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**GUOTAI JUNAN INTERNATIONAL HOLDINGS LIMITED**  
*(incorporated in Hong Kong with limited liability)*  
**(Stock Code: 1788)**

**ANNOUNCEMENT OF FINAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

The board of directors (the “Board”) of Guotai Junan International Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2017 together with comparative figures for the previous financial year as follows:

**FINANCIAL HIGHLIGHTS**

	<b>For the year ended</b>		
	<b>31 December</b>		
	<b>2017</b>	2016	Change
	<b>HK\$'000</b>	HK\$'000	%
Fee and commission income			
— brokerage	<b>517,118</b>	393,000	31.6%
— corporate finance	<b>683,526</b>	456,649	49.7%
— asset management	<b>29,792</b>	28,487	4.6%
Income from loans and financing	<b>1,288,777</b>	1,297,278	-0.7%
Gain from financial products, market making and investments	<b>613,180</b>	343,773	78.4%
Revenue	<b>3,132,393</b>	2,519,187	24.3%
Profit for the year	<b>1,336,039</b>	1,026,087	30.2%
Profit attributable to ordinary equity holders of the Company	<b>1,228,174</b>	969,139	26.7%
Basic earnings per share (HK cents)	<b>17.7</b>	14.1	25.5%
Diluted earnings per share (HK cents)	<b>17.6</b>	13.9	26.6%
Dividend per share (HK cents)	<b>9.0</b>	7.5	20.0%
Equity per ordinary share (HK\$) ( <i>Note</i> )	<b>1.24</b>	1.18	5.1%

*Note:* Based on 6,943,880,085 shares (2016: 6,902,496,742 shares) as at 31 December 2017, being 7,005,680,485 shares issued and fully paid less 61,800,400 shares held under the Company’s share award scheme (2016: 6,965,301,142 shares issued and fully paid less 62,804,400 shares held under the Company’s share award scheme).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*For the year ended 31 December 2017*

	<i>Notes</i>	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	4	<b>3,132,393</b>	2,519,187
Other income		<b>2,399</b>	2,608
Revenue and other income		<b>3,134,792</b>	2,521,795
Staff costs	5	<b>(676,031)</b>	(526,657)
Commission to account executives		<b>(61,947)</b>	(55,117)
Depreciation		<b>(38,736)</b>	(34,695)
Other operating expenses		<b>(405,196)</b>	(379,923)
Operating profit		<b>1,952,882</b>	1,525,403
Finance costs	6	<b>(393,770)</b>	(336,796)
Profit before tax	7	<b>1,559,112</b>	1,188,607
Income tax expense	8	<b>(223,073)</b>	(162,520)
<b>Profit for the year</b>		<b>1,336,039</b>	1,026,087
Other comprehensive income for the year, net of tax			
— Exchange difference on translation of foreign exchange		<b>(1,548)</b>	724
<b>Total comprehensive income for the year</b>		<b>1,334,491</b>	1,026,811
<b>Profit for the year attributable to:</b>			
Owners of the parent		<b>1,333,336</b>	1,025,879
— Holders of ordinary shares		<b>1,228,174</b>	969,139
— Holders of other equity instrument		<b>105,162</b>	56,740
Non-controlling interests		<b>2,703</b>	208
		<b>1,336,039</b>	1,026,087
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the parent		<b>1,331,788</b>	1,026,603
— Holders of ordinary shares		<b>1,226,626</b>	969,863
— Holders of other equity instrument		<b>105,162</b>	56,740
Non-controlling interests		<b>2,703</b>	208
		<b>1,334,491</b>	1,026,811
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
— Basic (in HK cents)	<i>10(a)</i>	<b>17.7</b>	14.1
— Diluted (in HK cents)	<i>10(b)</i>	<b>17.6</b>	13.9

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Notes</i>	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>480,006</b>	493,559
Intangible assets		<b>2,823</b>	2,823
Deferred tax assets		<b>50,745</b>	3,162
Other assets		<b>13,174</b>	10,168
Loans and advances to customers	<i>11</i>	<b>29,918</b>	251,478
Financial assets at fair value through profit or loss		<b>—</b>	51,701
<b>Total non-current assets</b>		<b>576,666</b>	812,891
<b>Current assets</b>			
Loans and advances to customers	<i>11</i>	<b>15,553,655</b>	14,286,666
Receivable from reverse repurchase agreements		<b>1,513,177</b>	480,782
Accounts receivable	<i>12</i>	<b>4,347,402</b>	1,495,924
Prepayments, deposits and other receivables		<b>120,252</b>	151,470
Financial assets at fair value through profit or loss		<b>37,170,762</b>	13,261,624
Derivative financial instruments		<b>110,461</b>	122,001
Tax recoverable		<b>7,495</b>	24,072
Client trust bank balances		<b>12,348,012</b>	12,400,917
Cash and cash equivalents		<b>2,212,502</b>	1,964,398
<b>Total current assets</b>		<b>73,383,718</b>	44,187,854
<b>Current liabilities</b>			
Accounts payable	<i>13</i>	<b>(16,952,250)</b>	(14,871,038)
Other payables and accrued liabilities		<b>(473,094)</b>	(271,681)
Derivative financial instruments		<b>(27,722)</b>	(130,083)
Bank borrowings	<i>14</i>	<b>(13,781,721)</b>	(6,811,433)
Debt securities in issue		<b>(16,363,891)</b>	(5,823,241)
— At amortised cost		<b>(5,885,015)</b>	(175,710)
— Designated as at fair value through profit or loss		<b>(10,478,876)</b>	(5,647,531)
Financial liabilities at fair value through profit or loss		<b>(9,008,776)</b>	(3,485,520)
Obligations under repurchase agreements		<b>(6,244,957)</b>	(930,958)
Tax payable		<b>(94,899)</b>	(9,695)
<b>Total current liabilities</b>		<b>(62,947,310)</b>	(32,333,649)

	<i>Notes</i>	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>Net current assets</b>		<b>10,436,408</b>	11,854,205
<b>Total assets less current liabilities</b>		<b>11,013,074</b>	12,667,096
<b>Non-current liabilities</b>			
Bank borrowings	<i>14</i>	—	(2,100,000)
Deferred tax liabilities		<b>(21,648)</b>	(33,262)
		<b>(21,648)</b>	(2,133,262)
<b>Net assets</b>		<b>10,991,426</b>	10,533,834
<b>Equity</b>			
Share capital		<b>6,118,060</b>	6,054,025
Other reserve		<b>(1,236,460)</b>	(1,236,460)
Currency translation reserve		<b>(949)</b>	599
Share-based compensation reserve		<b>64,973</b>	88,902
— Share option reserve		<b>40,769</b>	48,266
— Share award reserve		<b>24,204</b>	40,636
Shares held under the share award scheme		<b>(181,281)</b>	(214,323)
Retained profits		<b>3,843,743</b>	3,482,455
Equity attributable to holders of ordinary shares		<b>8,608,086</b>	8,175,198
Equity attributable to holders of other equity instrument		<b>2,346,794</b>	2,346,685
Equity attributable to owners of the parent		<b>10,954,880</b>	10,521,883
Non-controlling interests		<b>36,546</b>	11,951
<b>Total equity</b>		<b>10,991,426</b>	10,533,834

## **NOTES TO FINANCIAL INFORMATION**

### **1. GENERAL INFORMATION**

The Company was incorporated on 8 March 2010 in Hong Kong with limited liability under the Hong Kong Companies Ordinance and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 July 2010. The registered office address of the Company is 27th Floor, Low Block, Grand Millennium Plaza, 181 Queen’s Road Central, Hong Kong. The Company is an investment holding company and its subsidiaries are principally engaged in brokerage, corporate finance, asset management, loans and financing, financial products, market making and investments.

The Company’s immediate holding company and ultimate holding company are Guotai Junan Holdings Limited (“GJHL”) incorporated in the British Virgin Islands and Guotai Junan Securities Company Limited (“Guotai Junan”) incorporated in the People’s Republic of China, respectively.

The unaudited financial information relating to the year ended 31 December 2017 and the financial information relating to the year ended 31 December 2016 included in this preliminary announcement of annual results for the year ended 31 December 2017 does not constitute the Company’s statutory annual consolidated financial statements for those years but, in respect of the year ended 31 December 2016, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The financial statements for the year ended 31 December 2017 have yet to be reported on by the Company’s auditor and will be delivered to the Registrar of Companies in due course.

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on these financial statements for the year ended 31 December 2016. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The financial information is presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise stated.

### **2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss, debt securities in issue designated as at fair value through profit or loss and derivative financial instruments which have been measured at fair value.

## Changes in accounting policies

### (a) *Early adoption of HKFRS9*

The Group has elected to early adopt HKFRS 9 which is applied retrospectively from 1 January 2017. As permitted by the transitional provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current year.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies:

#### *Financial assets*

The Group classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

#### *Financial liabilities*

Financial liabilities continue to be measured at either amortised cost or FVTPL. The criteria for designating a financial liability at FVTPL by applying the fair value option remains unchanged.

Changes in the fair value of financial liabilities designated at fair value through profit or loss, that are attributable to changes in the instrument's credit risk, are now presented in other comprehensive income.

#### *Impairment*

The HKFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology model under HKAS 39. Key changes in the Group's accounting policy for impairment of financial assets are listed below.

The Group applies simplified approach to measure expected credit losses ("ECL") on accounts receivable; and general approach to measure ECL on loans and advances to customers, time deposits and other financial assets accounted for at amortised cost as well as loan commitments.

Under the simplified approach, the Group always measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL — not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL — credit-impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of impairment) rather than the gross carrying amount.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. For certain portfolio of margin loans, the Group rebuts the presumption that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due as management considers the probability of default is highly correlated with the collateral value rather than the past due days.

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, remaining term to maturity and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognized using a provision for doubtful debts account.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Group

(i) Classification and measurement of financial instruments

On 1 January 2017, the Group's management has assessed which business models apply to the financial assets held by the Group at the date of initial application of HKFRS 9 (1 January 2017) and has classified its financial instruments into the appropriate HKFRS 9 categories.

As a result, all financial assets classified as loans and receivables under HKAS 39 has been classified as amortised cost under HKFRS 9. Also, all financial assets previously classified as FVTPL (either held for trading or designated) remain classified as FVTPL under HKFRS 9.

Financial liabilities classified as FVTPL (either held for trading or designated) under HKAS 39 has remained classified as FVTPL under HKFRS 9.

(ii) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9

For financial assets subject to ECL impairment, the carrying amounts in accordance with HKAS 39 has been remeasured upon transition to HKFRS 9 on 1 January 2017. The reconciliation of carrying amount in accordance with HKAS 39 and HKFRS 9 is as follow:

	<b>HKAS 39</b> <b>carrying amount</b> <b>as at</b> <b>31 December 2016</b> <i>HK\$'000</i>	<b>Remeasurement</b> <b>(ECL allowance)</b> <i>HK\$'000</i>	<b>HKFRS 9</b> <b>carrying amount</b> <b>as at 1 January</b> <b>2017</b> <i>HK\$'000</i>
Loans and advances to customers	14,538,144	(236,346)	14,301,798
Accounts receivable	1,495,924	(4,515)	1,491,409
Prepayments, deposits and other receivables	151,470	(110)	151,360
Client trust bank balances	12,400,917	(22,583)	12,378,334
Cash and cash equivalents	1,964,398	(97)	1,964,301
Deferred tax assets	3,162	43,527	46,689

(iii) Reconciliation of impairment allowance balance from HKAS 39 to HKFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 expected loss model at 1 January 2017:

	<b>Loan loss</b> <b>allowance</b> <b>under HKAS 39</b> <i>HK\$'000</i>	<b>Remeasurement</b> <i>HK\$'000</i>	<b>Loan loss</b> <b>allowance under</b> <b>HKFRS 9</b> <i>HK\$'000</i>
Loans and advance to customers	93,828	236,346	330,174
Accounts receivable	16,960	4,515	21,475
Prepayments, deposits and other receivables	—	110	110
Client trust bank balances	—	22,583	22,583
Cash and cash equivalents	—	97	97
Loan commitments	—	149	149
<b>Total</b>	<b>110,788</b>	<b>263,800</b>	<b>374,588</b>

The adjustment on the opening retained earnings as at 1 January 2017 amounted to HKD 220,273,000, net of deferred tax of HKD 43,527,000.



- (b) The Group has adopted the following revised HKFRSs for the first time for the current period's financial information:

<b>Standard</b>	<b>Content</b>	<b>Effective for financial years beginning on/after</b>
Amendments to HKAS 7	Statement of Cash Flow: Disclosure Initiative	1 January 2017
Amendments to HKAS 12	Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses	1 January 2017

The adoption of the above amendments has had no significant financial effect on these financial statements.

### **3. OPERATING SEGMENT INFORMATION**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's senior executive management and in accordance with HKFRSs. The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other operating segments.

Details of each of the operating segments are as follows:

- (a) the brokerage segment engages in the provision of securities, futures, options and leveraged foreign exchange dealing and broking as well as insurance brokerage services to customers;
- (b) the corporate finance segment engages in the provision of advisory services, placing and underwriting services of debt and equity securities;
- (c) the asset management segment engages in asset management, including fund management and the provision of investment advisory services;
- (d) the loans and financing segment engages in the provision of margin financing and securities borrowing and lending to customers, initial public offering ("IPO") loans, other loans to customers and bank deposits;
- (e) the financial products, market making and investments segment represents fund, debt and equity investments, structuring of financial products as well as trading and market making of debt securities, exchange traded funds ("ETF") and derivatives; and
- (f) the "others" segment mainly represents rental income and the provision of information channel services.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties.

The segment results of the Group for the years ended 31 December 2016 and 2017 are as follows:

**Year ended 31 December 2017**

	Brokerage HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Loans and financing HK\$'000	Financial products, market making and investments HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue and other income:							
Sales to external customers	517,118	683,526	29,792	1,288,777	613,180	2,399	3,134,792
Inter-segment sales	—	—	—	—	—	—	—
<b>Total</b>	<b>517,118</b>	<b>683,526</b>	<b>29,792</b>	<b>1,288,777</b>	<b>613,180</b>	<b>2,399</b>	<b>3,134,792</b>
Segment results	248,736	342,112	9,080	688,573	270,611	—	1,559,112
Income tax expense							(223,073)
<b>Profit for the year</b>							<b>1,336,039</b>
Other segment information:							
Net impairment charge on loans and advances to customers	—	—	—	74,679	—	—	74,679
Net impairment charge on accounts receivable	5,297	2,187	7	—	15,131	—	22,622
Net impairment charge/(reversal) on other financial assets	(9,951)	—	(8)	—	72	—	(9,887)
Depreciation	8,088	14,826	2,139	13,683	—	—	38,736
Finance costs	42	—	—	283,777	109,951	—	393,770

**Year ended 31 December 2016**

	Brokerage HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Loans and financing HK\$'000	Financial products, market making and investments HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue and other income:							
Sales to external customers	393,000	456,649	28,487	1,297,278	343,773	2,608	2,521,795
Inter-segment sales	—	—	—	—	—	—	—
<b>Total</b>	<b>393,000</b>	<b>456,649</b>	<b>28,487</b>	<b>1,297,278</b>	<b>343,773</b>	<b>2,608</b>	<b>2,521,795</b>
Segment results	85,637	147,602	(3,912)	674,450	284,830	—	1,188,607
Income tax expense							(162,520)
<b>Profit for the year</b>							<b>1,026,087</b>
Other segment information:							
Net impairment charge on loans and advances to customers	—	—	—	105,830	—	—	105,830
Net impairment charge on accounts receivable	42	—	—	—	—	—	42
Depreciation	6,958	10,447	1,695	15,595	—	—	34,695
Finance costs	8,848	—	—	272,862	55,086	—	336,796

#### 4. REVENUE

An analysis of revenue is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Brokerage:		
Securities	430,129	301,318
Futures and options	25,095	44,084
Handling income	47,966	36,396
Leveraged foreign exchange	2,743	2,068
Insurance	11,185	9,134
	<u>517,118</u>	<u>393,000</u>
Corporate finance:		
Placing, underwriting and sub-underwriting commission		
— Debt securities	350,269	250,249
— Equity securities	244,920	113,180
Consultancy and financial advisory fee income	88,337	93,220
	<u>683,526</u>	<u>456,649</u>
Asset management:		
Management fee income	27,722	28,487
Performance fee income	2,070	—
	<u>29,792</u>	<u>28,487</u>
Loans and financing:		
Interest income from banks and others	173,878	97,967
Interest and handling income from margin loans	968,661	1,106,342
Interest and handling income from term loans	107,035	72,993
Interest income from securities borrowing and lending	21,545	19,316
Interest income from IPO loans	12,314	199
Interest income from reverse repurchase agreements	5,344	461
	<u>1,288,777</u>	<u>1,297,278</u>
Financial products, market making and investments:		
Trading gain on debt securities		
— Listed securities	30,477	65,855
— Unlisted securities	2,319	2,401
Interest income from debt securities		
— Listed securities	200,927	134,066
— Unlisted securities	11,223	2,464
Trading loss on exchange traded funds	(437)	(5,847)
Trading gain/(loss) on equity securities	37,434	(22,305)
Trading gain on unconsolidated investment funds	22,292	74,012
Net gain on foreign exchange	27,046	1,762
Net loss on financial instruments designated as at fair value through profit or loss	(39,097)	(36,028)
Interest income from unlisted financial instruments at fair value through profit or loss	1,540	3,094
Dividend income	15,352	8,212
Net income on structured financial products	304,104	116,087
	<u>613,180</u>	<u>343,773</u>
	<u><u>3,132,393</u></u>	<u><u>2,519,187</u></u>

## 5. STAFF COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Staff costs (including directors' remuneration):		
Salaries, bonuses and allowances	590,228	422,047
Share-based compensation expense		
— Share option scheme	7,611	14,885
— Share award scheme	70,801	83,228
Pension scheme contributions	7,391	6,497
	<u>676,031</u>	<u>526,657</u>

## 6. FINANCE COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Bank borrowings and overdrafts	310,408	316,019
Debt securities in issue	25,054	6,582
Securities borrowing and lending	863	992
Repurchase agreements	22,804	1,165
Financial instruments at fair value through profit or loss		
— Debt securities held for trading	18,057	10,495
Others	16,584	1,543
	<u>393,770</u>	<u>336,796</u>

## 7. PROFITS BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Auditor's remuneration		
(i) audit services	2,292	2,046
(ii) interim review	707	673
(iii) tax and other consultancy services	3,308	3,760
Foreign exchange differences, net	(26,441)	7,148
Other commission expenses	77,171	65,951
Information services expenses	25,633	21,290
Marketing, advertising and promotion expenses	7,973	5,248
Minimum lease payments under operating leases	5,082	5,101
Professional and consultancy fee	68,237	49,347
Repair and maintenance (including system maintenance)	38,800	30,503
Net impairment charge on loans and advances to customers	74,679	105,830
Net impairment charge on accounts receivable	22,622	42
Net reversal of impairment on other financial assets and loan commitments	(9,887)	—

## 8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current — Hong Kong		
— Charge for the year	239,056	154,299
— Overprovision in prior years	(313)	(186)
Deferred	<u>(15,670)</u>	<u>8,407</u>
Total tax charge for the year	<u><u>223,073</u></u>	<u><u>162,520</u></u>

## 9. DIVIDENDS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interim, paid — HK\$0.045 (2016: HK\$0.03) per ordinary share	315,023	208,565
Less: Dividend for shares held under the Company's share award scheme	<u>(3,220)</u>	<u>(2,206)</u>
	<u>311,803</u>	<u>206,359</u>
Final, proposed — HK\$0.045 (2016: HK\$0.045) per ordinary share	315,256	313,439
Less: Dividend for shares held under the Company's share award scheme	<u>(2,781)</u>	<u>(2,826)</u>
	<u>312,475</u>	<u>310,613*</u>
	<u><u>624,278</u></u>	<u><u>516,972</u></u>

\* The Company paid a final dividend of approximately HK\$311,380,000 for the year ended 31 December 2016, as further adjusted to include the dividend for shares issued under the share option scheme amounting to approximately HK\$1,120,000, the dividend for shares held and vested shares under the share award scheme amounting to HK\$380,000 and HK\$27,000, respectively.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

### (a) Basic earnings per share

The calculation of basic earnings per share is as follows:

	2017	2016
Profit attributable to ordinary equity holders of the parent (in HK\$'000)	<u>1,228,174</u>	<u>969,139</u>
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in '000)	<u>6,923,078</u>	<u>6,880,994</u>
Basic earnings per share (in HK cents)	<u>17.7</u>	<u>14.1</u>

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of diluted earnings per share is as follows:

	2017	2016
Profit attributable to ordinary equity holders of the parent (in HK\$'000)	<u>1,228,174</u>	<u>969,139</u>
Weighted average number of ordinary shares in issue less shares held for the share award scheme used in the basic earnings per share calculation (in '000)	<u>6,923,078</u>	<u>6,880,994</u>
Effect of dilution — weighted average number of ordinary shares:		
Share options under the share option scheme (in '000)	25,934	50,718
Awarded shares under the share award scheme (in '000)	<u>18,991</u>	<u>20,355</u>
Number of ordinary shares for the purpose of the diluted earnings per share calculation (in '000)	<u>6,968,003</u>	<u>6,952,067</u>
Diluted earnings per share (in HK cents)	<u>17.6</u>	<u>13.9</u>

## 11. LOANS AND ADVANCES TO CUSTOMERS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current		
Term loans to customers	29,918	251,478
Current		
Margin loans	12,917,920	13,385,176
Term loans to customers	3,040,588	995,318
	<u>15,958,508</u>	<u>14,380,494</u>
Gross loans and advances to customers	15,988,426	14,631,972
Less: impairment	(404,853)	(93,828)
	<u>15,583,573</u>	<u>14,538,144</u>

The movements in provision for impairment of loans and advances to customers are as follows:

	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
ECL allowance as at 1 January 2017	(21,854)	–	(308,320)	(330,174)
New assets originated or purchased	(2,262)	–	(105,269)	(107,531)
Assets derecognised or repaid	16,431	–	16,421	32,852
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
ECL allowance as at 31 December 2017	<u>(7,685)</u>	<u>–</u>	<u>(397,168)</u>	<u>(404,853)</u>

### Specific provision for impairment

As at 1 January	930
Impairment charged to profit or loss during the year	105,830
Amount written off during the year	(12,932)
As at 31 December	<u>93,828</u>

The impairment charged to profit or loss included interest income on impaired margin loans of HK\$52,059,000 (2016: HK\$26,576,000) for the year ended 31 December 2017.

Save as disclosed above, all loans and advances to customers were neither past due nor impaired as at 31 December 2017 and 2016.

## 12. ACCOUNTS RECEIVABLE

### (a) Analysis of accounts receivable

The carrying values of accounts receivable arising from the course of business of the Group are as follows:

	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Accounts receivable arising from brokerage		
— cash and custodian clients	<b>187,406</b>	36,102
— the Stock Exchange and other clearing houses	<b>893,259</b>	712,711
— brokers and dealers	<b>2,868,570</b>	650,179
Accounts receivable arising from insurance brokerage services		
— cash and custodian clients	<b>168</b>	19
Accounts receivable arising from securities borrowing and lending		
— brokers and dealers	<b>123,444</b>	27,898
Accounts receivable arising from corporate finance, asset management, financial products, market making and investments		
— corporate clients, investment funds and others	<b>318,692</b>	85,975
	<b>4,391,539</b>	1,512,884
Less: impairment	<b>(44,137)</b>	(16,960)
	<b>4,347,402</b>	1,495,924

The movements in the impairment allowance on accounts receivable are as follows:

	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
At 1 January	<b>16,960</b>	16,915
Adoption of HKFRS 9	<b>4,515</b>	–
Impairment charged to profit or loss during the period	<b>22,720</b>	43
Impairment reversed during the period	<b>(98)</b>	(1)
Exchange difference	<b>40</b>	3
At 31 December	<b>44,137</b>	16,960



**(b) Accounts receivable neither past due nor credit-impaired**

	Accounts receivable from cash and custodian clients <i>HK\$'000</i>	Accounts receivable from the Stock Exchange and other clearing houses <i>HK\$'000</i>	Accounts receivable from brokers and dealers <i>HK\$'000</i>	Accounts receivable from corporate clients, investment funds and others <i>HK\$'000</i>	Accounts receivable from insurance brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 31 December 2017</b>						
Neither past due nor credit-impaired	155,884	893,259	2,992,014	218,220	168	4,259,545
Less: impairment	(78)	(423)	(1,151)	(110)	-	(1,762)
	<u>155,806</u>	<u>892,836</u>	<u>2,990,863</u>	<u>218,110</u>	<u>168</u>	<u>4,257,783</u>
<b>As at 31 December 2016</b>						
Neither past due nor credit-impaired	20,750	712,711	678,077	70,246	19	1,481,803

Accounts receivable from cash and custodian clients which are neither past due nor credit-impaired represent unsettled client trades on various securities exchanges transacted on the last two to three business days prior to the end of the reporting year. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis does not give additional value in view of the nature of these accounts receivable.

**(c) Accounts receivable past due but not credit-impaired**

	Accounts receivable from cash and custodian clients <i>HK\$'000</i>	Accounts receivable from the Stock Exchange and other clearing houses <i>HK\$'000</i>	Accounts receivable from brokers and dealers <i>HK\$'000</i>	Accounts receivable from corporate clients, investment funds and others <i>HK\$'000</i>	Accounts receivable from insurance brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 31 December 2017</b>						
Past due less than 3 months	17,670	-	-	76,949	-	94,619
Past due 3 to 12 months	-	-	-	-	-	-
Past due over 12 months	-	-	-	-	-	-
Less: impairment	(4,771)	-	-	(15,107)	-	(19,878)
	<u>12,899</u>	<u>-</u>	<u>-</u>	<u>61,842</u>	<u>-</u>	<u>74,741</u>
<b>As at 31 December 2016</b>						
Past due less than 6 months	1,618	-	-	5,428	-	7,046
Past due 6 to 12 months	-	-	-	6,567	-	6,567
Past due over 12 months	-	-	-	500	-	500
	<u>1,618</u>	<u>-</u>	<u>-</u>	<u>12,495</u>	<u>-</u>	<u>14,113</u>

Accounts receivable from cash and custodian clients which are past due but not credit-impaired represent client trades on various securities exchanges which are unsettled beyond the settlement date. When the cash and custodian clients fail to settle on the settlement date, the Group has the rights to force-sell the collateral underlying the securities transactions. The outstanding accounts receivable from cash and custodian clients as at 31 December 2017 and 2016 are considered past due but not credit-impaired after taking into consideration the recoverability from the collateral. The collateral held against these receivables is publicly traded securities.

Accounts receivable from corporate clients, investment funds and others which are past due but not credit-impaired represent receivables arising from asset management, corporate finance, investment holding and market making which have not yet been settled by clients after the Group's normal credit period. The outstanding accounts receivable from corporate clients, investment funds and others as at 31 December 2017 and 2016 were considered not to be credit-impaired as the credit rating and reputation of the trade counterparties were sound.

**(d) Credit-impaired accounts receivable**

	Accounts receivable from cash and custodian clients <i>HK\$'000</i>	Accounts receivable from the Stock Exchange and other clearing houses <i>HK\$'000</i>	Accounts receivable from brokers and dealers <i>HK\$'000</i>	Accounts receivable from corporate clients, investment funds and others <i>HK\$'000</i>	Accounts receivable from insurance brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 31 December 2017</b>						
Credit-impaired accounts receivable	13,852	-	-	23,523	-	37,375
Less: impairment	(13,785)	-	-	(8,712)	-	(22,497)
	<u>67</u>	<u>-</u>	<u>-</u>	<u>14,811</u>	<u>-</u>	<u>14,878</u>
<b>As at 31 December 2016</b>						
Credit-impaired accounts receivable	13,734	-	-	3,234	-	16,968
Less: impairment	(13,726)	-	-	(3,234)	-	(16,960)
	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>

Accounts receivable from cash and custodian clients are considered credit-impaired when clients fail to settle according to the settlement terms after taking into consideration the recoverability of collateral.

### 13. ACCOUNTS PAYABLE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Accounts payable arising from brokerage		
— clients	13,128,476	12,641,212
— brokers and dealers	1,895,561	270,374
— the Stock Exchange and other clearing houses	374,634	239,687
Accounts payable arising from securities borrowing and lending	1,479,445	400,853
Accounts payable arising from corporate finance, asset management, financial products, market making, investments and others	72,857	1,318,284
Accounts payable arising from insurance brokerage services	1,277	628
	<u>16,952,250</u>	<u>14,871,038</u>

### 14. BANK BORROWINGS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current		
Unsecured bank borrowings	—	2,100,000
Current		
Unsecured bank borrowings	13,781,721	6,811,433
Total bank borrowings	<u>13,781,721</u>	<u>8,911,433</u>

### 15. OPERATING LEASE COMMITMENTS, CAPITAL COMMITMENTS AND OTHER COMMITMENTS

As at 31 December 2017, the Group had total future minimum lease payables under non-cancellable operating leases falling due as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within one year	3,397	4,627
In the second to fifth years, inclusive	—	3,318
	<u>3,397</u>	<u>7,945</u>

#### Capital commitments

The Group had capital commitments for system upgrade and renovation of premises of approximately HK\$3,026,000 which were contracted but not provided for as at 31 December 2017 (2016: HK\$4,724,000).

#### Other commitments

The Group undertakes underwriting obligations on placing, IPO, takeover and merger activities and financial obligations to loan facilities granted to customers. As at 31 December 2017, the underwriting and financial obligations were approximately HK\$2,836 million and HK\$159 million respectively (2016: HK\$576 million and HK\$375 million).

## MANAGEMENT DISCUSSION AND ANALYSIS

2017 marks the 20th anniversary of Hong Kong's return to China as well as the 22nd year since Guotai Junan International ("the Group", "the Company" or "we") set about its business in Hong Kong. Since its establishment, the Group has been providing quality and diversified financial products and services under the ever-changing market to clients from both Mainland China and overseas. In particular, it provided cross-border investment opportunities and convenience for Mainland and overseas corporations and investors.

After its listing in 2010, the Group entered into a fast development period. During the growth stage, we have been committed to innovating and introducing new products and services to the market, including five core businesses, namely brokerage, corporate finance, loans and financing, financial products and market making and investments, as well as asset management. Nowadays, the competitiveness of products and services has led the Group to a leading market position and drove the steady improvement of client quality and quantity, further optimizing our revenue structure. In 2017, the core businesses of the Group received a number of major awards to recognize the achievements in corporate finance, debt securities business, derivative products, integrated securities services capability and corporate governance. During its rapid development, the Group has built exceptional risk management systems to identify, assess, manage and control relevant risks. As a result, quality of the group's assets and earnings has been strengthened, core competitiveness and sustainable growth have been consolidated. The Group has been rated "Baa2" and "BBB+" by the global credit rating agencies Moody's Investors Service ("Moody's") and Standard & Poor's Global Ratings ("S&P"), respectively, which rendered the Group with the highest ratings among the Chinese financial institutions in Hong Kong.

Since 2017, the Group has adjusted the business strategy in accordance with the requirement for developing high-quality economy from the central government. Along with business expansion, the Group prioritized the quality of the business as the development goal. The Group has increasingly emphasized on financial indicators such as Return on Equity (ROE), risk-adjusted return on capital and compound growth rate to enhance the value of shareholders and ensuring sustainable quality growth.

The Group realized the profit after tax of HK\$1,336 million in 2017, up 30% as compared with the same period last year and hit record high. In particular, the income from financial products and corporate finance witnessed a significant increase of 162% and 50%, respectively. The overall revenue structure of the Group has been continuously optimizing. In 2017, the revenue generated from loans and financing, corporate finance, financial products, market making and investment income contributed approximately 41%, 22% and 20%, respectively. The overall business capabilities of the group have been steadily enhanced.

### Market Review

As the policies of developed countries such as the United States and the European countries becoming more certain, the global economy has witnessed a continuous recovery, and the prices of bulk commodities have also stabilized gradually. Economic statistics such as labour market data economic factors of these developed countries have started to pick up, which

strengthen the confidence of consumers and investors. Following the interest rate hike in December 2016, the US Federal Reserve announced upward adjustments in the Federal Funds Rate in March, June and December of 2017 respectively, each by 25 basis points.

The Stock Connect program between the Mainland China and Hong Kong has provided favorable conditions for southbound capital flow from the Mainland China. The Hang Seng Index rose to 29,919 in 2017, representing a year-on-year increase of 36% and outperforming those of other stock markets in the world. Driven by the optimistic market sentiments, the average daily turnover of the Hong Kong stock market surged to approximately HK\$88.2 billion, representing a year-on-year increase of 32%. During the period under review, the debt issuance market of Hong Kong showed a flourishing trend. Based on the statistics published by Bloomberg, the aggregate amount of Asian G3 currencies (i.e. the US dollar, Euro and Yen) denominated debt issuance (excluding Japan) in 2017 amounted to approximately US\$332.2 billion, which increased by approximately 62% from approximately US\$204.9 billion for the same period of last year.

## Financial Review

### *Brokerage: Steady growth with optimized structure*

Benefit from various positive factors including the year-on-year increase in the average trading volume in Hong Kong, the revenue of the Group generated from the brokerage business increased steadily by approximately 32% year-on-year to HK\$517 million in 2017. A breakdown of the business revenue is set out below:

	For the twelve months ended 31 December			
	2017		2016	
	HK\$'000	%	HK\$'000	%
Securities	430,129	83.2	301,318	76.7
Futures and options	25,095	4.8	44,084	11.2
Handling income	47,966	9.3	36,396	9.3
Leveraged foreign exchange	2,743	0.5	2,068	0.5
Insurance	11,185	2.2	9,134	2.3
	<u>517,118</u>	<u>100.0</u>	<u>393,000</u>	<u>100.0</u>

In April 2017, the Company successfully introduced the brand of “Jun Hong Wealth Management” (君弘財富管理) from the parent company to provide comprehensive and customised wealth management products and services to high net worth clients. In addition to the access to the research reports and meetings of listed companies and periodical investment newsletters, our clients would also enjoy preferential financing rate for margin financing and IPO loans. In 2017, the number of the Group’s professional investor clients leapt by more than twofold year-on-year, with their average account balance soared by nearly 1.26 times year-on-year to approximately HK\$33.46 million. In addition, as of the end of 2017, the clients’ assets under custody have increased by 31% to HK\$224.4 billion as compared to the end of last year. The Group was well recognized by the market and was awarded the Excellence Award for “Securities Company of the Year” by Bloomberg Businessweek in April 2017.

In 2017, the Group's brokerage income of securities amounted to approximately HK\$430 million, with an approximately 43% year-on-year growth. A reliable and efficient online trading platform is crucial to the expansion of our business. In the second half of the year, the mobile trading platform "Guotai Junan International Tradego (國泰君安國際交易寶)" of the Company provided users with brand new features, after undergoing a complete system revamp, which provides convenient and speedy services by integrating information and trading functions, the user experience was further enhanced. During the period under review, 84% of the brokerage commission was generated from online trading system of the Company.

*Corporate Finance: Maintaining leading position and setting new records*

Our corporate finance business covers debt capital markets, equity capital markets and consultancy and financial advisory services. During the period under review, the corporate finance team actively captured the opportunities in the market and set another new record of business income to maintain its leading position. A breakdown of the business revenue is set out below:

	<b>For the twelve months ended 31 December</b>			
	<b>2017</b>		<b>2016</b>	
	<b>HK\$'000</b>	<b>%</b>	<b>HK\$'000</b>	<b>%</b>
Placing, underwriting and sub-underwriting commission				
— Debt capital markets	<b>350,269</b>	<b>51.3</b>	250,249	54.8
— Equity capital markets	<b>244,920</b>	<b>35.8</b>	113,180	24.8
Consultancy and financial advisory fee	<b>88,337</b>	<b>12.9</b>	93,220	20.4
	<b>683,526</b>	<b>100.0</b>	456,649	100.0

During the period under review, the Group continued to rank top among the debt capital teams of the Chinese enterprises, and participated in 101 debt issue exercises (2016: 47 debt issue exercises), and assisted corporates to raise nearly HK\$250 billion in the Hong Kong debt capital market. The Group's income from debt capital markets substantially increased by 40% to approximately HK\$350 million (2016: approximately HK\$250 million) in 2017.

In 2017, the Group's underwriting business managed to maintain its growth trend and set another new record. During the period under review, the income from the equity capital markets surged by 116% to approximately HK\$245 million (2016: approximately HK\$113 million). During the year, the Group completed the biggest H-share IPO of the year, namely Guotai Junan Securities Co., Ltd. (stock code: 2611.HK/601211.SS) and several large high-profile projects such as the IPO project of Jilin Jiutai Rural Commercial Bank Corporation Limited (stock code: 6122.HK), in which the Group played important roles as the sole sponsor, the main global coordinator and the bookrunner. Throughout 2017, we assisted corporates to raise more than HK\$24.8 billion in the primary market as well as HK\$37.1 billion in the secondary market in Hong Kong. The Group ranked the top in terms of the number of projects acting as IPO project sponsor in Hong Kong market for two consecutive

years from 2016 to 2017 (source: AASTOCKS). The Group's remarkable achievement was highly accredited and awarded the Excellence Award for "Corporate Finance" by Bloomberg Businessweek in April 2017.

*Loans and Financing: Optimizing portfolios and graded risk pricing*

The income from the Company's overall loans and financing business recorded a slight decrease of 1% to approximately HK\$1,289 million (2016: HK\$1,297 million) in 2017. A breakdown of the business revenue is set out below:

	For the twelve months ended 31 December			
	2017		2016	
	HK\$'000	%	HK\$'000	%
Margin loans	968,661	75.1	1,106,342	85.3
Term loans	107,035	8.3	72,993	5.6
Securities borrowings and lendings	21,545	1.7	19,316	1.5
IPO loans	12,314	1.0	199	0.0
Repurchase agreements	5,344	0.4	461	0.0
Banks and others	173,878	13.5	97,967	7.6
	<u>1,288,777</u>	<u>100.0</u>	<u>1,297,278</u>	<u>100.0</u>

In early 2017, the Group started to adjust its margin loan structure by reducing the proportion of collateral with lower liquidity and smaller market capitalization to strengthen the loan portfolio and to enhance its overall net asset quality. The management holds that such strategic adjustment of margin loan was effective and the annual interest income was slightly adjusted as expected. Since August, the Company implemented the graded risk pricing strategy for the margin financing business, the optimal financing rate was as low as 2%. At the same time, applications for margin loans below HK\$20 million could be handled through the online trading system, in which funds expect to arrive at client's account within minutes. The Group's margin loan balance as at 31 December 2017 amounted to approximately HK\$12.6 billion, up 7% as compared to the middle of the year. As more blue chips will be included and the Company's net assets will be further optimized, the Group is confident about the stability and the potential of sustainable growth of the margin financing business in the future.

In 2017, the interest income of IPO loans substantially increased by over 61-fold year-on-year to approximately HK\$12.31 million. This was because the Group made use of its advantageous cost of capital, the Group's pricing and financing conditions were more favourable than the market level, and in second half of 2017, such loans were received well by the market.

Other than the margin loan business, the Group engaged in term loan business, the income from which increased by 47% to HK\$107 million (2016: HK\$73 million).

*Financial Products: Customised to cater for strong demand*

During the period under review, the income from the Group's financial product increased significantly by 162% to approximately HK\$304 million (2016: approximately HK\$116 million). After the substantial market fluctuation in the middle of 2015, investors' risk appetite evolved and tend to look for low-risk investment products with an acceptable level of leverage. In 2017, under the constantly optimized risk management system, the Company carried on providing customized products for clients, including the provision of derivatives such as return swap and leveraged notes, to cater their various investment needs in the markets of stocks and bonds. Clients' demand continued to thrive. Meanwhile, thanks to our leading international credit ratings and risk management systems, we further consolidated the business cooperation with international major financial institutions with a view to actively exploring and developing the diversified financing channels and lowering the funding cost, thus successfully increasing the competitiveness of our financial products. In May last year, the Group was awarded "Outstanding Award" in "Derivatives Provider of the Year" by Bloomberg Businessweek. A breakdown of the business revenue is set out below:

	<b>For the twelve months ended 31 December</b>			
	<b>2017</b>		<b>2016</b>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Financial products	<b>304,104</b>	<b>49.6</b>	116,087	33.8
Market making	<b>164,873</b>	<b>26.9</b>	131,117	38.1
Investments	<b>144,203</b>	<b>23.5</b>	96,569	28.1
	<b>613,180</b>	<b>100.0</b>	343,773	100.0

*Asset Management: A rising trend at a steady pace with sustainable development*

We provided a series of asset management services including portfolio management, investment advisory service and transaction execution to individual clients, private and public funds. During the period under review, the income from the Group's asset management business increased by 5% to HK\$29.79 million (2016: approximately HK\$28.49 million). In 2017, the funds under the management of the Group has achieved satisfactory performance, and the Company has also set up three new private funds throughout the year to further enrich the product offer. As of the end of 2017, the number of funds the Group managed or served as the fund investment advisor totaled 23.



## **Financial Position**

The Group's total assets increased by 64% to HK\$73,960 million as at 31 December 2017 (31 December 2016: HK\$45,001 million). The Group's total liabilities increased by 83% to HK\$62,969 million as at 31 December 2017 (31 December 2016: HK\$34,467 million).

The equity attributable to holders of ordinary shares increased by 5% to HK\$8,608 million (31 December 2016: HK\$8,175 million) as at 31 December 2017. The leverage ratio (defined as total assets less accounts payable to clients divided by total equity) was 5.5 times as at 31 December 2017 (31 December 2016: 3.1 times).

## **Liquidity, Financial Resources and Capital Structure**

In 2017, the international credit rating agencies Moody's and Standard & Poor's raised the Company's credit ratings. As of the end of this year, the Group's international credit ratings had been upgraded to the highest level among its Mainland China industrial competitors in Hong Kong, and the Company's financial cost structure and level were expected to be further optimized in the future. In February 2017, Moody's Investors Service raised the Group's individual rating to "Ba1", maintained the long-term and short-term (local/foreign currency) issuer rating at Baa2/P-2, and changed the long-term issuer rating outlook from "negative" to "stable". In June, the S&P Global Ratings raised the Group's long-term issuer rating to "BBB+" with "stable" outlook.

As at the end of 2017, the current assets of the Group increased by 66% to HK\$73,384 million (as at the end of 2016: HK\$44,188 million). The Group's current ratio was 1.17 times as at the end of 2017 (as at the end of 2016: 1.37 times).

The Group had a net cash inflow of HK\$248 million (2016: net cash outflow of HK\$444 million) as at the end of 2017 and the Group's bank balance was HK\$2,213 million as at the end of 2017 (31 December 2016: HK\$1,964 million). As at the end of 2017, the Group had outstanding bank borrowings of HK\$13,782 million (31 December 2016: HK\$8,911 million), which were obtained through facilities with a number of banks.

To provide resources for the expansion of fast-growing financial product business, in February 2017, the Company through its subsidiary managed to launch a US\$5 billion Guaranteed Structured Note Programme under which unlisted notes denominated in a currency determined by the issuer may be issued from time to time. On 3 July 2017, the Company also successfully renewed the Medium Term Note Programme up to HK\$15 billion (or the equivalent in other currencies at the date of issue) pursuant to which both listed and unlisted notes may be issued. The structured notes issued as at the end of 2017 in relation to financial products amounted to HK\$10.48 billion (31 December 2016: HK\$5.65 billion) and the notes outstanding as at 31 December 2017 were HK\$5.89 billion (31 December 2016: HK\$0.18 billion).

Taking into account the un-utilized facilities from various financial institutions and a significant un-issued portion of the abovementioned note programmes, the Group's operating cash flow is adequate to finance our recurring working capital requirements and to meet any investment opportunities that may arise in the near future.

On 24 January 2018, the Company, Guotai Junan Holdings Limited (the “Vendor” and a substantial shareholder of the Company) and Guotai Junan Securities (Hong Kong) Limited (the “Sole Placing Agent” and a wholly-owned subsidiary of the Company) entered into a placing and subscription agreement. Pursuant to the agreement (i) the Vendor conditionally agreed to place, through the Sole Placing Agent on a best effort basis, a maximum of 700,000,000 existing shares held by the Vendor at the placing price of HK\$2.85 per placing share; and (ii) the Vendor conditionally agreed to subscribe for such number of the shares equal to the number of the shares which were placed by the Sole Placing Agent at the subscription price of HK\$2.85 per subscription share. A total of 700,000,000 placing shares beneficially owned by the Vendor were placed to not less than 6 places at HK\$2.85 per placing share. On 6 February 2018, 700,000,000 subscription shares were issued and allotted to the Vendor at HK\$2.85 per subscription share. The net proceeds of HK\$1,987 million have been applied towards the general working capital of the Group.

The Group monitors its capital structure in order to ensure the compliance of the capital requirements under the Securities and Futures (Financial Resources) Rules (Cap. 571N) for its licensed subsidiaries and to support the development of new business.

All licensed corporations within the Group complied with their respective liquid capital requirements during the year and up to the date of this announcement.

Other than the information disclosed above, there were no other equity or debt instruments issued by the Group during the year and at the end of the year.

## **Outlook and Future Plans**

Despite the enormous recovery momentum of the global economy in 2017, the emerging markets are expected to be subject to potential fluctuation due to the future US interest rate hikes and Europe’s withdrawal from quantitative easing. To prevent systemic financial risks remains an important strategy for the financial enterprises in Hong Kong. As to geopolitics, the global market will be prone to uncertainties in respect of the North Korea issue and the complex and volatile Middle East situation in 2018. Therefore, we expect the global market on the ascending progress will be accompanied with volatilities in 2018.

The “Stock Connect” policy between markets in Hong Kong and the Mainland China has brought positive impacts on the transaction volume of Hong Kong stock market. Meanwhile, the inclusion of China A-shares in the MSCI index improves the market sentiment in Hong Kong. The “Belt and Road Initiative” is expected to inject a fresh surge of energy to the economy of the Mainland China and Hong Kong and bring new growth opportunities for the Group. The demand of high net worth clients in the Mainland China for overseas asset allocation grows, the demand of the Mainland China financial institutions for overseas investment keeps rising, this will continue to serve as the pivot of the Group’s provision of investment and financing services. The Group was assigned leading global credit ratings in the past two years, executed an adjustment to its margin loan structural strategy and introduced a series of wealth management service and customized financial products, attracting substantial quality high net worth clients and institutions. Looking forward, the Group will fully seize the opportunities arising from the “Belt and Road Initiative” and the building of Guangdong-Hong Kong-Macao Greater Bay Area, reinforce the service range and intensity for institutional

clients and high net worth clients and solidify the sustainability of the return towards the shareholders, thus sharing the fruitful result with shareholders and clients in the course of RMB internationalization.

## **FINAL DIVIDEND**

The Board recommends the payment of final dividend of HK\$0.045 per ordinary share for the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company on 1 June 2018. The dividend will be payable on or about 15 June 2018.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Friday, 18 May 2018 to Thursday, 24 May 2018 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the forthcoming annual general meeting ("AGM"), during which period no transfer of shares of the Company will be registered. In order to qualify for attending the forthcoming AGM, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, No.183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 17 May 2018.

The register of members of the Company will be closed on Friday, 1 June 2018 for ascertaining shareholders' entitlement to the proposed final dividend. No transfer of shares will be registered on that date. In order to qualify for the proposed final dividend to be approved at the AGM, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, No.183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 31 May 2018.

## **MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS**

For the year ended 31 December 2017, the Group had not made any material acquisitions and disposal of subsidiaries and associated companies. As at 31 December 2017, the Group did not hold any significant investments.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017 other than as an agent for the trustee of the share award scheme.

## **CHARGES ON THE GROUP'S ASSETS**

No asset of the Group was subject to any charge as at 31 December 2017 and 2016.

## **OPERATING LEASE COMMITMENTS, CAPITAL COMMITMENTS AND OTHER COMMITMENTS**

Details of operating lease commitments, capital commitments and other commitments of the Group are set out in note 15 to the financial information.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

For the year ended 31 December 2017, the Company has adopted the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance. During the year, the Company has complied with all the code provisions as set out in the Corporate Governance Code, except for deviation from provision A.2.1. The roles of the Chairman and Chief Executive Officer of the Company are not separated and performed by two different individuals. The Directors consider that vesting two roles in the same person provides the Group with strong and consistent leadership in the development and execution of the Group’s business strategies and is beneficial to the Group.

## **COMPLIANCE WITH THE MODEL CODE**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in the Appendix 10 of the Listing Rules regarding securities transactions by its Directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have fully complied with the required standard set out in the Model Code during the period commencing from 8 July 2010 (being the date on which the shares of the Company first commenced dealings on the Stock Exchange) to the date of this announcement.

## **AUDIT COMMITTEE**

An Audit Committee was established by the Board on 19 June 2010. The Audit Committee comprises Mr. TSANG Yiu Keung, Dr. SONG Ming and Dr. FU Tingmei. The Audit Committee is chaired by Mr. TSANG Yiu Keung. All members of the Audit Committee are independent non-executive directors. The Audit Committee has met with the external auditors of the Group to review the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of this announcement of final results of the Group for the year ended 31 December 2017.

## **REMUNERATION COMMITTEE**

A Remuneration Committee was established by the Board on 19 June 2010. The Remuneration Committee comprises Dr. SONG Ming, Dr. FU Tingmei, Mr. TSANG Yiu Keung and Mr. XIE Lebin. The Remuneration Committee is chaired by Dr. FU Tingmei. Majority of the members of the Remuneration Committee are independent non-executive directors. The Remuneration Committee was set up to review and approve the remuneration packages of the Directors and senior management including the terms of salary and bonus schemes and other long-term incentive schemes.

## **NOMINATION COMMITTEE**

A Nomination Committee was established by the Board on 19 June 2010. The Nomination Committee comprises Dr. YIM Fung, Dr. SONG Ming and Mr. TSANG Yiu Keung. The Nomination Committee is chaired by Dr. SONG Ming. Majority of the members of the Nomination Committee are independent non-executive directors. The Nomination Committee was set up to review the structure, size and composition of the Board on a regular basis and to make recommendation.

## **RISK COMMITTEE**

A Risk Committee was established by the Board on 17 June 2016. The Risk Committee comprises Dr. YIM Fung, Ms. QI Haiying, Mr. LIU Yiyong, Dr. FU Tingmei, Dr. SONG Ming and Mr. TSANG Yiu Keung. The Risk Committee is chaired by Dr. YIM Fung. Majority of the members of the Risk Committee are non-executive directors. The Risk Committee was set up to advise the Board on the Group's overall risk appetite and tolerance, risk management framework and other risk-related issues including policies, process and controls. Prior to the establishment of the Risk Committee, the Audit Committee was responsible for reviewing the Group's overall risks.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises four executive directors, being Dr. YIM Fung (Chairman), Mr. WONG Tung Ching, Ms. QI Haiying and Mr. LI Guangjie; two non-executive directors, being Mr. XIE Lebin and Mr. LIU Yiyong and three independent non-executive directors, being Dr. FU Tingmei, Dr. SONG Ming and Mr. TSANG Yiu Keung.

## **PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY**

This announcement of final results for the year ended 31 December 2017 is published on the websites of Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk> under "Latest Listed Company Information" and the Company at <http://www.gtjai.com>. The annual report for the year ended 31 December 2017 of the Company containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

By order of the Board  
**Guotai Junan International Holdings Limited**  
**YIM FUNG**  
*Chairman*

Hong Kong, 16 March 2018