
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in China Galaxy Securities Co., Ltd., you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



中国银河证券股份有限公司
CHINA GALAXY SECURITIES CO., LTD.

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

FINAL ACCOUNTS PLAN FOR 2022
PROFIT DISTRIBUTION PLAN FOR 2022
ANNUAL REPORT FOR 2022
WORK REPORT OF THE BOARD OF DIRECTORS FOR 2022
WORK REPORT OF THE SUPERVISORY COMMITTEE FOR 2022
CAPITAL EXPENDITURE BUDGET FOR 2023
APPOINTMENT OF THE EXTERNAL AUDITORS OF THE
COMPANY FOR 2023
CONTINUING CONNECTED TRANSACTIONS UNDER THE
SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS
FRAMEWORK AGREEMENT
DUTY REPORT OF THE INDEPENDENT DIRECTORS FOR 2022
AND
NOTICE OF ANNUAL GENERAL MEETING

The AGM of China Galaxy Securities Co., Ltd. will be held at Conference Room M1919, Qinghai Finance Building, Building No. 1, No. 8 Xiying Street, Fengtai District, Beijing, the PRC on Thursday, 29 June 2023 at 10:00 a.m. The notice convening the AGM is set out on pages 23 to 25 of this circular.

If you intend to appoint a proxy to attend the AGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited (for H Shareholders) and the Office of the Board of Directors of the Company (for A Shareholders) not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof in person or by post. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment thereof if you so wish.

7 June 2023

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
NOTICE OF ANNUAL GENERAL MEETING	23
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	26
LETTER FROM SOMERLEY	27
APPENDIX I GENERAL INFORMATION	46
APPENDIX II WORK REPORT OF THE BOARD OF DIRECTORS FOR 2022	49
APPENDIX III WORK REPORT OF THE SUPERVISORY COMMITTEE FOR 2022	61
APPENDIX IV DUTY REPORT OF THE INDEPENDENT DIRECTORS FOR 2022	73

DEFINITIONS

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

“A Share(s)”	domestic share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the Shanghai Stock Exchange and traded in RMB
“A Shareholder(s)”	holder(s) of A Shares
“AGM” or “Annual General Meeting”	the annual general meeting of the Company to be held at Conference Room M1919, Qinghai Finance Building, Building No. 1, No. 8 Xiying Street, Fengtai District, Beijing, the PRC on Thursday, 29 June 2023 at 10:00 a.m.
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Board” or “Board of Directors”	the board of Directors
“Central Huijin”	Central Huijin Investment Ltd. (中央匯金投資有限責任公司), a limited liability company incorporated in the PRC, which currently holds an equity interest of approximately 69.07% of Galaxy Financial Holdings
“Company”	China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司), a joint stock company with limited liability incorporated in the PRC on 26 January 2007, whose H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 6881) and A Shares are listed on the Shanghai Stock Exchange (Stock Code: 601881)
“connected person”	has the meaning ascribed to it under the HKSE Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the HKSE Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“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

DEFINITIONS

“Galaxy Financial Holdings Group”	Galaxy Financial Holdings and its subsidiaries
“Galaxy Futures”	Galaxy Futures Company Limited (銀河期貨有限公司), a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of the Company
“Galaxy International Holdings”	CGS International Holdings Limited (中國銀河國際控股有限公司), a company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of the Company
“Galaxy Yuanhui”	Galaxy Yuanhui Investment Co., Ltd. (銀河源匯投資有限公司), a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Shareholder(s)”	holder(s) of H Shares
“HK\$” or “HK dollars” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSE Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the Independent Board Committee of the Company formed to consider the transactions under the New Framework Agreement, comprising all Independent Non-executive Directors, namely Mr. LIU Ruizhong, Mr. WANG Zhenjun, Ms. LIU Chun and Mr. LAW Cheuk Kin Stephen
“Independent Director(s)” or “Independent Non-executive Director(s)”	the independent non-executive Director(s) of the Company

DEFINITIONS

“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out business in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under the New Framework Agreement (including the cap amounts relating thereto)
“Independent Shareholders”	shareholders of the Company other than Galaxy Financial Holdings
“Latest Practicable Date”	2 June 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“New Framework Agreement”	the <i>Securities and Financial Products Transactions Framework Agreement</i> (《證券和金融產品交易框架協議》) to be entered into between the Company and Galaxy Financial Holdings
“normal commercial terms”	has the meaning ascribed to it under the HKSE Listing Rules
“Original Framework Agreement”	the <i>Securities and Financial Products Transactions Framework Agreement</i> (《證券和金融產品交易框架協議》) entered into between the Company and Galaxy Financial Holdings on 6 June 2017
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC” or “China”	the People’s Republic of China, but for the purposes of this circular only, excluding Hong Kong, Macau Special Administrative Region and Taiwan region
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of the Company, including A Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Shanghai Stock Exchange”	the Shanghai Stock Exchange

DEFINITIONS

“SSE Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, as amended from time to time
“subsidiary(ies)”	has the meaning ascribed to it under the HKSE Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company

In case of any discrepancy between the English and Chinese versions of this circular, the Chinese version shall prevail.

LETTER FROM THE BOARD



中国银河证券股份有限公司
CHINA GALAXY SECURITIES CO., LTD.

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

The Board of Directors:

Executive Directors:

Mr. CHEN Liang (*Chairman*)
Mr. WANG Sheng (*Vice Chairman*
and President)

Registered Office and

Headquarters in the PRC:

No. 101, 7/F-18/F
Building No.1, No. 8 Xiying Street
Fengtai District, Beijing, the PRC

Non-executive Directors:

Mr. YANG Tijun
Ms. LI Hui
Ms. LIU Chang
Mr. LIU Zhihong
Mr. JIANG Yuesheng

Principal Place of Business in Hong Kong:

20th Floor, Wing On Centre
111 Connaught Road Central
Sheung Wan, Hong Kong

Independent Non-executive Directors:

Mr. LIU Ruizhong
Mr. WANG Zhenjun
Ms. LIU Chun
Mr. LAW Cheuk Kin Stephen

7 June 2023

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

On behalf of the Board of Directors, I invite you to attend the AGM to be held at Conference Room M1919, Qinghai Finance Building, Building No. 1, No. 8 Xiying Street, Fengtai District, Beijing, the PRC on Thursday, 29 June 2023 at 10:00 a.m.

The purpose of this circular is to give you notice of the AGM and to provide you with information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolutions to be proposed at the AGM.

BUSINESSES TO BE CONSIDERED AT THE AGM

Ordinary resolutions will be proposed at the AGM to approve: (1) the final accounts plan for 2022; (2) the profit distribution plan for 2022; (3) the annual report for 2022; (4) the work report of the Board of Directors for 2022; (5) the work report of the Supervisory Committee for 2022; (6) the capital expenditure budget for 2023; (7) the appointment of the external auditors of the Company for 2023; and (8) continuing connected transactions under the *Securities and Financial Products Transactions Framework Agreement*.

LETTER FROM THE BOARD

The matter to be proposed at the AGM for Shareholders' review is: (9) the duty report of the Independent Directors for 2022.

Ordinary Resolutions:

1. FINAL ACCOUNTS PLAN FOR 2022

The final accounts plan for 2022 was considered and approved by the Board on 29 March 2023 and is hereby proposed at the AGM for Shareholders' consideration and approval. For details of the final accounts plan, please refer to the financial statements in the Company's annual report for 2022.

2. PROFIT DISTRIBUTION PLAN FOR 2022

- (1) As audited and confirmed by the auditors, the Company recorded a net profit of the parent company of RMB7,394,723,861.83 for 2022. According to the requirements of the *Company Law*, the *Securities Law*, the *Financial Rules for Financial Enterprises* and the Articles of Association, after setting aside the statutory surplus reserve, the general risk reserve and the transaction risk reserve at a percentage of 10%, deducting the interest expense for perpetual bonds and adding profits and losses on redemption of investments in other equity instruments, the profit available for distribution to investors in 2022 amounted to RMB4,099,912,274.81. The accumulative undistributed profits of the parent company at the end of the period amounted to RMB25,337,709,941.95 after adding the undistributed profit of RMB24,380,347,881.81 at the beginning of the year and deducting the cash dividends of RMB3,142,550,214.67 distributed as a result of the implementation of the profit distribution plan for 2021 by the Company.
- (2) Taking into account the impacts and factors such as the implementation of its new strategic plan of the Company, its long-term development, leverage ratio, and the interests of investors, as well as the continuity and stability of dividend ratio, the Company proposed the profit distribution plan for 2022 as follows:
 - (a) The Company proposed to distribute a cash dividend of RMB2,331,574,325.48 (tax inclusive) for 2022 (the **"2022 Final Dividend"**), representing 56.87% of the profit available for distribution to investors for the year and 30.04% of the net profit attributable to shareholders of the listed company for 2022. Based on the Company's total number of issued Shares of 10,137,279,676 Shares as at 31 December 2022, a cash dividend of RMB2.30 (tax inclusive and the actual amount distributed may be slightly different due to rounding) for every 10 Shares is proposed to be distributed. In case of any changes in the total number of issued shares of the Company on the record date (namely 14 July 2023) as a result of placing, repurchase, or conversion of convertible bonds into shares, the amount of cash dividend per share will be adjusted accordingly based on the total amount of RMB2,331,574,325.48 (tax inclusive).

LETTER FROM THE BOARD

- (b) The 2022 Final Dividend will be denominated and declared in RMB, and paid in RMB and in HK dollar to A Shareholders and H Shareholders, respectively. The actual amount distributed in HK dollar will be calculated based on the average benchmark exchange rate for conversion between RMB and HK dollar announced by the PBOC for the five working days prior to the date of the AGM.

The above profit distribution plan for 2022 was considered and approved by the Board on 29 March 2023 and is hereby proposed at the AGM for Shareholders' consideration and approval.

For the purpose of determining the entitlement of H Shareholders to the 2022 Final Dividend, the H Share register of members of the Company will be closed from Sunday, 9 July 2023 to Friday, 14 July 2023 (both days inclusive), during which period no transfer of H Shares will be registered. H Shareholders whose names appear on the H Share register of members of the Company on Friday, 14 July 2023 are entitled to the 2022 Final Dividend. In order to be entitled to receive the 2022 Final Dividend, all share certificates, together with the instruments of transfers, must be lodged for registration with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited (for H Shareholders) at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 7 July 2023. The last trading day for H Shares before ex-dividend will be Wednesday, 5 July 2023, and trading of ex-dividend H Shares shall commence on Thursday, 6 July 2023.

The 2022 Final Dividend (if approved by Shareholders at the AGM) is expected to be distributed on Monday, 28 August 2023 to H Shareholders whose names appear on the H Share register of members of the Company on Friday, 14 July 2023.

As for the distribution of the 2022 Final Dividend to the A Shareholders, the record date is Friday, 14 July 2023, and the ex-dividend date and the dividend distribution date are Monday, 17 July 2023. The Company will announce separately on the Shanghai Stock Exchange details of the arrangements regarding the distribution of the 2022 Final Dividend to its A Shareholders.

For Hong Kong investors (including enterprises and individuals) investing in the Company's A Shares via the Shanghai Stock Connect Program, the 2022 Final Dividend will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited to the account of the nominee holding such A Shares. The record date, the dividend distribution date and other arrangements for investors via the Shanghai Stock Connect Program will be the same as those for the Company's A Shareholders.

For Mainland investors (including enterprises and individuals) investing in the Company's H Shares via the Hong Kong Stock Connect Program, the Shanghai Branch and the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, as the nominee of the investors via the Hong Kong Stock Connect Program, will receive the 2022 Final Dividend distributed by the Company and distribute such 2022 Final Dividend in RMB to the relevant investors of H Shares through its

LETTER FROM THE BOARD

depository and clearing system. The record date, the dividend distribution date and other arrangements for investors via the Hong Kong Stock Connect Program will be the same as those for the Company's H Shareholders.

3. ANNUAL REPORT FOR 2022

The annual report for 2022 was considered and approved by the Board on 29 March 2023 and is hereby proposed at the AGM for Shareholders' consideration and approval. The annual report has been published on the HKExnews website of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the website of the Company (<http://www.chinastock.com.cn>), and has been despatched to the Shareholders.

4. WORK REPORT OF THE BOARD OF DIRECTORS FOR 2022

The work report of the Board of Directors for 2022 was considered and approved by the Board on 29 March 2023 and is hereby proposed at the AGM for Shareholders' consideration and approval. Details of the report are set out in Appendix II to this circular.

5. WORK REPORT OF THE SUPERVISORY COMMITTEE FOR 2022

The work report of the Supervisory Committee for 2022 was considered and approved by the Supervisory Committee on 29 March 2023 and is hereby proposed at the AGM for Shareholders' consideration and approval. Details of the report are set out in Appendix III to this circular.

6. CAPITAL EXPENDITURE BUDGET FOR 2023

Taking into account the requirements of the strategic plan of the Company, and according to its investments in fintech and construction of branches as well as its needs for operation and management, the Company intends to make capital expenditure amounting to RMB800 million for 2023, of which information system emergency protection budget will amount to RMB10 million. The capital expenditure will be primarily used for fintech investments, purchase of software and hardware, and expenses for decoration and renovation of new, consolidated and merged business premises, while the information system emergency protection budget will be specifically used for timely procurement of emergency equipment and supplies during emergency disposal.

The above capital expenditure budget for 2023 was considered and approved by the Board on 29 March 2023 and is hereby proposed at the AGM for Shareholders' consideration and approval.

7. APPOINTMENT OF THE EXTERNAL AUDITORS OF THE COMPANY FOR 2023

The Board proposed to engage Ernst & Young Hua Ming LLP and Ernst & Young as the external auditors of the Company for 2023, which shall be responsible for the provision of related audit services and review services in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards,

LETTER FROM THE BOARD

respectively. The external audit fee for 2023 will be RMB5.30 million, including the agreed-upon procedure fee for the first and third quarters of RMB0.58 million, the interim review fee of RMB1.44 million, the annual audit fee of RMB2.84 million, the annual internal control audit fee of RMB0.33 million and the assurance service fee relating to the environmental, social and governance report of RMB0.11 million.

The above resolution was considered and approved by the Board on 29 March 2023 and is hereby proposed at the AGM for Shareholders' consideration and approval.

8. CONTINUING CONNECTED TRANSACTIONS UNDER THE SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS FRAMEWORK AGREEMENT

References are made 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 in relation to, among others, the Original Framework Agreement entered into between the Company and Galaxy Financial Holdings on 6 June 2017. After the expiry of the Original Framework Agreement on 31 December 2019, the Company has assessed the implications of its securities and financial products transactions with Galaxy Financial Holdings under the HKSE Listing Rules on an individual basis and complied with the relevant disclosure requirements under the HKSE Listing Rules in respect of specific transactions (if required).

The Company intends to enter into the New Framework Agreement with Galaxy Financial Holdings, pursuant to which the Group will continue to conduct securities and financial products transactions with Galaxy Financial Holdings Group on normal commercial terms in its ordinary course of business during the period up to 31 December 2025. Such transactions constitute continuing connected transactions of the Company under Chapter 14A of the HKSE Listing Rules, and are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the HKSE Listing Rules.

The Independent Board Committee comprising all Independent Non-executive Directors has been established to advise the Independent Shareholders as to whether the transactions under the New Framework Agreement (including the cap amounts relating thereto) are conducted by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under the New Framework Agreement (including the cap amounts relating thereto). Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on page 26 of this circular and the letter from Somerley set out on pages 27 to 45 of this circular. Your attention is also drawn to the general information set out in Appendix I to this circular.

LETTER FROM THE BOARD

PRINCIPAL TERMS OF THE NEW FRAMEWORK AGREEMENT

Parties

- (i) The Company; and
- (ii) Galaxy Financial Holdings

Type of transactions

The Group will continue to conduct securities and financial products transactions with Galaxy Financial Holdings Group on normal commercial terms in its ordinary course of business, which mainly include:

- (i) Securities products with fixed income features – including, but not limited to, bonds, funds, trusts, wealth management products, asset management plans, assets securitization products, bond lending and borrowing, structured products, income certificates, swaps, futures, forwards, options and other financial products with fixed income features;
- (ii) Fixed income related derivative products – including, but not limited to, interest rates and credit derivatives;
- (iii) Equity related products – including, but not limited to, trading and/or subscription of shares (including market-making activities on the National Equities Exchange and Quotation), funds, trusts, wealth management products, asset management products and equity derivatives (such as income swaps, futures, options and convertible bonds);
- (iv) Financing transactions – financing transactions among financial institutions with or without guarantees/pledges including, but not limited to, repurchase, usufruct, asset securitization, holding of debt certificates such as short-term commercial papers, subordinated debts and corporate bonds; and
- (v) Other related securities and financial products transactions permitted by the regulatory authorities – including, but not limited to, futures, foreign exchange and bulk commodities trading, options and trading of securities and financial products in the over-the-counter market (including over-the-counter derivatives).

The Group will conduct such transactions with Galaxy Financial Holdings Group on a voluntary and non-exclusive basis.

Pricing basis

The securities and financial products transactions, whether conducted in the PRC interbank bond market, the PRC exchange market, the open-ended fund market or other over-the-counter market, shall be conducted on normal commercial terms at the prevailing market prices or market rates of similar transactions with independent third parties.

LETTER FROM THE BOARD

Transactions in the interbank bond market shall be conducted at the prices quoted in the interbank bond market; transactions in the exchange market shall be conducted at the prevailing market prices in the relevant stock exchanges; transactions in the open-ended fund market shall be priced based on the unit net value of fund products on the date of transaction; transactions in the over-the-counter market shall be determined based on the pricing models of securities and financial products in the over-the-counter market (including over-the-counter derivatives) or by reference to the expected changes in the prices of the underlying targets. The pricings of such transactions are subject to the strict PRC regulatory supervision and the requirements of applicable PRC laws and regulations.

In terms of subscriptions by the Group of the securities and financial products issued by Galaxy Financial Holdings Group and subscription by Galaxy Financial Holdings Group of the securities and financial products issued by the Group, the price and other terms of the subscription shall be on normal commercial terms and the same as those offered to all other investors at the time of their subscription.

In terms of financing transactions, the parties shall conduct such transactions on normal commercial terms at the prevailing market prices or market rates of similar transactions with independent third parties. It is expected that the financing transactions under the New Framework Agreement will mainly include the provision of financing by Galaxy Financial Holdings Group to the Group (including collateralized securities repurchase transactions). Collateralized securities repurchase involves the pledge of securities of the Group, including bonds, shares and structured funds as collateral, to obtain financing from Galaxy Financial Holdings Group, and the Group agrees to repay the funds obtained on a future date to release the pledge. Other than collateralized securities repurchase, the Group is not required to pledge its assets for other financing provided by Galaxy Financial Holdings Group to the Group.

The financing interest rate of collateralized securities repurchase shall be determined by the parties through arm's length negotiation based on the prevailing market price pursuant to the Company's internal policy, the *Implementing Rules for Management of Bonds Proprietary Trading Business* (《債券自營業務管理實施細則》). The market price is generally determined by reference to the weighted average financing interest rate of collateralized securities repurchase transactions with a similar duration on the date of transaction, and having regard to the supply and demand of capital in the market on the date of transaction and the weighted average financing interest rate of the preceding trading day. The weighted average financing interest rate is published by the China Foreign Exchange Trading System & National Interbank Funding Centre (中國外匯交易中心暨全國銀行間同業拆借中心, "NIFC") on a daily basis. The Group will ascertain from time to time that the terms (including the securities to be collateralized and financing period) and interest rates offered by Galaxy Financial Holdings Group are comparable to those offered to independent third party customers of Galaxy Financial Holdings Group (by obtaining terms and interest rates from other major commercial banks to ensure that such terms and interest rates are also comparable to those offered by other comparable financial institutions in the market), so as to ensure the terms and interest rates offered by Galaxy Financial Holdings Group are on normal commercial terms and in line with the prevailing market rates.

LETTER FROM THE BOARD

Term

The Company will enter into the New Framework Agreement with Galaxy Financial Holdings after the approval from the Independent Shareholders is obtained. The New Framework Agreement shall take effect from the date of execution by the parties and remain in force until 31 December 2025.

After the New Framework Agreement takes effect, the *Income Certificate Subscription and Redemption Framework Agreement* (《收益憑證認購與贖回框架協議》) entered into between the Company and Galaxy Financial Holdings on 4 November 2022 (the “**Income Certificate Agreement**”, details of which are set out in the announcement of the Company dated 27 October 2022) will be terminated, and the transactions thereunder and the relevant annual caps will be incorporated into and governed by the New Framework Agreement.

CAP AMOUNTS

Historical transaction figures

Securities and financial products transactions (excluding financing transactions)

For the six years ended 31 December 2022, the historical amounts for the securities and financial products transactions (excluding financing transactions) between the Group and Galaxy Financial Holdings Group were as follows:

RMB in million

Securities and financial products transactions (excluding financing transactions)	For the year ended 31 December 2017		For the year ended 31 December 2018		For the year ended 31 December 2019		For the year ended 31 December 2020		For the year ended 31 December 2021		For the year ended 31 December 2022	
	Annual cap	Historical amount	Annual cap	Historical amount	Annual cap	Historical amount	Annual cap	Historical amount	Annual cap	Historical amount	Annual cap	Historical amount
Total net inflow (Note 1)	63,000	7,724	75,000	3,439	87,000	2,454	–	–	–	535	–	50
Total net outflow (Note 2)	57,000	7,345	70,000	3,517	79,000	2,903	–	11	–	–	–	50

Note 1: includes the cash inflow of the Group generated from the subscription by Galaxy Financial Holdings Group of securities products with fixed income features, fixed income related derivative products and equity related products issued by the Group, and the cash inflow of the Group generated from its redemption of the relevant products issued by Galaxy Financial Holdings Group and subscribed for by the Group.

Note 2: includes the cash outflow of the Group generated from the redemption by Galaxy Financial Holdings Group of securities products with fixed income features, fixed income related derivative products and equity related products issued by the Group and subscribed for by Galaxy Financial Holdings Group, and the cash outflow of the Group generated from its subscription of the relevant products issued by Galaxy Financial Holdings Group.

Note 3: After the expiry of the Original Framework Agreement on 31 December 2019, the Company has assessed the implications of its securities and financial products transactions with Galaxy Financial Holdings under the HKSE Listing Rules on an individual basis and complied with the relevant disclosure requirements under the HKSE Listing Rules in respect of specific transactions (if required).

LETTER FROM THE BOARD

Financing transactions

For the six years ended 31 December 2022, the historical amounts for the financing transactions between the Group and Galaxy Financial Holdings Group were as follows:

RMB in million

Financing transactions	For the year ended 31 December 2017		For the year ended 31 December 2018		For the year ended 31 December 2019		For the year ended 31 December 2020		For the year ended 31 December 2021		For the year ended 31 December 2022	
	Annual cap	Historical amount	Annual cap	Historical amount	Annual cap	Historical amount	Annual cap	Historical amount	Annual cap	Historical amount	Annual cap	Historical amount
The maximum daily balance (including the accrued interest) of the financing provided by Galaxy Financial Holdings Group to the Group through collateralized securities repurchase transactions	10,500	150	10,500	-	10,500	794	-	-	-	-	-	-

Cap amounts

Securities and financial products transactions (excluding financing transactions)

The Company estimates that the cap amounts for the securities and financial products transactions (excluding financing transactions) between the Group and Galaxy Financial Holdings Group under the New Framework Agreement for the three years ending 31 December 2025 will be as follows:

RMB in million

Securities and financial products transactions (excluding financing transactions)	For the year ending 31 December 2023	For the year ending 31 December 2024	For the year ending 31 December 2025
Total net inflow (Note 1)	25,500	30,900	39,100
Total net outflow (Note 2)	26,000	31,400	39,700

Note 1: includes the cash inflow of the Group generated from the subscription by Galaxy Financial Holdings Group of securities products with fixed income features, fixed income related derivative products and equity related products issued by the Group, and the cash inflow of the Group generated from its redemption of the relevant products issued by Galaxy Financial Holdings Group.

Note 2: includes the cash outflow of the Group generated from the redemption by Galaxy Financial Holdings Group of securities products with fixed income features, fixed income related derivative products and equity related products issued by the Group and subscribed for by Galaxy Financial Holdings Group, and the cash outflow of the Group generated from its subscription of the relevant products issued by Galaxy Financial Holdings Group.

LETTER FROM THE BOARD

Financing transactions

The Company estimates that the cap amounts for the financing transactions between the Group and Galaxy Financial Holdings Group under the New Framework Agreement for the three years ending 31 December 2025 will be as follows:

RMB in million

	For the year ending 31 December 2023	For the year ending 31 December 2024	For the year ending 31 December 2025
Financing transactions			

The maximum daily balance (including the accrued interest) of the financing provided by Galaxy Financial Holdings Group to the Group through collateralized securities repurchase transactions	5,300	5,300	5,300
--	-------	-------	-------

Basis of the cap amounts

In estimating the above cap amounts, the Company has considered the following factors:

- (i) The financial market in the PRC continues to develop and new securities and financial products are constantly issued. For example, (a) according to the information provided by Wind Information Co., Ltd. (上海萬得信息技術股份有限公司, “**Wind Information**”), an independent information service provider, the scale of bonds issued in the interbank bond market in the PRC increased from approximately RMB34,416.6 billion in 2019 to approximately RMB47,339.7 billion in 2022, representing a growth of approximately 37.5%; (b) according to the information published by the Asset Management Association of China (中國證券投資基金業協會), the total value of the assets managed by fund companies has experienced a substantial growth, in particular, the size of public funds managed by public fund management institutions grew from approximately RMB14,696.6 billion as at 31 December 2019 to approximately RMB26,035.9 billion as at 31 December 2022, representing a growth of approximately 77.2%; the scale of assets managed by private fund management institutions increased from approximately RMB13,738.6 billion as at 31 December 2019 to approximately RMB20,030.0 billion as at 31 December 2022, representing a growth of approximately 45.8%; and (c) according to the statistics of the PBOC, the RMB bonds issued in the PRC bond market increased from approximately RMB45,361.5 billion in 2019 to approximately RMB61,751.5 billion in 2022, representing a growth of approximately 36.1%. Innovative bond products and asset-backed securities products are also introduced to the market from time to time.

LETTER FROM THE BOARD

- (ii) Along with the continuous development of the financial market in the PRC, the Group also continues to expand its business scale and provide extensive securities and financial products to its customers. The Group has obtained qualifications for engaging in related businesses, including qualifications to conduct national interbank lending business, dealer-quoted bond repurchase business, interest swap business, assets management business, non-equity income swaps business, etc.. The investment scope of the Group now covers cash management, fixed income, equities, derivatives, non-standard financing and asset securitization, etc., enabling the Group to offer diversified securities and financial products and satisfy the demands of its customers in investment and financing. The Group's holding of financial products for sale increased by approximately 71.64% from approximately RMB112.5 billion at the end of 2019 to approximately RMB193.3 billion at the end of 2022; the outstanding balance of the Group's dealer-quoted bond repurchase business on the Shanghai Stock Exchange also increased from approximately RMB10.64 billion at the end of 2019 to approximately RMB23.956 billion at the end of 2022, representing an increase of approximately 125.15%. The development of the industry and the growth of the Group will increase the chances of relevant transactions between the Group and Galaxy Financial Holdings Group.
- (iii) In estimating the cap amounts of the total net inflow and total net outflow of securities and financial products transactions, the Company has considered the development trends of the financial market in the PRC as well as the Group as described above, the plans of the Group and Galaxy Financial Holdings Group for the issue of securities and financial products in the next three years, and the subscription demand of Galaxy Financial Holdings Group for such products. It is expected that the Group's net inflow in the next three years will be generated mainly from the subscription by Galaxy Financial Holdings Group of the products issued by the Group, which will mainly consist of income certificates, collective/single asset management products, asset securitisation products, mutual fund products and derivatives products. In particular, for the three years ending 31 December 2025, it is expected that Galaxy Financial Holdings Group will subscribe from the Group (i) income certificates in an amount of approximately RMB9,050 million, approximately RMB10,005 million and approximately RMB12,050 million, respectively, (ii) collective/single asset management products in an amount of approximately RMB3,820 million, approximately RMB5,120 million and approximately RMB7,420 million, respectively, (iii) asset securitisation products in an amount of approximately RMB200 million, approximately RMB200 million and approximately RMB200 million, respectively, (iv) mutual fund products in an amount of approximately RMB6,639 million, approximately RMB8,631 million and approximately RMB11,220 million, respectively, and (v) derivative products in an amount of approximately RMB1,500 million, approximately RMB1,700 million and approximately RMB1,700 million, respectively. Such estimated net inflow from the subscription by Galaxy Financial Holdings Group of the products issued by the Group has been determined following discussions between the Group and Galaxy Financial Holdings Group and reflected the subscription demand of Galaxy Financial Holdings Group for such products in the next three years. In addition, the Group

LETTER FROM THE BOARD

has estimated its net outflow as a result of the redemption by Galaxy Financial Holdings Group of the products issued by the Group in the next three years on the assumption that most of the products purchased within 12 months would be redeemed. As such, the amount of redemption of each type of products in each year is set at a similar level as the amount of subscription of the relevant products. In estimating the Group's net inflow and net outflow in the next three years, a buffer of approximately 20% has also been provided in each year to accommodate possible market fluctuation and allow for operational flexibility.

- (iv) In estimating the maximum daily balance (including the accrued interest) of the financing provided through collateralized securities repurchase transactions, the Company has considered the financing needs of the Group in the next three years and the financing interest rate of collateralized securities repurchase transactions in the market in recent years. For each of the three years ending 31 December 2025, it is expected that the daily balance (including the accrued interest) of the financing provided by Galaxy Financial Holdings Group to the Group through collateralized securities repurchase transactions will be approximately RMB4,400 million, which has been determined following discussions between the Group and Galaxy Financial Holdings Group with reference to the Group's estimated financing demand and the treasury management need of Galaxy Financial Holdings Group. In estimating the maximum daily balance in the next three years, a buffer of approximately 20% has also been provided in each year to accommodate possible market fluctuation and allow for operational flexibility. According to the monthly reports on the interbank collateralized securities repurchase transactions published by the NIFC, during the period from January 2020 to December 2022, the monthly weighted average interest rate of interbank collateralized securities repurchase transactions with a duration of 7 days ranges from 1.88% per annum to 2.22% per annum.
- (v) After the New Framework Agreement takes effect, the Income Certificate Agreement entered into between the Company and Galaxy Financial Holdings will be terminated, and the transactions thereunder and the relevant annual caps will be incorporated into and governed by the New Framework Agreement. In calculating the cap amounts of securities and financial products transactions (excluding financing transactions) under the New Framework Agreement, the Company has taken into account the cap amount of RMB3,500 million for the subscription or redemption by Galaxy Financial Holdings Group of the income certificates issued by the Group under the Income Certificate Agreement (please refer to the announcement of the Company dated 27 October 2022 for details).
- (vi) The Company and Galaxy Financial Holdings did not renew the Original Framework Agreement after its expiry on 31 December 2019, which affected the frequency and scale of the securities and financial products transactions conducted between the parties and thus resulted in a significant decline of the historical transaction figures since 1 January 2020. 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 securities and financial products. It is expected that

LETTER FROM THE BOARD

after the New Framework Agreement takes effect, the scale of transactions between the parties will increase substantially as compared to the historical transaction figures.

PRICING AND INTERNAL CONTROL PROCEDURES

Securities and financial products transactions under the New Framework Agreement will be conducted mainly in the PRC interbank bond market, the PRC exchange market, the open-ended fund market or other over-the-counter market.

The PRC interbank bond market is an open, highly regulated quote-driven market regulated by the PBOC pursuant to the *Measures for the Administration of Bond Transactions in the National Interbank Bond Market* (《全國銀行間債券市場債券交易管理辦法》). Transactions in the interbank bond market must be reported to the NIFC and be supervised by the NIFC, the China Central Depository & Clearing Co. Ltd. (中央國債登記結算有限責任公司, “CCDC”) and the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會, “NAFMII”). According to the relevant PRC rules and regulations, prevailing market prices in the interbank bond market are determined with reference to the bid and offer prices quoted on the NIFC and all transactions, whether conducted through an authorized intermediate money brokerage firm or a market maker or through over-the-counter negotiations, must be reported to the NIFC and reflected in the price quotations provided by the NIFC and CCDC. According to the self-regulatory rules of the NAFMII (i.e. the *Self-regulatory Rules for Bond Transaction in Interbank Bond Market* (《銀行間債券市場債券交易自律規則》)), any transaction with abnormal pricing (i.e. any deviation of 50% or more from the weighted average financing interest rate published by the NIFC on a daily basis) should be reported to the NAFMII with a detailed explanation of the reasons for the deviation, failing which the NAFMII may take disciplinary action, including public criticism. NAFMII is a self-regulatory organization responsible for supervising interbank transactions.

Transactions in the PRC exchange market must be conducted at the prevailing market prices quoted on the relevant PRC stock exchanges. The exchange market is an order-driven market governed by the CSRC.

The Company has access to the NIFC and CCDC systems and systems of the domestic stock exchanges for PRC interbank bond market and PRC exchange market transactions. It also reviews various bond market information published by the NIFC and CCDC and other agents. The Company has also subscribed for information services provided by Wind Information, and has access to information channels and websites of official and voluntary industry regulatory authorities, such as the Asset Management Association of China, Chinamoney.com.cn and Chinabond.com.cn, etc., which publish periodic official and voluntary statistics/information on the industry from time to time.

The pricing of transactions in the open-ended fund market is determined based on the unit net value of fund products on the date of transaction. The unit net value of such fund products is calculated by dividing the net asset value of the fund products by the total number of the fund units. The net asset value of the fund products is determined based on the China Accounting Standards for Business Enterprises and in accordance with the relevant requirements of the CSRC and the Asset Management Association of China, and taking into

LETTER FROM THE BOARD

account the fund portfolio consisting of securities, bank deposits, receivables and other investments. The calculation of the unit net value of the fund products is set forth in the relevant fund contract and prospectus, and equally applies to all investors of the fund products. Pursuant to the relevant PRC laws and regulations, the unit net value of the fund products determined by fund managers shall be reviewed and examined by the relevant fund custodian bank and publicly disclosed on the relevant fund manager's website and the designated media of the CSRC.

Transactions in the over-the-counter market shall be determined based on the pricing models of securities and financial products in the over-the-counter market (including over-the-counter derivatives) or by reference to the expected changes in the prices of the underlying targets.

The Company has set various risk control indicators, which include a cap on the percentage of the Group's financing amount to its net capital. The relevant business departments of the Group are required to enter into financing transactions in accordance with the internal guidelines and within such cap, and monitor each financing transaction. In addition, pursuant to the relevant PRC laws and regulations, details of any bond transactions with connected persons (such as the collateralized securities repurchase transactions under the New Framework Agreement), including the amount of financing interests, shall be filed with the NIFC and disclosed to the market through the trading system of the NIFC. The transaction price (i.e. financing interests in the case of collateralized securities repurchase transactions) shall be subject to the regulation of the NIFC. If the transaction price deviates from the market price, the transaction parties shall explain the pricing basis and the reasons for such deviation in writing to the NIFC on the date of transaction, and provide the relevant supporting materials as required by the NIFC. The NIFC shall also have the right to conduct investigations on the transaction parties in this regard and report any findings thereof to the PBOC.

In addition, the Group has established its internal guidelines and policies for conduct of different types of securities and financial products transactions, as well as the internal procedures and systems for approval and supervision of such transactions. Such policies and guidelines set out the requirements for pre-trading pricing enquiries, applicable interest rates, procedures for price determination, approval authority and procedures, record keeping, supervision and review procedures for different types of transactions and businesses. In particular, for fixed income products issued by the Group, the Group will make reference to the prices of similar products previously issued by the Group and the prices of similar products issued by major securities firms in the market at the time of the transaction before setting the prices of the products. Where the Group's fixed income products are issued to two or more investors, the yields and other terms applicable to all investors with respect to a particular product shall be the same. For equity products issued by the Group, the Group will not set the product yields or prices as equity products are mainly traded in the exchange market at the prevailing market price in the relevant stock exchanges. For over-the-counter derivative transactions, the Group will seek quotations from a wide range of counterparties in the market and ultimately select the counterparty after taking into account various factors such as interest rate, maturity, underlying target and internal credit line. For financing transactions, before entering into each collateralized securities repurchase transaction with Galaxy Financial Holdings Group, the Company will obtain 5 to 10 reference prices from

LETTER FROM THE BOARD

major commercial banks in the PRC, including approximately 20 policy banks, state-owned commercial banks and state-owned joint-stock banks. As these banks are large commercial banks with good reputation and are the main providers of funds in the market, the Company does not usually adjust the list of banks providing reference prices. The selection of the reference price offered by a particular bank depends on the Company's financing needs, the size of the specific transaction and the availability of funds from the relevant bank on the date of the transaction. All securities and financial products transactions conducted by the Group (including the transactions between the Group and Galaxy Financial Holdings Group) will be recorded in the trading system of the Group. All transactions will also be reported to the Risk Management Department of the Company for risk monitoring.

The relevant business department of the Group is responsible for reviewing and monitoring the actual transaction amounts of various transactions, 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, 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 can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The securities and financial products transactions between the Group and Galaxy Financial Holdings Group can facilitate the use of advantageous resources between the parties and create synergies, thus reducing the Group's overall operating costs and general expenditures. The Group is a leading integrated financial services provider in the PRC securities industry, and is able to provide diversified securities and financial products and services to its clients. Galaxy Financial Holdings Group is a financial holding group with the capital market business as its core and the direct investment and financing as its main function. The subscription by Galaxy Financial Holdings Group of the securities and financial products issued by the Group will enlarge the Group's market share, increase its operating income and boost its brand awareness. The subscription by the Group of the securities and financial products issued by Galaxy Financial Holdings Group will be conducive to the Group's expansion of its investment channels.

Further, the Group intends to obtain financing from Galaxy Financial Holdings Group, including conducting collateralized securities repurchase transactions with Galaxy Financial Holdings Group, so as to expand its financing channels and ensure the safety of its capital chain. Galaxy Financial Holdings and its subsidiary, Galaxy Fund Management Company Limited (銀河基金管理有限公司), are qualified to conduct the relevant transactions.

LETTER FROM THE BOARD

The Directors (including the Independent Non-executive Directors) consider that the transactions under the New Framework Agreement are entered into in the ordinary course of business of the Group, on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and that the cap amounts of such transactions are fair and reasonable. As Mr. CHEN Liang, Mr. YANG Tijun, Ms. LI Hui, Ms. LIU Chang and Mr. LIU Zhihong hold positions in Galaxy Financial Holdings and/or its holding companies, they have abstained from voting on the resolution of the Board to approve the transactions under the New Framework Agreement.

IMPLICATIONS UNDER THE HKSE LISTING RULES

Galaxy Financial Holdings is the controlling shareholder of the Company, holding approximately 50.13% of the total issued Shares of the Company as at the Latest Practicable Date, and is therefore a connected person of the Company. As such, the transactions under the New Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the HKSE Listing Rules. As the applicable percentage ratios as defined under the HKSE Listing Rules in respect of each of (i) the cap amounts of the total net inflow and total net outflow of securities and financial products transactions (excluding financing transactions), and (ii) the maximum daily balance (including the accrued interest) of the financing provided by Galaxy Financial Holdings Group to the Group through collateralized securities repurchase transactions, are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the HKSE Listing Rules.

Pursuant to Rule 14A.90 of the HKSE Listing Rules, financings provided by Galaxy Financial Holdings Group to the Group, other than collateralized securities repurchase transactions, are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements, as such transactions 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.

The Company will seek approval from the Independent Shareholders at the AGM in respect of the transactions under the New Framework Agreement. In view of its interest in the transactions under the New Framework Agreement, Galaxy Financial Holdings, holding 5,186,538,364 Shares of the Company, representing approximately 50.13% of the total issued Shares of the Company as at the Latest Practicable Date, will abstain from voting at the AGM to approve the transactions under the New Framework Agreement.

GENERAL INFORMATION

The Company is a leading integrated financial services provider in the PRC securities industry, providing comprehensive securities services, including brokerage, sales and trading, as well as investment banking and investment management.

LETTER FROM THE BOARD

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 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.

To Receive the Relevant Report:

9. DUTY REPORT OF THE INDEPENDENT DIRECTORS FOR 2022

The duty report of the Independent Directors for 2022 will be submitted to the AGM for Shareholders' review but no Shareholders' approval is required. Details of the report are set out in Appendix IV to this circular for Shareholders' information.

THE AGM

The form of proxy of the AGM is enclosed herewith.

If you intend to appoint a proxy to attend the AGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited (for H Shareholders) and the Office of the Board of Directors of the Company (for A Shareholders) not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof in person or by post. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment thereof if you so wish.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the HKSE Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. As such, the chairman of the AGM will exercise his power under the Articles of Association to demand a poll for all resolutions proposed at the AGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that all resolutions proposed at the AGM are in the interests of the Company and its Shareholders as a whole. As such, the Board recommends you to vote in favour of all the resolutions proposed at the AGM.

Yours faithfully,
By order of the Board
China Galaxy Securities Co., Ltd.
Chen Liang
Chairman

NOTICE OF ANNUAL GENERAL MEETING



中国银河证券股份有限公司
CHINA GALAXY SECURITIES CO., LTD.

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting (the “AGM”) of China Galaxy Securities Co., Ltd. (the “**Company**”) will be held at Conference Room M1919, Qinghai Finance Building, Building No. 1, No. 8 Xiying Street, Fengtai District, Beijing, the PRC on Thursday, 29 June 2023 at 10:00 a.m. for the following purposes:

ORDINARY RESOLUTIONS

1. To consider and approve the final accounts plan of the Company for 2022;
2. To consider and approve the profit distribution plan of the Company for 2022;
3. To consider and approve the annual report of the Company for 2022;
4. To consider and approve the work report of the board of directors of the Company for 2022;
5. To consider and approve the work report of the supervisory committee of the Company for 2022;
6. To consider and approve the capital expenditure budget of the Company for 2023;
7. To consider and approve the appointment of the external auditors of the Company for 2023;
8. To consider and approve the *Securities and Financial Products Transactions Framework Agreement* entered into between the Company and China Galaxy Financial Holdings Company Limited, the transactions thereunder, and the cap amounts for the three years ending 31 December 2025; and

TO RECEIVE THE RELEVANT REPORT

9. To receive the duty report of the independent directors for 2022.

By order of the Board
China Galaxy Securities Co., Ltd.
Chen Liang
Chairman

Beijing, the PRC, 7 June 2023

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by poll. As such, each of the resolutions set out in the notice of AGM will be voted by poll. Results of the poll voting will be published on the Company's website at www.chinastock.com.cn and the HKExnews website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk after the AGM.
2. Any shareholder entitled to attend and vote at the AGM convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him/her. A proxy needs not be a shareholder of the Company.
3. In order to be valid, the form of proxy together with the notarized power of attorney or other documents of authorization, if any, must be completed and returned to the Office of the Board of Directors of the Company (for A Shareholders) or the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited (for H Shareholders), not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof. Computershare Hong Kong Investor Services Limited is located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the AGM or any adjournment thereof should he/she so wish.
4. For the purpose of determining the entitlement of H Shareholders to attend the AGM, the H Share register of members of the Company will be closed from Monday, 26 June 2023 to Thursday, 29 June 2023 (both days inclusive), during which period no transfer of H Shares will be registered. In order to attend the AGM, all share certificates, together with the instruments of transfers, must be lodged for registration with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited (for H Shareholders) at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 23 June 2023.

The Company will announce separately on the Shanghai Stock Exchange details of A Shareholders' eligibility for attending the AGM.

5. The Company proposed to distribute a cash dividend of RMB2,331,574,325.48 (tax inclusive) for 2022 (the **"2022 Final Dividend"**). Based on the Company's total number of issued shares of 10,137,279,676 shares as at 31 December 2022, a cash dividend of RMB2.30 (tax inclusive and the actual amount distributed may be slightly different due to rounding) for every 10 shares is proposed to be distributed. In case of any changes in the total number of issued shares of the Company on the record date (namely 14 July 2023) as a result of placing, repurchase, or conversion of convertible bonds into shares, the amount of cash dividend per share will be adjusted accordingly based on the total amount of RMB2,331,574,325.48 (tax inclusive).

The 2022 Final Dividend will be denominated and declared in RMB, and paid in RMB and in HK dollar to A Shareholders and H Shareholders, respectively. The actual amount distributed in HK dollar will be calculated based on the average benchmark exchange rate for conversion between RMB and HK dollar announced by the People's Bank of China for the five working days prior to the date of the AGM.

For the purpose of determining the entitlement of H Shareholders to the 2022 Final Dividend, the H Share register of members of the Company will be closed from Sunday, 9 July 2023 to Friday, 14 July 2023 (both days inclusive), during which period no transfer of H Shares will be registered. H Shareholders whose names appear on the H Share register of members of the Company on Friday, 14 July 2023 are entitled to the 2022 Final Dividend. In order to be entitled to receive the 2022 Final Dividend, all share certificates, together with the instruments of transfers, must be lodged for registration with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited (for H Shareholders) at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 7 July 2023. The last trading day for H Shares of the Company before ex-dividend will be Wednesday, 5 July 2023, and trading of ex-dividend H Shares shall commence on Thursday, 6 July 2023.

The 2022 Final Dividend (if approved by shareholders of the Company at the AGM) is expected to be distributed on Monday, 28 August 2023 to H Shareholders whose names appear on the H Share register of members of the Company on Friday, 14 July 2023.

NOTICE OF ANNUAL GENERAL MEETING

As for the distribution of the 2022 Final Dividend to the A Shareholders, the record date is Friday, 14 July 2023, and the ex-dividend date and the dividend distribution date are Monday, 17 July 2023. The Company will announce separately on the Shanghai Stock Exchange details of the arrangements regarding the distribution of the 2022 Final Dividend to its A Shareholders.

For Hong Kong investors (including enterprises and individuals) investing in the Company's A Shares via the Shanghai Stock Connect Program, the 2022 Final Dividend will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited to the account of the nominee holding such A Shares. The record date, the dividend distribution date and other arrangements for investors via the Shanghai Stock Connect Program will be the same as those for the Company's A Shareholders.

For Mainland investors (including enterprises and individuals) investing in the Company's H Shares via the Hong Kong Stock Connect Program, the Shanghai Branch and the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, as the nominee of the investors via the Hong Kong Stock Connect Program, will receive the 2022 Final Dividend distributed by the Company and distribute such 2022 Final Dividend in RMB to the relevant investors of H Shares through its depository and clearing system. The record date, the dividend distribution date and other arrangements for investors via the Hong Kong Stock Connect Program will be the same as those for the Company's H Shareholders.

6. Where there are joint holders of any shares, the one whose name stands first in the register of members shall be entitled to attend and vote at the AGM in respect of such shares.
7. Shareholder or his/her proxy shall produce proof of identity when attending the AGM:
 - (1) Legal representatives of legal person shareholders who attend the meeting shall produce their own identity cards and effective proof of their capacity as legal representatives. Proxies of legal person shareholders shall produce their own identity cards and the form of proxy duly signed by the legal representatives or the board of directors or other governing body of the legal person shareholders according to laws; and
 - (2) Individual shareholders who attend the meeting in person shall produce their identity cards or other effective document or proof of identity and stock account cards. Proxies of individual shareholders shall produce effective proof of identity and form of proxy.
8. The AGM is expected to be held for less than half a day. Shareholders who attend the meeting in person or by proxy shall bear their own travelling and accommodation expenses.
9. The Office of the Board of Directors of the Company is located at Qinghai Finance Building, Building No. 1, No. 8 Xiying Street, Fengtai District, Beijing, the PRC.

Tel: 86 (10) 8092 9800

Fax: 86 (10) 8092 6725

As at the date of this notice, 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. LI Hui, 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中国银河证券股份有限公司
CHINA GALAXY SECURITIES CO., LTD.

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

7 June 2023

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS UNDER THE SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS FRAMEWORK AGREEMENT

We refer to the circular of the Company dated 7 June 2023 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the transactions under the New Framework Agreement (including the cap amounts relating thereto) are conducted by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under the New Framework Agreement (including the cap amounts relating thereto).

We wish to draw your attention to the letter from the Board set out on pages 5 to 22 of the Circular, and the letter from Somerley to the Independent Board Committee and the Independent Shareholders set out on pages 27 to 45 of the Circular which contains its opinion in respect of the transactions under the New Framework Agreement (including the cap amounts relating thereto).

Having taken into account the advice of Somerley and its recommendation in relation thereto, we consider that the transactions under the New Framework Agreement (including the cap amounts relating thereto) are conducted by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and its 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 ordinary resolution to be proposed at the AGM to approve the transactions under the New Framework Agreement (including the cap amounts relating thereto).

Yours faithfully,
The Independent Board Committee of
China Galaxy Securities Co., Ltd.
LIU Ruizhong
WANG Zhenjun
LIU Chun
LAW Cheuk Kin Stephen

LETTER FROM SOMERLEY

The following is 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

7 June 2023

*To: the Independent Board Committee and
the Independent Shareholders of
China Galaxy Securities Co., Ltd.*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS UNDER THE SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the New Framework Agreement and the transactions contemplated thereunder together with the proposed annual caps (the “**Annual Caps**”) and maximum daily balances (the “**Maximum Daily Balances**”) of the transactions contemplated under the New Framework Agreement for each of the three years ending 31 December 2025. Details of the New Framework Agreement together with the Annual Caps and the Maximum Daily Balances are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 7 June 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context requires otherwise.

The Board announced on 29 March 2023 that the Company intends to enter into the New Framework Agreement with Galaxy Financial Holdings, pursuant to which the Group will continue to conduct securities and financial products transactions with Galaxy Financial Holdings Group (“**GFHG**”) on normal commercial terms in its ordinary course of business during the period up to 31 December 2025. The Group will conduct such transactions with GFHG on a voluntary and non-exclusive basis.

As stated in the letter from the Board, Galaxy Financial Holdings is the controlling shareholder of the Company, holding approximately 50.13% of the total issued shares of the Company as at the Latest Practicable Date, and is therefore a connected person of the Company. As such, the transactions under the New Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the HKSE Listing Rules.

LETTER FROM SOMERLEY

As the applicable percentage ratios as defined under the HKSE Listing Rules in respect of each of (i) the Annual Caps of the total net inflow and total net outflow of securities and financial products transactions (excluding financing transactions), and (ii) the Maximum Daily Balance (including the accrued interest) of the financing provided by GFHG to the Group through collateralized securities repurchase transactions, are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the HKSE Listing Rules.

The Independent Board Committee, comprising all of the Independent Non-executive Directors, namely Mr. Liu Ruizhong, Mr. Wang Zhenjun, Ms. Liu Chun and Mr. Law Cheuk Kin Stephen ("**Mr. Law**"), has been established to advise the Independent Shareholders as to whether the transactions under the New Framework Agreement (including the Annual Caps and the Maximum Daily Balances thereto) are conducted by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Despite Mr. Law Cheuk Kin Stephen is also the independent non-executive director of the holding company of Somerley Capital Limited, the independent role (i.e. non-participation in the management) of Mr. Law in both the Company and the holding company of Somerley Capital Limited is not considered to affect our independence in performing our duties as required under the Listing Rules. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, Galaxy Financial Holdings, or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the New Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps and the Maximum Daily Balances). Apart from the normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, Galaxy Financial Holdings, or their respective substantial shareholders or associates.

In formulating our opinion, we have reviewed, amongst others, the New Framework Agreement, the annual reports of the Company and the information contained in the Circular. We have also discussed with and reviewed information provided by the management of the Group regarding the businesses of the Group, the prospects of conducting the New Framework Agreement and the transactions contemplated thereunder.

We have relied on the information and facts supplied, and the opinions expressed to us, by management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the

LETTER FROM SOMERLEY

information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice and recommendation with regard to the New Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps and the Maximum Daily Balances), we have taken into account the principal factors and reasons set out below:

1. Information on the Company

The Company is a leading integrated financial services provider in the PRC securities industry, providing comprehensive securities services, including brokerage, sales and trading, as well as investment banking and investment management.

2. Information on the Galaxy Financial Holdings

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 Huijing 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.

3. Reasons for the entering into of the New Framework Agreement

As stated in the letter from the Board, the securities and financial products transactions between the Group and GFHG can facilitate the use of advantageous resources between the parties and create synergies, thus reducing the Group's overall operating costs and general expenditures. The Group is a leading integrated financial services provider in the PRC securities industry, and is able to provide diversified securities and financial products and services to its clients. GFHG is a financial holding group with the capital market business as its core and the direct investment and financing as its main function. The GFHG's subscription of the securities and financial products issued by the Group (the "**GFHG's Subscription**") will enlarge the Group's market share, increase its operating income and boost its brand awareness. The Group's subscription of the securities and financial products issued by GFHG will be conducive to the Group's expansion of its investment channels. Further, the Group intends to obtain financing from GFHG, including conducting collateralized securities repurchase transactions with GFHG, so as to expand its financing channels and ensure the safety of its capital chain. Galaxy Financial Holdings and its subsidiary, Galaxy Fund Management Company Limited (銀河基金管理有限公司), are qualified to conduct the relevant transactions.

Based on the above and given that the entering into of the New Framework Agreement helps (i) secure a long-term collaborative relationship with GFHG which is a large financial institution group with strong presence in the PRC; and (ii) bring additional income to the Group as the management of the Group expects GFHG will increase its purchase of the

LETTER FROM SOMERLEY

Group's financial products under the New Framework Agreement, we concur with the Directors' view that the entering into of the New Framework Agreement is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the New Framework Agreement

Pursuant to the New Framework Agreement, it has been agreed by the parties to enter into a new framework agreement for the period up to 31 December 2025. As advised by the management of the Group, the terms of the New Framework Agreement remain the same as those in the Original Framework Agreement, except for some minor adjustments having been made to the scope of the securities and financial products transactions to be conducted to align the Group's business development. Under the New Framework Agreement, Group will continue to conduct securities and financial products transactions with GFHG on normal commercial terms in its ordinary course of business, which mainly include:

- (i) Securities products with fixed income features – including, but not limited to, bonds, funds, trusts, wealth management products, asset management plans, assets securitization products, bond lending and borrowing, structured products, income certificates, swaps, futures, forwards, options and other financial products with fixed income features;
- (ii) Fixed income related derivative products – including, but not limited to, interest rates and credit derivatives;
- (iii) Equity related products – including, but not limited to, trading and/or subscription of shares (including market-making activities on the National Equities Exchange and Quotation), funds, trusts, wealth management products, asset management products and equity derivatives (such as income swaps, futures, options and convertible bonds);
- (iv) Financing transactions – financing transactions among financial institutions with or without guarantees/pledges including, but not limited to, repurchase, usufruct, asset securitization, holding of debt certificates such as short-term commercial papers, subordinated debts and corporate bonds; and
- (v) Other related securities and financial products transactions permitted by the regulatory authorities – including, but not limited to, futures, foreign exchange and bulk commodities trading, options and trading of securities and financial products in the over-the-counter market (including over-the-counter derivatives).

As advised by the management of the Group, in the next three years, the Group plans to sell the securities and financial products (the “**CGS Products**”) and collateralized securities repurchase products as well as collateralized quoted repurchase products to the GFHG under the New Framework Agreement.

LETTER FROM SOMERLEY

5. Pricing basis

As set out in the letter from the Board, the securities and financial products transactions, whether conducted in the PRC interbank bond market, the PRC exchange market, the open-ended fund market or other over-the-counter market, shall be conducted on normal commercial terms at the prevailing market prices or market rates of similar transactions with independent third parties. Based on our discussion with various departments and subsidiaries of the Group, a summary of the pricing basis and mechanism of the transactions to be carried out under the New Framework Agreement in the next three years has been set out as follows:

Transaction type	Pricing basis and mechanism
(a) Income certificate	<p>Taking into account the Group's capital and market demand, the prices of fixed income certificates are determined with reference to the prices of short-term commercial papers and corporate bonds issued by securities companies and the prices of floating income certificates are determined in accordance with internal developed derivative pricing model and with reference to the market performances of the underlying assets.</p> <p>Once determined, the interest rates and other terms of the income certificates set out in the product brochures will apply to all investors.</p>
(b) Collective/single asset management products	<p>The relevant deal team will determine the prices of the products with reference to (i) the issue price of similar products offered by other banks and trust companies for fixed income type products; and (ii) the initial offer price of the investment funds in the market for equity type products. All subscribers of the collective asset management products will be subject to the same initial offer price, management fee and performance fee as set out in the agreement.</p> <p>The price of the single asset management products and management fee and performance fee are further determined after commercial negotiations between the trustees and the fund managers and subject to internal approval procedures.</p>

LETTER FROM SOMERLEY

Transaction type	Pricing basis and mechanism
(c) Asset securitization products	<p>The prices of asset securitization products are determined by the product manager with reference to credit rating of each tranche, qualification of original equity holders and guarantor, the quality of underlying assets and prevailing market financing rate. The product particulars and terms including prices for each tranche are set out in the product brochures and are the same for all investors.</p> <p>All the Group's asset securitisation products are traded on Shanghai Stock Exchange, Shenzhen Stock Exchange and China Securities Internet System (中證機構間報價系統, a CSRC approved quotation, issuance and transfer platform for non-public offerings).</p>
(d) Mutual fund products	<p>The prices of the mutual fund products for subscription and redemption are determined by their net asset value announced by the product managers on a daily basis, which is calculated by the amortisation of purchase costs of the underlying deposits or bonds after having been adjusted for market changes or is referred to the fair value of actively traded assets, either same as or similar to the underlying assets of the mutual fund products.</p> <p>The product particulars and terms are set out in the product brochures and are the same for all investors.</p>
(e) Over-the-counter ("OTC") equity derivatives	<p>The prices of OTC equity option products are derived by using Black-Scholes model, Monte-Carlo model or binomial options pricing model. The prices are subject to the internal approval procedures.</p> <p>The prices of OTC equity swap products are determined based on the capital costs and trading costs to be incurred from the transaction, with reference to the prevailing market prices of similar products. The prices are subject to the internal approval procedures.</p>

LETTER FROM SOMERLEY

Transaction type	Pricing basis and mechanism
(f) Collateralised securities repurchase products	A sales target is set on a daily basis based on the funding demand arising from the business and operation of the Group. The price of the product is determined before the market open with reference to (i) the prices of similar products offered by the banks and other financial institutions; (ii) the interbank offered rate as quoted by the NIFC or stock exchanges in the PRC; and (iii) recent supply and demand in money market.
(g) Collateralised quoted repurchase products (i.e. Tiantianli (天天利))	<p>A sales target is set on a daily basis before the market open. The price of the product is determined by the proprietary investment headquarter before market open with reference to (i) the overall supply and demand in money market; (ii) the prices of similar products offered by the banks and other financial institutions; and (iii) the interbank offered rate as quoted by the NIFC or stock exchanges in the PRC.</p> <p>The offer rate is set out on the Group's website before trading hours and will not change until market close. The offer rate is the same across all investors.</p>

As advised by the management of the Company, as the Company did not renew the Original Framework Agreement in 2019, the Company only conducted collective asset management product transactions with GFHG in the past three years. All the above financial products, except for single asset management products, OTC equity derivatives and collateralised securities repurchase products, are required to be issued to qualified investors with the same terms set out in the product brochures in compliance with relevant PRC regulations. We have obtained and reviewed sample product brochures for each type of financial products issued by the Group and noted that they were open for all qualified investors to subscribe and all qualified investors are subject to the same terms as set out in the product brochures.

We have discussed with the management of the Group and were advised that single asset management products are highly customised products and their pricing has to go through internal approval procedures. An investment committee comprising senior management (i.e. chairman/general manager), relevant business department, Risk Management Department, Legal and Compliance Department, Operation Support Department, etc. is established to assess new single asset management products. After a new product has been approved by the investment committee, the Product Department initiates a product launch request which sets out the details including the product name, nature, the counterparty, fee rates and as to whether its resolution having been passed at the investment

LETTER FROM SOMERLEY

committee. The request then has to be jointly approved by Marketing Department, Equity Investment Department, Operation Support Department, Risk Management Department and Legal and Compliance Department before it goes to the management for final approval for execution. As advised by the management of the Group, no single asset management product transactions have been entered into with GFHG in the past three years but the aforementioned internal approval procedures are applicable to single asset management product transactions entered into with both GFHG and independent third parties. We have reviewed relevant internal guidance and regulations and noted that those internal approval procedures have been formally documented in the form of internal guidance or regulations and applicable to all single asset management product transactions.

We understand from the management of the Group that OTC equity derivatives are also highly customised products which are governed by internal approval procedures. Prior to the commencement of the trading, the relevant business department shall conduct “know-your-customer” work to verify the identity and risk and financial profiles of the counterparty to the OTC equity derivative transactions. The product structure and pricing of the OTC equity derivatives are prepared by the relevant business department and verified by Risk Management Department taking into account the risk and financial profiles of the counterparty, the underlying securities, prevailing market interest rates, etc.. Depending on the trading scale and risks, the execution of the OTC equity derivative transactions requires approvals from the responsible officer of the relevant business department and/or approvals from managerial staff of the relevant business department and/or approval from chief executives. As advised by the management of the Group, no OTC equity derivative transactions have been entered into with GFHG in the past three years but the aforementioned internal approval procedures are applicable to OTC equity derivative transactions entered into with both GFHG and independent third parties. We have reviewed relevant internal regulations and noted that those internal approval procedures have been formally documented in the form of internal regulations and applicable to all OTC equity derivative transactions.

For collateralised securities repurchase products, we have discussed with the relevant department and reviewed the relevant internal approval procedures, and noted that all collateralised securities repurchase products should trade within the price range determined by the Group before the market open. Any collateralised securities repurchase product transactions with prices deviating from the indicated price range or exceeding trading limit should seek approval from the department head before execution and file all transaction records to NIFC after execution.

Given that (i) the pricing basis and mechanisms of the above financial products are similar to those disclosed in other Hong Kong listed financial institutions’ circulars and commonly seen in the PRC financial markets; (ii) the terms of the financial products are applicable to all qualified investors; and (iii) the pricing of those financial products which are customised for specific clients with prices determined based on one-on-one negotiation, shall obtain internal approvals, we consider the terms under the New Framework Agreement to be fair and reasonable.

6. The Annual Caps and the Maximum Daily Balances

6.1 Overview of the PRC financial market and the Group businesses

PRC financial market overview

Market performance

Based on the statistics extracted from Bloomberg, from 2017 to 2021, Shanghai Composite Index (“SHCI”) closed between 2,464 and 3,715 with its average daily trading volume increasing from RMB18 billion in 2017 to RMB33 billion in 2021. During the same period, Shenzhen Composite Index (“SZCI”) moved between 1,232 and 2,562 with its average daily trading volume increasing from RMB18 billion in 2017 to RMB41 billion in 2021. In the first half of 2022, while the average daily trading volume of both SHCI and SZCI continued their positive growth momentum to reach RMB35 billion and RMB45 billion respectively, their indexes have slipped 7% and 12% respectively as at 30 June 2022 as compared to the start of 2022. In the second half of 2022, while both SHCI and SZCI continued to record a mild decline of 9% and 11% respectively as at 31 December 2022 as compared to 1 July 2022, the average daily trading volume of SHCI decreased by 16% to RMB28 billion and SZCI declined by 5% to RMB41 billion as compared to the first half of 2022.

According to the monthly reports in relation to the PRC bond market issued by Chinabond.com.cn (a website managed by China Central Depository & Clearing Co., Ltd), the bond issue volume went through a stagnant growth in 2017-2018, then increased by 12% in 2019 and by 43% in 2020 before slowing to 4% in 2021. The bond spot settlement volume experienced a significant 34% decrease in 2017 and then rose by 49% in 2018 and 79% in 2019 before backpaddling by an 8% decrease in 2021. In contrast, the repurchase settlement volume exhibited a relatively stable growth trend in 2017-2021, ranging from 14% to 17% year-on-year. In the first half of 2022, the bond issue volume, bond spot settlement volume and repurchase settlement volume achieved substantial year-on-year increases of 23%, 26% and 31%, respectively. In the second half of 2022, the bond issue volume declined by 2% year-on-year while the bond spot settlement volume and repurchase settlement volume recorded substantial year-on-year increases of 27% and 27%, respectively.

Regulations

As advised by the management of the Group, the transactions to be contemplated under the New Framework Agreement mainly involve proprietary trading and other securities trading service business and asset management business.

Boosted by the registration system implemented on the ChiNext board, the STAR board and the Beijing Stock Exchange, the IPO fundraising in the A-share market increased by 8% year-on-year amounting to RMB587 billion in 2022,

LETTER FROM SOMERLEY

against the backdrop of tight monetary policies of major developed countries and bleak economy in post-pandemic world. On 17 February 2023, CSRC announced the “full implementation” of the registration system to cover the remaining stock exchanges (i.e. Shanghai Stock Exchange and Shenzhen Stock Exchange). The PRC Futures and Derivatives Law has become effective from 1 August 2022 and provides a legislation framework of futures and derivatives at a state level.

Guidance Opinions on Regulating the Asset Management Business of Financial Institutions (關於規範金融機構資產管理業務的指導意見) (the “**Guidance Opinions**”) was jointly released by PBOC, CSRC, State Administration of Foreign Exchange and China Banking and Insurance Regulatory Commission in April 2018, which aimed to rectify the irregularities in the PRC asset management industry and mitigate financial risks. On 22 October 2018, CSRC issued Measures for the Administration of Privately Offered Asset Management Business of Securities and Futures Business Institutions (證券期貨經營機構私募資產管理業務管理辦法) and Provisions on the Administration of Operation of Privately Offered Asset Management Plans of Securities and Futures Business Institutions (證券期貨經營機構私募資產管理計畫運作管理規定) (collectively, the “**Detailed Rules for Privately Offered Asset Management Plans**”). As disclosed in the Company’s annual reports for the year ended 31 December 2018, 2019, 2020 and 2021, the scale of asset management of the industry including the Group was suppressed due to the implementation of the Guidance Opinions and Detailed Rules for Privately Offered Asset Management Plans. In 2021, Galaxy Jinhui Securities Asset Management Co.,Ltd (“**Galaxy Jinhui**”, a subsidiary of the Company) had completed the rectifications of privately offered asset management plans in accordance with the relevant regulatory requirements and achieved the large collective product public transformation and its product transformation was basically completed. On 13 January 2023, CSRC released revisions on the Detailed Rules for Privately Offered Asset Management Plans to further revise regulatory requirements in response to market feedback. The management of the Group believes that the customer base and the scale of its asset management business could be expanded further following the completion of asset management product rectification and further improvement of industry policies.

Group business overview

Table 1: The key financials of the Group in 2017-2022 and their respective year-on year growth rate (“YoY”)

	2017	YoY	2018	YoY	2019	YoY	2020	YoY	2021	YoY	2022	YoY
<i>RMB in million</i>	<i>(audited)</i>		<i>(audited)</i>		<i>(audited)</i>		<i>(audited)</i>		<i>(audited)</i>		<i>(audited)</i>	
Total revenue ^(Note)	15,986	-13%	16,235	2%	23,493	45%	31,267	33%	45,277	45%	43,781	-3%
Total assets	254,815	4%	251,363	-1%	315,666	26%	445,730	41%	560,135	26%	625,216	12%

Note: Gains and other income are included.

LETTER FROM SOMERLEY

The Group has achieved double-digit increases in both its total revenue and total assets in 2019-2021 following the stagnant performance in 2017 and 2018. In 2021, the Group's total revenue is almost three times that in 2017 with the total assets having been doubled. In 2022, however, the Group's total revenue suffered a 3% decrease and its total assets only registered 12% increase, the lowest level in the past four years.

As advised by the management of the Group, the transactions to be contemplated under the New Framework Agreement mainly involve proprietary trading and other securities trading service business and asset management business. In 2017-2022, the revenue of proprietary trading and other securities trading service business increases from RMB1,922 million to RMB7,971 million, representing a compound annual growth rate (“CAGR”) of 33%. According to the Company's annual report for the year ended 31 December 2022 (the “**2022 Annual Report**”), the Group's pledged quotation repurchase business on Shanghai Stock Exchange ranked first with outstanding balance of RMB23.956 billion and 819,000 investors as at 31 December 2022. According to the 2022 Annual Report, the Company won the Market Influence Award of the Year and Market Innovation Award in the interbank local currency market from NIFC and was awarded the Golden Award for Excellent Market Makers of Treasury Bond Futures and Outstanding Treasury Futures Teams Award (Proprietary Trading) from the China Financial Futures Exchange as well as Excellent Bond ETF Market Maker and the Excellent Bond Investment Institution (Proprietary) from Shanghai Stock Exchange and the Outstanding Bond Investment Institution (Brokerage Proprietary) and the Outstanding Institution in Cross-Market Bond Trading from the Shenzhen Stock Exchange. In 2017-2018, due to the implementation of new regulations on asset management, de-leveraging, reducing channel business and eliminating multi-level investment, the scale of asset management was suppressed. The Group has completed the rectification of its asset management products by the end of 2021 in accordance with the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (關於規範金融機構資產管理業務的指導意見), which has paved the way for further development of its asset management business. Furthermore, according to the 2022 Annual Report, the Group has fully utilised the approved QDII quota of US\$400 million in 2022. As a result, the asset management business revenue and other income registered a CAGR of 42%, from RMB83 million in 2018 to RMB479 million in 2022.

6.2 Securities and financial products transactions

The sale and purchase of the securities and financial products and the relevant redemption have been categorized into (i) the cash inflow from the GFHG's Subscription of the CGS Products; and (ii) the cash outflow as a result of the redemption (the “**GFHG's Redemption**”) by GFHG of the CGS Products.

We have been provided with the historical transaction amounts as well as projection prepared by the management of the Group for the purpose of determining the Annual Caps, a summary of which and the relevant Annual Caps have been set out as follows:

LETTER FROM SOMERLEY

Table 2: Historical amounts of securities and financial product transactions between the Group and GFHG for 2017-2022

<i>(RMB in million)</i>	For the year ended 31 December					
	2017	2018	2019	2020	2021	2022
Cash inflow <i>(Note 1)</i>	7,724	3,439	2,454	–	535	50
Cash outflow <i>(Note 2)</i>	7,345	3,517	2,903	11	–	50

Notes:

1. It includes the cash inflow of the Group generated from the GFHG's Subscription of securities products with fixed income features, fixed income related derivative products and equity related products issued by the Group, and the cash inflow of the Group generated from its redemption of the relevant products issued by GFHG and subscribed for by the Group.
2. It includes the cash outflow of the Group generated from the GFHG's Redemption of securities products with fixed income features, fixed income related derivative products and equity related products issued by the Group and subscribed for by GFHG, and the cash outflow of the Group generated from its subscription of the relevant products issued by GFHG.
3. After the expiry of the Original Framework Agreement on 31 December 2019, the Company has assessed the implications of its securities and financial products transactions with Galaxy Financial Holdings under the HKSE Listing Rules on an individual basis and complied with the relevant disclosure requirements under the HKSE Listing Rules in respect of specific transactions (if required).

As advised by the management of the Group, the historical transaction amounts of securities and financial product transactions between the Group and GFHG for the three years ended 31 December 2022 were much smaller compared to those for the three years ended 31 December 2017, 2018 and 2019 due to failing to renew the Original Framework Agreement upon its expiry in 2019. Hence, as advised by the management of the Group, they have mainly taken into account the historical transaction amounts in 2017-2019 and the Group's future business plans when determining the Annual Caps.

The Annual Caps for the three years ending 31 December 2023, 2024 and 2025 have been adjusted downward as compared to the previous annual caps for 2017-2019 to reflect the latest business plans of either relevant departments and subsidiaries of the Group or relevant members of the GFHG for the next three years. A buffer of approximately 20% has been provided in each year to accommodate possible market fluctuation and allow for operational flexibility. The breakdown of projected amounts of securities and financial products transactions for 2023-2025 is set out below:

LETTER FROM SOMERLEY

Table 3: Breakdown of projected amounts of securities and financial products transactions for 2023-2025

<i>(RMB in million)</i>	For the year ending 31 December		
	2023	2024	2025
<i>Sale of CGS Products</i>			
Income certificate	9,050	10,005	12,050
Collective/single asset management products	3,820	5,120	7,420
Asset securitisation products	200	200	200
Mutual fund products	6,639	8,631	11,220
Derivative products	1,500	1,700	1,700
Buffer	4,291	5,244	6,510
Cash inflow <i>(Note 1)</i>	25,500	30,900	39,100
<i>Redemption of CGS Products</i>			
Income certificate	9,188	10,203	12,233
Collective/single asset management products	3,574	4,700	6,891
Asset securitisation products	208	208	208
Mutual fund products	6,938	9,020	11,726
Derivative products	1,714	2,014	2,014
Buffer	4,378	5,255	6,628
Cash outflow <i>(Note 2)</i>	26,000	31,400	39,700

Notes:

1. Pursuant to the New Framework Agreement, it includes the cash inflow of the Group generated from the GFHG's Subscription of securities products with fixed income features, fixed income related derivative products and equity related products issued by the Group, and the cash inflow of the Group generated from its redemption of the relevant products issued by GFHG and subscribed for by the Group.
2. Pursuant to the New Framework Agreement, it includes the cash outflow of the Group generated from the GFHG's Redemption of securities products with fixed income features, fixed income related derivative products and equity related products issued by the Group and subscribed for by GFHG, and the cash outflow of the Group generated from its subscription of the relevant products issued by GFHG.

We have discussed with the management of the Group and were advised that the Group's estimated cash inflow in the next three years is expected to be generated from the GFHG's Subscription of CGS Products which consist of income certificate, collective/single asset management products, asset securitisation products, mutual fund products and derivatives products. Accordingly, the Group has estimated its cash outflow as a result of GFHG's Redemption in the next three years on the assumption that most of the CGS Products purchased within 12 months would be redeemed.

LETTER FROM SOMERLEY

Income certificate

As advised by the Product Centre of the Group, the estimated cash inflow from the GFHG's Subscription of income certificate has been determined following discussion between the Product Centre of the Group and the relevant members of GFHG. We have obtained and reviewed the confirmations from the relevant members of GFHG regarding their demand for income certificate in the next three years and noted that they align the estimated subscription amount of income certificate in the Group's projection. As advised by the Product Centre of the Group, income certificate is a short-term financial product and they thus expect that the GFHG's Redemption of income certificate would take place within one year. As such, the cash outflow as a result of the GFHG's Redemption of income certificate is expected to be the cash inflow from the GFHG's Subscription of income certificate plus interests which is determined with reference to current income certificate rate.

Collective/single asset management products

As at 31 December 2022, the scale of collective/single asset management products amounted to RMB114.999 billion. As advised by the management of the Group, it is a common market practice for a professional investor's subscription for not more than 20% in a collective asset management product and GFHG's Subscription of single asset management products is expected to follow the similar pattern. Galaxy Jinhui projects that the GFHG's Subscription of collective/single asset management products could be up to 20% of the total collective/single management products issued by the Group at most. In addition, Galaxy Jinhui expects that most of the GFHG's Redemption of collective/single asset management products would take place within one year. We noted that the estimated cash inflow or outflow for collective/single asset management products to be purchased or redeemed by the GFHG in the next three years does not exceed 20% of the scale of the collective/single asset management product issued by the Group as at 31 December 2022.

Asset securitisation products

Based on the information provided by the management of the Group, the Group's asset securitization products can be categorized into (i) pessimistic; (ii) neutral; and (iii) optimistic. The Group plans to increase the new issuance of neutral and optimistic products by 45% and 117% in 2023; 25% and 17% in 2024; and 20% and 14% in 2025 and reduce the new issuance of pessimistic products by 27.5% in 2023 but increase it by 50% in 2024 and 33% in 2025. The management of the Group expects to underwrite the new issuances of RMB1 billion for each of 2023-2025, accounting for 17-50% of the estimated new issuances during the year and successfully procure the GFHG's Subscription up to 20% each year. We noted that the estimated cash inflow or outflow for asset securitisation products to be purchased or redeemed by the GFHG does not exceed 20% of the Group's estimated new issuances for 2023-2025.

LETTER FROM SOMERLEY

Mutual fund products

When determining estimated cash inflow from the GFHG's Subscription of mutual fund products and cash outflow as a result of the GFHG's Redemption of mutual fund products, Galaxy Jinhui has taken into consideration that (i) the Group's continuous efforts in developing mutual fund products and favourable industry policies as discussed in section 6.1 above; (ii) the scale of major mutual fund products issued in the market (including those of the Group) in 2022 and historical growth in the scale of those products; and (iii) the current performance of major mutual fund products issued by the Group. As advised by Galaxy Jinhui, (i) the average scale of major mutual fund products issued by the Group ranged from RMB0.9 billion to RMB6 billion; and (ii) the target annual returns of the major mutual fund products issued by the Group ranged from 2.8% to 9%. It is noted that the maximum scale of the mutual fund products under the same categories in the market amounted to RMB17.8 billion in 2022. In addition, based on market statistics collected by the Galaxy Jinhui, it has seen an over 50% annual growth in the scale of those major fund products in recent years. Galaxy Jinhui estimates that most of GFHG's Redemption of mutual fund products would take place within one year. As such, the cash outflow from the GFHG's Redemption of mutual fund products is expected to be the cash inflow from the GFHG's Subscription of mutual fund products plus returns which are determined with reference to the recent returns of major mutual fund products issued by the Group. We noted that the estimated cash inflow for the mutual fund products to be purchased by the GFHG in 2023 is close to the high end of the range of average scale of major mutual fund products issued by the Group and the year-on-year increases represented by the estimated cash inflow in each of 2024 and 2025 are not higher than the highest annual growth seen in the scale of those mutual fund products in recent years as aforementioned. The estimated cash outflow for the mutual fund products to be redeemed by the GFHG in the next three years is the sum of (i) the estimated cash inflow and (ii) an estimated return which falls within the range of target annual returns of the major mutual fund products issued by the Group.

Derivative products

As advised by the Creative Investment Department of the Group and Galaxy Derivatives Capital Management Co. Ltd. ("**Galaxy Derivatives**", a subsidiary of the Company), the estimated cash inflow from the GFHG's Subscription of derivative products has been determined following discussion among the Creative Investment Department of the Group and Galaxy Derivatives and the relevant members of GFHG as well as based on the historical transaction amounts and the Group's OTC business development plan. We have obtained and reviewed the confirmations from the relevant members of GFHG regarding their demand for derivative products issued by the Group in the next three years and noted that they align the estimated subscription amount of derivative products in the Group's projection. As advised by the Creative Investment Department of the Group and Galaxy Derivatives, derivative product is a short-term financial product and they thus expect that the GFHG's Redemption of derivative products would take place

LETTER FROM SOMERLEY

within one year. As such, the cash outflow as a result of the GFHG's Redemption of the income certificate is expected to be the cash inflow from GFHG's Subscription of the income certificate plus potential gains which is determined with reference to historical gains of the Group's derivative products.

Buffer

A buffer of 20% has been provided in projection for each of 2023, 2024 and 2025 to accommodate possible market uplift and allow for operation flexibility. To assess the fairness and reasonableness of the buffer, we have analysed the PRC financial market performance and the Group's performance since 2017. For details of our work done in this regard, please refer to section 6.1 above. We noted that the PRC financial markets can be volatile and the Group's performance can be heavily influenced by the market conditions and regulatory changes with the annual growth of its revenue ranging from -13% to 45% in 2017-2022. Furthermore, we have reviewed circulars in relation to similar transactions issued by other Hong Kong listed securities companies which have also adopted buffers when projecting the caps and disclosed such buffers in the circulars, and noted that their buffers ranged from 8% to 50%. Given that (i) the PRC financial markets and the Group's performance exhibited unpredictableness and volatility as discussed in section 6.1 above; (ii) the buffer of 20% adopted by the Company falls within the range of buffers adopted by other Hong Kong listed securities companies for similar transactions; and (iii) an inadequate buffer may impose undue restrictions on future business operations of the Group, we consider the buffer of 20% to be fair and reasonable.

6.3 Financing Transactions

The financing transactions refer to the provision of financing by GFHG to the Group through collateralized securities repurchase transactions. A summary of the highest daily balances of the collateralized securities repurchase products for 2017-2022 are set out below:

Table 4: Historical highest daily balances for 2017-2022:

(RMB in million)	For the year ended 31 December					
	2017	2018	2019	2020	2021	2022
Historical highest daily balances	150	–	794	–	–	–

As advised by the management of the Group, there is no financing transaction between the Group and GFHG during the three years ended 31 December 2020, 2021 and 2022 due to the failing to renew the Original Framework Agreement upon its expiry in 2019. Hence, as advised by the management of the Group, they have mainly taken into account the historical transaction amounts in 2017-2019 and the Group's future business plans when determining the Maximum Daily Balances.

LETTER FROM SOMERLEY

The Maximum Daily Balances for the three years ending 31 December 2025 have been adjusted to be around half of the previous caps for maximum daily balances for the three years ended 31 December 2019 (i.e. RMB10,500 million for each of the three years ended 31 December 2019) to reflect the latest business plans of the FICC Business Department of the Group for the next three years. A buffer of approximately 20% has been provided in each year to accommodate possible market fluctuation and allow for operational flexibility, which we consider to be fair and reasonable taking into account the same reasons and factors as discussed in section 6.2 above. The Maximum Daily Balances for 2023-2025 are set out below:

Table 5: Maximum Daily Balances for 2023-2025:

(RMB in million)	For the year ending 31 December		
	2023	2024	2025
Estimated highest daily balance	4,400	4,400	4,400
Buffer	900	900	900
Maximum Daily Balances	5,300	5,300	5,300

We have discussed with the management of the Group, the Group may seek financing from GFHG through collateralised securities repurchase products and collateralised quoted repurchase products. As advised by the management of the Group, the estimated highest daily balances of the collateralised securities repurchase products for 2023-2025 have been determined with reference to the Group's estimated financing demand and GFHG's treasury management need. According to the Company's 2022 Annual Report, the Group's pledged quotation repurchase business on Shanghai Stock Exchange ranked first with outstanding balance of RMB23.956 billion and 819,000 investors as at 31 December 2022. The estimated highest daily balances of the collateralised securities repurchase products and collateralised quoted repurchase products have been determined following the commercial discussion between the Group and GFHG. We have obtained and reviewed the GFHG's confirmations, and noted that the estimated highest daily balances of collateralised securities repurchase products and collateralised quoted repurchase products are in line with its treasury management needs in the next three years.

7. Internal Control Procedures for the transactions contemplated under the New Framework Agreement

As advised by the management of the Group, the Group has adopted a series of internal control procedures to safeguard the interests of the Group and Independent Shareholders in conducting the transactions contemplated under the New Framework Agreement, which are summarised as follows:

- (i) The Company has set various risk control indicators, which include a cap on the percentage of the Group's financing amount to its net capital. The relevant business departments of the Group are required to enter into financing transactions in accordance with the internal guidelines and within such cap, and monitor each financing transaction.

LETTER FROM SOMERLEY

- (ii) The Group has established internal guidelines and policies for conducting different types of securities and financial products transactions, as well as the internal procedures and systems for approval and supervision of such transactions. Such policies and guidelines set out the requirements for pre-trading pricing enquiries, applicable interest rates, procedures for price determination, approval authority and procedures, record keeping, supervision and review procedures for different types of transactions and businesses.
- (iii) The relevant business department of the Group is responsible for reviewing and monitoring the actual transaction amounts of various transactions, 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 GFHG, 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.

To assess whether the Company has complied with the internal control procedures above when conducting those securities and financial transactions, we have reviewed (i) historical transaction amounts as disclosed in the Company's annual reports and the previous caps under the Original Framework Agreement and noted that the historical transaction amounts did not exceed the previous caps; and (ii) sample product brochures for standardised securities and financial products and internal guidance and regulations for highly customised securities and financial products which have documented the internal approval procedures for execution of the transactions under the New Framework Agreement as discussed in section 5 above, and noted that terms of the standardised securities and financial products and the internal approval procedures for highly customised securities and financial products are formally documented and applicable to all relevant transactions entered into with both GFHG and independent third parties. Furthermore, we have reviewed circulars in relation to continuing connected transactions issued by other Hong Kong listed companies, and noted that the internal control procedures adopted by the Company are similar to those adopted by other Hong Kong listed companies for monitoring continuing connected transactions. Given that (i) the Group has established internal guidelines and policies as well as internal procedures and systems to monitor the securities and financial products transactions; (ii) the designated departments or committee would review the transactions contemplated under the New Framework Agreement; (iii) the Independent Non-executive Directors will, pursuant to Rule 14A.55 of the HKSE Listing Rules, review, among other things, whether the transactions contemplated under the New Framework Agreement are conducted on normal commercial terms; (iv) the auditors of the Company will, for the purpose of Rule 14A.56 of the HKSE Listing Rules, review, among other things, whether the transactions contemplated under the New Framework Agreement are conducted in accordance with its terms; (v) we noted that the historical transactions have complied with the pricing policies and historical transaction amounts did not exceed the previous caps based on our work done as discussed above; and (vi) those internal control procedures adopted by the Company are similar to those adopted by other Hong Kong listed

LETTER FROM SOMERLEY

companies, we are of the view that there are sufficient measures in governing the transactions to be contemplated under the New Framework Agreement and safeguarding the interests of the Company as well as Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that: (i) the transactions contemplated under the New Framework Agreement are in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the New Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps and the Maximum Daily Balances) are on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favor of the ordinary resolution to be proposed at the annual general meeting in relation to the New Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps and the Maximum Daily Balances).

Yours faithfully, for and on behalf of
SOMERLEY CAPITAL LIMITED
Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the Securities Futures Commission to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

1. RESPONSIBILITY OF THE DIRECTORS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the HKSE Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors, Supervisors and chief executive of the Company or their respective associates 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) which (i) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 to the HKSE Listing Rules.

3. EMPLOYMENT OF DIRECTORS AND SUPERVISORS WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, Mr. CHEN Liang, Mr. YANG Tijun, Ms. LIU Chang and Mr. LIU Zhihong, all being Directors, are directors of Galaxy Financial Holdings; and Ms. LI Hui, a Director, is an employee of Central Huijin. Each of Galaxy Financial Holdings and Central Huijin has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. MATERIAL ADVERSE CHANGES

The Directors confirm that there had been no material adverse changes in the financial or trading position of the Group from 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up, to the Latest Practicable Date.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had any existing or proposed service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their close associates had interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosed under the HKSE Listing Rules.

7. OTHER ARRANGEMENTS INVOLVING DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date:

- (a) none of the Directors or Supervisors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (b) none of the Directors or Supervisors had any direct or indirect interest in any assets which had been since 31 December 2022 (the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by, (ii) leased to, (iii) are proposed to be acquired or disposed of by, or (iv) are proposed to be leased to, any member of the Group.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice, which are contained or referred to in this circular:

Name	Qualification
Somerley	a corporation licensed to carry out business in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Somerley:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 7 June 2023 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 2022 (the date to which the latest published audited accounts 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. DOCUMENTS ON DISPLAY

A copy of the New Framework Agreement is available on the HKExnews website of the Hong Kong Exchanges and Clearing Limited (<https://www.hkexnews.hk>) and the website of the Company (<https://www.chinastock.com.cn>) from the date of this circular up to and including the date of the AGM.

WORK REPORT OF THE BOARD OF DIRECTORS FOR 2022

Dear Shareholders,

According to the relevant requirements of laws and regulations and the Articles of Association, the major work carried out by the Board in 2022 are reported as follows:

The year 2022 was an extremely important year in the Chinese history, during which, the 20th National Congress of the Communist Party of China was successfully held in China, depicting a grand blueprint for building a modern socialist country in all respects. It was also the closing year of the Company's current strategic plan and the year for formulating its new strategy. During the year, the Board adhered to the guidance of Xi Jinping's thought on socialism with Chinese characteristics for a new era, studied and implemented the spirit of the 20th National Congress of the Communist Party of China in great depth, and upheld the regulatory requirements of the securities industry of "Four Awes and One Joint Effort". The Board deeply leveraged the macro-economic situation and changes in the market environment, actively fulfilled the duties of "developing strategies, making decisions, and preventing risks", made scientific decisions and performed duties efficiently in accordance with the Articles of Association, procedural rules and relevant regulations. Taking the formulation of strategic assessment and plan as an opportunity, the Board continued to focus on the construction of a multi-level capital market system and the development trend of the securities industry in innovation, and further promoted the market-oriented, platform-based and digital development of the Company as well as the transformation and coordinated development of its core business, which effectively enhanced the ability of the Company to serve national strategies, promote the development of real economy and provide comprehensive financial services to its customers. In the meanwhile, the Board coordinated the development and safety of the Company, comprehensively reinforced the corporate governance capabilities of the Company within the Group, optimised the management mechanism for authorization, improved the supervision system for comprehensive risk management and internal control compliance, actively responded to various challenges brought about by changes in the capital market environment, and made capital replenishment, so as to foster the business development of the Company. As a result, the Company has recorded steady progress in its operating performance with enhanced quality, and new remarkable achievements have been made in various tasks. The overall development of the Company has maintained a good and upward trend.

Part I Major Work in 2022

During the year, the Board conscientiously performed the duties stipulated by laws and regulations and the Articles of Association. It convened two general meetings, at which 15 matters were considered and one matter was heard. It convened ten Board meetings, at which 62 matters were considered and 11 matters were heard. The specialised committees under the Board convened 24 meetings. In particular, the Strategic Development Committee convened six meetings, considered 23 matters and heard two matters. The Compliance and Risk Committee convened three meetings, considered nine matters and heard two matters. The Nomination and Remuneration Committee convened seven meetings and considered 11 matters. The Audit Committee convened eight meetings, considered 16 matters and heard six matters.

During the reporting period, the Board focused on the following tasks:

I. Properly completing the tasks in relation to the closing of the current strategic plan and the formulation of a new strategy

The year 2022 was the closing year of the Company's current strategic plan and the year for formulating its new strategy. The Board actively pushed forward the formulation of a new strategy and carefully considered the direction of the Group for development. **Firstly, the Board properly completed the tasks in relation to the closing of the current strategic plan of the Company.** Looking back over the past five years, despite facing the complex business environment and arduous tasks for reforms and development, the Board took the strategic plan as a starting point, aimed at enhancing the market competitiveness of the Company, and promoted the implementation of the strategic plan for the purpose of achieving good results. As of the end of 2022, the Company's total assets and net assets exceeded RMB600 billion and RMB100 billion, respectively, solidifying its comprehensive competitive strength in the first echelon of the industry. **Secondly, the Board clarified the requirements for the formulation of the strategic plan.** The Board proposed that the Company's new strategy should closely stick to the 14th Five-Year Plan, directly address the shortcomings of the Company in its current work, introduce more targeted and effective work measures for the strategic plan, and accelerate the launch of initiatives against the "areas of weaknesses". The Board should make long-term plans based on the actual situation, and consider thoroughly about the work goals, implementation measures and development paths of the Company for the next three years. **Thirdly, the Board took an active role in guiding the formulation of the new strategy.** All Directors communicated with members of the drafting group on a voluntary basis, proactively offered guidance and advice in respect of the new strategy, participated in the "One-on-one Interview for Strategic Plan", and answered the "30 Common Questions for Strategic Plan" in writing. Based on a full assessment of the internal and external development environments, the Board gave the guidance on the drafting of the *Strategic Plan of China Galaxy Securities (2023-2025)* (Draft for Discussion), defining the development philosophy of the Company as creating a "Five-in-One" business model and building a "Three Plus One" system and mechanism to promote the high-quality development of the Company in the next three years.

II. Revising the corporate governance system and completing the election of executive Directors and appointment of senior management officers to further improve the corporate governance structure of the Company

In 2022, centring on the "scientific, standardised, simple and effective" concepts, the Board continued to follow up changes in regulatory regulations, sorted out and studied such regulations in a timely manner, and spared no effort to build an "excellent, sound and efficient" corporate governance mechanism. In accordance with the new laws, regulations and regulatory requirements issued by the CSRC and securities exchanges, the Board made amendments to nine internal rules and regulations, including the *Measures for the Management of Funds Raised by China Galaxy Securities Co., Ltd.* and the *Management System of China Galaxy Securities Co., Ltd. for Standardizing Fund Transfer with Connected Parties* to ensure that the corporate governance system was in line with new laws and regulations, and adapted to the needs of the Company for business development. In addition, the Company completed the appointment of executive Directors and senior management

officers, elected Mr. CHEN Liang as the Chairman of the Company, Mr. WANG Sheng as an executive Director and President of the Company, Mr. LUO Liming as the Vice President, member of the Executive Committee and Chief Information Officer of the Company, and Mr. DU Pengfei as the Business Director, member of the Executive Committee and Secretary to the Board of Directors of the Company, further improving the corporate governance structure of the Company.

III. Pursuing the transformation and development of wealth management and investment banking businesses

In 2022, the Board strongly pursued high-quality development, vigorously promoted the transformation of wealth management and investment banking businesses, and achieved remarkable results. **Firstly**, the Board deeply promoted the transformation of wealth management, optimised and adjusted the organisational structure of wealth management lines, and created a flat, agile, innovative, professional and collaborative “advanced organisation”, so as to further unleash the efficiency of the Company in developing the business. **Secondly**, the Board kicked off the professional reform of investment banking business, optimised and adjusted the internal organisational structure and staffing arrangement of investment banking business, set up professional departments/groups and middle office teams according to the equity financing business and debt financing business, and improved the work system and mechanism, further enhancing the professional capability and standard of the investment banking team. In 2022, the Company won the “Rapid Progress Award for IPO Underwriting in A-share Market”, the “Best Equity Underwriter of the Beijing Stock Exchange” and the “Best Underwriter of Financial Bonds – Excellent Broker Award” in the list of the best investment banks published by Wind.

IV. Vigorously promoting the construction of Smart Galaxy

The Board attached great importance to the situation that the new round of financial technology revolution represented by big data, artificial intelligence, blockchain, cloud computing, 5G and mobile internet was overlapped with the reform and development of the securities industry, which brought continuous challenges and development opportunities to the digitisation level of the securities industry. The Board thoroughly studied the “*14th Five-Year Plan*” for Digital Economy Development issued by the State Council and the “*14th Five-Year Plan*” for the Technological Development of the Securities and Futures Industry issued by the CSRC, actively embraced the wave of digital transformation, escalated digital transformation and financial technology to the strategic level of the Company, fully promoted the construction of “Smart Galaxy”, consistently increased investment in technology and personnel, improved the information technology security management system of the Company, further promoted the deep integration of financial technology and business development, drove business transformation and upgrading, and increased technology application and innovation in wealth management, risk management and other fields.

V. Improving capital management capability to effectively reduce costs and increase efficiency

In 2022, the Board focused on the development strategy of the Company, continued to study and determine the situation of the capital market and the development trend of the securities industry, and consistently optimised the structure of assets and liabilities on the condition that risk control indicators were ensured to meet the external regulatory and internal control requirements, further improving the standard of refined capital management and the efficiency in capital utilisation. The Board supported the Company to replenish its capital through multiple channels. During the year, the Company completed the issuance of RMB7.8 billion convertible bonds, and received the regulatory approval in respect of the issuance of RMB15.0 billion perpetual bonds, providing sufficient financial support to the Company for its business expansion. Meanwhile, the Company continued to optimise its financing strategy in light of market changes, carefully and flexibly took advantage of the pace of financing, and effectively reduced the costs of its existing financing costs through various means such as extending the term of bonds, increasing the proportion of short-term financing and using interest rate derivatives, consistently consolidating the effect of cost reduction.

VI. Strongly promoting the construction of corporate culture and enhancing the soft power of the Company

The Board attached great importance to and actively responded to the deployment and requirements of industry regulatory agencies and self-regulatory organisations on strengthening cultural construction, and earnestly implemented the same. **Firstly**, the Board sped up the construction of the Galaxy cultural brand of “innovation, compliance, service, and collaboration”, and organically integrated the construction of corporate culture with the strategic development, corporate governance, business development, and fulfilment of social responsibilities of the Company to provide value guidance and spiritual support for its long-term, stable and healthy development, transforming the influence of cultural brands into the Company’s competitive advantage. **Secondly**, the Board ensured to invest resources in cultural construction, further increased training and promotion for the construction of corporate culture, regularly held special activities in relation to cultural construction, and gave full play to the motivation and initiative of grassroots organisations through the combination of cultural construction with party building and trade union activities, continuously improving the soft power and core competitiveness of the Company with unremitting efforts.

VII. Facilitating subsidiaries to make breakthroughs in business operation and management

In 2022, the Board pushed forward the capital replenishment of subsidiaries in an orderly manner, studied the business development trend of Galaxy Futures, Galaxy International Holdings and Galaxy Yuanhui in great depth, and scientifically demonstrated the necessity of capital increase, approving to increase the capital of Galaxy Futures by RMB2.2 billion, the capital of Galaxy International Holdings by HK\$1.6 billion, and the capital of Galaxy Yuanhui by RMB2.0 billion to support the subsidiaries to grow and strengthen their businesses. Meanwhile, subject to compliance with laws and regulations, the

Board promoted the business collaboration between the parent company and subsidiaries, and continued to strengthen the capabilities of the parent company and subsidiaries in business collaboration and resources consolidation through methods such as optimising the setting of assessment indicators, so as to consolidate the foundation of comprehensive financial services within the Company and the Group on an ongoing basis. The Board supported subsidiaries to serve the national strategies by giving full play to their professional advantages. In particular, Galaxy Futures capitalised on its advantage of being the number one in the “insurance + futures” industry and successively carried out “insurance + futures” projects in four national key counties for rural revitalisation, namely Jingning in Gansu Province, Shimen in Hunan Province, Fangchenggang in Guangxi Province and Wuzhishan in Hunan Province, to promote the healthy development of rural industries and serve the purpose of rural revitalisation. In 2022, five subsidiaries realised a total operating income of RMB19.875 billion and a total net profit of RMB1.064 billion, and the profitability of the subsidiaries was further enhanced.

VIII. Building a strong line of defence for risk control and continuing to promote compliance operation

In 2022, in the face of severe and complex market environment and challenges, the Board actively fulfilled the responsibility of “risk prevention”, comprehensively strengthened the risk management and control of the Group, and improved the penetrating full-coverage risk management operation mechanism covering subsidiaries and off-balance sheet businesses, so as to enhance risk management in a proactive, professional, and forward-looking manner. The Board also continued to listen to the report of the Company on risk management through regular meetings, provided guidance and requirements on key issues in a forward-looking manner, and steadfastly pursued the approach of “moving ahead of the market in addressing risks”.

Moreover, the Board also adhered to the principle of “never touching the red line, never stepping on the grey zone, never playing edge ball” and “pursuing liabilities for violation of disciplines and regulations”, and strictly held on to the bottom line of compliance. The Board consistently enhanced its capabilities of compliance management of new businesses, continued to improve the compliance management system of the Company, coordinated the relationship between the compliance and development of the Company, and further promote the construction of compliance culture. The Board also practically proceeded with anti-money laundering tasks, and established an integrated prevention and control mechanism for anti-money laundering monitoring, evaluation, early warning, and handling.

IX. Actively expanding international business

In 2022, the Board accelerated the process of building an international investment bank, focusing on promoting the integration and in-depth coordination of domestic and overseas investment banking businesses. The number and amount of projects underwritten by the Company reached a record high, and breakthroughs were made in overseas government bonds and local bonds, Central Europe GDR, green bonds, Euro bonds and other fields, with the market influence of the Company significantly increasing, and its cross-border service capability growing remarkably. The process of the merger and acquisition by Galaxy International Holdings of CGS-CIMB was proceeded in an orderly manner. At the end of

2022, the shareholding percentages of Galaxy International Holdings in CGS-CIMB Securities International Pte. Ltd (“**CGS-CIMB Securities**”) and CGS-CIMB Holdings Sdn. Bhd (“**CGS-CIMB Holdings**”) were increased to 75.00% and 74.99%, respectively. CGS-CIMB Securities and CGS-CIMB Holdings maintained absolute leading positions in the ASEAN core market, and their stock brokerage business continued to rank first in the Singapore market and rose from the third to the first in the Malaysian market.

X. Giving full play to financial advantages and fulfilling social responsibilities

In 2022, the Board actively facilitated the Company to act as a bridge between the capital market and the real economy, and to serve the real economy while actively integrating into innovation-driven development, serving regional coordinated development, and contributing to “carbon neutrality” and green development. It also procured the Company to shoulder social responsibilities in the fields of developing inclusive finance and promoting common prosperity, demonstrating the functions of finance in serving the people. In 2022, the Company served 1,694 micro, small and medium-sized enterprises (MSMEs), an increase of over 400% from 2021, and innovated the “three-party pledge financing + value preservation” model, which helped MSMEs to address the risk of price fluctuations. The Hainan Free Trade Port Fund was established, and 10 sub-funds and multiple projects were implemented. The “Deqing Model” assisted 21 companies to have been listed on the “Deqing High-tech Board”, contributing to the high-quality development of the local economy. The Company also underwrote the first green automobile instalment asset-backed securities, which helped Baotou Steel Group to launch the first full-process, integrated, and closed-loop CCUS project in the national steel industry. The Company created the “National First Inclusive Agriculture Aid ABS Credit Protection Certificate” to promote rural revitalization.

XI. Properly completing the tasks in relation to information disclosure, investor management and connected transactions

The Board attached great importance to the management level and quality of information disclosure, and made information disclosure in a “true, accurate, complete, timely and fair” manner in strict compliance with laws and regulations, the Articles of Association and the provisions of the *Management System for Information Disclosure of the Company*, which ensured the timeliness and fairness of information disclosure and protected the legitimate rights and interests of investors. In 2022, the Company issued 158 A-share announcements, and 181 H-share announcements.

The Board attached great importance to the management of investor relations and led the Company to build various communication channels (including communication on-site, by telephone and Internet) and an investor relationship management platform covering various communication methods such as results briefings, roadshows, reception of investors for research, company website, investor hotline and email, and actively strengthened the interaction and communication with investors by actively participating in the e-interaction platform of the Shanghai Stock Exchange, organising investor open day activities, attending seller-side institutional investment strategy meetings or investment forums and other forms

of activities, which increased the transparency of the Company and ensured that investors could understand the situation of the Company in a timely, accurate and comprehensive manner.

The Board of the Company conducted connected transactions in strict compliance with the SSE Listing Rules, the HKSE Listing Rules, the *Management System for Information Disclosure of the Company* and the *Measures for the Administration of Connected Transactions of the Company*. The connected transactions were conducted based on the principles of impartiality, openness and fairness, and the connected transaction agreements of the Company were entered into based on the principles of equality, voluntariness, equivalence and compensation. The Board continued to strengthen the identification of connected parties, compliance review of connected transactions, and organisation and decision making of major connected transactions, and strictly implemented the requirements of internal rules and regulations such as the provision of independent opinions by Independent Directors in respect of major connected transactions and the abstention of connected Directors, with a view to safeguarding the legitimate rights and interests of all Shareholders.

XII. Seriously convening general meetings and efficiently implementing any resolutions adopted by the general meetings

The Board diligently performed the duties of the convener of general meetings in accordance with the relevant provisions of laws, regulations and the Articles of Association. In 2022, the Board convened two general meetings, considered and approved 15 resolutions and heard one report. The Board actively and effectively organised and implemented the resolutions adopted by the Shareholders at general meetings, and successfully completed the election of Directors and Supervisors, remuneration settlement of senior management, profit distribution, appointment of accounting firms, and issuance of perpetual subordinated bonds.

Part II Directors' Performance of Duties in 2022

During the reporting period, all Directors strictly abided by laws and regulations and the Articles of Association, and performed their statutory duties diligently, responsibly, in good faith and in compliance with laws and regulations. The Directors gained an understanding of the actual situation of the Company's operation and management in a timely manner and obtained first-hand information for decision-making by conducting in-depth investigation and study on branch offices, securities branches and the departments of the headquarters. Through a combination of centralised training and personal self-study, the Directors actively participated in various trainings to constantly enhance their ability to perform duties. In 2022, all the Directors completed a substantial amount of work in aspects such as the preparation of strategic plan, establishment of governance systems, capital replenishment, financial technology, compliance risk control, performance assessment, information disclosure, corporate culture and social responsibility. The professional advantages of the specialised committees and Independent Directors were fully exerted.

APPENDIX II WORK REPORT OF THE BOARD OF DIRECTORS FOR 2022

I. Attendance of Directors at Board Meetings in 2022

Name of Director	Required attendance at Board meetings	Attendance in person	Attendance by proxy	Absence	Number of resolutions required for voting	Number of resolutions actually voted
CHEN Liang ¹	10	10	0	0	59	59
WANG Sheng ²	4	4	0	0	27	27
CHEN Gongyan ³ (Resigned)	4	4	0	0	35	34
LIU Dingping ⁴ (Resigned)	7	7	0	0	42	42
YANG Tijun	9	9	0	0	61	61
LIU Chang	9	9	0	0	61	61
LIU Zhihong	9	9	0	0	61	61
LIU Ruizhong	10	10	0	0	62	62
WANG Zhenjun	10	10	0	0	62	62
LIU Chun	10	10	0	0	62	62
LAW Cheuk Kin, Stephen	10	10	0	0	62	62
JIANG Yuesheng	9	9	0	0	62	62

Notes:

- On 13 July 2022, at the ninth meeting (extraordinary) of the fourth session of the Board, it was agreed for Mr. CHEN Liang to serve as the Chairman of the Board.
- On 18 August 2022, Mr. WANG Sheng was elected as an executive Director of the fourth session of the Board at the first extraordinary general meeting of the Company in 2022. On the same date, at the tenth (extraordinary) meeting of the fourth session of the Board, it was agreed for Mr. WANG Sheng to serve as the Vice Chairman of the Board and concurrently as a member of each of the Strategy and Development Committee and the Compliance and Risk Management Committee.
- On 13 July 2022, at the ninth meeting (extraordinary) of the fourth session of the Board, it was agreed that Mr. CHEN Gongyan ceased to be the Chairman of the Board of the Company. On 18 August 2022, at the first extraordinary general meeting of the Company in 2022, it was agreed that Mr. CHEN Gongyan ceased to be an executive Director of the Company.
- On 30 September 2022, the Board received a resignation letter from Mr. LIU Dingping, applying for resignation from his positions in the Board and various specialised committees of the Company. According to the Articles of Association, Mr. LIU Dingping ceased to be a Director of the Company from that date.

APPENDIX II WORK REPORT OF THE BOARD OF DIRECTORS FOR 2022

II. Participation by Directors of training courses in 2022

No.	Training date	Main content	Directors who participated in the training
1	28 January 2022	Interpretation of the key points in the “Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (Revised in January 2022)” and supporting self-regulatory guidelines	CHEN Gongyan, CHEN Liang, LIU Dingping, YANG Tijun, LIU Chang, LIU Zhihong, LIU Ruizhong, WANG Zhenjun, LIU Chun, LAW Cheuk Kin, Stephen, and JIANG Yuesheng
2	8 February 2022	Interpretation of the revision of self-regulatory rules for listed companies	CHEN Gongyan, CHEN Liang, LIU Dingping, YANG Tijun, LIU Chang, LIU Zhihong, LIU Ruizhong, WANG Zhenjun, LIU Chun, LAW Cheuk Kin, Stephen, and JIANG Yuesheng
3	15 April 2022	“Guidelines for the Effective Operation of the Audit Committee – Selection, Appointment and Reappointment of Auditors”	CHEN Gongyan, CHEN Liang, LIU Dingping, YANG Tijun, LIU Chang, LIU Zhihong, LIU Ruizhong, WANG Zhenjun, LIU Chun, LAW Cheuk Kin, Stephen, and JIANG Yuesheng
4	5 June 2022	Second follow-up training program for independent directors of listed companies for 2022	LAW Cheuk Kin, Stephen
5	4 August 2022	The current anti-money laundering regulatory situation, the characteristics of money laundering and terrorist financing risk management in the securities industry, and self-assessment of money laundering and terrorist financing risks	YANG Tijun
6	27 October 2022	The latest ESG regulatory requirements and prospects	CHEN Liang, WANG Sheng, YANG Tijun, LIU Chang, LIU Zhihong, LIU Ruizhong, WANG Zhenjun, LIU Chun, LAW Cheuk Kin, Stephen, and JIANG Yuesheng

Part III Work Highlights for 2023

The year 2023 marks the beginning of the *Strategic Development Plan of China Galaxy Securities (2023-2025)*. The Board will adhere to the general keynote of seeking progress while maintaining stability, closely pursue high-quality development, deeply engage in principal obligations and businesses by adopting customer-centric approach, fully promote reforms and innovation, and firmly hold on to the bottom line of financial risks, with a view to continuously transforming the achievements of the Company in business transformation into the “development index” representing national prosperity, the “happiness index” indicating the people’s life, and the “rising index” demonstrating the growth of the Company.

I. Pushing forward the implementation of the *Strategic Development Plan of China Galaxy Securities (2023-2025)*

In 2023, the Board will strengthen the organisation and coordination of the implementation of the strategic plan in accordance with the strategic goals, development tasks, implementation steps and key tasks in 2023 as contemplated in the *Strategic Development Plan of China Galaxy Securities (2023-2025)*, supervise the process of implementing the strategic plan, conduct an annual assessment on its implementation, and promote strategic management that covers every aspect of the business activities in 2023.

II. Effectively fulfilling the social responsibilities of the Company as a state-owned enterprise

In 2023, the Board will continue to strengthen the role and commitment of the Company as the “national team” of the securities industry, focus on the deployment of the Party Central Committee in building a modern industrial system, promoting coordinated regional development, comprehensive rural revitalisation, high-level opening up, and diversifying inclusive financial services, promote the close connection and deep integration of the Company’s development with the national development blueprint, plan new development opportunities for the Company in serving the national strategy, and realise greater achievements in integrating into and serving the national strategy.

III. Deeply promoting the construction of corporate culture

In 2023, the Board will continue to strengthen the construction of a modern investment banking culture and create a distinctive cultural brand of China Galaxy. **Firstly**, the Board will deeply implement the requirements for the cultural construction of the securities industry, promote the combination of the Company’s business operation and management with the requirement of serving the national strategy, demonstrate the corporate image of a responsible state-owned financial enterprise, and continue to enhance the Company’s cultural influence and reputation. **Secondly**, the Board will explore ways and means to expand brand culture construction, and improve the integrated communication and management system for cultural bands of the Company.

IV. Constantly managing the capital of the Company in a proper manner

In 2023, the Board will remain focused on the management of the Company's assets and liabilities, consistently promote the optimisation of the structure of such assets and liabilities, and facilitate the transformation of the Company's assets and liabilities from "expanding the balance sheet" to "stabilising the balance sheet" and "managing the balance sheet". **Firstly**, the Board will study the needs of capital resource allocation in relation to the Company's new strategic plan, properly complete the forward-looking study on the capital scale and capital replenishment methods required for the business development of the Company, and continuously improve the level of refined capital management. **Secondly**, the Board will strengthen leverage management, coordinate the Company's leverage level, and promote the establishment of a leverage control and distribution mechanism, so as to ensure that the leverage level of the Company meets its strategic goals and regulatory requirements.

V. Comprehensively enhancing the competitiveness of business

In 2023, the Board will fully coordinate and promote the "Five-in-One" business system of the Company to comprehensively enhance the competitiveness of its business. **Firstly**, the Board will further promote the transformation and development of wealth management business. **Secondly**, the Board will promote professional construction and market-oriented reform of investment banking business. **Thirdly**, the Board will re-arrange institutional business and consolidate resources to improve services. **Fourthly**, the Board will fully empower international business and improve the system for the products and services of international business. **Fifthly**, the Board will further expand the market-making business and the scale of customer-need driven transactions.

VI. Accelerating the high-quality development of subsidiaries

In 2023, the Board will take "customer-centric" as the starting point, adhere to the "integration of parent company and subsidiaries", promote the strategic coordination of parent company and subsidiaries, consolidate and strengthen the business collaboration of the parent company with futures, asset management, direct investment and alternative subsidiaries, their resource matching and incentives methods, and continue to increase income and profit contribution. Meanwhile, the Board will further improve the vertical penetrating management and control model of subsidiaries, and continue to optimise the "Six-in-One" subsidiary management system and mechanism with "strategy, capital, authorisation, assessment, internal control, and cadres" as the basic elements.

VII. Properly conducting compliance and risk control management

In 2023, the Board will firmly establish the concept of "prudent and stable operation", further improve the comprehensive risk management system, consistently proceed with the work related to consolidated management, and effectively carry out full-coverage and penetrating risk management. The Board will further focus on risk-prone areas and key business areas, strengthen the prevention and control of external shocks and risks such as geopolitical risks, and enhance the capabilities of risk source management, process control, risk emergency response and risk mitigation. The Board will properly handle the

relationships between business development and compliance risk control and between integrity and innovation, and pursue the prudent and healthy development of the Company, so as to ensure a steady and long-term progress for the Company.

VIII. Promoting the digital transformation of the Company

In 2023, the Board will strengthen the top-level design to promote the digital transformation of the Company further in all aspects. With data as the foundation and digital technology playing a supporting role, the Board will promote the deep integration of technology and business, and drive the business model reconstruction and the innovation and upgrade of operation and management to comprehensively improve customer experience, change products and services, enhance the efficiency in employee collaboration, optimise operating processes and strengthen risk management and control for building a new competitive advantage for the Company, which will bring new value growth points to the Company.

IX. Promoting the comprehensive coordination of the Company's business lines

In 2023, the Board will facilitate the Company to break down the barriers among various business lines and between business lines and subsidiaries, subject to the satisfaction of compliance requirements such as conflict of interest management, to achieve the business transformation from “license-centred” to “customer-centred” approach, improve the level of comprehensive financial services in the long run, and meet the business needs of customers at different stages and levels.

X. Continuously improving the corporate governance

In 2023, the Board will further strengthen its own development, constantly improve governance systems, conduct investigation and research and business exchanges in relation to the new strategic plan, further strengthen interaction with the capital market, enhance the transparency of the Company, continuously optimise the corporate governance system, and safeguard investors' right to information.

It is hereby reported.

The Board of Directors of China Galaxy Securities Co., Ltd.

WORK REPORT OF THE SUPERVISORY COMMITTEE FOR 2022

Dear Shareholders,

With the vigorous support from the Shareholders throughout the year, the Board, the Supervisory Committee and the business management earnestly performed their respective duties, and continued to promote the reforms and development of the Company. The Company maintained stable operating results, with its industry ranking continuing to improve. The Group recorded consolidated operating income of RMB33.64 billion, and net profit of RMB7.76 billion. The operating income of the Group ranked 3rd in the industry, up two places from last year, and its net profit ranked 6th in the industry, up two places from last year.

In accordance with the requirements of the *Company Law*, the *Securities Law*, and the relevant regulations of the CSRC, the Shanghai Stock Exchange and the Hong Kong Stock Exchange, the Supervisory Committee implemented the decisions and arrangements made by the higher authority and the Party Committee of the Company. The Supervisory Committee deeply understood the significance of the 20th National Congress of the Communist Party of China. Pursuant to the responsibilities and requirements stipulated by laws and regulations and the Articles of Association, the Supervisory Committee closely focused on the goal of “giving full play to the role of the Supervisory Committee, and steadily advancing the modernisation of governance capabilities”, continuously escalated the political position of supervision, strived to exercise its supervisory duties in compliance with laws and regulations and in a scientific and effective manner, which protected the legitimate rights and interests of the Shareholders, the Company and employees, and aimed at promoting the high-quality development of the Company to facilitate the Company to enhance its ability to serve the major strategies of China with high-efficiency systems and mechanisms. The work report of the Supervisory Committee for 2022 is hereby mainly presented as follows:

I. MEETINGS AND ATTENDANCE DURING THE REPORTING PERIOD**(I) Meetings of the Supervisory Committee and attendance**

The Supervisory Committee convened a total of eight meetings, at which 24 resolutions were considered and approved. The details are as follows:

1. The 2022 first extraordinary meeting of the fourth session of the Supervisory Committee was convened on 12 January 2022, at which the “Resolution on the Adjustment to the Issuance Scheme Relating to the Public Issuance of A Share Convertible Corporate Bonds of the Company”, the “Resolution on the Proposed Plan Relating to the Public Issuance of A Share Convertible Bonds of the Company (Revised Draft)”, the “Resolution on the Feasibility Report on the Use of Proceeds from the Public Issuance of A Share Convertible Bonds of the Company (Revised Draft)”, and the “Resolution on the Dilution of Current Return by the Public Issuance of A Share Convertible Bonds and Remedial Measures of the Company (Revised Draft)” were considered and approved.

2. The 2022 second extraordinary meeting of the fourth session of the Supervisory Committee was convened on 27 January 2022, at which the “Resolution on the Proposal for the Election of Ms. QU Yanping as the Chairman of the Fourth Session of the Supervisory Committee of China Galaxy Securities Co., Ltd.” was considered and approved.
3. The 2022 first meeting (regular) of the fourth session of the Supervisory Committee was convened on 30 March 2022, at which the “Resolution on Reviewing the Work Report of the Supervisory Committee of China Galaxy Securities Co., Ltd. for 2021”, the “Work Highlights of the Supervisory Committee of China Galaxy Securities Co., Ltd. for 2022”, the “Resolution on the Recommendation of Candidates for Shareholder Representative Supervisors of the Fourth Session of the Supervisory Committee of China Galaxy Securities Co., Ltd.”, the “Resolution on Reviewing the 2021 Annual Report of China Galaxy Securities Co., Ltd.”, the “Resolution on Reviewing the 2021 Final Accounts Plan of China Galaxy Securities Co., Ltd.”, the “Resolution on Reviewing the 2021 Profit Distribution Plan of China Galaxy Securities Co., Ltd.”, the “Resolution on Reviewing the 2022 Work Plan of China Galaxy Securities Co., Ltd.”, the “2021 Compliance Report of China Galaxy Securities Co., Ltd.”, the “2021 Risk Management Report of China Galaxy Securities Co., Ltd.”, the “2021 Internal Control Assessment Report of China Galaxy Securities Co., Ltd.”, and the “2021 Social Responsibility & Environmental, Social and Governance Report of China Galaxy Securities Co., Ltd.” were considered and approved, and the “2021 Report on Anti-Money Laundering Work of China Galaxy Securities Co., Ltd.” and the “2021 Report on Integrity Management of China Galaxy Securities Co., Ltd.” were heard.
4. The 2022 third extraordinary meeting of the fourth session of the Supervisory Committee was convened on 29 April 2022, at which the “Resolution on Reviewing the 2022 First Quarterly Report of China Galaxy Securities Co., Ltd.” was considered and approved, the report on the compensation for duty performance and business expenditures of the leading team members, and the report on the risk exposures of the Company were heard.
5. The 2022 fourth extraordinary meeting of the fourth session of the Supervisory Committee was convened on 27 May 2022, at which the “Procedural Rules of the Supervisory Committee of China Galaxy Securities Co., Ltd. (Revised Draft)”, and the “Measures for the Supervision of the Supervisory Committee of China Galaxy Securities Co., Ltd. (Revised Draft)” were considered and approved.
6. The 2022 fifth extraordinary meeting of the fourth session of the Supervisory Committee was convened on 29 June 2022, at which the “Resolution on Adjusting the Composition of the Financial Monitoring Committee of the Supervisory Committee of China Galaxy Securities Co., Ltd.” was considered and approved.

APPENDIX III WORK REPORT OF THE SUPERVISORY COMMITTEE FOR 2022

7. The 2022 second meeting (regular) of the fourth session of the Supervisory Committee was convened on 30 August 2022, at which the “Resolution on Reviewing the 2022 Interim Report of China Galaxy Securities Co., Ltd.”, the “Resolution on Reviewing the Special Report on the Deposit and Actual Use of the Proceeds in the First Half of 2022” were considered and approved, and the “Report on Risk Self-Assessment on Money Laundering and Terrorist Financing of China Galaxy Securities Co., Ltd.” and the “Report on Deficiencies Found in Evaluation of Internal Control and Rectification of Problems in 2021” were heard.
8. The 2022 third meeting (regular) of the fourth session of the Supervisory Committee was convened on 27 October 2022, at which the “Resolution on Reviewing the 2022 Third Quarterly Report of China Galaxy Securities Co., Ltd.”, and the “Resolution on Signing the Framework Agreement for the Subscription and Redemption of Income Certificates between the Company and Galaxy Financial Holdings and Setting the Cap for Connected Transactions of Income Certificates” were considered and approved.

The attendance of Supervisors at meetings of the Supervisory Committee is as follows:

Name of Supervisors	Position	Required attendance during the year	Actual attendance	Of which		
				On-site attendance	Attendance by telephone	Attendance by proxy
QU Yanping	Shareholder Supervisor and Chairperson of the Supervisory Committee	8	8	5	3	0
WEI Guoqiang	Shareholder Supervisor	3	3	1	1	1
TAO Libin	External Supervisor	8	8	5	3	0
CHEN Jijiang	Employee Supervisor	8	8	5	3	0
FAN Minfei	Employee Supervisor	8	8	5	3	0
Number of Supervisory Committee meetings convened during the year				8		
Of which	On-site meetings held			5		
	Number of meetings convened by way of combination of on-site and telephone			3		

Notes:

1. The fourth session of the Supervisory Committee convened the 2022 second extraordinary meeting on 27 January 2022, at which, Ms. QU Yanping was elected as the Chairperson of the Supervisory Committee.
2. The Company convened the 2021 annual general meeting on 29 June 2022, at which Mr. WEI Guoqiang was elected as a shareholder Supervisor of the fourth session of the Supervisory Committee.

(II) General meetings and attendance

During the reporting period, the Supervisors attended all general meetings, including the 2021 annual general meeting and the 2022 first extraordinary general meeting.

During the year, the Supervisory Committee submitted three resolutions to the general meetings: the “Work Report of the Supervisory Committee for 2021”, and the “Resolution on Revising the Procedural Rules of the Supervisory Committee”, and the “Resolution on the Proposal for the Election of Mr. WEI Guoqiang as a Shareholder Supervisor of the Fourth Session of the Supervisory Committee”.

II. MAJOR WORK OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

With the support from the Shareholders and Party Committee of the Company, the election of the new chairperson of the fourth session of the Supervisory Committee and the change of members of the same session were completed, and the number of members and composition of the Supervisory Committee were in line with the provisions of the Articles of Association. In accordance with the relevant requirements of the Articles of Association and the *Measures for the Supervision of the Supervisory Committee*, the Supervisory Committee performed its supervisory duties in compliance with laws and regulations, strengthened supervision in four aspects, urged the Company to enhance its operation and management standard, and reinforced risk prevention capabilities, thus achieving the sustainable development of the Company.

(I) Oversight of the performance of duties

During the year, three meetings of the Performance Monitoring Committee were held. Supervisors attended the meetings of the Board and its specialised committees as well as relevant meetings of the business management as non-voting participants, maintained written records of the attendances of and any speeches made by the members of the Board and business management at such meetings, supervised the legality and compliance for convening of meetings, review and approval of resolutions, and decision-making process, and kept abreast of the operation and management of the Company and the progress of implementing major decisions and arrangements, thereby exercising the oversight of the performance of duties by the Board, the business management and their respective members in an objective and fair manner. Supervisors also issued an evaluation of performance of duties to the parties associated with

governance in accordance with the *Measures for the Supervision and Management of Directors, Supervisors, Senior Management and Practitioners of Securities and Fund Management Institutions*.

1. Oversight of the performance of duties by the Board and its members

The Board held ten Board meetings and 24 specialised committee meetings throughout the year, and Supervisors attended all on-site and telephone meetings, reviewed the materials of the meetings convened and voted through communication, and supervised the whole process of the procedures for the convening of the Board meetings to ensure compliance with laws and regulations.

The Supervisory Committee was of the view that in 2022, the Board performed its duties pursuant to the requirements of the *Company Law*, the Articles of Association and the *Procedural Rules of the Board of Directors*, observed the market supervision policies of the Mainland China and Hong Kong, and maintained regulated operation in the aspects such as corporate governance, information disclosure and investor relations. Directors were able to perform their duties diligently and give full play to their professional advantages to actively express their opinions. No Directors of the Company were found to have violated laws and regulations, the Articles of Association, or causing harm to the legitimate rights and interests of Shareholders, the Company, and employees when performing their duties.

2. Oversight of the performance of duties by the business management and its members

The business management held 32 Executive Committee meetings throughout the year, and Supervisors attended all on-site meetings. In the middle of the year, the Supervisory Committee organised and reviewed the semi-annual written report on the duty performance of senior management officers, and simultaneously increased the dimension of evaluating the duty performance of senior management officers. The Supervisory Committee also listened to the special reports given by relevant functional departments such as finance, risk, audit, compliance and case prevention. The Supervisory Committee made a true and objective evaluation of the duty performance of the senior management officers in aspects such as the compliance with laws and regulations, due diligence, and their ability to perform duties, and offered management advices to the business management of the Company.

The Supervisory Committee was of the view that in 2022, the business management of the Company focused on key tasks such as business development as required under the arrangement of the higher authority, implemented the decisions of the Party Committee and the Board of the Company with firm determination, actively promoted the implementation of various decisions, and better improved its performance ranking. The Company did not have any major risk events throughout the year. The senior management officers of the Company were able to perform duties conscientiously. No senior management officer was

found in any violation of laws and regulations and the Articles of Association, or causing harm to the legitimate rights and interests of Shareholders, the Company, and employees when performing their duties.

3. *Oversight of the compensation for duty performance and business expenditures of the leading team members*

The Supervisory Committee clarified the provisions on the oversight of the compensation for duty performances and business expenditures of senior management officers in the *Procedural Rules of the Supervisory Committee* and the *Measures for the Supervision of the Supervisory Committee*, and heard the report on the 2022 budget for the compensation for duty performance of senior management officers and the implementation of the 2021 budget.

4. *Economic liabilities audit on senior management officers*

Pursuant to the Articles of Association and relevant requirements, two resignation audits and one in-office audit on senior management officers were conducted during the year with the Supervisory Committee as the main responsible body and supplemented by the audit headquarters and an external accounting firm, and audit reports were submitted in accordance with regulatory requirements.

(II) Financial oversight

During the year, five meetings of the Financial Monitoring Committee were held. The Supervisory Committee strengthened the supervision and review of the preparation of regular reports, paid close attention to major financial incomes and expenditures, important financial decision-making matters, implementation of accounting policies, accomplishment of the major financial and operating indicators of the Company, and management advice on an annual review of the Company, etc. and facilitated the Company to continuously enhance the quality of its financial information and the standard of financial management.

1. *Issuing written review opinions on the regular reports prepared by the Board during the Reporting Period*

The contents and format of the quarterly, half-year, and annual reports of the Company were compliant with the requirements of regulatory authorities, which could reflect the actual situation of the operation and management as well as the financial position of the Company in a true, accurate and complete manner. The preparation and review procedures of the reports were compliant with relevant laws and regulations, the Articles of Association, and the requirements of the internal management rules of the Company. No personnel involving in the preparation and review of the reports was found in any violation of the provisions of confidentiality.

2. Receiving the independent report of Ernst & Young Hua Ming LLP on the Company's annual report audit

The Committee members communicated among themselves with respect to the overall work of the Company's annual audit and major concerns. Ernst & Young Hua Ming LLP audited the 2021 financial report of the Company and issued a standard audit report with unqualified opinions, which gave an objective view of the Company's financial position and operating results.

3. Receiving the independent special report on important business performance indicators and financial indicators by relevant financial controller

The Supervisory Committee reviewed the resolutions on the annual business and financial plan, final accounts plan and profit distribution plan of the Company and other resolutions, paid close attention to important events and major changes in relevant data, and promoted the improvement of the asset and liability management level of the Company.

(III) Oversight of risk compliance and internal control

The Supervisory Committee reviewed the annual compliance report, annual risk management report and annual internal control evaluation report of the Company during the reporting period, and had no objection to the contents contained therein. The Supervisory Committee also received the report of the Compliance Director on the Company's compliance management, anti-money laundering and integrity management, and issued supervisory opinions based on his comprehensive understanding of the overall operation of the Company and the current situation of compliance management, risk management, and internal control management of the Company. The Supervisory Committee strengthened the effectiveness of risk compliance and internal control management, promoted the Company to persistently establish and improve a "clear, accessible and manageable" risk prevention and control system, and held on to the bottom line of zero systemic risk.

1. Receiving the independent report on special issues of risk management of the Company

The Supervisory Committee focused on the money laundering risk management and the results of preventing and mitigating major risks, put forward supervision and management advice on money laundering risks, and requested the Company to organise relevant departments to carry out rectifications in respect of any common issues identified by the PBOC during the anti-money laundering law enforcement and inspection, so as to improve the quality and efficiency of the anti-money laundering work of the Company.

2. *Receiving the independent report on deficiencies found in the evaluation of internal control and rectification of problems*

The Supervisory Committee put forward the suggestion of “classification management and hierarchical supervision” for the problems identified in internal control, and issued a supervision report on the internal control evaluation and rectification for submission to the business management.

3. *Receiving the independent report on the Company’s major special audit projects*

The Supervisory Committee gained an in-depth understanding of the Company’s strategy and the special audit on five major reforms, promoted the transformation of strategy implementation into the driving force for sustainable development during its supervision, and recommended the effective use of audit results in formulating the new strategic plan.

(IV) Information disclosure and supervision

The Supervisory Committee strengthened its role in the supervision of information disclosure and urged the Company to make simultaneous amendments to the relevant policies of the Company in accordance with the *Measures for the Administration of Information Disclosure by Listed Companies* issued by the CSRC, and the “Resolution on the Amendments to the Measures for the Administration of Information Disclosure of the Company” was considered and approved at the thirteenth meeting (extraordinary) of the fourth session of the Board. The Supervisory Committee actively supported, cooperated with and supervised the Board to make information disclosure for performing the obligation of the Company as a A+H listed company. The Company disclosed 339 announcements and other information, including regular reports, provisional announcements and corporate governance documents, in a true and accurate manner for the year.

During the reporting period, the Supervisory Committee did not discover any violation of laws and regulations in the information disclosure of the Company.

(V) Investigation and research

At the beginning of the year, the Supervisory Committee set the key focus for investigation and research based on the work objectives of the Company, conducted investigation and research at the grassroots level, and completed the investigation and research on Jiangsu Branch and its sales department in its jurisdiction after taking into account the central inspection and rectification and the requirements of the “five major reforms” of the Company, thus giving full play to the role of the Supervisory Committee in supervision, inspection and supervision implementation, and promoting branches to provide high-quality comprehensive financial services.

The Supervisory Committee received visitors from the supervisory committee of ICBC Wealth Management Co., Ltd. for exchange of opinions, which facilitated both parties to promote the improvement of the corporate governance of state-owned financial enterprises, improved the ability to serve the real economy and major national strategies, and achieved “mutual learning, mutual promotion and win-win situation”.

(VI) Democratic supervision

In accordance with the requirements of the Articles of Association and the *Procedural Rules of the Supervisory Committee*, the employee Supervisors solicited opinions from all employees of the Company before the regular meeting of the Supervisory Committee, and reported the employees’ appeals to the Supervisory Committee at regular meetings. The Supervisory Committee, after discussion, sent such appeals to relevant departments in the form of memorandums for their study and urged them to give replies in respect thereof, which gave full play to the function of democratic supervision in solving the problems reflected by employees on a collective basis. Focused on the needs of employees, the employee Supervisors strongly guaranteed the health supplies of employees by making use of the advantages of their positions, which enabled employees to gain a great sense of security and happiness, and effectively safeguarded their rights and interests.

(VII) Learning and training

In order to further consolidate the responsibility for inspection and rectification, the Supervisory Committee arranged more than 40 persons such as supervisors and directors of the parent company and subsidiaries, heads of their relevant functional departments and directors and supervisors of their shareholders, invited experts from law firms to give a special training titled “How does the Supervisory Committee exert its functions effectively under the new situation?”, and urged the Supervisors and relevant personnel to familiarise with regulatory policies, industry trends, peer advantages and the spirits of relevant documents to earnestly shoulder the responsibilities and missions of the new development stage, and contribute their professional strength to the Company’s high-quality development.

All Supervisors of the Supervisory Committee participated in the “Fifth and Sixth Special Training Sessions for Directors and Supervisors of Listed Companies in the Beijing Area” organised by the Beijing Securities Regulatory Bureau, the “7th – 9th Training Series for the Supervisory Committee of Listed Companies” held by the China Association of Listed Companies, and the “Annual Anti-Money Laundering Training for All Staff” and the “Training on Latest ESG Regulatory Requirements and Outlook” held by the Company; and the new shareholder Supervisors participated in the “2022 Fourth Training for First-time Directors, Supervisors and Senior Management (Compulsory for Companies Listed on the Main Board)” organised by the Shanghai Stock Exchange, with 36 participants and 135 class hours, and all Supervisors completed the learning objectives as required.

(VIII) Awards

The Supervisory Committee participated in the assessment and selection of the “Best Practice Cases of the Supervisory Committee of Listed Companies” organised by the China Association of Listed Companies, and issued the report of “Exploring Innovative Practical Measures under the New Situation to Contribute to the High-quality Development of the Company”, and won the “Best Practice Award” in terms of relevant materials related to 45 indicators of corporate governance.

III. OPINIONS GIVEN BY THE SUPERVISORY COMMITTEE WITH RESPECT TO THE RELEVANT ISSUES OF THE COMPANY

During the reporting period, the Supervisory Committee supervised the material issues including the documents prepared by the Board for the issuance of securities and the management of the Company’s connected transactions, seriously performed the duties of supervision and inspection, and expressed its opinions on that basis as follows:

- (I) The Supervisory Committee gave the review opinions on the “Resolution on Signing the Framework Agreement for the Subscription and Redemption of Income Certificates between the Company and Galaxy Financial Holdings and Setting the Cap for Connected Transactions of Income Certificates” as follows: The Company’s review and voting procedures of the connected transaction were in compliance with the relevant laws and regulations and the Articles of Association, and the voting results were legitimate and valid.
- (II) The Supervisory Committee issued a statement and a letter of undertaking by all supervisors of the issuer in respect of the application for the 2022 non-public issuance of corporate bonds of not exceeding RMB30 billion and its issuance, the application for the 2022 public issuance of corporate bonds of not exceeding RMB30 billion and its issuance, the application for the 2022 public issuance of perpetual subordinated bonds of not exceeding RMB15 billion and the 2022 public issuance of subordinated bonds.

IV. EVALUATION OF THE PERFORMANCE OF DUTIES BY SUPERVISORS

During the reporting period, all Supervisors voluntarily complied with laws and regulations, regulatory rules and the Articles of Association, insisted on faithfully and diligently performing their duties as Supervisors in compliance with laws, and had good professional ethics and standards, integrity and business capability. The Supervisory Committee performed its duties to supervise the Board, the business management and its members, as well as the operation and management of the Company, attended meetings of the Supervisory Committee as scheduled according to the Company’s governance procedures and requirements, and earnestly considered and voted on resolutions. The Supervisory Committee attended general meetings according to law, participated in the Board meetings and other important operation and management meetings as non-voting participants, seriously listened to and reviewed relevant reports, and provided supervisory opinions and recommendations. Based on serving the national strategy and the overall situation of the Company’s high-quality development, the Supervisory Committee completed a substantial

amount of work in various aspects, including implementing the decisions and arrangements made by the higher authority and the Company, improving and optimising systems and mechanisms, proactively carrying out training, investigation and research, effectively exercising the functions as employee Supervisors, completing the election of a new session of the Supervisory Committee and the change of members of the same session as scheduled, enhancing the political position of supervision and the ability to perform duties, strengthening the Supervisory Committee's self-development, and facilitating the Company to increase its governance standard. The Supervisory Committee has completed its duties well, earnestly protected the rights and interests of the Shareholders and employees, and made positive contributions to the scientific, stable and healthy development of the Company.

V. MAJOR TASKS OF THE SUPERVISORY COMMITTEE IN 2023

Based on the duties conferred by the *Company Law* and the Articles of Association, the Supervisory Committee will further introduce targeted supervision work and enhance the effectiveness thereof for the purposes of better improving the quality and efficiency of the Company and achieving high-quality development.

- (I) The Supervisory Committee will supervise the implementation by the Board of the resolutions adopted by the general meeting, and the exercise of powers and the performance of obligations by the Board in business management and major decision-making in accordance with law; supervise the implementation by the business management of relevant resolutions adopted by the general meetings, the Board and the Supervisory Committee, and the performance of operation and management duties within their terms of reference; and supervise the due performance of duties by Directors and senior management of the Company in accordance with the practice norms and restrictions on duty performance.
- (II) Oversight of the authenticity of financial reports. The Supervisory Committee will strengthen the review of financial information such as periodic report, profit distribution plan and final accounts plan, and inspect the legal compliance of preparation and review procedures of financial reports according to law, with an aim to improve the financial management standard of the Company.
- (III) Oversight of risk compliance and internal control. The Supervisory Committee will supervise the implementation of regulatory requirements by the Company, focus on the risk prevention, control and mitigation, and pay attention to the implementation of rectification of outstanding issues and the improved results brought by the management advice.
- (IV) The Supervisory Committee will supervise the performance by the Board, business management and related personnel of the Company of their duties of information disclosure pursuant to relevant requirements, the implementation of the insider policies and the administrative system for information disclosure, and the information disclosure of the Company.

APPENDIX III WORK REPORT OF THE SUPERVISORY COMMITTEE FOR 2022

(V) The Supervisory Committee will conduct investigation and research on the frontline based on the business focus of the Company and according to its annual investigation and research plan, and provide supervisory recommendations or investigation and research reports in respect thereof.

(VI) The Supervisory Committee will strengthen its capability of duty performance and complete the tasks for annual training according to the annual training plan.

The above report is for the consideration by Shareholders.

The Supervisory Committee of China Galaxy Securities Co., Ltd.

DUTY REPORT OF THE INDEPENDENT DIRECTORS FOR 2022

Dear Shareholders,

In accordance with relevant provisions of the *Code of Corporate Governance for Listed Companies*, the *Rules for Independent Directors of Listed Companies*, the HKSE Listing Rules, the SSE Listing Rules, and the *Self-regulatory Guidance for Listed Companies of the Shanghai Stock Exchange No. 2 – Handling of Business (Revised in February 2023)*, we, as the Independent Directors of the Company, hereby report our work in 2022 as follows:

I. BASIC INFORMATION ON THE INDEPENDENT DIRECTORS

As at the end of the reporting period, the fourth session of the Board of the Company consisted of ten Directors, including four Independent Directors (Mr. LIU Ruizhong, Mr. WANG Zhenjun, Ms. LIU Chun and Mr. LAW Cheuk Kin, Stephen).

(I) Basic information on the Independent Directors during the reporting period

Mr. LIU Ruizhong, born in July 1953, has been an Independent Non-executive Director of the Company since September 2017. Mr. Liu was a teacher at Tongling Finance and Economics College in Anhui Province from September 1982 to September 1984. He served as the deputy director of the Information Department of Chinese Economic System Reform Research Institute from December 1986 to May 1992, and the director of the Information Department of China International Futures Brokerage Co., Ltd. from May 1992 to May 1993. He served as the executive vice president of Beijing Commodity Exchange from May 1993 to July 1997, the consultant of Shenzhen Special Zone Securities Company from July 1997 to September 2000, an independent director of Essence Securities Co., Ltd. from 2007 to 2013, and an independent director of PPM (Shenzhen) Inc. from June 2015 to August 2021. Mr. Liu has been an independent director of Harfor Fund Management Co., Ltd. since 2006, an independent director of Shenhua Futures Co., Ltd. since 2010, and an independent director of Guantong Futures Brokerage Co., Ltd. since 2012. Mr. Liu graduated from the Department of Economics of Anhui University in 1982 with a bachelor's degree in economics, and graduated from the Department of Economics of Peking University in December 1986 with a master's degree in economics.

Mr. WANG Zhenjun, born in May 1957, has been an Independent Non-executive Director of the Company since February 2018. Mr. Wang served as a cadre and vice president of the PBOC, Huang County Sub-branch of Shandong, from December 1975 to October 1987. Mr. Wang joined Industrial and Commercial Bank of China Limited in 1987 and served as the director of the office of Industrial and Commercial Bank of China Limited, Yantai Branch of Shandong, from October 1987 to December 1991; an inspector (at the deputy director level) of the inspection office of Industrial and Commercial Bank of China Limited, Shandong Branch, from December 1991 to February 1993; the deputy head of general office of the personnel department of headquarters of Industrial and Commercial Bank of China Limited from February 1993 to July 1993; the head of the general office of the office of headquarters of Industrial and Commercial Bank of China Limited from July 1993 to January 1995; the deputy

director and director of the office of headquarters of Industrial and Commercial Bank of China Limited and the director of office of its Party Committee from January 1995 to August 2008; the president of Industrial and Commercial Bank of China Limited, Beijing Branch, from August 2008 to June 2017; the regional director of Industrial and Commercial Bank of China Limited from October 2016 to July 2017. He has been an independent director of Bank of Dalian Co., Ltd. since April 2019. Mr. Wang graduated from the Correspondence College of the Party School of the Central Committee of the Communist Party of China with a major in economics in December 1993; from Tianjin College of Finance and Economics with a major in monetary banking in May 1998; and from Tianjin College of Finance and Economics with a major in finance and obtained a master's degree in economics in June 1999 and was qualified as senior economist in November 1994.

Ms. LIU Chun, born in January 1963, has been an Independent Non-executive Director of the Company since February 2019. Ms. Liu was the finance manager of Dalian Friendship (Group) Co., Ltd. from July 1985 to May 2001 and held various positions in the Dalian Branch of China National Investment and Guaranty Corporation (formerly known as China Economic Technology Investment and Guaranty Co., Ltd., China National Investment and Guaranty Co., Ltd. and China National Finance and Guaranty Co., Ltd.) from May 2001 to January 2018, including the finance manager, an assistant to the general manager, the person in charge of accounting function, the deputy general manager, chief financial officer, an assistant general manager of the accounting management department and the senior manager of the financial accounting department. Ms. Liu has been the deputy general manager of the Finance Centre of Wonders Information Co., Ltd. since August 2021, and a director of Hexie Health Insurance since October 2021. Ms. Liu graduated from Jiangxi College of Finance and Economics in 1985, majoring in Trade and Economics with a bachelor's degree in economics, and obtained the qualification of senior accountant in May 2006.

Mr. LAW Cheuk Kin, Stephen, born in November 1962, has been an Independent Non-executive Director of the Company since June 2020. Mr. Law was an accountant of Arthur Anderson, Hugill & Co. and KPMG Hong Kong from August 1984 to March 1991, and the finance director of each of Hyder Consulting Limited and Masons Solicitors from April 1991 to January 1995. He served as a manager of each of Wheelclock and Company Limited and Wharf (Holdings) Limited from February 1995 to July 2000, and a director of Morningside Group from July 2000 to July 2006. He worked in TPG Growth Capital (Asia) Limited from July 2006 to September 2012, holding the position of managing director before departure. He served as the chief financial officer of Guoco Group Limited from October 2012 to June 2013, the finance director and a member of the executive directorate of MTR Corporation Limited from July 2013 to July 2016, an adjunct professor of the Hong Kong Polytechnic University from 2015 to 2017, an independent non-executive director of AAG Energy Holdings Limited from July 2016 to September 2018, an independent non-executive director of Stealth Bio Therapeutics Inc. from June 2018 to July 2019, and an independent non-executive director of Bank of Guizhou Co., Ltd., from November 2018 to August 2022. Mr. Law has been the managing director of ANS Capital Limited since January 2017, an independent non-executive director of China Everbright Limited since May 2018, an independent non-executive director of Somerley Capital Holdings Limited

APPENDIX IV DUTY REPORT OF THE INDEPENDENT DIRECTORS FOR 2022

since February 2019, an independent non-executive director of CSPC Pharmaceutical Group Limited since March 2021, and an independent non-executive director of Keymed Biosciences Inc. since July 2021. Mr. Law graduated from the University of Birmingham, the United Kingdom with a bachelor's degree of science in July 1984 and the University of Hull, the United Kingdom with a master's degree of business administration in 1996. Mr. Law has accounting qualifications in the United Kingdom and Hong Kong, and is an expert consultant appointed by the Ministry of Finance of the PRC to provide advice on management and accounting. He was a council member of the Hong Kong Institute of Certified Public Accountants from January 2010 to December 2017.

(II) Part-time employment

Name	Position	Positions in Other Entities	
		Name of Organisation	Position
LIU Ruizhong	Independent Director	Huafu Fund Management Co., Ltd.	Independent Non-executive Director
		Shenhua Futures Co., Ltd.	Independent Non-executive Director
		Guantong Futures Brokerage Co., Ltd.	Independent Non-executive Director
WANG Zhenjun	Independent Director	Bank of Dalian Co., Ltd.	Independent Non-executive Director
LIU Chun	Independent Director	Wonders Information Co., Ltd.	Deputy General Manager of Finance Centre
		Hexie Health Insurance	Non-executive Director
LAW Cheuk Kin, Stephen	Independent Director	ANS Capital	Managing Director
		China Everbright Limited	Independent Non-executive Director
		Somerley Capital Holdings Limited	Independent Non-executive Director
		CSPC Pharmaceutical Group Limited	Independent Non-executive Director
		Keymed Biosciences Inc.	Independent Non-executive Director

(III) Resigned Independent Director during the reporting period

Nil.

(IV) Statement of independence

All Independent Directors of the Company perform their duties independently, and have no connected relationship with the substantial Shareholders or de facto controller of the Company or other entities or individuals having any interest in the Company. There are no circumstances that will affect their independence.

II. PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS FOR THE YEAR
(I) Attendance at Board meetings and general meetings

During the reporting period, the Company held two general meetings and ten Board meetings. All resolutions were considered and approved, and the Independent Directors voted in favour of the resolutions during the voting process, with no opposing or abstention votes. The attendance of Independent Directors at Board meetings and general meetings are shown in the table below:

Name	Required attendance at Board meetings	Number of resolutions voted	Attendance at Board meetings			Attendance at general meetings
			Attendance in person	Attendance by proxy	Absence	
LIU Ruizhong	10	62	10	0	0	2
WANG Zhenjun	10	62	10	0	0	2
LIU Chun	10	62	10	0	0	2
LAW Cheuk Kin, Stephen	10	62	10	0	0	2

(II) Attendance at meetings of the specialised committees under the Board

Four specialised committees are established under the Board of the Company: the Strategy and Development Committee, the Compliance and Risk Management Committee, the Nomination and Remuneration Committee, and the Audit Committee. During the reporting period, the positions held by Independent Directors of the Company on the specialised committees under the Board are as follows:

Name	Position
LIU Ruizhong	Chairman of the Nomination and Remuneration Committee, member of the Strategy and Development Committee and the Audit Committee
WANG Zhenjun	Member of the Strategy and Development Committee, the Compliance and Risk Management Committee, the Nomination and Remuneration Committee and the Audit Committee

APPENDIX IV DUTY REPORT OF THE INDEPENDENT DIRECTORS FOR 2022

Name	Position
LIU Chun	Chairperson of the Audit Committee, member of the Compliance and Risk Management Committee and the Nomination and Remuneration Committee
LAW Cheuk Kin, Stephen	Member of the Nomination and Remuneration Committee and the Audit Committee

During the reporting period, Independent Directors chaired and attended meetings of the specialised committees and seriously performed their duties in accordance with the procedural rules of the specialised committees under the Board. In 2022, a total of 24 meetings of the specialised committees under the Board were held, including six of the Strategy and Development Committee, three of the Compliance and Risk Management Committee, seven of the Nomination and Remuneration Committee and eight of the Audit Committee. Independent Directors' attendance at the meetings of specialised committees under the Board is as follows:

Name	Strategy and Development Committee	Compliance and Risk Management Committee	Nomination and Remuneration Committee	Audit Committee
LIU Ruizhong	6/6	–	7/7	8/8
WANG Zhenjun	6/6	3/3	7/7	8/8
LIU Chun	–	3/3	7/7	8/8
LAW Cheuk Kin, Stephen	–	–	7/7	8/8

Note: The format of the above table is “Number of actual attendance/Number of required attendance”

(III) Participation of training courses

Date of training	Content of training	Target recipient
28 January 2022	Interpretation of the key points in the “Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (Revised in January 2022)” and supporting self-regulatory guidelines	LIU Ruizhong, WANG Zhenjun, LIU Chun, LAW Cheuk Kin, Stephen
8 February 2022	Interpretation of the revision of self-regulatory rules for listed companies	LIU Ruizhong, WANG Zhenjun, LIU Chun, LAW Cheuk Kin, Stephen

Date of training	Content of training	Target recipient
15 April 2022	“Guidelines for the Effective Operation of the Audit Committee – Selection, Appointment and Reappointment of Auditors”	LIU Ruizhong, WANG Zhenjun, LIU Chun, LAW Cheuk Kin, Stephen
5 June 2022	Second follow-up training program for independent directors of listed companies for 2022	LAW Cheuk Kin, Stephen
27 October 2022	The latest ESG regulatory requirements and prospects	LIU Ruizhong, WANG Zhenjun, LIU Chun, LAW Cheuk Kin, Stephen

III. KEY ISSUES CONCERNING INDEPENDENT DIRECTORS’ PERFORMANCE OF DUTIES FOR THE YEAR

(I) Connected transactions

During the reporting period, the Company managed connected transactions in strict compliance with the HKSE Listing Rules, the SSE Listing Rules and the *Measures for the Administration of Connected Transactions* of the Company. The “Resolution on Signing the Framework Agreement for the Subscription and Redemption of Income Certificates between the Company and Galaxy Financial Holdings and Setting the Cap for Connected Transactions of Income Certificates” was considered and approved at the twelfth meeting (regular) of the fourth session of the Board on 27 October 2022. After a careful review of the information relating to the above resolution provided by the Board of the Company, the Independent Directors issued prior approval opinions and independent opinions on connected transactions.

(II) External guarantees and misappropriation of funds

In respect of the external guarantees of the Company as of the end of the reporting period, the Company strictly controlled the guarantee risks in accordance with relevant laws, regulations and the Articles of Association, and submitted such guarantees to the Board for consideration and approval according to the approval authority. The above-mentioned guarantees did not harm the interests of the Company and its Shareholders, the Company performed relevant review procedures in accordance with law, and we recognised the above external guarantees.

During the reporting period, the Company did not provide any external guarantees in violation of the stipulated procedures, nor did it provide any guarantees to the controlling shareholder and its connected parties. There was no misappropriation of funds by the controlling shareholder and its connected parties for non-operating purposes.

(III) Use of funds raised

During the reporting period, the Company publicly issued RMB7.8 billion convertible corporate bonds. In accordance with relevant laws and regulations such as the *Company Law*, the *Securities Law*, the HKSE Listing Rules, the SSE Listing Rules, the *Regulatory Guidelines for Listed Companies No. 2 – Regulatory Requirements for the Management and Use of Proceeds by Listed Companies (Revised in 2022)*, the *Self-regulatory Guidelines for Listed Companies of the Shanghai Stock Exchange No. 1 – Compliance Operation*, as well as the *Measures for the Management of Funds Raised* of the Company, the Company made provisions for the deposit, use, alteration, management and supervision of raised funds, implemented special account management for the raised funds, deposited, used and managed them pursuant to the requirements, and fulfilled relevant obligations without violation of laws and regulations.

(IV) Nomination and remuneration of Directors and senior management

On 12 January 2022, the “Resolution on Reviewing the Remuneration Plan of the Senior Management for 2020” was considered and approved at the fifth meeting (extraordinary) of the fourth session of the Board. On 30 March 2022, the “Resolution on Appointing Mr. LUO Liming as the Vice President and a Member of the Executive Committee of the Company” and the “Resolution on Appointing Mr. DU Pengfei as the Business Director and a Member of the Executive Committee of the Company” were considered and approved at the sixth meeting (regular) of the fourth session of the Board. On 29 April 2022, the “Resolution on Reviewing the Appointment of Mr. DU Pengfei to Serve Concurrently as the Secretary to the Board of Directors of the Company” was considered and approved at the seventh meeting (regular) of the fourth session of the Board. On 13 July 2022, the “Resolution on the Cessation of Mr. CHEN Gongyan to Serve as the Chairman and a Director of the Company”, the “Resolution on Reviewing the Appointment of Mr. CHEN Liang to Serve as the Chairman of the Company”, and the “Resolution on Reviewing the Appointment of Mr. WANG Sheng to Serve as an Executive Director and the President of the Company” were considered and approved at the ninth meeting (extraordinary) of the fourth session of the Board. On 30 August 2022, the “Resolution on Appointing Mr. LUO Liming as the Chief Information Officer of the Company” was considered and approved at the eleventh meeting (regular) of the fourth session of the Board. On 27 October 2022, the “Resolution on Reviewing the Assessment Results of the Compliance Director in 2021 (i.e., 2019-2021 Term) by the Board of Directors” was considered and approved at the twelfth meeting (regular) of the fourth session of the Board. On 29 December 2022, the “Resolution on Recommending Ms. LI Hui as the Candidate for a Director of the Company” and the “Resolution on Reviewing the Remuneration Plan of the Senior Management for 2021” were considered and approved at the thirteenth meeting (extraordinary) of the fourth session of the Board.

Independent Directors considered that the procedures for appointment of Mr. CHEN Liang as the Chairman of the Company, Mr. WANG Sheng as an Executive Director and the President of the Company, Mr. LUO Liming as the Vice President, a member of the Executive Committee and the Chief Information Officer of the Company, and Mr. DU Pengfei as the Business Director, a member of the Executive Committee and the Secretary to the Board of the Company, and the procedures for the recommendation of Ms. LI Hui as the candidate for a Director of the Company were in compliance with the relevant provisions of laws, regulations and the Articles of Association. The procedures for the departure of Mr. CHEN Gongyan were in compliance with the relevant provisions of laws, regulations and the Articles of Association. Moreover, there was no objection to the remuneration plan of the senior management of the Company for 2020 and 2021 and the assessment results of the Compliance Director in 2021 (i.e., 2019-2021 term).

(V) Performance forecast and preliminary results

During the reporting period, the Company published the preliminary financial data for the year 2021 on 9 March 2022 in accordance with the relevant requirements of the SSE Listing Rules.

Independent Directors believed that the Company disclosed information in a timely manner in accordance with the relevant provisions of laws and regulations, and the content of such information was true, accurate and complete, and contained no false representations, misleading statements or material omissions.

(VI) Appointment of accounting firms

On 29 April 2022, the “Resolution on the Nomination and Appointment of the External Auditors of the Company for 2022” was considered and approved at the seventh meeting (regular) of the fourth session of the Board, pursuant to which it was agreed to appoint Ernst & Young Hua Ming LLP and Ernst & Young as the Company’s external auditors for 2022 for the provision of related audit service and review services in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, respectively. The external audit fee for 2022 was RMB5.08 million, and such resolution was submitted to the general meeting for consideration. On 29 June 2022, the resolution was considered and approved at the 2021 annual general meeting of the Company.

Independent Directors were of the view that Ernst & Young Hua Ming LLP and Ernst & Young possessed the experience and capability to provide audit services for the Company, the appointment of the above accounting firms was in line with the Company’s requirements for audit work, and the decision-making procedure of the appointment was in compliance with laws and regulations and the Articles of Association, which did not harm the interests of the Company and its Shareholders. The Independent Directors agreed to their appointment as the Company’s external auditors for 2022, and submitted the resolution to the general meeting of the Company for consideration.

(VII) Cash dividends and other returns for investors

On 30 March 2022, the “Resolution on Reviewing the 2021 Profit Distribution Plan of China Galaxy Securities Co., Ltd.” was considered and approved at the sixth meeting (regular) of the fourth session of the Board, pursuant to which the Company agreed to distribute a cash dividend of RMB3.10 (tax inclusive and the actual amount distributed may be slightly different due to rounding) for every 10 shares for 2021, totalling RMB3,142,550,214.67 (tax inclusive), and the resolution was submitted to the general meeting for consideration. On 29 June 2022, the resolution was considered and approved at the 2021 annual general meeting of the Company.

Independent Directors were of the view that the profit distribution plan of the Company for 2021 was in compliance with relevant laws and regulations, normative documents and the actual situation of the Company, was beneficial to the long-term development of the Company, and was in the interest of the Shareholders as a whole and their long-term interests. They approved the profit distribution plan and submitted the same to the general meeting for consideration.

(VIII) Fulfilment of undertakings by the Company and its Shareholders

During the reporting period, all relevant undertakings made by the Company and its Shareholders were performed in accordance with law.

(IX) Implementation of information disclosure

During the reporting period, the Company performed its information disclosure obligations in strict compliance with the relevant laws and regulations, including the HKSE Listing Rules, the SSE Listing Rules and the *Management System for Information Disclosure* of the Company. The content of announcements was true, accurate, complete, and contained no false representations, misleading statements or material omissions. This guaranteed that the information was disclosed in a timely and fair manner, ensured that investors kept abreast of the significant matters of the Company in a timely manner, and effectively protected the legitimate rights and interests of Shareholders.

(X) Implementation of internal control

During the reporting period, the Company improved internal control mechanisms, standardized business processes and improved management systems in accordance with regulatory requirements to ensure that internal control was carried out during the full process from decision-making, implementation to monitoring, and covered all business and management sectors of the Company. The Company has established and effectively implemented internal control mechanisms for the businesses and matters within the scope of assessment, and thus achieved its goal of internal control.

Independent Directors considered that after carefully reviewing the *Internal Control Evaluation Report for 2021*, there was no material defect in the Company’s internal control over the financial reporting, nor was there any material defect in the

Company's internal control over non-financial reporting, as at the reference date of the Internal Control Evaluation Report. The Company has maintained, in all material respects, effective internal control in accordance with the Basic Standards for Internal Control of Enterprises and their relevant provisions.

(XI) Operation of the Board and its specialised committees

During the reporting period, the Board and its specialised committees carried out their work in accordance with laws and regulations, the Articles of Association and working rules. The specialised committees fully fulfilled the decision-making and consulting functions, provided professional advice on significant matters required for discussion and decision, and assisted the Board in making decisions in a scientific manner.

Independent Directors were of the view that the Board and its specialised committees operated in compliance with laws and regulations. All significant matters were fully discussed and reviewed, decisions were made in a scientific and efficient manner, and the Board and its specialised committees performed their duties as decision-making institutions.

(XII) Other matters that need to be improved in the opinion of Independent Directors

During the reporting period, no Independent Directors of the Company raised any objections to any resolution of the Board or of any specialised committee.

IV. OVERALL EVALUATION

During the reporting period, the Independent Directors fully fulfilled their obligations of integrity and diligence, earnestly performed their duties in accordance with the requirements of relevant laws, regulations and the Articles of Association, promoted the standardised operation and healthy development of the Company, and effectively safeguarded the overall interests of the Company and the legitimate rights and interests of all Shareholders.

Independent Directors: LIU Ruizhong, WANG Zhenjun,
LIU Chun, LAW Cheuk Kin, Stephen