GUOTAI JUNAN INTERNATIONAL HOLDINGS LIMITED
國泰君安國際控股有限公司
(incorporated in Hong Kong with limited liability)
(Stock Code: 1788)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 together with comparative figures for the previous financial year as follows:

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2012	**2011**	**Change**
	HK$'000	*HK$'000*	*%*
Fee and commission income			
- dealing and broking	264,533	317,334	-16.6%
- corporate finance	156,988	136,619	14.9%
- asset management	31,387	23,311	34.6%
Interest income from loans and financing	276,149	214,793	28.6%
Gain from investment holding	57,513	8,672	563.2%
Revenue	786,570	700,729	12.3%
Other income	4,170	2,425	72.0%
Revenue and other income	790,740	703,154	12.5%
Profit for the year	307,150	287,448	6.9%
Profit attributable to equity holders of the Company	307,003	287,706	6.7%
Basic and diluted earnings per share (HK cents)	18.8	17.5	7.4%
Dividend per share (HK cents)	10	9	11.1%
Net asset value per share (HK$) (Note)	2.09	1.97	6.1%

Note: Based on 1,626,889,000 shares (2011: 1,635,273,000 shares) as at 31 December 2012, being 1,640,000,000 shares issued and fully paid less 13,111,000 shares held for the Shares Award Scheme (2011: 1,640,000,000 shares issued and fully paid less 4,727,000 shares held for the Share Award Scheme).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the year ended 31 December **2012** *HK$'000*	**2011** *HK$'000*
Revenue	4	786,570	700,729
Other income	5	4,170	2,425
Revenue and other income		790,740	703,154
Staff costs	6	(202,484)	(161,916)
Commission to account executives		(43,339)	(44,241)
Other commission expenses		(48,312)	(41,170)
Performance fee expenses		(11,940)	(3,602)
Depreciation		(25,943)	(24,562)
Impairment of loans and advances to customers	10	(540)	(139)
Impairment of accounts receivable	11(d)	(5)	(181)
Other operating expenses		(95,537)	(94,862)
Operating profit		362,640	332,481
Finance costs	6	(7,238)	(2,246)
Profit before tax	6	355,402	330,235
Income tax expense	7	(48,252)	(42,787)
Profit for the year		307,150	287,448
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income for the year		307,150	287,448
Attributable to:			
Owners of the parent		307,003	287,706
Non-controlling interests		147	(258)
		307,150	287,448
Earnings per share attributable to ordinary equity holders of the parent	9		
- Basic (in HK cents)		18.8	17.5
- Diluted (in HK cents)		18.8	17.5

Details of the dividends paid and proposed for the year are disclosed in note 8 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 31 December** **2012** *HK$'000*	**2011** *HK$'000*
Non-current assets			
Property, plant and equipment		429,402	446,893
Investment properties		108,751	111,903
Intangible assets		2,823	2,823
Other assets		2,870	2,960
Deferred tax assets		3,670	5,891
Held-to-maturity investments		—	77,728
Total non-current assets		547,516	648,198
Current assets			
Loans and advances to customers	10	3,058,102	2,064,215
Accounts receivable	11	1,023,187	336,366
Prepayments, deposits and other receivables		22,901	18,035
Held-to-maturity investments		77,520	—
Financial assets at fair value through profit or loss	12	482,220	150,716
Tax recoverable		6,796	310
Client trust bank balances		5,883,941	6,121,768
Cash and cash equivalents		384,554	661,856
Total current assets		10,939,221	9,353,266
Current liabilities			
Accounts payable	13	(6,955,818)	(6,471,235)
Subscription monies received in advance	14	(186,798)	—
Other payables and accrued liabilities		(95,022)	(77,788)
Interest-bearing bank borrowings	15	(739,820)	(200,000)
Debt Securities in issue	16	(86,000)	—
Tax payable		(6,214)	(11,344)
Total current liabilities		(8,069,672)	(6,760,367)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		As at 31 December	
	Notes	**2012**	**2011**
		HK$'000	*HK$'000*
Net current assets		2,869,549	2,592,899
Total assets less current liabilities		3,417,065	3,241,097
Non-current liabilities			
Deferred tax liabilities		(17,300)	(9,079)
Net assets		3,399,765	3,232,018
Equity			
Share capital		164,000	164,000
Share premium		2,771,707	2,771,707
Other reserve		(1,236,460)	(1,236,460)
Share-based compensation reserve			
- Share option reserve	17(a)	33,330	12,805
- Share award reserve	17(b)	5,720	—
Shares held under the share award scheme	18	(28,833)	(9,384)
Proposed final dividend	8	113,882	98,116
Retained profits		1,570,102	1,425,064
Equity attributable to owners of the parent		3,393,448	3,225,848
Non-controlling interests		6,317	6,170
Total equity		3,399,765	3,232,018

NOTES TO FINANCIAL STATEMENTS

1. General information

The Company was incorporated on 8 March 2010 in Hong Kong with limited liability under the Hong Kong Companies Ordinance (Cap. 32) 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 dealing and broking, loans and financing activities, corporate finance, asset management and investment holding.

The Company's immediate holding company and ultimate holding company are Guotai Junan Holdings Limited ("GJHL") and Guotai Junan Securities Company Limited, respectively.

These financial statements were approved and authorised for issue by the Board on 14 March 2013.

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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 and the Hong Kong Companies Ordinance (Cap. 32). They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 Changes in accounting policy and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Standard/ interpretation	Content	Effective for financial years beginning on/ after
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	1 July 2011
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*	1 July 2011
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*	1 January 2012

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

3. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's senior executive management. 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 dealing and broking segment engages in the provision of securities, futures and leveraged foreign exchange dealing and broking to customers;

(b) the corporate finance segment engages in the provision of advisory services, placing and underwriting services;

(c) the asset management segment engages in asset management, including fund management and the provision of investment advisory services;

(d) the loans and financing activities segment engages in the provision of margin financing to margin customers, initial public offering ("IPO") loans, other loans to customers and bank deposits;

(e) the investment holding segment represents interest income, dividend income and gains or losses from listed equity investments and other unlisted investments; and

(f) the "others" segment mainly represents rental income, the provision of information channel services and others.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the years ended 31 December 2011 and 2012.

The segment information provided to the management for the reportable segments for the year ended 31 December 2011 and 2012 is as follows:

Year ended 31 December 2012

	Dealing and broking	**Corporate finance**	**Asset management**	**Loans and financing activities**	**Investment holding**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue and other income:							
Sales to external customers	264,533	156,988	31,387	276,149	57,513	4,170	790,740
Inter-segment sales	—	—	—	—	—	—	—
Total	264,533	156,988	31,387	276,149	57,513	4,170	790,740
Segment results	69,671	51,730	(1,028)	177,516	57,513	—	355,402
Income tax expense							(48,252)
Profit for the year							307,150
Other segment information:							
Depreciation	8,779	6,182	1,216	9,766	—	—	25,943
Finance costs	13	—	—	7,225	—	—	7,238

Year ended 31 December 2011

	Dealing and broking	Corporate finance	Asset management	Loans and financing activities	Investment holding	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue and other income:							
Sales to external customers	317,334	136,619	23,311	214,793	8,672	2,425	703,154
Inter-segment sales	—	—	—	—	—	—	—
Total	317,334	136,619	23,311	214,793	8,672	2,425	703,154
Segment results	102,783	55,875	4,313	158,592	8,672	—	330,235
Income tax expense							(42,787)
Profit for the year							287,448
Other segment information:							
Depreciation	10,253	5,564	1,217	7,528	—	—	24,562
Finance costs	18	—	—	2,228	—	—	2,246

Geographical information

(a) Revenue from external customers

	2012	**2011**
	HK$'000	*HK$'000*
Hong Kong	705,496	611,807
Other countries	85,244	91,347
	790,740	703,154

The revenue information above is based on the location of the markets/customers.

(b) Non-current assets

All non-current assets (excludes financial instruments and deferred tax assets) of the Group are located in Hong Kong.

4. Revenue

An analysis of revenue, which is also the Group's turnover, is as follows:

	2012	2011
	HK$'000	*HK$'000*
Dealing and broking:		
Commission on securities dealing and broking	187,398	234,523
Commission on futures dealing and broking	51,619	53,485
Handling income on dealing and broking	24,444	28,470
Net income on leveraged foreign exchange dealing and broking	1,072	856
Corporate Finance:		
Placing and underwriting and sub-underwriting commission		
- Debt securities	15,878	—
- Equity securities	71,447	99,589
Consultancy and financial advisory fee income	69,663	37,030
Asset management:		
Management fee income	18,851	19,503
Performance fee income	12,536	3,808
Loans and financing activities:		
Interest income from margin loans	182,866	152,204
Interest income from term loans	22,860	3,484
Interest income from IPO loans	97	650
Interest income from banks and others	64,506	52,635
Interest income from held-to-maturity investments	5,820	5,820
Investment holding:		
Net fair value gain/(loss) on financial assets held for trading		
- Unlisted debt securities	5,287	—
- Listed equities securities	(14,918)	(31,168)
Interest income from unlisted debt securities held for trading	2,742	—
Dividend income from listed equities securities held for trading	3,228	4,885
Net fair value gain on financial assets designated at fair value through profit or loss	57,479	33,266
Interest income from unlisted financial assets designated at fair value through profit or loss	3,695	1,689
	786,570	700,729

5. Other income

	2012	2011
	HK$'000	*HK$'000*
Gross rental income from investment properties	2,832	920
Information services income	1,226	1,389
Others	112	116
	4,170	2,425

6. Profit before tax

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

	2012	2011
	HK$'000	*HK$'000*
Other operating expenses include:		
Auditors' remuneration		
- audit services	1,423	1,237
- interim review	535	500
- tax and other services	174	80
Foreign exchange difference, net	(2,162)	(2,183)
Information services expense	10,767	11,988
Loss on disposal of property, plant and equipment	—	27
Marketing, advertising and promotion expenses	5,272	7,685
Professional and consultancy fee	23,151	16,982
Repair and maintenance (including system maintenance)	11,599	9,570
Direct operating expenses arising from investment property that generated rental income during the year	118	443
Staff costs (including Directors' remuneration):		
Salaries, bonuses and allowances	170,847	147,210
Share-based compensation expense		
- Share option scheme (Note 17(a))	20,870	12,805
- Share award scheme (Note 17(b))	8,310	—
Pension scheme contributions	2,457	1,901
	202,484	161,916
Finance costs:		
Bank loans and overdrafts wholly repayable within five years	6,828	2,156
Debt securities in issue (Note 16)	298	—
Others	112	90
	7,238	2,246

7. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2012	2011
	HK$'000	*HK$'000*
Current — Hong Kong		
- Charge for the year	37,981	38,190
- Overprovision in prior years	(171)	(65)
Deferred	10,442	4,662
Total tax charge for the year	48,252	42,787

8. Dividends

	2012	2011
	HK$'000	*HK$'000*
Interim — HK$0.03 (2011: HK$0.03) per ordinary share	49,200	49,200
Less: Dividend for shares held under the share award scheme	(247)	—
	48,953	49,200
Proposed final — HK$0.07 (2011: HK$0.06) per ordinary share	114,800	98,400
Less: Dividend for shares held under the share award scheme	(918)	(284)
	113,882	98,116
	162,835	147,316

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

9. Earnings per share attributable to ordinary equity holders of the parent

The calculations of the basic and diluted earnings per share are based on:

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2012 is based on the profit attributable to ordinary equity holders of the parent of HK$307,003,000 (2011: HK$287,706,000) and the weighted average number of ordinary shares in issue less shares held for Share Award Scheme of 1,630,943,000 (2011: 1,639,932,000) during the year.

(b) **Diluted earnings per share**

The calculation of diluted earnings per share amounts 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:

	2012	**2011**
Profit attributable to ordinary equity holders of the parent (in HK$'000)	307,003	287,706
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme used in the basic earnings per share calculation (in '000)	1,630,943	1,639,932
Effect of dilution — weighted average number of ordinary shares:		
Awarded shares under the Share Award Scheme (in '000)	2,321	—
Number of ordinary shares for the purpose of diluted earnings per share (in '000)	1,633,264	1,639,932
Diluted earnings per share (in HK cents)	18.8	17.5

As the impact of the share option outstanding did not give rise to any dilution effect on the basic earnings per share amounts presented for the years ended 31 December 2012 and 31 December 2011, no adjustment has been made to the basic earnings per share amounts in respect of the share options outstanding under the Share Option Scheme.

10. Loans and advances to customers

	2012	**2011**
	HK$'000	*HK$'000*
Margin loans	2,679,678	1,997,019
Term loans to customers	379,103	67,335
Gross loans and advances to customers	3,058,781	2,064,354
Less: impairment	(679)	(139)
	3,058,102	2,064,215

Margin financing operations

The Group provides customers with margin financing for securities transactions, which are secured by customers' securities held as collateral. The maximum credit limit granted for each customer is based on the customer's financial background and the quality of related collateral. The Group seeks to maintain strict control over its outstanding receivables and has a Credit and Risk Management Department to monitor credit risks.

Margin loans to the customers are secured by the underlying pledged securities, bear interest at a rate with reference to the Hong Kong dollar prime rate and are repayable on demand. The carrying value of margin loans approximates to their fair values. No aging analysis is disclosed as, in the opinion of the Directors, an aging analysis does not give additional value in view of the nature of the margin loans business. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Group. As at 31 December 2012, the total value of securities pledged as collateral in respect of the margin loans was approximately HK$17,830 million (2011: HK$8,289 million) based on the market value of the securities as at the end of the reporting period.

Term loans to customers

The Group also provides term loans to customers. In determining the interest rates, reference is made to the credit standing of the relevant customers and the quality of the collateral pledged. The term loans granted to customers amounted to HK$367,700,000 (2011: HK$67,026,000), and the accrued interests amounted to HK$11,403,000 (2011: HK$309,000) as at 31 December 2012. The carrying amounts of the term loans to customers approximate to their fair values.

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

	2012	**2011**
	HK$'000	*HK$'000*
As at 1 January	139	—
Impairment losses charged to profit or loss	864	139
Impairment loss reversed to profit or loss	(324)	—
As at 31 December	679	139

Included in the above provision of impairment of margin loans is a provision for individually impaired margin loans of HK$679,000 (2011: HK$139,000) with a carrying amount before provision of HK$679,000 (2011: HK$1,004,000). Save as disclosed above, all loans and advances to customers were neither past due nor impaired as at 31 December 2012 and 2011.

11. 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:

	2012	**2011**
	HK$'000	*HK$'000*
Accounts receivable arising from dealing and broking		
- cash and custodian clients	23,758	21,343
- the Stock Exchange and other clearing houses	264,568	20,231
- brokers and dealers	706,313	293,709
Accounts receivable arising from corporate finance, asset management and investment holding		
- corporate clients and investment funds	40,554	13,092
	1,035,193	348,375
Less: impairment	(12,006)	(12,009)
	1,023,187	336,366

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

	Accounts receivable from cash and custodian clients	**Accounts receivable from the Stock Exchange and other clearing houses**	**Accounts receivable from brokers and dealers**	**Accounts receivable from corporate clients and investment funds**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2012					
Neither past due nor impaired	11,447	264,568	706,313	38,578	1,020,906
As at 31 December 2011					
Neither past due nor impaired	6,765	20,231	293,709	12,300	333,005

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

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

	Accounts receivable from cash and custodian clients	**Accounts receivable from the Stock Exchange and other clearing houses**	**Accounts receivable from brokers and dealers**	**Accounts receivable from corporate clients and investment funds**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2012					
Past due less than 6 months	276	—	—	150	426
Past due 6 to 12 months	—	—	—	1,826	1,826
	276	—	—	1,976	2,252
As at 31 December 2011					
Past due less than 6 months	2,543	—	—	—	2,543
Past due 6 to 12 months	—	—	—	792	792
	2,543	—	—	792	3,335

Accounts receivable from cash and custodian clients which are past due but not 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 2011 and 2012 are considered past due but not impaired after taking into consideration the recoverability from the collaterals. The collateral held against such receivable is publicly traded securities.

Accounts receivable from corporate clients and investment funds which are past due but not impaired represent receivables arising from asset management, corporate finance and advisory services which have not yet been settled by clients after the Group's normal credit period. The outstanding accounts receivable from corporate clients and investment funds as at 31 December 2011 and 2012 are considered not to be impaired as the credit rating and reputation of the trade counterparties are sound.

(d) **Impaired accounts receivable**

	Accounts receivable from cash and custodian clients	**Accounts receivable from the Stock Exchange and other clearing houses**	**Accounts receivable from brokers and dealers**	**Accounts receivable from corporate clients and investment funds**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2012					
Impaired accounts receivable	12,035	—	—	—	12,035
Less: impairment	(12,006)	—	—	—	(12,006)
	29	—	—	—	29
As at 31 December 2011					
Impaired accounts receivable	12,035	—	—	—	12,035
Less: impairment	(12,009)	—	—	—	(12,009)
	26	—	—	—	26

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

The movements in provision for impairment of accounts receivable are as follows:

	2012	**2011**
	HK$'000	*HK$'000*
As at 1 January	12,009	11,828
Impairment losses charged to profit or loss	7	183
Impairment losses reversed to profit or loss	(2)	(2)
Amount written off as uncollectible	(8)	—
As at 31 December	12,006	12,009

12. Financial assets at fair value through profit or loss

	2012	2011
	HK$'000	*HK$'000*
Financial assets held for trading:		
Listed equity investments, at fair value		
- in Hong Kong	75,854	51,607
- in United States	22	—
Unlisted debt investments, at fair value	214,137	—
Financial assets designated as at fair value through profit or loss		
- unlisted equity investment (Note (a))	—	39,000
- unlisted debt investment	73,963	—
- unlisted convertible promissory note (the "Convertible Promissory Note") (Note (b))	118,244	60,109
	482,220	150,716

Changes in fair value of financial assets at fair value through profit or loss are recorded in revenue (Note 4).

Notes:

(a) The Group has entered into a subscription agreement (the "Subscription Agreement") in May 2011 to acquire non-voting equity shares of a company (the "Investee") amounting to HK$22,855,000. During the current year, the ordinary shares of the Investee were listed on the Stock Exchange and such Hong Kong listed equity investment has been classified as financial assets held for trading.

Pursuant to the Subscription Agreement, if the audited and forecasted consolidated profit after tax of the Investee for the two years ended 30 June 2011 and 2012 is less than a certain threshold level, the Group will be compensated for the shortfall. No compensation has been recognised for the years ended 31 December 2011 and 2012 as the audited consolidated results of the Investee met the threshold level.

(b) The Group purchased a two-year Convertible Promissory Note issued by a third party (the "Issuer") amounting to approximately HK$42,650,000 in May 2011. The Convertible Promissory Note bear interest at the Hong Kong Interbank Offered Rate plus an interest spread and the interest income accrued for the year ended 31 December 2012 was HK$2,780,000 (2011: HK$1,689,000).

Pursuant to a warrant agreement entered into between the Issuer and the Group in May 2011, the Issuer guaranteed that the audited and forecasted consolidated profit after tax of the wholly-owned subsidiary of the Issuer (the "Project Company") for the years ended 31 December 2010 and 2011 should not be less than a certain threshold level, otherwise the Group will be compensated by the Issuer for the shortfall (the "Profit Guarantee 2010 and 2011").

During the year ended 31 December 2012, the Issuer and the Group agreed to extend the maturity of the Convertible Promissory Note to 31 December 2014. The Profit Guarantee 2010 and 2011 were released and the number of convertible shares attributable to the Convertible Promissory Note were increased.

In addition, the Group will be compensated for the shortfall if the audited consolidated profit after tax of the Project Company for either the year ending 31 December 2013 or for the year ending 31 December 2014 is less than certain threshold levels, depending on which year the Project Company would be listed on the Stock Exchange. No compensation has been recognised for the year ended 31 December 2012.

The fair value of Convertible Promissory Note was determined by using binomial pricing model. The increase in fair value as at 31 December 2012 was mainly due to the increase in number of convertible shares as mentioned above.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2012

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss	75,876	288,100	118,244	482,220

As at 31 December 2011

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss	51,607	—	99,109	150,716

The following table presents the changes in level 3 instruments of unlisted financial assets designated at fair value through profit or loss for the years ended 31 December 2011 and 2012.

	2012	**2011**
	HK$'000	*HK$'000*
At 1 January	99,109	—
Purchases	—	65,505
Accrued interest income	2,780	1,689
Receipt of interest income	(2,775)	(1,351)
Net gain recognised in profit or loss	58,130	33,266
Transfer out to Level 1	(39,000)	—
At 31 December	118,244	99,109

13. Accounts payable

	2012	**2011**
	HK$'000	*HK$'000*
Accounts payable arising from dealing and broking		
- clients	6,657,187	6,345,325
- brokers and dealers	270,443	48,869
- the Stock Exchange and other clearing houses	—	25,680
Accounts payable arising from underwriting, asset management, corporate finance and advisory services		
- corporate clients	28,188	51,361
	6,955,818	6,471,235

The majority of the accounts payable are repayable on demand except for certain accounts payable to clients which represent margin deposits received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

The Group has a practice to satisfy all the requests for payment within one business day. No aging analysis is disclosed as in the opinion of Directors, the aging analysis does not give additional value in view of the nature of these businesses.

Accounts payable to clients also include those payables in trust accounts with authorised institutions of HK$5,884 million (2011: HK$6,122 million), Hong Kong Futures Exchange Clearing Corporation Limited and other futures dealers of HK$328 million (2011: HK$224 million).

Accounts payable are non interest bearing except for the accounts payable to the clients.

14. Subscription monies received in advance

Pursuant to the placing and subscription agreement (the "Agreement") dated 20 December 2012, GJHL agreed i) to place its existing 85,000,000 ordinary shares of the Company through Guotai Junan Securities (Hong Kong) Limited, as the placing agent, to two independent parties at a placing price of HK$2.20 each; and ii) to subscribe for the same number of ordinary shares of the Company that GJHL has placed as mentioned above at a subscription price of HK$2.20 each. At the reporting date, the Group has received the proceeds of subscription money of approximately HK$186.8 million.

On 3 January 2013, the Company allotted and issued 85,000,000 ordinary shares of HK$0.1 each to GJHL at the subscription price of HK$2.20 each.

15. Interest-bearing bank borrowings

	2012	2011
	HK$'000	*HK$'000*
Secured bank borrowings	360,000	—
Unsecured bank borrowings	379,820	200,000
Total bank borrowings	739,820	200,000

Bank loans of HK$360 million (2011: nil) were secured by certain of the listed shares pledged by the customers to the Group as margin loan collateral which had an aggregate fair value amounting to HK$1,372.4 million as at 31 December 2012 (2011: nil)

In addition, the Company has guaranteed certain of the Group's bank borrowings up to HK$530 million (2011: HK$530 million) as at the end of the reporting period.

The Group's bank borrowings comprise of secured bank borrowings and unsecured bank borrowings which are denominated in HKD amounted to HK$510,000,000 (2011: HK$200,000,000) as well as unsecured bank borrowings which are denominated in RMB amounted to HK$136,796,000 (2011: nil) and USD amounted to HK$93,024,000 (2011: nil) as at 31 December 2012.

The Group's bank borrowings bear interest at the Interbank Offered Rate plus an interest spread per annum and are repayable within three months or less at the end of the reporting period.

The carrying amounts of the bank borrowings approximate to their fair values as the impact on discounting is not significant.

16. Debt securities in issue

	2012	2011
	HK$'000	*HK$'000*
At amortised cost:		
HK$ medium-term note	86,000	—

The outstanding balance of HK$86 million (2011: nil) represents unlisted notes issued by the Company under the Medium Term Note Programme (the "MTN Programme").

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the year (2011: nil)

17. Share based compensation reserve

The Company operates two equity-settled share-based compensation schemes including a share option scheme (the "Share Option Scheme") and a share award scheme (the "Share Award Scheme") for the purpose of assisting in recruiting, retaining and motivating key staff members. Eligible participants of the schemes include the Company's Directors, including independent non-executive directors, and other employees of the Group.

(a) Share Option Scheme

The Share Option Scheme became effective on 19 June 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

On 10 June 2011, 40,000,000 share options have been granted to the Directors and employees with the exercise price of HK$4.30 per share.

On 24 April 2012, the Board resolved to cancel the outstanding share options and granted new options to the same grantees with the exercise price of HK$2.50 per share. Among the share options granted, a total of 13,500,000 share options were granted to the Directors of the Company. The closing price of the Company's shares prior to the date of grant of the share options was HK$2.50 per share. The option period of the share options is from 24 April 2012 to 9 June 2021. One-third of the share options granted was vested on 10 June 2012. The outstanding two-thirds of the share options granted will be vested on 10 June 2013 and 2014 respectively. The reduction in the exercise price of the above share options resulted in an incremental fair value of HK$8,739,000 at the modification date.

The fair value of the equity-settled share options was estimated on the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted.

The following table lists out the key inputs to the model used:

Share price at the date of grant (per share)	HK$2.50
Exercise price (per share)	HK$2.50
Expected volatility	52.16%
Expected dividend yield	2.71%
Risk-free interest rate	1.12%
Weighted average share option price (per share)	HK$0.83

The expected volatility and the expected dividend yield reflect the assumptions that the historical volatility and the historical dividend yield, respectively, are indicative of future trends, which may not necessarily be the actual outcome.

During the year, 333,333 share options were forfeited and 666,667 share options lapsed prior to the vesting dates as a result of staff resignation.

No share options were exercised during the year ended 31 December 2012 (2011: nil).

For the year ended 31 December 2012, the Group has recognised a share-based compensation expense of HK$20,870,000 for the share options under the Share Option Scheme in profit or loss (2011: HK$12,805,000).

(b) **Share Award Scheme**

On 27 October 2011, the Company adopted the Share Award Scheme under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (including Directors) of any members of the Group (the "Selected Employees") pursuant to the terms of the scheme rules and trust deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from that date, i.e. 26 October 2021.

Details of the Awarded Shares awarded during the year ended 31 December 2012 (2011: nil) are set out below:

Date of award	**Number of shares awarded**	**Average fair value per share**	**Vesting date**
30 March 2012	7,494,000	HK$2.15	30/11/2012, 30/11/2013 and 30/11/2014
21 May 2012	182,000	HK$2.52	30/11/2012, 30/11/2013 and 30/11/2014

On 24 November 2012, the vesting date of 1,360,000 out of 2,506,000 Awarded Shares, which were expected to be vested on 30 November 2012, was deferred to 24 June 2013. The remaining 1,146,000 Awarded Shares have been either transferred to the grantee, or sold in accordance with their instructions on 30 November 2012 at no cost accordingly.

205,000 awarded shares lapsed prior to its vesting date as a result of staff resignation.

For the year ended 31 December 2012, the Group has recognised a share-based compensation expense of HK$8,310,000 for the Awarded Shares under the Share Award Scheme in profit or loss (2011: nil).

18. Shares held under the Share Award Scheme

Movements of shares held under the Share Sward Scheme during the year are as follows:

	2012		2011	
	HK$'000	**Number of shares '000**	**HK$'000**	**Number of shares '000**
At 1 January	9,384	4,727	—	—
Purchased during the year	21,724	9,530	9,384	4,727
Vested during the year	(2,275)	(1,146)	—	—
At 31 December	28,833	13,111	9,384	4,727

19. Operating lease and capital commitments

As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms of three years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2012	**2011**
	HK$'000	*HK$'000*
Within one year	3,810	2,159
In the second to fifth years, inclusive	4,133	3,539
	7,943	5,698

The Group had capital commitments for IT upgrade of approximately HK$2,103,000 which were contracted but not provided for as at 31 December 2012 (2011: HK$570,000).

20. Contingent liabilities

The Group has undertaken underwriting obligations to capture placing and IPO activities. The Board has resolved to ensure that the Group has adequate working capital to meet such obligations. As at 31 December 2012, the Group had no material underwriting obligations (2011: HK$388.3 million).

In addition to the guarantee provided in respect of bank borrowings as mentioned in note 15, as at 31 December 2012, the Company provided guarantees up to US$30 million equivalent to approximately HK$232.6 million (2011: nil) in favour of a financial institution in respect of the trading limit granted to a wholly-owned subsidiary principally engaged in the provision of securities dealing and broking services.

As at 31 December 2011, the Company had also provided guarantees in favour of financial institutions in respect of the trading limit of a wholly-owned subsidiary principally engaged in futures dealing and broking services amounting to approximately HK$155.5 million, the guarantees were released during the year of 2012.

21. Events after the reporting period

On 3 January 2013, 85,000,000 ordinary shares of the Company at the subscription price of HK$2.20 each were issued to GJHL, further details are set out in note 14.

On 10 January 2013, a Director of the Company exercised his share options which have vested under the Share Option Scheme to subscribe for 500,000 ordinary shares of the Company at a consideration of HK$2.50 per share, of which HK$50,000 was credited to share capital for the issuance of new shares and the remaining was credited to the share premium account.

On 15 January 2013, in addition to the guarantees provided by the Company in respect of the trading limit as mentioned in note 20, the Company provided another guarantee of up to RMB5 million (equivalent to approximately HK$6.2 million) in favour of a financial institution in respect of the trading and clearing transactions of a wholly-owned subsidiary principally engaged in provision of futures dealing and broking services.

On 31 January 2013, in addition to the guarantee provided by the Company in respect of bank borrowing as mentioned in Note 15, the Company provided another guarantee of up to HK$200 million in favour of a financial institution in respect of bank borrowings of a wholly-owned subsidiary, which is principally engaged in provision of securities dealing and broking services.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND OVERVIEW

Amid uncertain global economy, we are pleased to report to our shareholders that the revenue of the Group for the year ended 31 December 2012 was HK$786.6 million (2011: HK$700.7 million), representing an increase of 12.3% as compared to last year. Such promising results were founded on the solid performance of the Group's core businesses. While the dealing and broking business recorded a decrease in revenue of 16.6%, the rest of the Group's core businesses, including corporate finance, asset management, loans and financing and investment holding, achieved a solid growth in their revenues. As a result, the profit attributable to the equity owners of the Company increased by 6.7% to HK$307.0 million (2011: HK$287.7 million) for the year ended 31 December 2012.

The Board of the Company has proposed a payment of final dividend of HK$0.07 per share for the year. Together with the interim dividend of 2012 of HK$0.03 per share, dividends paid for 2012 amount to a total of HK$0.10 per share.

MARKET REVIEW

In the first half of 2012, global economy continued to be affected by the slow rebound of US economy, the intensified sovereign debt crisis and distressed high level of unemployment in some of the European countries. Investor confidence was adversely affected and the global financial markets performed badly especially in the second quarter of 2012. As the US Government and European Central Bank continued to procure measures including Quantitative Easing and Outright Monetary Transactions in increasing the money supply to stimulate economy, the investor confidence improved and the financial markets saw significant rebound in the second half of 2012.

After experiencing rapid economic growth in the past two decades, China became the world's second largest economy. In 2012, the growth of Chinese economy slowed down. To maintain a healthy economic growth, the Chinese government introduced a number of measures, including the decrease in the Required Reserve Ratio for banks and the base interest rate of The People's Bank of China from 21.0% to 20.0% and 6.56% to 6.0% respectively. The China A share market performed poorly in most time of 2012. Shanghai Composite Index slumped to below 2,000 for a three-year low during the year. After that, with encouraging policies of the Chinese government, the Shanghai Composite Index closed at 2,269 as at the end of 2012 (2011: 2,199), 3.2% higher than that as at the end of 2011. During 2012, the Chinese government introduced a number of policies to stimulate the investment markets in China. Starting from the beginning of the year, the Chinese Securities Regulatory Commission ("CSRC") speeded up the approval process for the Qualified Foreign Institutional Investor program ("QFII") in order to bring in more foreign investment in A share markets. In order to boost margin trading business, in August, China launched a securities finance programme that would allow selected brokerage houses to borrow money from the state-owned China Securities Finance Corporation Limited and on-lend it to their clients for margin trading. In December, the solution for resolving B share issue came into light. China International Marine Containers (Group) Co., Ltd. ("CIMC") became the first pilot company whose B shares were converted into H shares and successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Renminbi Qualified Foreign Institutional Investor ("RQFII") program did not only promote the internationalization of RMB, but also consolidated the position of Hong Kong to continually develop as an offshore clearing center for RMB. Subsequent to the pilot program with an initial quota of RMB 20 billion, the RQFII quota has been further increased by RMB50 billion in April 2012 to allow the issuance of RMB A-share ETF products on the Stock Exchange for Hong Kong investors to own physical A-shares. The deliverable RMB currency futures commenced trading in September 2012 as a tool for RMB users to manage foreign exchange risk. With the operation of Dual Counter Model, Chinese enterprises are encouraged to raise debt and equity capital in RMB in Hong Kong.

With a number of encouraging policies to boost economy growth in Hong Kong financial markets, the Hang Seng Index closed at 22,657 at the end of 2012 (2011: 18,434), representing an increase of 22.9% compared to last year. The investors' confidence, however, was unavoidably affected by the global market sentiment, as a result, the average daily market turnover in Hong Kong in 2012 decreased by 23% as compared to last year.

BUSINESS REVIEW

In 2012, the Group was confronted with a lot of challenges, including the significant downturn of the market turnover, strong competitions in brokerage business and the sharp decrease in new listing business in Hong Kong. Facing such a difficult business environment, the Group reacted aggressively in diversifying its businesses and achieved solid growth in business revenue.

In July 2012, the Group had established the Global Markets Department, focusing on the development of fixed income business. The department actively participated in debt issuance business as well as secondary market trading and achieved promising result during the year.

In order to diversify the financing business, the Group had participated in bridging finance business. In April 2012, the Group had successfully provided finance to a Chinese company for its privatization and delisting in the US market.

In December 2012, the Group had successfully assisted a China B-share listed company to convert its B share into H share and list its H share in the Hong Kong market. It was the landmark case for the Chinese securities industry and provided a solid solution in resolving the argumentative B-share issue in China.

The Group's businesses can be classified into dealing and broking, corporate finance, asset management, loans and financing and investment holding. The allocation of the revenue from these businesses is listed in the following table.

	For the year ended 31 December			
	2012		2011	
	HK$'000	*%*	*HK$'000*	*%*
Fee and commission income				
- dealing and broking	264,533	33.6	317,334	45.3
- corporate finance	156,988	20.0	136,619	19.5
- asset management	31,387	4.0	23,311	3.3
Interest income from loans and financing	276,149	35.1	214,793	30.7
Gain from investment holding	57,513	7.3	8,672	1.2
Total revenue	786,570	100	700,729	100

Dealing and broking

Facing the significantly decrease in market turnover and the keen competition from a number of securities houses and banks, the revenue generated from dealing and broking business was HK$264.5 million (2011: HK$317.3 million) for the year ended 31 December 2012, representing a decrease of 16.6% as compared to last year. A breakdown of the income has been set out below:

	For the year ended 31 December			
	2012		2011	
	HK$'000	*%*	*HK$'000*	*%*
Securities	187,398	70.8	234,523	73.9
Futures	51,619	19.5	53,485	16.9
Leverage foreign exchange	1,072	0.4	856	0.2
Handling income	24,444	9.3	28,470	9.0
	264,533	100	317,334	100

With the launch of online trading platform for our customers since 2001, our online trading platform currently supports 9 international securities markets including Hong Kong, United States, Japan, London, Canada, Singapore, Taiwan, Shanghai B shares and Shenzhen B shares. Our securities dealing and broking business also covers securities markets in Malaysia, Korea and Australia and global fixed income market.

With solid foundation in China, 90% of our clients are from China. In order to grow our dealing and broking business, we offered promotion schemes and successfully recruited more than 6,100 new clients for the year ended 31 December 2012.

As the global economy continued to undermine investor confidence, the average daily turnover for securities trading in Hong Kong decreased by 23% for the year ended 31 December 2012. Our commission income from securities dealing and broking decreased by 20.1% to HK$187.4 million (2011: HK$234.5 million) for the year ended 31 December 2012.

Our online trading platform also supports 22 global futures markets, 8 major currency pairs including CNH and up to 21 cross currency pairs in leveraged foreign exchange trading. To promote our global futures and leveraged foreign exchange business, investor conferences had been organized. For the year ended 31 December 2012, the income from futures transactions decreased by 3.5% to HK$51.6 million (2011: HK$53.5 million), of which 89% was derived from global futures transactions. The income from leverage foreign exchange transactions was HK$1.1 million (2011: HK$0.9 million), an increase of 25.2% as compared to 2011.

Because of poor market sentiments, the corporate action activities and stock lending activities decreased in 2012, the handling fee income decreased by 14.1% to HK$24.4 million (2011: HK$28.5 million) for the year ended 31 December 2012.

Corporate finance

Economic uncertainties discouraged equity financing and other related corporate finance activities during 2012. Taking advantage of the low funding cost environment, corporate clients preferred debt financing for medium to long term development. With this business opportunity, the Group set up a Global Markets Department in July 2012 for the provision of services in relation to debt issuance as well as to facilitate secondary market trading for fixed income products. A breakdown of the income for corporate finance business has been set out below:

	For the year ended 31 December			
	2012		**2011**	
	HK$'000	%	*HK$'000*	%
Placing, underwriting and sub-underwriting commission				
- debt capital markets	15,878	10.1	—	—
- equity capital markets	71,447	45.5	99,589	72.9
Consultancy and financial advisory fee	69,663	44.4	37,030	27.1
	156,988	100	136,619	100

The momentum for listing of Chinese enterprises in Hong Kong slowed down sharply in 2012. There were 64 new listings on the Stock Exchange (2011: 101 new listings), including those transferred from their listing on the GEM Board to the Main Board, a 36.6% decrease as compared to 2011. Due to the effort of our staff, we have completed sponsorship for the listing of 9 companies for the year ended 31 December 2012, including the landmark case for the conversion of the B share into H share and the listing of H share on the Main Board of the Stock Exchange. We have been also engaged as compliance advisor for 46 newly listed companies and financial advisor for 13 projects. As a result, the income from consultancy and financial advisory fee increased significantly by 88.1% to HK$69.7 million (2011: HK$37.0 million) for the year ended 31 December 2012.

As a result of the significant decrease in the number of new listings in 2012, the total funds raised through initial public offering ("IPO") at the Stock Exchange dropped significantly by 65.4% to HK$89.8 billion (2011: HK$259.8 billion) for the year ended 31 December 2012. During the year, we have been appointed as book-runner for 10 IPO transactions and lead manager for 3 IPO transactions. The commission from equity capital market decreased by 28.3% to HK$71.4 million (2011: HK$99.6 million) for the year ended 31 December 2012.

During the year ended 31 December 2012, the Group has acted as lead manager for issuance of RMB bonds for 2 listed companies, which contributed HK$15.9 million (2011: nil) commission income for the year ended 31 December 2012.

Asset management

We derived our fee income primarily from management fee and performance fee, which are linked to the asset under management and the returns of the funds, respectively. In 2012, we have successfully launched two authorized funds in Hong Kong, Guotai Junan Great Dragon China Fixed Income Fund (a RMB denominated RQFII fund) and Guotai Junan Equity Income Fund. The management fee income decreased by 3.3% to HK$18.9 million (2011: HK$19.5 million) while the performance fee income increased by 229.2% to HK$12.5 million (2011: HK$3.8 million) for the year ended 31 December 2012.

Loans and financing

The income from our loans and financing business increased by 28.6% to HK$276.1 million for the year ended 31 December 2012 (2011: HK$214.8 million). A summary of interest income is set out below:

	For the year ended 31 December			
	2012		2011	
	HK$'000	*%*	*HK$'000*	*%*
Margin loans	182,866	66.2	152,204	70.9
Term loans	22,860	8.3	3,484	1.6
IPO loans	97	—	650	0.3
Banks and others	64,506	23.4	52,635	24.5
Held-to-maturity investments	5,820	2.1	5,820	2.7
	276,149	100	214,793	100

The Group has invested significant resources in expanding our loans and financing activities since the listing of the Company on the Stock Exchange in July 2010. During 2012, the average margin loan balance increased by 13.4% to HK$2,425.8 million (2011: HK$2,139.9 million) and the interest income from margin loans increased by 20.1% to HK$182.9 million (2011: HK$152.2 million). The average interest rate charged to our client also increased to reflect the current risk level. At the same time, we continued to adopt an aggressive while stable operation strategy on margin loan financing business. For the year ended 31 December 2012, the impairment loss for margin loans business was HK$540,000 (2011: HK$139,000).

With the US listed Chinese enterprises became no longer popular in United States, a number of these enterprises are looking for changing the listing location from United States to Hong Kong or China. Taking this opportunity, the Group has provided a bridging loan to a US listed Chinese enterprise for its privatization in United States. The interest income from term loans increased by 556.1% to HK$22.9 million (2011: HK$3.5 million) for the year ended 31 December 2012.

The interest income from banks and others also increased by 22.6% to HK$64.5 million (2011: HK$52.6 million) for the year ended 31 December 2012, reflecting the tight liquidity in the market.

Investment holding

The income from our investment holding business increased by 563.2% to HK$57.5 million (2011: HK$8.7 million) for the year ended 31 December 2012. A summary of income is set out below:

	For the year ended 31 December			
	2012		2011	
	HK$'000	*%*	*HK$'000*	*%*
Net loss on financial assets held for trading	(9,631)	-16.8	(31,168)	-359.4
Net gain on financial assets designated at fair value through profit and loss	57,479	100.0	33,266	383.6
Dividend income from listed financial assets held for trading	3,228	5.6	4,885	56.3
Interest income from unlisted debt securities and financial assets designated at fair value through profit or loss	6,437	11.2	1,689	19.5
	57,513	100	8,672	100

The Group's investments can be basically classified into 3 categories: listed equity investments, debt investments and a convertible bond in relation to the direct investment in a private company.

During the year, the Group incurred loss on listed equity investments held for trading of HK$14.9 million (2011: HK$31.2 million) and gain on debt investments held for trading of HK$5.3 million (2011: nil). As a result, the net loss on financial assets held for trading was HK$9.6 million (2011: HK$31.2 million) for the year ended 31 December 2012.

To diversify revenue stream and to secure sponsorship and underwriting opportunities, the Group has engaged in direct investment in private companies. As at 31 December 2012, we had an unlisted direct investment project in the form of convertible bond at the fair value of HK$118.2 million. The net gain on the financial asset designated at fair value through profit and loss was HK$57.5 million (2011: HK$33.3 million) for the year ended 31 December 2012.

For the year ended 31 December 2012, we received dividend income of HK$3.2 million (2011: HK$4.9 million) from listed securities and interest income of HK$6.4 million (2011: HK$1.7 million) from unlisted debt securities and financial assets designated at fair value through profit or loss respectively.

RESULTS OF FINANCIAL POSITION

The Group's total assets increased by 14.9% to HK$11,486.7 million (2011: HK$10,001.5 million) as at 31 December 2012.

The Group's total liabilities as at 31 December 2012 increased by 19.5% to HK$8,087.0 million (2011: HK$6,769.4 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2012, the net current assets of the Group increased by 10.7% to HK$2,869.5 million (2011: HK$2,592.9 million). The Group's current ratio was at 1.36 times as at 31 December 2012 (2011: 1.38 times).

The Group had a cash outflow of HK$277.3 million (2011: cash inflow of HK$220.2 million) for the year ended 31 December 2012 and the Group's bank balances was HK$384.6 million as at 31 December 2012 (2011: HK$661.9 million). As at 31 December 2012, the Group had outstanding bank borrowings of HK$739.8 million (2011: HK$200 million) through bilateral banking facilities with various banks. During the year, the Group has successfully launched a Medium Term Note Programme (the "MTN Programme") under which listed or unlisted notes may be issued. We have issued four series of the notes during the year and the notes outstanding as at 31 December 2012 was of HK$86 million (2011: nil). The gearing ratio (defined as bank borrowings and debt securities in issue to equity attributable to owners of the parent) was 0.24 as at 31 December 2012 (2011: 0.06). Taking into account of the huge unutilized banking facilities from Hong Kong authorized financial institutions and the significant un-issued portion of the MTN Programme, we believe our operating cash flow remains adequate to finance our recurrent working capital requirements as well as any investment opportunities that may arise in the near future.

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.

During the year ended 31 December 2012, the Company has also successfully completed one equity fund raising activity. On 20 December 2012, the Company, Guotai Junan Holdings Limited (the "Vendor"), a substantial shareholder, and Guotai Junan Securities (Hong Kong) Limited (the "Placing Agent"), a wholly-owned subsidiary of the Company, entered into a placing and subscription agreement, pursuant to which the Vendor conditionally agreed to (i) place through the Placing Agent on a best effort basis, up to 85,000,000 placing shares at the placing price of HK$2.20 per placing share; and (ii) subscribe for such number of subscription shares equal to the number of placing shares which were placed by the Placing Agent at the subscription price of HK$2.20 per subscription share. The placing was completed on 28 December 2012. A total of 85,000,000 placing shares beneficially owned by the Vendor were placed to National Social Security Fund Overseas Investment Portfolio and Bosera Asset Management (International) Company Limited at HK$2.20 per placing share. All conditions of subscription had been fulfilled and completion of subscription took place on 3 January 2013 whereby 85,000,000 subscription shares were allotted and issued to the Vendor at HK$2.20 per subscription share. The net proceeds of the subscription of approximately HK$186.8 million have been applied towards the general working capital of the Group.

Other than the information disclosed above, there were no other equity or debt instruments issued by the Company during the year ended 31 December 2012.

OUTLOOKS AND FUTURE PLANS

2013 will be a challenging year for our business. While the global economy is picking up slowly, there are many factors causing uncertainties to recovery. The European crisis remains unsolved and the slowdown of Chinese economic growth is anticipated. However, we are still optimistic in our business as there are many business opportunities in front of us.

Starting from the end of 2012, there were a number of new developments in the Chinese securities industry which brings light to business opportunities in the Hong Kong securities industry. First came in December 2012 a landmark case in the Chinese securities industry in which we acted as sponsor for a Chinese company converting its B shares into H shares and listed on the Stock Exchange. This is a viable solution in China to resolve its augmentative B share issues. Also in December 2012, the CSRC announced the relaxation of rules for companies looking for listing in Hong Kong. We are expecting the IPO markets in Hong Kong will revitalize. Recently, the senior officials of CSRC also commented on the expansion of QFII, RQFII and the possibility of the introduction of qualified domestic individual investor scheme ("QDII2"). We strongly believe that all these policies will benefit us in different perspectives.

Located in an international finance centre, the Stock Exchange has become one of the preferred listing and fund raising venues for overseas and Chinese enterprises. The relaxation of rules in China for companies seeking offshore listing will definitely revitalize the Hong Kong IPO markets. As such, we will continue to put into more efforts to solicit and to collaborate with our parent company Guotai Junan Securities Company Limited ("Guotai Junan") to pursue more corporate finance advisory and fund raising opportunities from Chinese enterprises. Taking the advantage of the success of sponsoring the first landmark case of conversion of B share into H Share of a Chinese company, we expect more opportunities in similar assignments. We commit to strive for realizing all these business opportunities.

With the newly established Global Markets Department, we commit to develop debt issuance business for our corporate clients. We will continue to put resources into this business and provide our clients with comprehensive solutions in meeting their capital needs.

We are expecting the demand for margin and other financing remain strong in 2013. The launch of online margin financing and securities lending not only broaden customers' investment and trading strategies, but also facilitate more business transactions and opportunities. In addition, we continue to broaden the scope of our loans and financing business. Following the success of financing a privatization project of a US listed Chinese enterprise in 2012, we will continue to strengthen our innovative business mind in diversifying our lending business. To facilitate the growth of the lending business, in addition to the committed banking facilities from the authorized financial institutions, we launched the MTN Programme in June 2012 to ensure adequate resources being available for the expanding loans and financing business.

For dealing and broking business, we continue to improve the online trading platform and to provide value-added services to our clients to invest globally. We will expand the types of investment products available to our clients, including but not limited to insurance and wealth management products, so as to perfect our one-stop solution to clients. Facing the possibility of the expansion of QFII, RQFII and QDII2, we will equip ourselves and be well prepared for the opportunities to come.

Capitalizing on the launch of the two authorized funds in 2012, namely, Guotai Junan Great Dragon China Fixed Income Fund (RQFII fund) and Guotai Junan Equity Income Fund, extensive sales network has been developed for international institutional clients as well as retail investors. We will continue to work with our parent company Guotai Junan and other experienced market participants to provide asset management services for institutional and individual investors in China, Hong Kong and other places in the region.

FINAL DIVIDEND

The Board recommends the payment of final dividend of HK$0.07 per ordinary share for the year ended 31 December 2012 to the shareholders whose names appear on the register of members of the Company on 16 May 2013. The dividend will be payable on or about 4 June 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 3 May 2013 to Thursday, 9 May 2013 (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, 2 May 2013.

The register of members of the Company will be closed on Thursday, 16 May 2013 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 Wednesday, 15 May 2013.

EQUITY-SETTLED SHARE-BASED COMPENSATION SCHEMES

Details of the Share Option Scheme and the Share Award Scheme of the Group are set out in note 17 to the financial statements.

MATERIAL ACQUSITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

During the year, the Group had not made any material acquisitions and disposal of subsidiaries and associated companies. As at the year end, 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 2012 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 2011 and 2012.

GUARANTEE AND CONTINGENT LIABILITIES

Details of guarantee and contingent liabilities of the Group are set out in notes 15 and 20 to the financial statements.

OPERATING LEASE COMMITMENT AND CAPITAL COMMITMENT

Details of operating lease commitment and capital commitment of the Group are set out in note 19 to the financial statements.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all the applicable code provisions set out in the Code on Corporate Governance Practices effective until 31 March 2012 and Corporate Governance Code effective from 1 April 2012 contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 December 2012.

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 noncompliance 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 COMMTTEE

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 and financial statements of the Group for the year ended 31 December 2012.

REMUNERATION COMMTTEE

A Remuneration Committee was established by the Board on 19 June 2010. The Remuneration Committee comprises Dr. YIM Fung, Dr. SONG Ming, Dr. FU Tingmei and Mr. TSANG Yiu Keung. 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.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises five executive directors, being Dr. YIM Fung (Chairman and CEO), Mr. YAO Wei (Vice-Chairman and Deputy CEO), Mr. LI Guangjie, Mr. LI Sang Edward and Mr. WONG Tung Ching; 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 2012 ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

This announcement of final results for the year ended 31 December 2012 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.gtja.com.hk. The annual report for the year ended 31 December 2012 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, 14 March 2013