sinochem Finance to the Group in respect of the Deposit Services 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), the return of the surplus funds of the Group will be enhanced due to the possibly higher deposit interests from Sinochem Finance. In addition, the interest rate of the Fund to be provided by Sinochem Fertilizer to Sinochem Agriculture and CNSG under the New Sinochem Agriculture Agreement and the CNSG Agreement is higher than the interest rate available to the Group for placing cash deposits with independent commercial banks in the

PRC and Sinochem Finance, as well as other short-term and principal-guaranteed financial products. The Group will obtain a higher interest income through the transactions under the New Sinochem Agriculture Agreement and the CNSG Agreement to increase its rate of return on cash deposits, thereby improving its investment income.

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. MATERIAL CONTRACTS

The following contracts have been entered into by members of the Group, within the two years preceding the Latest Practicable Date and are or may be material:

- (a) a promoters agreement was entered into among Sinochem Fertilizer, Qinghai Salt Lake Industry Co., Ltd. (青海鹽湖工業股份有限公司, “**Qinghai Salt Lake**” and Sinochem Capital Investment Management Co., Ltd. (中化資本投資管理有限責任公司) on 7 December 2021, pursuant to which the parties agreed to form a joint venture with a registered capital of RMB166,600,000, and Sinochem Fertilizer

agreed to make a capital contribution of RMB74,970,000, representing 45% equity interest in the joint venture (for further details, please refer to the Company's announcements dated 12 November 2021 and 7 December 2021);

- (b) a guarantee contract was entered into by Sinochem Fertilizer on 9 December 2022 in favour of Sinochem Finance, pursuant to which Sinochem Fertilizer agreed to provide a guarantee up to the amount of RMB670,000,000 for the due performance of the repayment obligations of Yangmei Pingyuan Chemical Company Limited (陽煤平原化工有限公司, “**Yangmei Pingyuan**”) under a loan contract entered into between Yangmei Pingyuan and Sinochem Finance. Yangmei Pingyuan is a supplier of Sinochem Fertilizer for nitrogen fertilizer products and also an associate of Sinochem Fertilizer. Sinochem Fertilizer is the second largest shareholder of Yangmei Pingyuan, holding its 36.75% equity interest. In this connection, a guarantee fee agreement was entered into between Sinochem Fertilizer and Yangmei Pingyuan on the same day, pursuant to which Yangmei Pingyuan agreed to pay to Sinochem Fertilizer a guarantee fee at a rate of 1% per year of the guarantee amount (for further details, please refer to the Company's announcement dated 9 December 2022). Yangmei Pingyuan fully repaid the aforementioned loan on 8 June 2023 and accordingly the corresponding guarantee was released;
- (c) ten pledge contracts were entered into by Sinochem Fertilizer (as the pledgor) on 7 June 2023 in favour of Bank of Beijing Co., Ltd Jinan Branch (北京銀行濟南分行) (“**BOB Jinan Branch**”), pursuant to which Sinochem Fertilizer agreed to pledge its cash deposits in a total amount of RMB478,695,900 in favour of BOB Jinan Branch to guarantee the due performance of the repayment obligations of Yangmei Pingyuan to BOB Jinan Branch under the ten loan contracts entered into between Yangmei Pingyuan and BOB Jinan Branch. In this connection, a guarantee fee agreement was entered into between Sinochem Fertilizer and Yangmei Pingyuan on the same day, pursuant to which Yangmei Pingyuan agreed to pay to Sinochem Fertilizer a guarantee fee at a rate of 2.5% per year of the guarantee amount under the pledge agreement (for further details, please refer to the Company's announcement dated 7 June 2023);
- (d) the Financial Services Framework Agreement and the Supplemental Agreement;
- (e) the Existing Sinochem Agriculture Agreement;
- (f) the New Sinochem Agriculture Agreement; and
- (g) the CNSG Agreement.

4. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Directors are also employees 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
LIU Hongsheng	Syngenta Group	Chairman of China region

5. 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).

6. COMPETING INTERESTS

Ms. Wang Ling, an executive Director of the Company, is a director of 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.

As at the Latest Practicable Date, the board of directors of Qinghai Salt Lake consists of 12 directors. Ms. Wang Ling is not involved in the daily production, sale, operation or management of Qinghai Salt Lake. Ms. Wang Ling has extensive experience in finance, financial affairs, taxation and property rights management, is aware of her 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 Ms. Wang Ling is able to exercise her 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.

7. 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 2022 (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.

8. 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 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up.

9. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

10. EXPERT

The following is the qualification of the expert who has given 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 all 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 2022 (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.

11. MISCELLANEOUS

- (a) The company secretary of the Company is Ms. CHEUNG Kar Mun, Cindy, a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate member of The Hong Kong Chartered Governance Institute.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.
- (c) The principal place of business and head office of the Company in Hong Kong is at Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (d) The principal share registrar and transfer office of the Company is Codan Services Limited at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.
- (e) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS ON DISPLAY

Copies of the following documents are available on the HKExnews website of the Hong Kong Exchanges and Clearing Limited (<https://www.hkexnews.hk>) and the website of the Company (<https://www.sinofert.com>) from the date of this circular up to and including the date of the SGM:

- (a) the Financial Services Framework Agreement and its Supplemental Agreements;
- (b) the New Sinochem Agriculture Agreement;
- (c) the CNSG Agreement;
- (d) the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 36 to 82 of this circular; and
- (e) the written consent referred to in the section headed “Expert” in this appendix.

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 24th Floor, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on 21 December 2023 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 Supplemental Agreement to the Financial Services Framework Agreement (as defined and described in the circular to the shareholders of the Company dated 6 December 2023 (the “**Circular**”)) and the execution thereof and the Deposit Services (as defined and described in the Circular) contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the maximum daily outstanding balance of the Deposit Services under the Financial Services Framework Agreement (as revised and renewed by the Supplemental 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 and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to the Deposit Services which in their opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.”

2. “**THAT:**

- (a) the New Sinochem Agriculture Agreement (as defined and described in the Circular) and the execution thereof and implementation of the transactions thereunder be and are hereby approved, ratified and confirmed; and
- (b) 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

NOTICE OF SPECIAL GENERAL MEETING

they may in their absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the New Sinochem Agriculture 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 New Sinochem Agriculture Agreement which in their opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.”

3. **“THAT:**

- (a) the CNSG Agreement (as defined and described in the Circular) and the execution thereof and implementation of the transactions thereunder be and are hereby approved, ratified and confirmed; and
- (b) 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 CNSG 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 CNSG 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
Liu Hongsheng
Chairman

Hong Kong Special Administrative Region of the People’s Republic of China
6 December 2023

Notes:

- 1. The register of members of the Company will be closed from 18 December 2023 to 21 December 2023, 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, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on 15 December 2023.
- 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.

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.
6. If Typhoon Signal No. 8 or above, or a “black” rainstorm warning is in effect or “extreme conditions” caused by super typhoon is announced by the Government of Hong Kong any time after 8:00 a.m. on the date of the above meeting, the meeting will be postponed. The Company will post an announcement on the website of the Hong Kong Exchanges and Clearing Limited and website of the Company to notify shareholders of the date, time and place of the rescheduled meeting.

As at the date of this notice, the executive directors of the Company are Mr. Wang Jun and Ms. Wang Ling; the non-executive director of the Company is Mr. Liu Hongsheng (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.