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## **GF SECURITIES CO., LTD.**

**廣發証券股份有限公司**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1776)**

### **CONNECTED TRANSACTION – FORMATION OF PARTNERSHIP FUND**

#### **FORMATION OF PARTNERSHIP FUND**

The Board is pleased to announce that on March 11, 2022, it approved GF Xinde and GF Qianhe (both being wholly-owned subsidiaries of the Company) to enter into the Partnership Agreement with Public Utilities Environmental Protection (a wholly-owned subsidiary of Zhongshan Public Utilities, one of the substantial shareholders of the Company), in relation to the joint promotion and formation of the Partnership Fund. The Partnership Fund will be established in the form of limited partnership. The total capital contribution amount of the Partnership Fund is RMB3 billion, of which the proposed capital contribution by GF Xinde (as the general partner) will be RMB600 million, representing a capital contribution ratio of 20% of the subscription size of the Partnership Fund. The proposed capital contribution by GF Qianhe (as a limited partner) will be RMB900 million, representing a capital contribution ratio of 30% of the subscription size of the Partnership Fund. The proposed capital contribution by Public Utilities Environmental Protection (as a limited partner) will be RMB1.5 billion, representing a capital contribution ratio of 50% of the subscription size of the Partnership Fund. All of the above-mentioned investors will make capital contributions in cash and the sources of funds are all from their own funds. As at the date of this announcement, the Partnership Agreement has not yet been signed. The Company will make an announcement in due course when a definitive agreement is entered into. The Partnership Fund will primarily invest in the new energy field and new energy-related industrial chains, and, to a lesser extent, other emerging industries; provided, however, that the amount of investment in the new energy field and new energy-related industrial chains will not be less than 50% of the total capital contribution amount of the Partnership Fund. Upon its establishment, the Partnership Fund will be managed by GF Xinde as the manager and the management fees will be paid to GF Xinde as agreed in the Partnership Agreement.

## **LISTING RULES IMPLICATIONS**

Given that (1) GF Xinde and GF Qianhe are wholly-owned subsidiaries of the Company; and (2) Public Utilities Environmental Protection is a wholly-owned subsidiary of Zhongshan Public Utilities, a substantial shareholder of the Company, therefore Public Utilities Environmental Protection is a connected person of the Company for the purpose of the Listing Rules, and the transaction of forming the Partnership Fund will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) exceed 0.1% but are less than 5%, the transaction of forming the Partnership Fund shall be subject to the reporting and announcement requirements, but exempt from the circular, independent financial advice and shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

The total capital contribution amount of the Partnership Fund is RMB3 billion, of which the capital contribution by Public Utilities Environmental Protection will be RMB1.5 billion, representing 50% of the total size of the Partnership Fund. Therefore, the Partnership Fund is a controlled entity (an associate) in which Public Utilities Environmental Protection (a connected person) owns more than 30%. Accordingly, the Partnership Fund is also a connected person of the Company, and it is expected by the Company that the payment of the management fee by the Partnership Fund to GF Xinde for the management service rendered by GF Xinde under the Partnership Agreement will constitute a continuing connected transaction under Chapter 14A of the Listing Rules. However, applicable ratios for the payment of the amount of such management fee will be lower than the *de minimis* ratio as stipulated under Chapter 14A of the Listing Rules. If the amount of management fee payable by the Partnership Fund to GF Xinde under the Partnership Agreement exceeds the *de minimis* ratio, the Company will comply with the requirements of reporting, announcement, annual review and/or independent shareholders' approval under Chapter 14A of the Listing Rules.

## **BACKGROUND**

The Board is pleased to announce that on March 11, 2022, it approved GF Xinde and GF Qianhe (both being wholly-owned subsidiaries of the Company) to enter into the Partnership Agreement with Public Utilities Environmental Protection (a wholly-owned subsidiary of Zhongshan Public Utilities, one of the substantial shareholders of the Company), in relation to the joint promotion and formation of the Partnership Fund.

As at the date of this announcement, the Partnership Agreement has not yet been signed. The Company will make an announcement in due course when a definitive agreement is entered into.

## **PARTNERSHIP AGREEMENT**

### **Parties**

- GF Xinde, as the general partner
- GF Qianhe, as a limited partner
- Public Utilities Environmental Protection, as a limited partner

## Details of partnership

The parties to the Partnership Agreement intended to agree to the joint promotion and formation of the Partnership Fund. The Partnership Fund will be established in the form of limited partnership. The total capital contribution amount of the Partnership Fund is RMB3 billion.

## Investment direction

The Partnership Fund will primarily invest in the new energy field and new energy-related industrial chains, and, to a lesser extent, other emerging industries; provided, however, that, the amount of investment in the new energy field and new energy-related industrial chains will not be less than 50% of the total capital contribution amount of the Partnership Fund.

## Organizational form and domicile

The Partnership Fund will be established in the form of limited partnership in Zhongshan City, Guangdong Province pursuant to the Partnership Enterprise Law of the PRC and other relevant laws and regulations, departmental rules and the norms and guidelines of self-regulatory organizations.

## Size

The total capital contribution amount of the Partnership Fund is RMB3 billion, of which the proposed capital contribution by GF Xinde (as the general partner) will be RMB600 million, representing a capital contribution ratio of 20% of the subscription size of the Partnership Fund. The proposed capital contribution by GF Qianhe (as a limited partner) will be RMB900 million, representing a capital contribution ratio of 30% of the subscription size of the Partnership Fund. The proposed capital contribution by Public Utilities Environmental Protection (as a limited partner) will be RMB1.5 billion, representing a capital contribution ratio of 50% of the subscription size of the Partnership Fund. All of the above-mentioned investors will make capital contributions in cash and the sources of funds are all from their own funds.

## Term of the Partnership Fund

The term of the Partnership Fund will be fifteen years. The investment period of the Partnership Fund (the “**Investment Period**”) will commence from the date of establishment of the Partnership Fund and end at the fourth anniversary year, which may be extended by the manager depending on the circumstances of the Partnership Fund and its investment projects. The divestment period of the Partnership Fund (the “**Divestment Period**”) will be four years from the day following the expiry of the Investment Period of the Partnership Fund. If the Investment Period of the Partnership Fund is extended, the Divestment Period of the Partnership Fund shall be reduced by the extended Investment Period so that the total duration of the Investment Period and the Divestment Period shall not exceed eight years, and if the Partnership Fund needs to be extended after the expiry of the Divestment Period, the consent of the partners representing more than two-thirds of the total paid-in capital contribution amount of the Partnership Fund shall be obtained. The period extended beyond the Divestment Period shall be the extension period (the “**Extension Period**”).

## **Management of the Partnership Fund**

According to the Partnership Agreement, GF Xinde will act as the executive partner and the manager to manage the investment and operation of the Partnership Fund.

### **Exit methods**

As the manager, GF Xinde will realize the investments at an opportune time. When selling or otherwise disposing of an investment project, it can select an applicable exit strategy in accordance with the law.

### **Management fees**

The management fees of the Partnership Fund will be paid to GF Xinde annually as agreed below:

- during the Investment Period, 1.3% per year of the total paid-in capital contribution amount of the Partnership Fund;
- during the Divestment Period, at the rate of 1.2% per year on the accumulated corresponding invested principal of the non-divested portion of all projects in the Partnership Fund; and
- no management fee will be charged during the Extension Period.

### **Fund income distribution and loss sharing**

- After deducting the withholding partnership fees, management fees and other reasonable amounts that the Partnership Fund should bear, distributable cash will be distributed first to all partners in proportion to their respective paid-in capital contribution ratio in the Partnership Fund, until each partner recovers the funds corresponding to its paid-in capital contribution in the Partnership Fund through the accumulated tax-included distributable cash it obtained. If there is a positive balance upon such distribution, the income will be distributed to each partner in proportion to their respective paid-in capital contribution ratio in the Partnership Fund, and each partner obtains the tax-included amount calculated at 8% per annum (simple interest) based on the weighted average paid-in capital contribution balance in the Partnership Fund. If there is a positive balance upon such distributions, 18% of such balance will be distributed to the executive partner, GF Xinde, as excess earnings, and the remaining 82% of such balance will be distributed to each partner in proportion to their respective paid-in capital contribution ratio in the Partnership Fund, until the tax-included amount cumulatively distributed by the Partnership Fund to all partner reaches 300% of their paid-in capital contribution in the Partnership Fund. If there is a positive balance upon such distributions, 30% of such balance will be distributed to the executive partner, GF Xinde, as excess earnings, and the remaining 70% of such balance will be distributed to each partner in proportion to their respective paid-in capital contribution ratio in the Partnership Fund;
- Loss incurred by the Partnership Fund will be shared by all partners in proportion to their capital contribution; and

- When the Partnership Fund is to be liquidated, the manager shall make reasonable efforts to realize the investment of the Partnership Fund in order to avoid non-cash distribution. However, if such realization is not feasible or the manager determines on its own discretion that non-cash distribution is more favorable to the interests of all partners, the manager is entitled to determine to distribute in a non-cash manner. If a non-cash distribution is made, the manager shall make reasonable efforts to ensure that the relevant partners are provided with title proofs of the assets that have been distributed (if such registered title proofs are available), and perform all the necessary transfer and registration procedures.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE PARTNERSHIP AGREEMENT**

The Partnership Fund will primarily invest in the new energy field and new energy-related industrial chains, and, to a lesser extent, other emerging industries; provided, however, that the amount of investment in the new energy field and new energy-related industrial chains will not be less than 50% of the total capital contribution amount of the Partnership Fund. It allows the Company to make full use of its strengths in market-oriented operation, merger and acquisition, reorganization, financial innovation, etc., in order to create value for partners and realize positive interaction between industrial resources and financial capital. The completion of this transaction will benefit the further optimization of the Company's business structure, which will have a positive impact on improving the profitability of the Company.

The terms of the Partnership Agreement were drafted after due negotiation on an arm's length basis. As Mr. Guo Jingyi, a Director of the Company, also serves as the chairman of Zhongshan Public Utilities, he has abstained from voting on the board resolution on the formation of the Partnership Fund. Other than the above, none of the Directors have any material interest in the Partnership Fund. The Directors (including the independent non-executive Directors) are of the view that the terms of Partnership Agreement are drafted based on normal commercial terms, which are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

The independent non-executive Directors of the Company have also granted prior approval and given independent opinions on this transaction in accordance with applicable laws, regulations and rules of the relevant stock exchange:

1. The independent non-executive Directors of the Company have issued prior approval opinions, agreeing to submit the relevant proposals of this transaction to the Board for consideration; and
2. The independent non-executive Directors of the Company consider that:
  - (a) the establishment of a fund for investment through such connected transaction by fully leveraging the Company's expertise in market-oriented operation, merger and acquisition, reorganization, financial innovation, etc. will create value for its partners and realize positive interactions between industrial resources and financial capital, thus facilitating the Company to further optimize its business structure and causing positive effect on boosting the profit level of the Company.
  - (b) the terms of such connected transaction are reasonable with fair pricing, and the independence of the operating activities of the Company are not affected.

- (c) the review and decision-making procedures for such connected transaction have complied with the requirements under the laws, administrative regulations, departmental rules and other normative legal documents.

Therefore, the independent non-executive Directors of the Company are of the view that such connected transaction has complied with the applicable external laws and regulations as well as the relevant requirements of the internal rules and regulations of the Company, and there is no prejudice against the interests of the Company and other shareholders, particularly the interests of non-connected shareholders and minority shareholders.

## **LISTING RULES IMPLICATIONS**

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The total capital contribution amount of the Partnership Fund is RMB3 billion, of which the capital contribution by Public Utilities Environmental Protection will be RMB1.5 billion, representing 50% of the total size of the Partnership Fund. Therefore, the Partnership Fund is a controlled entity (an associate) in which Public Utilities Environmental Protection (a connected person) owns more than 30%. Accordingly, the Partnership Fund is also a connected person of the Company, and it is expected by the Company that the payment of the management fee by the Partnership Fund to GF Xinde for the management service rendered by GF Xinde under the Partnership Agreement will constitute a continuing connected transaction under Chapter 14A of the Listing Rules. However, applicable ratios for the payment of the amount of such management fee will be lower than the *de minimis* ratio as stipulated under Chapter 14A of the Listing Rules. If the amount of management fee payable by the Partnership Fund to GF Xinde under the Partnership Agreement exceeds the *de minimis* ratio, the Company will comply with the requirements of reporting, announcement, annual review and/or independent shareholders' approval under Chapter 14A of the Listing Rules.

## **GENERAL INFORMATION**

The Company is a provider of comprehensive capital market services with industry-leading innovation capabilities focused on serving China's quality enterprises and affluent individuals. The Company provides a diversified business serving the varying needs of corporations, individuals (especially affluent individuals), institutional investors, financial institutions and government clients. The Company's principal business activities are investment banking, wealth management, trading and institutional business and investment management.

GF Xinde is a wholly-owned subsidiary of the Company and is principally engaged in equity investment, the provision of financial advisory services on equity investment to clients and other businesses approved by the CSRC.



GF Qianhe is a wholly-owned subsidiary of the Company and is principally engaged in project investment and investment management.

Public Utilities Environmental Protection is principally engaged in investment in environmental protection industry and investment management, and is a wholly-owned subsidiary of Zhongshan Public Utilities and a connected person of the Company.

## DEFINITIONS

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

“Board”	the board of Directors of the Company
“Company”	GF Securities Co., Ltd., a joint stock company incorporated in the PRC with limited liability
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“GF Qianhe”	GF Qianhe Investment Co., Ltd. (廣發乾和投資有限公司), a company with limited liability incorporated in the PRC, a wholly-owned subsidiary of the Company
“GF Xinde”	GF Xinde Investment Management Co., Ltd. (廣發信德投資管理有限公司), a company with limited liability incorporated in the PRC, a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Partnership Agreement”	the partnership agreement of the Partnership Fund to be entered into by GF Xinde, GF Qianhe and Public Utilities Environmental Protection, and as at the date of this announcement, the Partnership Agreement has not yet been signed
“Partnership Fund”	Zhongshan Public Utilities GF Xinde New Energy Industrial Fund (Limited Partnership) (中山公用廣發信德新能源產業基金(有限合伙)) (a tentative name, and the name to be approved by the Administration for Industry and Commerce shall prevail)
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan Region

“Public Utilities Environmental Protection”	Zhongshan Public Utilities Environmental Protection Industry Investment Co., Ltd. (中山公用環保產業投資有限公司), a company with limited liability incorporated in the PRC, a wholly-owned subsidiary of Zhongshan Public Utilities
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Zhongshan Public Utilities”	Zhongshan Public Utilities Group Co., Ltd. (中山公用事業集團股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000685), holding approximately 10.34% in total of the issued share capital of the Company together with its parties acting in concert as at the date of this announcement, one of the Company’s substantial shareholders

By order of the Board of Directors  
**GF Securities Co., Ltd.**  
**Lin Chuanhui**  
*Chairman*

Guangzhou, the PRC  
March 11, 2022

*As at the date of this announcement, the Board of the Company comprises Mr. Lin Chuanhui, Mr. Ge Changwei, Ms. Sun Xiaoyan and Mr. Qin Li as executive Directors; Mr. Li Xiulin, Mr. Shang Shuzhi and Mr. Guo Jingyi as non-executive Directors; and Mr. Fan Lifu, Mr. Hu Bin, Ms. Leung Shek Ling Olivia and Mr. Li Wenjing as independent non-executive Directors.*