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(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 06881)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS UNDER THE INCOME CERTIFICATE SUBSCRIPTION AND REDEMPTION FRAMEWORK AGREEMENT

The Board announces that the Company intends to enter into the Framework Agreement with Galaxy Financial Holdings by 10 November 2022, pursuant to which Galaxy Financial Holdings Group will subscribe for or redeem the income certificates issued by the Group during the period up to 31 December 2024. The Group will conduct such transactions with Galaxy Financial Holdings Group on a voluntary and non-exclusive basis.

Galaxy Financial Holdings is the controlling shareholder of the Company holding approximately 51.16% of the issued share capital of the Company, and is therefore a connected person of the Company. As such, the transactions under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the annual caps of the transactions under the Framework Agreement are more than 0.1% but less than 5%, such transactions 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.

BACKGROUND

The Board announces that the Company intends to enter into the Framework Agreement with Galaxy Financial Holdings by 10 November 2022, pursuant to which Galaxy Financial Holdings Group will subscribe for or redeem the income certificates issued by the Group during the period up to 31 December 2024. The Group will conduct such transactions with Galaxy Financial Holdings Group on a voluntary and non-exclusive basis.

PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENT

Parties

- The Company
- Galaxy Financial Holdings

Nature of transactions

Pursuant to the Framework Agreement, Galaxy Financial Holdings Group will subscribe for and redeem the income certificates issued by the Group, including principal protected fixed income certificates (the “**Fixed Income Certificates**”) and principal protected floating income certificates (the “**Floating Income Certificates**”). Income certificates are marketable securities that provide for the payment of principal and return linked to a specific target (including, but not limited to, currency rates, prices of commodities and securities, or indices).

Pricing basis

The interest rates and other terms for the subscription by Galaxy Financial Holdings Group of the income certificates issued by the Group shall be determined based on the prevailing market prices and normal commercial terms. For the Fixed Income Certificates, the interest rates shall be determined with reference to the prices of short-term commercial papers and corporate bonds issued by securities companies and the trend of the prevailing market prices, taking into account the Group’s capital and market demand; for the Floating Income Certificates, the interest rates shall be determined in accordance with the derivative pricing model or by reference to the expected changes in the prices of the underlying targets. The interest rates and other terms of the income certificates will apply equally to all investors who subscribe for the same income certificates.

Term

The Framework Agreement shall take effect from the date of execution by the parties and shall remain in force until 31 December 2024.

ANNUAL CAPS

The Company estimates that for each of the three years ending 31 December 2024, the annual cap for the subscription by Galaxy Financial Holdings Group of the income certificates issued by the Group under the Framework Agreement will be RMB3,500 million, and the annual cap for the redemption by Galaxy Financial Holdings Group of the income certificates issued by the Group under the Framework Agreement will be RMB3,500 million.

In estimating the above annual caps, the Company has taken into account the following factors:

- (i) During the period from July 2017 to November 2019, the total size of subscription by Galaxy Financial Holdings Group with its own funds for the income certificates issued by the Group amounted to approximately RMB7,960 million with an annualized size of approximately RMB3,500 million. Such transactions were included in the Securities and Financial Products Transactions Framework Agreement dated 6 June 2017 entered into between the Company and Galaxy Financial Holdings (please refer to the announcements of the Company dated 17 May 2017, 6 June 2017 and 22 June 2017 and the circular of the Company dated 7 June 2017 for details). Upon expiry of the Securities and Financial Products Transactions Framework Agreement on 31 December 2019 and up to the date of this announcement, Galaxy Financial Holdings Group has not subscribed for any income certificates issued by the Group;
- (ii) The size of the capital market in the PRC has been expanding in recent years, with the size of the wealth management market as at the end of 2021 growing by approximately 12% year-on-year. The Company set the annual caps for the three years ending 31 December 2024 under the Framework Agreement based on the above historical transaction amounts from 2017 to 2019 and the assumption that there will be no drastic fluctuations in the market and no significant changes in the market environment; and
- (iii) In setting the annual caps, the Company has also taken into account the Group's plans to issue income certificates during the term of the Framework Agreement, and the subscription demand for such products by Galaxy Financial Holdings Group.

PRICING AND INTERNAL CONTROL PROCEDURES

The Group has established its internal guidelines and policies for various types of securities and financial products transactions, as well as internal procedures and systems for approving and monitoring such transactions. Such policies and guidelines set out the requirements for pre-trade enquiries, applicable interest rates, pricing procedures, approving authorities and procedures, record keeping, supervision and review procedures for different types of transactions and businesses.

For the Fixed Income Certificates, the Finance and Capital Department is responsible for coordinating the overall issuance of the Fixed Income Certificates and setting the guideline interest rates for the issuance of the products. In setting the guideline interest rates, the Finance and Capital Department will make reference to the interest rates of short-term commercial papers and corporate bonds of the same duration, the trend of the prevailing market prices and the Group's capital and market demand. The Company has access to the interest rates of these comparable short-term commercial papers and corporate bonds through its subscription to the information services provided by independent information service providers. For the Floating Income Certificates, the business department of proprietary trading of the Company will determine the interest rates in accordance with the pricing model established with reference to the product structure, duration and underlying targets and approved by the Risk Management Department. The interest rates and other terms of the income certificates (including the Fixed Income Certificates and the Floating Income Certificates) will apply equally to all investors (including connected persons and independent third parties) who subscribe for the same income certificates.

The Product Centre of the Company is responsible for reviewing and monitoring the actual transaction amounts for the subscription and redemption of income certificates by Galaxy Financial Holdings Group, and reporting the same to the Finance and Capital Department of the Company on a monthly basis. The Finance and Capital Department will summarize the monthly actual transaction amounts of the continuing connected transactions between the Group and Galaxy Financial Holdings Group (including the subscription and redemption of income certificates), and inform the relevant business departments, the General Office and the Audit Department. If the Finance and Capital Department finds that the actual transaction amounts reach 70% of the annual caps, it will notify the General Office which will organize the relevant departments to assess the subsequent business needs to determine whether the annual caps will need to be revised.

The Company considers that the methods and procedures adopted above will ensure that the transactions are conducted on normal commercial terms and will not prejudice the interests of the Company and its minority shareholders.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Group is a leading integrated financial service provider in the PRC securities industry and is able to offer a wide range of securities and financial products and services (including income certificates) to its customers. Galaxy Financial Holdings Group is one of the Group's important institutional customers, and has the intention to allocate its idle funds to subscribe for income certificates. To facilitate business management and improve efficiency, the Company entered into the Framework Agreement with Galaxy Financial Holdings.

The Directors (including the independent non-executive Directors) consider that the transactions under the Framework Agreement are entered into in the ordinary course of business and on normal commercial terms, and are fair and reasonable and in the interests of the Company and its shareholders as a whole, and that the annual caps of the transactions under the Framework Agreement are fair and reasonable. As Mr. CHEN Liang, Ms. LIU Chang, Mr. LIU Zhihong and Mr. YANG Tijun hold positions in Galaxy Financial Holdings, they have abstained from voting on the resolution of the Board to approve the transactions under the Framework Agreement.

LISTING RULES IMPLICATIONS

Galaxy Financial Holdings is the controlling shareholder of the Company holding approximately 51.16% of the issued share capital of the Company, and is therefore a connected person of the Company. As such, the transactions under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the annual caps of the transactions under the Framework Agreement are more than 0.1% but less than 5%, such transactions 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 a leading integrated financial service provider in the PRC securities industry, providing comprehensive securities services, including brokerage, sales and trading, as well as investment banking and investment management.

Galaxy Financial Holdings is an investment holding company with its business scope covering the investment and management of securities, funds, insurance, trust and banking. The shareholders of Galaxy Financial Holdings are Central Huijin Investment Ltd. with 69.07% equity interest, the Ministry of Finance of the PRC with 29.32% equity interest and the National Council for Social Security Fund with 1.61% equity interest.

DEFINITIONS

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

“A Shares”	domestic shares in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“Board”	the board of Directors of the Company
“Company”	China Galaxy Securities Co., Ltd., a joint stock company with limited liability incorporated in the PRC on 26 January 2007, whose H Shares are listed on the Stock Exchange (Stock Code: 06881) and A Shares are listed on the Shanghai Stock Exchange (Stock Code: 601881)
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Framework Agreement”	the income certificate subscription and redemption framework agreement to be entered into between the Company and Galaxy Financial Holdings
“Galaxy Financial Holdings”	China Galaxy Financial Holdings Company Limited (中國銀河金融控股有限責任公司), a limited liability company incorporated in the PRC on 8 August 2005, and the controlling shareholder of the Company
“Galaxy Financial Holdings Group”	Galaxy Financial Holdings and its subsidiaries

“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China”	the People’s Republic of China, for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules

By order of the Board
China Galaxy Securities Co., Ltd.
CHEN Liang
Chairman and Executive Director

Beijing, the PRC
27 October 2022

As at the date of this announcement, the executive directors of the Company are Mr. CHEN Liang (Chairman) and Mr. WANG Sheng (Vice Chairman and President); the non-executive directors are Mr. YANG Tijun, Ms. LIU Chang, Mr. LIU Zhihong and Mr. JIANG Yuesheng; and the independent non-executive directors are Mr. LIU Ruizhong, Mr. WANG Zhenjun, Ms. LIU Chun and Mr. LAW Cheuk Kin Stephen.