
THIS SECOND SUPPLEMENTAL CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this second supplemental 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 Sinofer Holdings Limited, you should at once hand this second supplemental circular and the accompanying Further Revised 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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**SINO FERT HOLDINGS LIMITED****中化化肥控股有限公司****(Incorporated in Bermuda with limited liability)***(Stock Code: 297)****CONTINUING CONNECTED TRANSACTIONS
UNDER FINANCIAL SERVICES FRAMEWORK AGREEMENT****Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders****SOMERLEY CAPITAL LIMITED**

This second supplemental circular should be read in conjunction with the SGM Circular of the Company dated 26 November 2019 and the First Supplemental Circular of the Company dated 3 December 2019.

A letter from the Board is set out on pages 5 to 17 of this second supplemental circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 18 to 19 of this second supplemental circular. A letter from Somerley, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 37 of this second supplemental circular.

The SGM of the Company will be held as originally scheduled at Salon II, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 19 December 2019 at 10:00 a.m.. The second supplemental notice of the SGM is set out on pages 41 to 42 of this second supplemental circular. Whether or not you are able to attend and vote at the meeting, you are requested to complete the accompanying Further Revised Form of Proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours (excluding any part of a day that is a public holiday) before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the Further Revised 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.

* For identification purposes only

4 December 2019

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DEFINITIONS

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

“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“CBIRC”	China Banking and Insurance Regulatory Commission
“Company”	Sinofert Holdings Limited, a company incorporated on 26 May 1994 in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“connected person”	has the same meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the same meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“Deposit Services”	the deposit services provided by Sinochem Finance to the Group pursuant to the Financial Services Framework Agreement
“Director(s)”	the director(s) of the Company
“Financial Services Framework Agreement”	the financial services framework agreement dated 18 November 2019 entered into between the Company and Sinochem Finance
“First Supplemental Circular”	the supplemental circular of the Company dated 3 December 2019
“First Supplemental Notice”	the supplemental notice of the SGM dated 3 December 2019
“Further Revised Form of Proxy”	the further revised form of proxy issued by the Company together with this second supplemental circular and the second supplemental notice as set out on pages 41 to 42 of this second supplemental circular
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company formed to consider the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement
“Independent Shareholders”	shareholders other than Sinochem Group and its associates
“Latest Practicable Date”	2 December 2019, being the latest practicable date prior to the printing of this second supplemental 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
“Macao”	Macao Special Administrative Region of the PRC
“maximum daily outstanding balance”	the daily outstanding balance of the total deposits (including accrued interest) placed by the Group with Sinochem Finance, calculated at the close of business of Sinochem Finance on a daily basis
“member unit(s)”	in respect of a company, includes its parent company, its subsidiaries where it controls more than 50% of the equity interests; the companies where its parent company and its subsidiaries individually or jointly control more than 20% of the equity interests, or the companies to which it is the largest shareholder; and the public institutions or social groups affiliated to its parent company or subsidiaries

DEFINITIONS

“Original Form of Proxy”	the form of proxy issued by the Company on 26 November 2019 along with the SGM Circular and the SGM Notice
“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, including entrustment loan services, commercial bills of exchange services, buyer financing services, settlement services, guarantee services, internet banking services, and other financial services as approved by the CBIRC
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC”	the People’s Republic of China, which for the purposes of this second supplemental circular only, excludes Hong Kong, Macao and Taiwan
“Revised Form of Proxy”	the revised form of proxy issued by the Company on 3 December 2019 along with the First Supplemental Circular and the First Supplemental Notice
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at Salon II, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 19 December 2019 at 10:00 a.m. or any adjournment thereof
“SGM Circular”	the circular of the Company dated 26 November 2019 in relation to the matters to be considered and approved at the SGM
“SGM Notice”	the notice of the SGM dated 26 November 2019
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“shareholder(s)”	registered holder(s) of Shares

DEFINITIONS

“Sinochem Corporation”	中國中化股份有限公司 (Sinochem Corporation), a joint stock company with limited liability established under the laws of the PRC, a subsidiary of Sinochem Group and the indirect controlling shareholder of the Company
“Sinochem Corporation Group”	Sinochem Corporation and its member units (excluding the Group)
“Sinochem Finance”	中化集團財務有限責任公司 (Sinochem Group Finance Co., Ltd.), a limited liability company established under the laws of the PRC and a wholly-owned subsidiary of Sinochem Corporation
“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 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
“%”	percent

LETTER FROM THE BOARD



SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

Executive Directors:

QIN Hengde (*Chief Executive Officer*)
Harry YANG

Non-executive Director:

YANG Lin

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

4 December 2019

To: the shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS UNDER FINANCIAL SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

Reference is made to the SGM Circular and the SGM Notice of the Company dated 26 November 2019, and the First Supplemental Circular and the First Supplemental Notice of the Company dated 3 December 2019, which set out the time and venue of the SGM and contain the resolutions to be considered and approved at the SGM.

The SGM will be held as originally scheduled at Salon II, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 19 December 2019 at 10:00 a.m., and in addition to the resolutions contained in the SGM Notice and the First Supplemental Notice, the supplemental resolution contained in the second supplemental notice as set out on pages 41 to 42 of this second supplemental circular will also be considered and approved at the same meeting.

* For identification purposes only

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 18 November 2019 in relation to the Financial Services Framework Agreement. The transactions contemplated under the Financial Services Framework Agreement constitute continuing connected transactions of the Company, and the Deposit Services under the Financial Services Framework Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this second supplemental circular is to provide you with (i) further information on the details of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) the second supplemental notice of the SGM; and (v) other information as required under the Listing Rules.

Background

Reference is made to the announcements of the Company dated 9 December 2016 and 17 January 2018 in relation to, among other things, the existing financial services framework agreement and its supplemental agreement entered into between the Company and Sinochem Finance. Such agreements will expire on 31 December 2019.

On 18 November 2019, the Company entered into the Financial Services Framework Agreement with Sinochem Finance, pursuant to which the Group will continue to utilize the financial services available from Sinochem Finance as it deems necessary during the period from 1 January 2020 to 31 December 2020 (both days inclusive).

Principal Terms of the Financial Services Framework Agreement

Date

18 November 2019

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;

LETTER FROM THE BOARD

- (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;
- (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 clients of members of the Group on normal commercial terms of financing services, including but not limited to the extension of loans, the issuance of commercial bills of exchange and the granting of credit for the purposes of purchasing goods or services from members of the Group only;
- (vi) settlement services which include settlement of transactions between members of the Group, and of transactions between members of the Group and member units of Sinochem Corporation Group or other 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 clients of members of the Group to members of the Group, 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, and the provision by Sinochem Finance of cash management services, such as internal capital pool, for the Group and its member units;
- (vii) provision of guarantees at the request of members of the Group for financing, lease financing, bidding activities or the fulfillment of contracts to member units of Sinochem Corporation Group or other third parties, where no counter-guarantee by members of the Group is required;
- (viii) internet banking services; and
- (ix) any other financial services as approved by the CBIRC.

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

LETTER FROM THE BOARD

Interests, fees and charges

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

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

Term

Subject to obtaining the approval from the Independent Shareholders at the SGM, the Financial Services Framework Agreement will have a term from 1 January 2020 to 31 December 2020 (both days inclusive). 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.

LETTER FROM THE BOARD

Right of set-off

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

Undertakings

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

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

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

Annual Caps

Deposit Services

The Company estimates that the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for the year ending 31 December 2020 will be RMB1,000,000,000. Such cap has been estimated on the basis of several factors, including:

- (i) The Group maintains sufficient bank balances and cash. During the peak season for the sale of fertilizer products in the past three years, its maximum bank balances and cash reached approximately RMB3,400,000,000;
- (ii) Comparing to other financial institutions, Sinochem Finance does not charge the Group any service fees in respect of the settlement services provided. The Group can deposit a large amount of its funds with Sinochem Finance to utilize the settlement services free of charge, especially during the peak season for the sale of fertilizer products when the funds of the Group are sufficient;

LETTER FROM THE BOARD

- (iii) For the purpose of utilizing the flexible and favourable services provided by Sinochem Finance and at the same time limiting the maximum risk exposure arising from the Deposit Services provided by Sinochem Finance, the Group will deposit its funds in different financial institutions (including Sinochem Finance) to spread risk, and monitor the status of its deposits with Sinochem Finance to ensure that the balance of its deposits with Sinochem Finance at the close of settlement system of Sinochem Finance on each day will not exceed 15% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements. As the bank balances and cash of the Group may fluctuate due to seasonality and other factors (especially during the peak season for the sale of fertilizer products when the bank balances and cash are usually substantially higher than those in the low season), the Company considers that it would be more appropriate to calculate the maximum daily outstanding balance of the deposits with reference to its consolidated net assets which represents a more accurate assessment of the overall financial position of the Group. The maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for the year ended 31 December 2018 is approximately RMB931,687,000, which is the highest historical figure in the past two years and ten months and represents approximately 12.3% of the Group's latest published consolidated net assets of approximately RMB7,562,540,000 as at 30 June 2019. In setting the 15% threshold, a buffer has been provided to allow for operational flexibility. In determining the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for the year ending 31 December 2020, the Company has made reference to its latest published consolidated net assets as at 30 June 2019, the 15% of which amounted to approximately RMB1,134,380,000. The maximum daily outstanding balance is close to and slightly lower than such 15% threshold, which is considered to be prudent from a risk management perspective;
- (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 2018 and the ten months ended 31 October 2019, the maximum daily outstanding balances of the deposits placed by the Group with Sinochem Finance were approximately RMB300,069,000, RMB931,687,000 and RMB897,800,000, respectively.

LETTER FROM THE BOARD

Other Financial Services

The Company estimates that the annual cap in respect of the Other Financial Services for the year ending 31 December 2020 will be RMB10,000,000. Such cap represents the estimated transaction amount of the Other Financial Services in aggregate and has been estimated on the basis of several factors, including (i) the capital management strategy of the Group; (ii) the business development and financial needs of the Group; and (iii) the historical transaction amounts of such services.

For the two years ended 31 December 2018 and the ten months ended 31 October 2019, the historical transaction amounts of such services in aggregate were approximately RMB4,859,000, RMB2,689,000 and RMB1,978,000, respectively.

Internal Control Procedures and Corporate Governance Measures

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

- Prior to placing term deposits with Sinochem Finance, the Group will compare at least three comparable interest rates of deposits of the same tenure and type from independent commercial banks and the deposit benchmark interest rates promulgated by the PBOC at the time of the transaction.
- For the purpose of facilitating settlement service through Sinochem Finance, the Group will also place demand deposits with Sinochem Finance. The Group will compare, on a quarterly basis and whenever there is a change in the deposit benchmark interest rate promulgated by the PBOC, at least three comparable interest rates on such deposits from independent commercial banks with which the Group maintains bank accounts and the deposit benchmark interest rates promulgated by the PBOC, and also take into account the service fee charged by the independent commercial banks for the settlement services and the free-of-charge settlement services offered by Sinochem Finance. The Group will determine whether it will continue to place demand deposits with Sinochem Finance for the next quarter based on the above assessment for the previous quarter.
- Before the Group enters into any loan or credit facilities agreements with Sinochem Finance in relation to its borrowings from Sinochem Finance, it will obtain at least three comparable offers from independent commercial banks or financial institutions for a loan of the same term or a credit facility of the same nature (as the case may be). The terms of such offers, together with the offer from Sinochem Finance, will forthwith be submitted to the chief financial officer of the Company for review. The chief financial officer of the Company will seek approval from the chief executive officer of the Company as appropriate on whether to accept Sinochem Finance's offer.

LETTER FROM THE BOARD

- 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.
- A report on any changes in the credit ratings of Sinochem Finance during the term of the Financial Services Framework Agreement will be provided by Sinochem Finance to the Company.
- The financial statements of Sinochem Finance for each month will be provided to the Company in the following month.
- Sinochem Finance will deliver to the Company a monthly report on the status of the Group's deposits, loans and other transactions between the Group and Sinochem Finance on the third day of each month.
- Sinochem Finance will provide the Company with a copy of its annual business performance report submitted by it to the CBIRC.
- The Company will monitor the status of the deposits on a daily basis through the internet banking services provided by Sinochem Finance.
- The Company will monitor the status of its financial assistance to Sinochem Group and its subsidiaries (including its deposits with Sinochem Finance under the Financial Services Framework Agreement) to ensure that the outstanding amount of its overall financial assistance to Sinochem Group on each day will not exceed 15% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements, so as to limit the maximum risk exposure arising from its financial assistance to Sinochem Group (including the Deposit Services).
- To ensure proper and complete separation of duties, no common staff, senior management or director of the Group and Sinochem Finance will be involved in the internal control procedures and corporate governance measures.
- 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 currently 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.

LETTER FROM THE BOARD

Reasons for and Benefits of the Continuing Connected Transactions

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

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

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

- (i) as the internal financing platform of Sinochem Group, credit line provided by Sinochem Finance will not be affected by external environmental changes, and can be the most reliable and stable finance resource for the Group; meanwhile, Sinochem Finance can provide mid-term and long-term credit line for the Group, therefore optimizing the capital structure of the Group;
- (ii) 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 1-2 days, which can meet the capital demand of the Group's business in time;

LETTER FROM THE BOARD

- (iii) Sinochem Finance will provide more favourable deposit portfolio with higher interest rates for the Group based on the condition of the Group, which can increase capital returns while retaining the working capital flexibility of the Group; and
- (iv) the settlement service provided by Sinochem Finance will achieve settlement among member companies of the Group at no commission, therefore reducing the transaction costs.

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, the Group may discontinue its use of all or any of such services provided by Sinochem Finance without having to incur extra cost.

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

Mr. Yang Lin, being a Director of the Company and a management member of Sinochem Group, has abstained from voting on the relevant Board resolution passed to approve the Financial Services Framework Agreement and the transactions contemplated thereunder.

Implications of the Listing Rules

Sinochem Finance is a wholly-owned subsidiary of Sinochem Corporation, which is owned as to 98% by Sinochem Group. Sinochem Group is the ultimate controlling shareholder of the Company, holding an effective interest of approximately 52.65% of the Company. Accordingly, Sinochem Finance is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the financial services provided by Sinochem Finance to the Group under the Financial Services Framework Agreement constitute continuing connected transactions of the Company.

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

LETTER FROM THE BOARD

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

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

General Information

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

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

Sinochem Finance is a non-bank financial institution established in September 2007 with the approval of the PBOC and subject to the supervision of the CBIRC. According to its business licence, it is authorized to provide to the Group all services set out in the Financial Services Framework Agreement and provide similar services to other member units of Sinochem Corporation Group.

SGM

An ordinary resolution approving the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement shall be proposed at the SGM.

In view of Sinochem Group's interests in the Financial Services Framework Agreement, Sinochem Group and its associates are required to abstain and shall abstain from voting on the ordinary resolution to be proposed at the SGM to approve the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement.

The Further Revised 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 Further Revised Form of Proxy and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions

LETTER FROM THE BOARD

printed thereon as soon as possible and in any event not later than 48 hours (excluding any part of a day that is a public holiday) before the time appointed for the holding of the SGM or any adjournment thereof (the “**Closing Time**”). Completion and return of the Further Revised Form of Proxy as instructed will not preclude shareholders from subsequently attending and voting at the SGM or any adjourned meeting if they so wish.

Any shareholder who has not yet lodged the Original Form of Proxy or the Revised Form of Proxy is requested to lodge the Further Revised Form of Proxy if he or she intends to appoint a proxy to attend the SGM on his or her behalf. In this case, the Original Form of Proxy or the Revised Form of Proxy should not be lodged. Any shareholder who has already lodged the Original Form of Proxy or the Revised Form of Proxy should note that:

- (i) if the Further Revised Form of Proxy is lodged before the Closing Time, the Further Revised Form of Proxy will revoke and supersede the Original Form of Proxy or the Revised Form of Proxy previously lodged by the shareholder. The Further Revised Form of Proxy will be treated as a valid form of proxy lodged by the shareholder, if duly completed;
- (ii) if no Further Revised Form of Proxy is lodged before the Closing Time, the Original Form of Proxy or the Revised Form of Proxy will be treated as a valid form of proxy lodged by the shareholder, if duly completed. The proxy so appointed pursuant to the Original Form of Proxy or the Revised Form of Proxy will be entitled to vote in accordance with the instructions previously given by the shareholder or at his/her discretion (if no such instructions are given) on any resolution properly put to the SGM, including the proposed supplemental resolution as set out in the second supplemental notice.

Apart from the proposed supplemental resolution set out in the second supplemental notice of the SGM, all other matters of the SGM remain unchanged. For details of other resolutions to be considered and approved at the SGM, eligibility for attending the SGM, registration procedures and other relevant matters, please refer to the SGM Circular and the SGM Notice of the Company dated 26 November 2019, and the First Supplemental Circular and the First Supplemental Notice of the Company dated 3 December 2019.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement have been conducted on normal commercial terms, were entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the shareholders as a whole. The Directors therefore recommend the Independent Shareholders to vote in favour of the relevant resolution set out in the second supplemental notice of the SGM.

LETTER FROM THE BOARD

FURTHER INFORMATION

The Independent Board Committee comprising all three independent non-executive Directors has been appointed to advise the Independent Shareholders in respect of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such regard. Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on pages 18 to 19 of this second supplemental circular, which contains its advice to the Independent Shareholders, and the letter from Somerley set out on pages 20 to 37 of this second supplemental circular, which contains its advice to the Independent Board Committee and the Independent Shareholders. Your attention is also drawn to the general information set out in the Appendix to this second supplemental circular.

Yours faithfully,

For and on behalf of the Board of

Sinofert Holdings Limited

Qin Hengde

Executive Director and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

4 December 2019

To: the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS UNDER FINANCIAL SERVICES FRAMEWORK AGREEMENT

We refer to the second supplemental circular of the Company dated 4 December 2019 (the “**Second Supplemental Circular**”) to the shareholders, of which this letter forms part. Terms defined in the Second Supplemental 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, the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and the shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. In this connection, Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement.

We wish to draw your attention to the letter from the Board set out on pages 5 to 17 of the Second Supplemental Circular, and the letter from Somerley to the Independent Board Committee and the Independent Shareholders set out on pages 20 to 37 of the Second Supplemental Circular which contains its opinion in respect of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement.

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of the Independent Financial Adviser and its recommendation in relation thereto, we consider that the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and the shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that you vote in favour of the relevant resolution set out in the second supplemental 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

4 December 2019

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the provision of Deposit Services, including the proposed maximum daily outstanding balance (the “**Maximum Daily Balance**”), by Sinochem Finance to the Group pursuant to the terms of the Financial Services Framework Agreement for the year ending 31 December 2020 (being the Deposit Services), for which the Independent Shareholders’ approval is being sought. Details of the Deposit Services and the Maximum Daily Balance are contained in the supplemental circular of the Company to the Shareholders dated 4 December 2019 (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 Finance is a wholly-owned subsidiary of Sinochem Corporation, which is owned as to approximately 98% by Sinochem Group. Sinochem Group is the ultimate controlling shareholder of the Company, holding an effective interest of approximately 52.7% of the Company. Accordingly, Sinochem Finance is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the financial services provided by Sinochem Finance to the Group under the Financial Services Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the Maximum Daily Balance of the Deposit Services 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. Pursuant to Rule 14A.90 of the Listing Rules, the Loan Services (excluding entrustment loans) provided by Sinochem Finance to the Group are exempt from the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules, as the Loan Services constitute financial assistance provided by a connected person for the benefit of the Group

LETTER FROM SOMERLEY

on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance. Given that the applicable percentage ratios in respect of the annual caps of the Other Financial Services are more than 0.1% but less than 5%, the Other Financial Services are subject to the reporting, announcement, and annual review but exempt from Independent Shareholders' approval requirements pursuant to the relevant exemption provisions under Chapter 14A of the Listing Rules.

In view of Sinochem Group's interests in the Financial Services Framework Agreement, Sinochem Group and its associates are required to abstain from voting on the relevant resolution to be proposed at the SGM to approve the Deposit Services (including the Maximum Daily Balance).

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 Deposit Services (including the Maximum Daily Balance) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, Somerley, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to certain connected transactions of the Group, details of which were set out in the circulars of the Company dated 12 February 2018 and 20 November 2018. In addition, Somerley currently acts as the independent financial adviser to the Company in relation to (i) the import of fertilizer products, sulphur, fertilizer and other fertilizer raw materials by the Group from Sinochem Group and (ii) the sale of fertilizer products by the Group to Sinochem Agriculture Holdings Limited, as detailed in the circulars of the Company dated 26 November 2019 and 3 December 2019 respectively. The above engagements were/are limited to providing independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the Listing Rules, for which Somerley received or will receive normal professional fees from the Company. Notwithstanding the above engagements, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) the Group, Sinochem Group, Sinochem Corporation, Sinochem Finance and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete in all material aspects and will remain so up to the time of the SGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have, however, not conducted

LETTER FROM SOMERLEY

any independent investigation into the business and affairs of the Group, Sinochem Group, Sinochem Corporation, Sinochem Finance or any of their respective subsidiaries or associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Deposit Services (including the Maximum Daily Balance), we have taken the following principal factors and reasons into consideration:

1. Information on the parties

The Group is principally engaged in the production, procurement and sale of fertilizers and related products in the PRC. Its main business comprises research and development, production, procurement, distribution and agricultural services in relation to fertilizers, and forms a vertically integrated business model combining upstream and downstream businesses. As at the Latest Practicable Date, the Company had a market capitalisation of approximately HK\$5.5 billion.

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

Sinochem Finance is a non-bank financial institution established in September 2007 with approval of the PBOC. It is regulated by the PBOC and the CBIRC, and is principally engaged in the provision of settlement, financing, financial management and financial consulting services to Sinochem Group and its associates. In 2018, Sinochem Finance generated net interest income of approximately RMB395.9 million, investment income of approximately RMB396.4 million, and recorded a net profit of approximately RMB571.1 million. Based on its unaudited management accounts, Sinochem Finance had a registered and fully-paid capital of RMB3,000.0 million, and it had total assets and total equity of approximately RMB26,866.9 million and RMB5,239.5 million respectively, as at 30 September 2019.

2. Background to and reasons for the Financial Services Framework Agreement

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

LETTER FROM SOMERLEY

Board, Sinochem Finance has set up electronic payment and settlement systems with a number of banks, which facilitate the transaction settlements among customers and members of the Group, with no commission fee being charged by Sinochem Finance.

According to the letter from the Board, Sinochem Finance is regulated by the PBOC and the CBIRC and its services are provided in compliance with the relevant rules and operational requirements promulgated by the abovementioned authorities. Further details of Sinochem Finance's financial and regulatory requirements are set out in the sections headed "4. Information on Sinochem Finance" and "7. Regulatory environment of Sinochem Finance". In addition, compared to other independent commercial banks, Sinochem Finance (acting as the internal financing platform of Sinochem Group) is able to provide services to the Group in a timely manner. For instance, the loan drawdown procedures required by Sinochem Finance are rather convenient and can be completed within one to two days, while it would usually take the Company one week or even longer period, to obtain loans from other independent commercial banks.

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

The current financial services provided by Sinochem Finance to the Group are governed by the existing financial services framework agreement dated 9 December 2016 (the "**Existing Financial Services Framework Agreement**"). As set out in the announcement of the Company dated 17 January 2018, the supplemental agreement was entered into between the Company and Sinochem Finance, amending certain terms of the Existing Financial Services Framework Agreement, including a revised daily balance of the deposit services, and the aforesaid supplement agreement was approved by the then independent shareholders of the Company at the shareholder's meeting on 2 March 2018. The Existing Financial Services Framework Agreement (as amended by the supplemental agreement) is presently effective and will expire on 31 December 2019. On 18 November 2019, the Company and Sinochem Finance entered into the Financial Services Framework Agreement to continue and govern the financial services available from Sinochem Finance for the year ending 31 December 2020.

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

3. Principal terms of the Financial Services Framework Agreement

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

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

Provision of Deposit Services

Interest rates shall not be lower than (i) the benchmark deposit interest rates of the same tenure and type as promulgated by the PBOC from time to time, or (ii) the deposit interest rates of the same tenure and type as offered by independent commercial banks in the PRC (whichever is higher). As advised by the management of the Group, it is expected that the maximum tenure of any term deposits with Sinochem Finance will not be more than one year. The Deposit Services offered by Sinochem Finance will be at least the same as, or more favourable than, the deposit services offered by other financial institutions in the PRC, and the Group has the sole discretion to agree the amount of funds to be deposited with Sinochem Finance, when to deposit, when to withdraw, and the amount of funds to be withdrawn, depending on the Group’s own working capital position and requirements at the time.

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Provision of Loan Services

Interest rates shall not be higher than (i) the latest loan prime rate quotations for loans of the same tenure and type as promulgated by the PBOC or its authorized entities from time to time, or (ii) the interest rates for loans of the same tenure and type as offered by independent commercial banks in the PRC (whichever is lower). No security over the assets or interests of members of the Group will be granted in respect of the financial assistance from Sinochem Finance to the Group.

Provision of other financial services

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

As to the other financial services, the fees and interests to be charged shall not be higher than the terms obtainable from independent commercial banks in the PRC, or the prevailing market rates or standard rates promulgated by the PBOC from time to time (if applicable).

Term

The Financial Services Framework Agreement has a term of one year, commencing from 1 January 2020 and ending on 31 December 2020 (both days inclusive), subject to obtaining the approval from the Independent Shareholders of the Financial Services Framework Agreement (including the Maximum Daily Balance) at the SGM.

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.

Undertakings

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

LETTER FROM SOMERLEY

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

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

Guarantee from Sinochem Corporation

According to the relevant laws and regulations promulgated by the CBIRC and as set out in the articles of association of Sinochem Finance, in the event that Sinochem Finance falls into financial difficulty, Sinochem Corporation, being the holding company of Sinochem Finance, has the obligation to take all required steps, such as injecting capital into Sinochem Finance based on its funding needs, to restore its financial position. On 18 November 2019, Sinochem Corporation entered into an undertaking (the "**Undertaking**") in favour of the Company, pursuant to which it will procure Sinochem Finance to perform its obligations under the Financial Services Framework Agreement.

Our comments

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

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

The Group has included certain protection clauses and safeguards in the Financial Services Framework Agreement, such as the right of set-off, which is only available to the Group but not to Sinochem Finance. A number of internal control procedures adopted by the Group would continue, such as the restriction that the outstanding amount of the Group's overall financial assistance to Sinochem Group (including its deposits balance with Sinochem Finance) on each day will not exceed 15% of the

LETTER FROM SOMERLEY

consolidated net assets of the Company as set out in its latest published consolidated financial statements (the “**Deposit Restriction**”). Further, Sinochem Corporation has undertaken to procure the performance of Sinochem Finance under the Financial Services Framework Agreement. We consider that the Deposit Restriction, together with the right of set-off, forms a mechanism to limit the risk of the Group’s bank balances and cash to be deposited with Sinochem Finance and in the event of a default by Sinochem Finance in respect of the Group’s deposits. The Group will be entitled to offset such deposit balance against the loan from Sinochem Finance, in order to reduce the Group’s maximum risk exposure arising from the Deposit Services. For our further analyses, please refer to the sections headed “6. Internal control procedures and corporate governance measures of the Group” and “7. Regulatory environment of Sinochem Finance” respectively.

4. Information on Sinochem Finance

(i) 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 and provide similar services to members of Sinochem Group, and as confirmed by the management of the Group, Sinochem Finance is also allowed to provide limited scope of financial services, such as buyer financing services and discounting services, to downstream customers and upstream suppliers of the Group. We are advised by the management of the Group that Sinochem Finance is not allowed to engage in business other than financial services, such as industrial investment or trading. As at the Latest Practicable Date, Sinochem Finance is not rated by any credit rating agency.

As at 30 September 2019, Sinochem Finance has a registered capital of RMB3,000.0 million based on its unaudited management account, and has a capital adequacy ratio of approximately 14.71%, which is higher than the requirement promulgated by the CBIRC of 10% for finance companies.

(ii) Management of Sinochem Finance

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

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(iii) Financial information

The following table set out a summary of the financial information of Sinochem Finance, as extracted and summarised from its audited financial statements for the three years ended 31 December 2018 and its unaudited management accounts for the nine months ended 30 September 2018 and 30 September 2019, both of which were prepared in accordance with the Generally Accepted Accounting Principles in the PRC:

	For the nine months ended 30 September		For the year ended 31 December		
	2019	2018	2018	2017	2016
	<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)
Net interest income	347.5	309.6	395.9	245.4	227.0
Investment income	62.4	25.2	396.4	423.1	304.9
(Impairment loss)/reversal of impairment losses	(72.9)	17.2	(126.1)	(41.4)	34.4
Profit after taxation	227.5	254.3	571.1	525.1	451.0

The net interest income of Sinochem Finance exhibited an increasing trend in the past three years and the trend continued in the first nine months of 2019. As confirmed by the management of the Group, such increase was mainly attributable to the increase in average daily loan extended by Sinochem Finance to companies within Sinochem Group, which in turn drove Sinochem Finance's interest income. The impairment loss increased during the periods presented above, mainly resulted from additional allowance for impairment losses prepared in accordance with the regulatory requirements. Notwithstanding the above impairment loss, the management of the Group has informed us that Sinochem Finance has not had any non-performing assets and loans during the past three years. The profit after taxation of Sinochem Finance increased during the three years ended 31 December 2018, but declined in the first nine months of 2019 when compared to the corresponding period last year. The movements were mainly derived by the growing amount net interest income, partly offset by the impairment loss recognised, as discussed above.

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	As at 30 September 2019 <i>RMB</i> <i>million</i> (unaudited)	As at 31 December 2018 <i>RMB</i> <i>million</i> (audited)	As at 31 December 2017 <i>RMB</i> <i>million</i> (audited)	2016 <i>RMB</i> <i>million</i> (audited)
Assets				
Loans receivables	16,690.0	19,135.4	19,308.0	11,798.5
Cash balances with other financial institutions	5,501.4	4,032.1	8,194.9	7,852.1
Other assets	<u>4,675.5</u>	<u>3,964.9</u>	<u>3,800.4</u>	<u>3,926.1</u>
	<u>26,866.9</u>	<u>27,132.4</u>	<u>31,303.3</u>	<u>23,576.7</u>
Liabilities				
Deposits received	20,814.4	21,861.4	26,665.4	19,184.3
Other liabilities	<u>813.0</u>	<u>245.5</u>	<u>265.4</u>	<u>56.2</u>
	<u>21,627.4</u>	<u>22,106.9</u>	<u>26,930.8</u>	<u>19,240.5</u>
Equity				
Share capital	3,000.0	3,000.0	3,000.0	3,000.0
Reserves	<u>2,239.5</u>	<u>2,025.5</u>	<u>1,372.5</u>	<u>1,336.2</u>
	<u>5,239.5</u>	<u>5,025.5</u>	<u>4,372.5</u>	<u>4,336.2</u>
Capital adequacy ratio <i>(Note)</i>	14.71%	13.08%	12.08%	15.38%

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

As at 30 September 2019, deposit base of Sinochem Finance was approximately RMB20.8 billion, a substantial portion of which were either extended as loans to Sinochem Group companies or placed with other financial institutions.

The capital adequacy ratio of Sinochem Finance fluctuated in the recent years, between approximately 12.08% to 15.38% as at the end of reporting periods as shown in the above table. Such ratio stood at 14.71% as at 30 September 2019, which was higher than the minimum requirement of 10% imposed by the CBIRC.

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(iv) Internal controls

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

Sinochem Finance has a clear delineation of the roles and responsibilities of major operational departments, segregation of powers and duties, internal review and assessment mechanism, proper training and establishment of a risk assessment policy. We are advised by the management of the Group that Sinochem Finance has not defaulted on any of its credit obligations or, to the knowledge of the Company, breached any rules or operational requirements of such regulatory authorities during the past three years. We have also obtained the audited financial statements of Sinochem Finance for the three years ended 31 December 2018, and did not note any default on credit obligations disclosed in such financial statements.

5. Information on Sinochem Corporation

Sinochem Corporation is held as to approximately 98% by Sinochem Group, one of the largest state-owned enterprises in the PRC with principal businesses in agriculture, energy, chemicals, finance and real estate in the PRC. Sinochem Group is a “Fortune Global 500” company.

According to the 2018 annual report of Sinochem Corporation, it had registered capital of RMB39.8 billion, consolidated net assets attributable to owners of the parent of approximately RMB49.5 billion and a cash balance of approximately RMB32.4 billion, as at 31 December 2018. Profit attributable to owners of Sinochem Corporation amounted to approximately RMB6.5 billion in 2018. This suggest that Sinochem Corporation operates substantial business operations with a scale that is much larger than the scale of Sinochem Finance. According to the credit rating report issued by China ChengXin International Credit Rating Company Limited (“CCXI”) dated 27 June 2019, the credit rating of Sinochem Corporation was AAA, the highest rating under CCXI’s credit rating scale. According to the website of CCXI, it is a qualified rating agency accepted by PBOC, the CBIRC and National Development and Reform Commission, and we are advised by the management of the Group that CCXI’s rating scale follows the relevant credit rating guidance issued by PBOC. According to the credit rating report, an AAA rating implies strong debt repayment capacity, remote default risk and an ability to withstand certain negative economic environment scenarios, which in turn indicate the strong debt repayment capacity of Sinochem Corporation. As confirmed by the management of the Group, Sinochem Corporation has not defaulted on any of its credit obligations during the past three years. Based on the above and assuming no material change to Sinochem Corporation’s financial performance and position, we consider that Sinochem Corporation, as the parent company required to procure Sinochem Finance’s obligations pursuant to the Undertaking, has strong financial capabilities to fulfil the above requirement.

LETTER FROM SOMERLEY

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

In order to protect the interest of the Shareholders, the Group will continue to adopt certain internal control procedures and corporate governance measures to regulate the utilization of financial services provided by Sinochem Finance. As confirmed by the management of the Group, there is a proper and complete separation of duties, and no common staff, senior management or director of the Group or Sinochem Finance will be involved in the internal control procedures and corporate governance measures. Below are the key internal control procedures and corporate governance measures summarized from the letter from the Board.

- (a) Before the Group enters into any loan or credit facilities agreements with Sinochem Finance in relation to its borrowings from Sinochem Finance, it will obtain at least three comparable offers from independent commercial banks or financial institutions for a loan of the same term or a credit facility of the same nature (as the case may be). The terms of such offers, together with the offer from Sinochem Finance, will forthwith be submitted to the chief financial officer of the Company for review, who in turn will seek approval from the chief executive officer of the Company as appropriate on whether to accept Sinochem Finance's offer;
- (b) All borrowings of the Group from Sinochem Finance (including drawdowns from credit facilities) will be conducted in accordance with the terms approved by the chief financial officer or the Board, as appropriate;
- (c) Sinochem Finance shall provide the Company with (i) a report on any changes in the credit ratings of Sinochem Finance during the term of the Financial Services Framework Agreement, (ii) a copy of Sinochem Finance's annual business performance report and quarterly regulatory ratios submitted to the CBIRC, (iii) monthly financial statements of Sinochem Finance in the following month and (iv) a monthly report on the status of the Group's deposits, loans and other transactions between the Group and Sinochem Finance pursuant to the Financial Services Framework Agreement;
- (d) The Company will monitor the status of the deposits on a daily basis through the internet banking services provided by Sinochem Finance;
- (e) 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;
- (f) The Company will monitor the status of its financial assistance to Sinochem Group and its subsidiaries (including its deposits with Sinochem Finance under the Financial Services Framework Agreement) to ensure that the outstanding amount of its overall financial assistance to Sinochem Group on each day will not exceed 15% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements.

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In addition to above, according to the letter from the Board, (i) prior to placing term deposits with Sinochem Finance, the Group will compare at least three comparable interest rates of the same tenure and type from independent commercial banks and the deposit benchmark interest rates promulgated by the PBOC at the time of the transaction, and (ii) 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 demand deposits from independent commercial banks which the Group maintains bank accounts with and the deposit benchmark interest rates promulgated by the PBOC, and also take into account the service fee charged by the independent commercial banks for the settlement services and the free-of-charge settlement services offered by Sinochem Finance. The Group will determine whether it will continue to place demand deposits with Sinochem Finance for the next quarter based on the above assessment for the previous quarter.

Based on our discussions with the management of the Group, during the terms of the Existing Financial Services Framework Agreement and up to the Latest Practicable Date, Sinochem Finance has been offering more favourable deposit interest rate than those offered by other independent commercial banks which the Group maintains bank accounts with, to the extent that quotations are available to the Group. We consider the measures relating to the comparison of interest rates with independent commercial banks to be important to ensure that the interest rates offered by Sinochem Finance shall not be lower than the deposit benchmark interest rates from time to time, 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. Given the more favourable deposit interest rates offered by Sinochem Finance as mentioned above, we consider the quarterly comparison of demand deposit interest rates, and the comparison of term deposit interest rates at the time of the transaction, to be acceptable.

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

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7. Regulatory environment of Sinochem Finance

The banking industry of the PRC is regulated by the CBIRC and the PBOC. According to the relevant requirements under “Measures for the Administration of Finance Companies of Enterprise Group” (http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/811.html and http://www.cbirc.gov.cn/govView_5AEE37DA2CF7EB3F9DA0A5B94ED0D23F.html) promulgated by the China Banking Regulatory Commission (the “CBRC”) (a predecessor of the CBIRC, before its merging with the China Insurance Regulatory Commission in April 2018), finance companies of enterprise groups are not allowed to engage in non-financial services business and are required to meet certain ratio requirements. The major regulatory ratio requirements and the relevant ratios of Sinochem Finance as at 31 December 2016, 2017 and 2018 and as at 30 September 2019 are set out in the table below:

		Requirements for PRC licensed finance companies	Sinochem Finance			
		As at 30 September 2019	As at 31 December			
			2018	2017	2016	
Capital adequacy ratio	Not lower than 10%	14.71%	13.08%	12.08%	15.38%	
Inter-bank borrowing balances shall not exceed total capital	Not higher than 100%	9.03%	0.00%	0.00%	0.00%	
Outstanding guarantee amounts shall not exceed total capital	Not higher than 100%	46.85%	54.29%	44.53%	62.42%	
Non-performing asset ratio	Not higher than 4%	0.00%	0.00%	0.00%	0.00%	
Impaired loan ratio	Not higher than 5%	0.00%	0.00%	0.00%	0.00%	
Asset impairment adequacy ratio <i>(Note)</i>	Not lower than 100%	>500%	N/A	N/A	N/A	
Current ratio	Not lower than 25%	56.76%	67.08%	78.59%	86.70%	
Investment to total capital ratio	Not higher than 70%	56.92%	45.18%	62.44%	62.99%	
Self-owned fixed assets to total capital ratio	Not higher than 20%	0.09%	0.14%	0.16%	0.14%	

Note: As advised by the management of the Group, Sinochem Finance did not record any assets (other than loans receivables) that have credit risk exposure under the Guidelines of Risk-based Classification of Loans promulgated by the CBRC, for the purpose of calculating the asset impairment adequacy ratio during the years 2016 to 2018. Accordingly, such ratio is not applicable during the corresponding periods.

As advised by the management of the Group, the CBIRC monitors Sinochem Finance’s compliance with the applicable requirements of the relevant regulatory authorities and conducts on-site visits from time to time, and may issue opinions on corrective measures (mainly representing the CBIRC’s advice and improvement suggestions on the operation and management of Sinochem Finance, which will not affect its credibility and repayment ability) to Sinochem Finance. As shown in the table above, we note that all applicable ratios of Sinochem Finance are in compliance with the regulatory requirements for PRC licensed

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finance companies as promulgated by the CBIRC. As confirmed by the management of the Group, the CBIRC has not taken any disciplinary actions, or imposed penalties or fines on Sinochem Finance since its incorporation.

8. The maximum daily deposit balances

(i) Review of historical figures

Set out below are the historical maximum daily deposit balances placed by the Group with Sinochem Finance during the two years ended 31 December 2018 and the first ten months ended 30 October 2019, and the relevant caps during the respective period:

	For the year ended 31 December		For the ten months ended 30 October
	2017	2018	2019
	(RMB million)	(RMB million)	(RMB million)
Maximum daily deposit balance placed by the Group with Sinochem Finance	300.1	931.7	897.8
Relevant caps	320	1,000	1,000
Utilization rates	93.8%	93.2%	89.8%

As set out in the table above, the relevant caps for the periods presented above had been substantially utilized, ranging from approximately 89.8% to 93.8%. Based on our discussions with the management of the Group, this was mainly due to an increase in business transactions with Sinochem Finance, as driven by the higher demand of members of the Group for the free of charge settlement services offered by Sinochem Finance. In addition, the volume of transaction settlements between the Group, its customers and other Sinochem Group companies are normally higher during the fourth quarter of the calendar year, which is the peak season for the fertilizer procurement by customers relating to spring planting and debt maturity in the PRC. Therefore, it is expected that utilization of the 2019 maximum daily deposit balance of RMB1 billion will be further increased.

(ii) Assessment of the Maximum Daily Balance

The Maximum Daily Balance of the Deposit Services is proposed to be RMB1 billion for the year ending 31 December 2020, which is the same as those for the years 2018 and 2019.

In assessing the reasonableness of such Maximum Daily Balance, we have discussed with the management of the Group the reasons underlying this projection. The Directors have taken into account, among other things, (i) the estimated maximum

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bank balances and cash of the Group during the peak season in 2020; (ii) the intention to deposit funds with Sinochem Finance for the purpose of utilizing the free of charge settlement services, (iii) the more favourable and flexible financial services provided by Sinochem Finance under the Financial Services Framework Agreement as compared to other independent commercial banks, (iv) the 15% of consolidated net assets of the Company as set out in its latest published consolidated financial statements, being approximately RMB1,134.4 million as at 30 June 2019, and (v) the nature of the Deposit Services, which is on a voluntary and non-exclusive basis and not an obligation to the Group.

We note from annual and interim reports of the Company that the revenue of the Group has been improving in recent years, increasing from approximately RMB15.0 billion in 2016 to approximately RMB23.0 billion in 2018 and approximately RMB14.2 billion in the first half of 2019. The Group returned to profitability in 2018, with net profit of approximately RMB489.0 million, after recording net losses in 2016 and 2017. For the six months ended 30 June 2019, the Group recorded a net profit of approximately RMB462.2 million, an increase of approximately 42.2% compared to the same period last year. As at 30 June 2019, the Group recorded bank balances and cash of approximately RMB2.5 billion, up by more than (i) 1.2 times compared to approximately RMB1.1 billion as at 31 December 2018 and (ii) 40% compared to approximately RMB1.7 billion as at 30 June 2018, primarily due to the net proceeds from financing activities and the continuous improvement in operating performance. Against the background above and on the assumption that the interest-bearing liabilities will be refinanced in the near future, management of the Group expects that the estimated bank balances and cash will continue to grow during 2020. To substantiate the above, we have obtained the expected future cash flows of the Group for the year ending 31 December 2020, indicating the future cash requirements for the strategic development projects and normal business operations.

As mentioned in the earlier section, a number of intercompany transactions and balances between the Group and Sinochem Group companies, and receivable from customers of the Group, are settled through accounts maintained with Sinochem Finance. For example, over the past years, the Group has been importing fertilizer products from overseas suppliers through Sinochem Group, with an aggregate transaction amount of approximately RMB3.8 billion in 2018. In addition, the Group has been supplying an increasing volume of fertilizer products to Sinochem Agriculture, with a total transaction value of approximately RMB324.7 million in the first nine months of 2019. Given the ongoing business relationship with Sinochem Group companies and the favourable and flexible financial services from Sinochem Finance (especially the free of charge settlement services), the Group intends to maintain more deposits with Sinochem Finance, for the purpose of transacting and settling payments and receipts with Sinochem Group companies.

The Maximum Daily Balance means the maximum amount of cash the Group would maintain in accounts with Sinochem Finance. Shareholders should note that the Group has no obligation to place its deposits with Sinochem Finance at that maximum amount. To limit the risk exposures arising from the Deposit Services, as mentioned in the section headed “6. Internal control measures and corporate governance measures of

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the Group”, the Group will ensure that the outstanding amount of its overall financial assistance to Sinochem Group on each day will not exceed 15% of the consolidated net assets of the Company as set out in its latest published consolidated financial statements. Having considered the above, including the commercial needs for settlements with customers and members of Sinochem Group and the estimated growing bank balances and cash in the year 2020, we concur with the management of the Group the rationale behind the determination of the Maximum Daily Balance for the year 2020.

9. 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;
- (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 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

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- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Deposit Services, in particular, (i) the restriction of the value of the Deposit Services by way of the Maximum Daily Balance; 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 and the Maximum Daily Balance not being exceeded, we are of the view that appropriate measures will be in place to monitor the conduct of the transactions and assist to safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Deposit Services 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 Deposit Services (including the Maximum Daily Balance) are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the Deposit Services (including the Maximum Daily Balance).

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

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

1. RESPONSIBILITY STATEMENT

This second supplemental 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 second supplemental 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 second supplemental circular misleading.

2. INTEREST IN SECURITIES

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

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

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

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

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

Name of Director	Name of substantial shareholder of the Company	Position in the substantial shareholder of the Company
Yang Lin	Sinochem Group Sinochem Corporation	General accountant Chief financial officer

4. DIRECTORS' SERVICE CONTRACTS

On 16 February 2017, Mr. Qin Hengde, an executive Director and the Chief Executive Officer of the Company, entered into a service contract with the Company for a term of three years. On 15 May 2017, Mr. Harry Yang, an executive Director of the Company, renewed his service contract with the Company for a term of three years. Pursuant to the terms stipulated in the service contracts of Mr. Qin Hengde and Mr. Harry Yang, the respective service contract with the Company may be (i) terminated prior to its expiry if either party serves two months' prior notice to the other in writing; or (ii) terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the respective service contract. Should the Company terminate the respective service contract with Mr. Qin Hengde or Mr. Harry Yang prior to its expiry, Mr. Qin Hengde or Mr. Harry Yang will be entitled to receive a cash compensation equivalent to 11 months of his annual director's salary, save for the circumstances described in item (ii) above.

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

5. COMPETING INTERESTS

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

6. OTHER ARRANGEMENTS INVOLVING DIRECTORS

- (a) None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this second supplemental 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 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; (ii) leased to; or (iii) were proposed to be acquired or disposed of by; or (iv) were proposed to be leased to any member of the Group.

7. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Company since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

8. EXPERT

The following is the qualification of the expert who has given its opinions or advice, which are contained or referred to in this second supplemental 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 second supplemental circular with the inclusion of its letter and references to its name, in the form and context in which it appears;
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had been since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

9. GENERAL

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of (i) the Financial Services Framework Agreement, and (ii) the service contracts mentioned in paragraph 4 above is available for inspection during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the principal place of business of the Company at Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong up to and including the date of the SGM.

SECOND SUPPLEMENTAL 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)

SECOND SUPPLEMENTAL NOTICE OF SPECIAL GENERAL MEETING

Reference is made to the circular (the “**SGM Circular**”) and notice (the “**SGM Notice**”) of Sinofer Holdings Limited (the “**Company**”) dated 26 November 2019, and the supplemental circular (the “**First Supplemental Circular**”) and supplemental notice (the “**First Supplemental Notice**”) of the Company dated 3 December 2019, which set out the time and venue of the special general meeting of the Company (the “**SGM**”) and contain the resolutions to be considered and approved at the SGM.

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the SGM will be held as originally scheduled at Salon II, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 19 December 2019 at 10:00 a.m., and in addition to the resolutions contained in the SGM Notice and the First Supplemental Notice, the following supplemental resolution will also be considered and approved at the same meeting:

SUPPLEMENTAL ORDINARY RESOLUTION

4. “**THAT:**

- (a) the Deposit Services under the Financial Services Framework Agreement (as defined and described in the second supplemental circular to the shareholders of the Company dated 4 December 2019 (the “**Second Supplemental Circular**”), a copy of which has been produced to the meeting marked “D” and signed by the Chairman of the meeting for the purpose of identification) be and are hereby approved, ratified and confirmed;
- (b) the maximum daily outstanding balance of the Deposit Services under the Financial Services Framework Agreement be and is hereby approved, ratified and confirmed; and
- (c) the directors of the Company or any other person authorized by the directors of the Company be and are hereby authorized to sign, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their absolute discretion consider necessary or desirable for the

* For identification purposes only

SECOND SUPPLEMENTAL NOTICE OF SPECIAL GENERAL MEETING

purpose of or in connection with the implementation of the Deposit Services under the Financial Services Framework Agreement and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to the Deposit Services under the Financial Services Framework Agreement which in their opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.”

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

Hong Kong Special Administrative Region of the People's Republic of China

4 December 2019

Notes:

- 1 To be valid, the further revised form of proxy (the “**Further Revised Form of Proxy**”), together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours (excluding any part of a day that is a public holiday) before the time appointed for the holding of the meeting or any adjournment thereof (the “**Closing Time**”).
- 2 Any shareholder who has not yet lodged the form of proxy issued by the Company on 26 November 2019 (the “**Original Form of Proxy**”) or the revised form of proxy issued by the Company on 3 December 2019 (the “**Revised Form of Proxy**”) is requested to lodge the Further Revised Form of Proxy if he or she intends to appoint a proxy to attend the SGM on his or her behalf. In this case, the Original Form of Proxy or the Revised Form of Proxy should not be lodged. Any shareholder who has already lodged the Original Form of Proxy or the Revised Form of Proxy should note that:
 - (i) if the Further Revised Form of Proxy is lodged before the Closing Time, the Further Revised Form of Proxy will revoke and supersede the Original Form of Proxy or the Revised Form of Proxy previously lodged by the shareholder. The Further Revised Form of Proxy will be treated as a valid form of proxy lodged by the shareholder, if duly completed;
 - (ii) if no Further Revised Form of Proxy is lodged before the Closing Time, the Original Form of Proxy or the Revised Form of Proxy will be treated as a valid form of proxy lodged by the shareholder, if duly completed. The proxy so appointed pursuant to the Original Form of Proxy or the Revised Form of Proxy will be entitled to vote in accordance with the instructions previously given by the shareholder or at his/her discretion (if no such instructions are given) on any resolution properly put to the SGM, including the proposed supplemental resolution set out above.
- 3 Apart from the proposed supplemental resolution set out above, all other matters of the SGM remain unchanged. For details of other resolutions to be considered and approved at the SGM, eligibility for attending the SGM, registration procedures and other relevant matters, please refer to the SGM Circular and the SGM Notice of the Company dated 26 November 2019, and the First Supplemental Circular and the First Supplemental Notice of the Company dated 3 December 2019.

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