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SINOFERT HOLDINGS LIMITED

中化化肥控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 297)

ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

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).

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.

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.

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement. An Independent Board Committee of the Company has been formed to advise the Independent Shareholders in respect of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement. Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Financial Services Framework Agreement, a letter from the Independent Board Committee, a letter from the Independent Financial Adviser, and a notice to convene the SGM will be dispatched to the shareholders of the Company on or about 4 December 2019.

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;
- (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.

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.

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 demand of the Group for the free of charge settlement services offered by Sinochem Finance; (ii) the capital management strategy of the Group; (iii) the business development and financial needs of the Group; and (iv) the historical amounts of the Deposit Services.

In addition, 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. 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 of approximately RMB7,562,540,000 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.

For the two years ended 31 December 2018 and the nine months ended 30 September 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 RMB775,658,000, respectively.

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 nine months ended 30 September 2019, the historical transaction amounts of such services in aggregate were approximately RMB4,859,000, RMB2,689,000 and RMB1,902,000, 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:

- 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.
- 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.
- 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).

- 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.

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, the CBIRC has not taken any disciplinary actions, or imposed penalties or fines on Sinochem Finance since its incorporation; 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 midterm 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;

- (iii) Sinochem Finance will provide more favourable deposit portfolio for the Group based on the condition of the Group, which can increase capital returns while retaining the working capital flexibility of the Group; 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, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in the circular, are of the view that the continuing connected transactions contemplated under the 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.

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.

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement. An Independent Board Committee of the Company has been formed to advise the Independent Shareholders in respect of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement. Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Financial Services Framework Agreement, a letter from the Independent Board Committee, a letter from the Independent Financial Adviser, and a notice to convene the SGM will be dispatched to the shareholders of the Company on or about 4 December 2019.

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 (but not other parties).

DEFINITIONS

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

“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“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
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company formed to consider the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement
“Independent Shareholders”	shareholders other than Sinochem Group and its associates
“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”	the 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
“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 announcement only, excludes Hong Kong, Macao and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	a special general meeting of the Company to be convened to consider and approve the Deposit Services (including the maximum daily outstanding balance) under the Financial Services Framework Agreement
“shareholder(s)”	registered holder(s) of ordinary share(s) of HK\$0.10 each in the capital of the Company
“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 and a subsidiary of Sinochem Group
“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

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

Hong Kong, 18 November 2019

As at the date of this announcement, 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.

** For identification purposes only*