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GUOTAI JUNAN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1788)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the “Board”) of Guotai Junan International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2017 together with comparative figures for the corresponding period last year as follows:

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2017	2016	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Fee and commission income			
– brokerage	289,210	211,132	37.0%
– corporate finance	441,590	157,105	181.1%
– asset management	14,513	13,756	5.5%
Income from loans and financing	641,556	633,137	1.3%
Gains from financial products, market making and investments	173,089	195,771	-11.6%
Revenue	1,559,958	1,210,901	28.8%
Profit for the period	726,052	541,180	34.2%
Profit attributable to equity holders of the Company	673,507	536,704	25.5%
Basic earnings per share (HK cents)	9.74	7.81	24.7%
Diluted earnings per share (HK cents)	9.67	7.73	25.1%
Dividend per share (HK cents)	4.5	3.0	50.0%
Equity per ordinary share (HK\$) (Note)	1.20	1.15	4.3%

Note: Based on 6,920,877,674 shares (30 June 2016: 6,881,605,013 shares) as at 30 June 2017, being 6,993,765,074 shares issued and fully paid less 72,887,400 shares held under the Company’s share award scheme (30 June 2016: 6,950,273,413 shares issued and fully paid less 68,668,400 shares held under the Company’s share award scheme).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 June	
		2017	2016
	Notes	Unaudited HK\$'000	Unaudited HK\$'000
Revenue	4	1,559,958	1,210,901
Other income		1,149	1,450
Revenue and other income		1,561,107	1,212,351
Staff costs	5	(338,102)	(241,694)
Commission to account executives		(27,832)	(31,871)
Depreciation		(19,674)	(16,982)
Other operating expenses		(141,701)	(111,248)
Operating profit		1,033,798	810,556
Finance costs	6	(162,568)	(171,018)
Profit before tax	7	871,230	639,538
Income tax expense	8	(145,178)	(98,358)
Profit for the period		726,052	541,180
Other comprehensive income for the period, net of tax			
– Exchange difference on translation of foreign exchange		(1,140)	(60)
Total comprehensive income for the period		724,912	541,120
Profit for the period attributable to:		725,952	541,074
Owners of the parent		673,507	536,704
Holders of other equities instruments		52,445	4,370
Non-controlling interests		100	106
		726,052	541,180
Total comprehensive income for the period attributable to:		724,812	541,014
Owners of the parent		672,367	536,644
Holders of other equities instruments		52,445	4,370
Non-controlling interests		100	106
		724,912	541,120
Earnings per share attributable to ordinary equity holders of the parent			
– Basic (in HK cents)	10(a)	9.74	7.81
– Diluted (in HK cents)	10(b)	9.67	7.73

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2017 <i>Unaudited</i> <i>HK\$'000</i>	As at 31 December 2016 <i>Audited</i> <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		485,426	493,559
Intangible assets		2,823	2,823
Deferred tax assets		8,342	3,162
Other assets		12,883	10,168
Loans and advances to customers	11	30,000	251,478
Financial assets at fair value through profit or loss		52,037	51,701
Total non-current assets		591,511	812,891
Current assets			
Loans and advances to customers	11	12,169,087	14,286,666
Receivable from reverse repurchase agreement		645,076	480,782
Accounts receivable	12	4,249,863	1,495,924
Prepayments, deposits and other receivables		124,467	151,470
Financial assets at fair value through profit or loss		17,820,898	13,261,624
Derivative financial instruments		95,379	122,001
Tax recoverable		11,419	24,072
Client trust bank balances		11,742,921	12,400,917
Cash and cash equivalents		1,761,033	1,964,398
Total current assets		48,620,143	44,187,854
Current liabilities			
Accounts payable	13	(14,554,679)	(14,871,038)
Other payables and accrued liabilities		(336,865)	(271,681)
Derivative financial instruments		(77,540)	(130,083)
Bank borrowings	14	(7,332,850)	(6,811,433)
Debt securities in issue		(8,304,704)	(5,823,241)
– At amortised cost		(1,135,323)	(175,710)
– Designated at fair value through profit or loss		(7,169,381)	(5,647,531)
Financial liabilities at fair value through profit or loss		(4,327,667)	(3,485,520)
Obligations under repurchase agreement		(3,422,199)	(930,958)
Tax payable		(138,299)	(9,695)
Total current liabilities		(38,494,803)	(32,333,649)

		As at 30 June 2017	As at 31 December 2016
		<i>Unaudited</i>	<i>Audited</i>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net current assets		10,125,340	11,854,205
Total assets less current liabilities		10,716,851	12,667,096
Non-current liabilities			
Bank borrowings	14	–	(2,100,000)
Deferred tax liabilities		(42,383)	(33,262)
		(42,383)	(2,133,262)
Net assets		<u>10,674,468</u>	<u>10,533,834</u>
Equity			
Share capital		6,100,705	6,054,025
Other reserve		(1,236,460)	(1,236,460)
Currency translation reserve		(541)	599
Share-based compensation reserves		107,835	88,902
– Share option reserve		40,713	48,266
– Share award reserve		67,122	40,636
Shares held under the share award scheme		(240,283)	(214,323)
Retained profits		3,582,845	3,482,455
Equity attributable to holders of ordinary shares		8,314,101	8,175,198
Equity attributable to holders of other equity instruments		2,346,755	2,346,685
		10,660,856	10,521,883
Non-controlling interests		13,612	11,951
Total equity		<u>10,674,468</u>	<u>10,533,834</u>

NOTES TO INTERIM 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 (the “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 Securities”) incorporated in the People’s Republic of China, respectively.

This unaudited interim financial information is presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated.

This unaudited interim financial information was approved by the Board for issue on 23 August 2017.

2. Basis of preparation and changes in accounting policies

The unaudited interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The unaudited interim financial information should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the year ended 31 December 2016 that is included in this announcement of interim results as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but 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 Companies Ordinance is as follows:

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 Companies Ordinance.

The Company’s auditor has reported on those financial statements. 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 Companies Ordinance.

2. Basis of preparation and changes in accounting policies (continued)

The accounting policies and basis of preparation applied in the preparation of the unaudited interim financial information and the use of certain critical accounting judgments and estimates are the same as those used in the audited consolidated financial statements for the year ended 31 December 2016 disclosed in the 2016 annual report of the Company, except for the changes in accounting policies relating to financial instruments due to the early adoption of HKFRS 9 and the revised HKFRSs as described below.

(a) *Early adoption of HKFRS 9*

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 has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition are recognised in the opening retained earnings of the current period.

The adoption of HKFRS 9 has 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; and
- 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 fair value through profit or loss ("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 FVTPL, that are attributable to changes in the instrument's credit risk are now presented in other comprehensive income.

2. Basis of preparation and changes in accounting policies (continued)

(a) Early adoption of HKFRS 9 (continued)

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 policies for impairment of financial assets are listed below.

The Group applies the simplified approach to measure expected credit losses ("ECL") on accounts receivable and the 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 measures the loss allowance based on lifetime ECL.

Under the general approach, financial instruments migrate through the following three stages based on the change in credit risk after initial recognition:

Stage 1: 12-months ECL

For exposures where there have not been significant increases 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 have been significant increases in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial instruments) 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 financial instruments 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 to the gross carrying amount.

At each reporting date, the Group assesses whether there have been significant increases 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 portfolios 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.

2. Basis of preparation and changes in accounting policies (continued)

(a) Early adoption of HKFRS 9 (continued)

Impairment (continued)

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 instruments 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 recognised using a provision for doubtful debts account.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increases in credit risk since origination, then the impairment for doubtful debts reverts from lifetime ECL to a 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 have 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 remain classified as FVTPL under HKFRS 9.

2. Basis of preparation and changes in accounting policies (continued)

(a) Early adoption of HKFRS 9 (continued)

(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 have been remeasured upon transition to HKFRS 9 on 1 January 2017. The reconciliation of the carrying amounts in accordance with HKAS 39 and HKFRS 9 is as follows:

	HKAS 39		HKFRS 9
	carrying amount		carrying amount
	as at		as at
	31 December	Remeasurement	1 January
	2016	(ECL allowance)	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans and advances to customers	14,538,144	(236,346)	14,301,798
Accounts receivable	1,495,274	(4,753)	1,490,521
Prepayments, deposits and other receivables	151,470	(110)	151,360
Client trust bank balances	12,400,917	(22,332)	12,378,585
Cash and cash equivalents	1,964,398	(97)	1,964,301

2. Basis of preparation and changes in accounting policies (continued)

(a) Early adoption of HKFRS 9 (continued)

(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:

	Impairment allowance under HKAS 39 HK\$'000	Remeasurement HK\$'000	Impairment allowance under HKFRS 9 HK\$'000
Loans and advances to customers	93,828	236,346	330,174
Accounts receivable	16,960	4,753	21,713
Prepayments, deposits and other receivables	–	110	110
Client trust bank balances	–	22,332	22,332
Cash and balances	–	97	97
Loan commitments	–	149	149
Total	<u>110,788</u>	<u>263,787</u>	<u>374,575</u>

The net effect on the adjustment on the opening retained earnings as at 1 January 2017 is a reduction of HKD 263,787,000.

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

Standard	Content	Effective for financial years beginning on/after
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 the unaudited interim financial information.

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 and equity investments, structuring of financial products as well as trading and market making of debt securities, exchange traded funds 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.

3. Operating segment information (continued)

The unaudited segment results of the Group for the six months ended 30 June 2017 are as follows:

	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	289,210	441,590	14,513	641,556	173,089	1,149	1,561,107
Inter-segment sales	–	–	–	–	–	–	–
Total	<u>289,210</u>	<u>441,590</u>	<u>14,513</u>	<u>641,556</u>	<u>173,089</u>	<u>1,149</u>	<u>1,561,107</u>
Segment results	155,158	244,533	(1,400)	352,545	120,394	–	871,230
Income tax expense							(145,178)
Profit for the period							<u>726,052</u>
Other segment information:							
Depreciation	3,739	8,346	956	6,633	–	–	19,674
Finance costs	<u>15</u>	<u>–</u>	<u>–</u>	<u>127,533</u>	<u>35,020</u>	<u>–</u>	<u>162,568</u>

The unaudited segment results of the Group for the six months ended 30 June 2016 are as follows:

	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	211,132	157,105	13,756	633,137	195,771	1,450	1,212,351
Inter-segment sales	–	–	–	–	–	–	–
Total	<u>211,132</u>	<u>157,105</u>	<u>13,756</u>	<u>633,137</u>	<u>195,771</u>	<u>1,450</u>	<u>1,212,351</u>
Segment results	70,525	40,309	(4,114)	392,331	140,487	–	639,538
Income tax expense							(98,358)
Profit for the period							<u>541,180</u>
Other segment information:							
Depreciation	4,059	4,547	822	7,554	–	–	16,982
Finance costs	<u>8,546</u>	<u>–</u>	<u>–</u>	<u>135,232</u>	<u>27,240</u>	<u>–</u>	<u>171,018</u>

4. Revenue

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2017	2016
	<i>Unaudited</i>	<i>Unaudited</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Brokerage:		
Securities	248,282	160,336
Futures and options	13,812	27,374
Handling income	17,793	16,951
Leveraged foreign exchange	1,500	1,355
Insurance	7,823	5,116
	<u>289,210</u>	<u>211,132</u>
Corporate finance:		
Placing, underwriting and sub-underwriting commission		
– Debt securities	147,579	66,220
– Equity securities	231,963	43,958
Consultancy and financial advisory fee income	62,048	46,927
	<u>441,590</u>	<u>157,105</u>
Asset management:		
Management fee income	14,403	13,756
Performance fee income	110	–
	<u>14,513</u>	<u>13,756</u>
Loans and financing:		
Interest and handling income from margin loans	513,000	553,877
Interest and handling income from term loans	35,308	27,347
Interest income from securities borrowing and lending	6,090	10,616
Interest income from repurchase agreement	1,419	360
Interest income from IPO loans	509	74
Interest income from banks and others	85,230	40,863
	<u>641,556</u>	<u>633,137</u>

4. Revenue (continued)

	For the six months ended 30 June	
	2017	2016
	<i>Unaudited</i>	<i>Unaudited</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial products, market making and investments:		
Trading (loss)/gain on debt securities		
– Listed securities	41,110	55,654
– Unlisted securities	(464)	4,154
Interest income from debt securities		
– Listed securities	101,161	48,688
– Unlisted securities	927	1,327
Trading gain/(loss) on exchange traded funds	138	(2,404)
Trading loss on equity securities	(48,968)	(9,934)
Trading gain on unconsolidated investment funds	6,656	51,522
Net gain on foreign exchange	2,663	248
Net loss on financial assets at fair value through profit or loss	(39,097)	(22,828)
Interest income from unlisted financial assets at fair value through profit or loss	1,540	1,542
Dividend income	3,176	5,751
Net income on structured financial products	104,247	62,051
	<u>173,089</u>	<u>195,771</u>
	<u>1,559,958</u>	<u>1,210,901</u>

5. Staff costs

	For the six months ended 30 June	
	2017	2016
	<i>Unaudited</i>	<i>Unaudited</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs (including directors' remuneration):		
Salaries, bonuses and allowances	298,449	197,154
Share-based compensation expenses		
– Share option scheme	3,149	8,921
– Share award scheme	32,787	32,526
Pension scheme contributions	3,717	3,093
	<u>338,102</u>	<u>241,694</u>

6. Finance costs

	For the six months ended 30 June	
	2017	2016
	<i>Unaudited</i>	<i>Unaudited</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings and overdrafts	137,389	161,664
Debt securities in issue	3,912	3,865
Securities borrowing and lending	68	561
Financial instruments at fair value through profit or loss		
– Listed debt securities held for trading	8,635	4,057
Repurchase agreements	7,451	382
Others	5,113	489
	<u>162,568</u>	<u>171,018</u>

7. Profit before tax

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

	For the six months ended 30 June	
	2017	2016
	<i>Unaudited</i>	<i>Unaudited</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Professional and consultancy fees	32,025	20,120
Information services expense	12,749	10,661
Repairs and maintenance (including system maintenance)	17,254	13,917
Marketing, advertising and promotion expenses	3,723	4,007
Minimum lease payments under operating leases	2,525	2,558
Foreign exchange difference, net	(3,510)	(1,548)
Other commission expenses	19,872	17,652
Net impairment charge on loans and advances to customers	12,516	–
Net impairment charge on accounts receivable	1,512	14
Net reversal of impairment on other financial assets and loan commitments	<u>(15,961)</u>	<u>–</u>

8. Income tax expense

	For the six months ended 30 June	
	2017	2016
	<i>Unaudited HK\$'000</i>	<i>Unaudited HK\$'000</i>
Current, Hong Kong		
– Charge for the period	141,237	91,374
Deferred	3,941	6,984
Total tax charge for the period	<u>145,178</u>	<u>98,358</u>

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 period.

9. Proposed interim/final dividend

The Board has proposed an interim dividend of approximately HK\$311,439,000 or HK\$0.045 per ordinary share (2016: HK\$206,448,000 or HK\$0.03 per ordinary share) after the adjustment of excluding the dividend for the shares held under the share award scheme of the Company amounting to approximately HK\$3,280,000 (2016: HK\$2,060,000) for the six months ended 30 June 2017. The interim dividend proposed after the reporting date has not been recognised as a liability in the unaudited interim financial information at the end of the reporting period.

The Board declared a final dividend of HK\$0.045 per ordinary share for the year ended 31 December 2016 on 17 February 2017 and paid the final dividend of approximately HK\$311,380,000 on 19 June 2017, as further adjusted to include the dividend for shares issued under the share option scheme which amounted to approximately HK\$1,120,000 and the dividend for the vested shares under the share award scheme amounting to HK\$352,000.

10. 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 period ended 30 June 2017 is based on the profit attributable to ordinary equity holders of the parent of HK\$673,507,000 (2016: HK\$536,704,000) and the weighted average number of ordinary shares in issue less shares held under the Company's share award scheme of 6,914,909,000 (2016: 6,876,116,000) during the period.

10. Earnings per share attributable to ordinary equity holders of the parent (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period 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 period, 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:

	For the six months ended 30 June	
	2017	2016
	<i>Unaudited</i>	<i>Unaudited</i>
Profit attributable to ordinary equity holders of the parent (in HK\$'000)	<u>673,507</u>	<u>536,704</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)	6,914,909	6,876,116
Effect of dilution – weighted average number of ordinary shares:		
Share options under the share option scheme (in '000)	33,079	50,205
Awarded shares under the share award scheme (in '000)	<u>16,473</u>	<u>14,152</u>
Number of ordinary shares for the purpose of diluted earnings per share (in '000)	<u>6,964,461</u>	<u>6,940,473</u>
Diluted earnings per share (in HK cents)	<u>9.67</u>	<u>7.73</u>

11. Loans and advances to customers

	As at 30 June 2017	As at 31 December 2016
	<i>Unaudited HK\$'000</i>	<i>Audited HK\$'000</i>
Non-current		
Term loans to customers	<u>30,000</u>	<u>251,478</u>
Current		
Margin loans	11,773,117	13,385,176
Term loans to customers	736,433	995,318
IPO loans	<u>2,227</u>	<u>–</u>
	<u>12,511,777</u>	<u>14,380,494</u>
Gross loans and advances to customers	12,541,777	14,631,972
Less: impairment	<u>(342,690)</u>	<u>(93,828)</u>
	<u>12,199,087</u>	<u>14,538,144</u>

11. Loans and advances to customers (continued)

The movements in the impairment allowance on loans and advances to customers are as follows:

	2017			
	12-months	Lifetime	Impairment allowance under	Total
	ECL	ECL	HKAS 39	
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January	–	–	93,828	93,828
Restated on adoption of HKFRS 9	21,854	308,320	(93,828)	236,346
Changes due to financial assets recognised in the opening balance that have:				
Transferred to lifetime ECL credit-impaired	(5)	5	–	–
Charged/(credited) to profit of loss	(7,239)	19,755	–	12,516
As at 30 June	<u>14,610</u>	<u>328,080</u>	<u>–</u>	<u>342,690</u>
				2016
				<i>Audited</i>
				<i>HK\$'000</i>
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>

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:

	As at 30 June 2017 <i>Unaudited</i> <i>HK\$'000</i>	As at 31 December 2016 <i>Audited</i> <i>HK\$'000</i>
Accounts receivable arising from brokerage		
– cash and custodian clients	119,740	36,102
– the Stock Exchange and other clearing houses	1,199,428	712,711
– brokers and dealers	2,630,844	650,179
Accounts receivable arising from insurance brokerage services		
– cash and custodian clients	67	19
Accounts receivable arising from securities borrowing and lending		
– brokers and dealers	7,684	27,898
Accounts receivable arising from corporate finance, asset management, investment holding and market making		
– corporate clients, investment funds and others	315,358	85,975
	4,273,121	1,512,884
Less: impairment	(23,258)	(16,960)
	<u>4,249,863</u>	<u>1,495,924</u>

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

	2017 <i>Unaudited</i> <i>HK\$'000</i>	2016 <i>Audited</i> <i>HK\$'000</i>
At 1 January	16,960	16,915
Restated on adoption of HKFRS 9	4,753	–
Impairment charged to profit or loss during the period/year	1,520	43
Impairment reversed to profit or loss during the period/year	(8)	(1)
Exchange difference	33	3
At 30 June 2017/31 December 2016	<u>23,258</u>	<u>16,960</u>

12. Accounts receivable (continued)

(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>
Unaudited						
As at 30 June 2017						
Neither past due nor credit-impaired	102,651	1,199,428	2,638,528	293,609	67	4,234,283
Less: impairment	(991)	(563)	(964)	(174)	–	(2,692)
	<u>101,660</u>	<u>1,198,865</u>	<u>2,637,564</u>	<u>293,435</u>	<u>67</u>	<u>4,231,591</u>
Audited						
As at 31 December 2016						
Neither past due nor credit-impaired	<u>20,750</u>	<u>712,711</u>	<u>678,077</u>	<u>70,246</u>	<u>19</u>	<u>1,481,803</u>

12. Accounts receivable (continued)

(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>
Unaudited						
As at 30 June 2017						
Past due less than						
6 months	3,258	–	–	14,891	–	18,149
Past due 6 to 12 months	–	–	–	3,624	–	3,624
Past due over 12 months	–	–	–	–	–	–
Less: impairment	(32)	–	–	(3,533)	–	(3,565)
	<u>3,226</u>	<u>–</u>	<u>–</u>	<u>14,982</u>	<u>–</u>	<u>18,208</u>
Audited						
As at 31 December 2016						
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>

12. Accounts receivable (continued)

(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>
Unaudited						
As at 30 June 2017						
Credit-impaired accounts receivable	13,831	–	–	3,234	–	17,065
Less: impairment	(13,767)	–	–	(3,234)	–	(17,001)
	<u>64</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>64</u>
Audited						
As at 31 December 2016						
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>

13. Accounts payable

	As at 30 June 2017 <i>Unaudited</i> <i>HK\$'000</i>	As at 31 December 2016 <i>Audited</i> <i>HK\$'000</i>
Accounts payable arising from brokerage		
– clients	12,356,616	12,641,212
– brokers and dealers	949,484	270,374
– the Stock Exchange and other clearing houses	698,964	239,687
Accounts payable arising from securities borrowing and lending	401,071	400,853
Accounts payable arising from corporate finance, asset management, investment holding and market making	147,588	1,318,284
Accounts payable arising from insurance brokerage services	956	628
	<u>14,554,679</u>	<u>14,871,038</u>

14. Bank borrowings

	As at 30 June 2017 <i>Unaudited</i> HK\$'000	As at 31 December 2016 <i>Audited</i> HK\$'000
Non-current		
Unsecured bank borrowings	–	2,100,000
Current		
Unsecured bank borrowings	7,332,850	6,811,433
Total bank borrowings	<u>7,332,850</u>	<u>8,911,433</u>

15. Operating lease, capital commitment and other commitment

As at 30 June 2017, the Group had total future minimum lease payables under non-cancellable operating leases falling due as follows:

	As at 30 June 2017 <i>Unaudited</i> HK\$'000	As at 31 December 2016 <i>Audited</i> HK\$'000
Within one year	4,794	4,627
In the second to fifth years, inclusive	<u>1,045</u>	<u>3,318</u>
	<u>5,839</u>	<u>7,945</u>

Capital commitments

The Group had capital commitments for system upgrade and renovation of premises of approximately HK\$4,475,000 which were contracted but not provided for as at 30 June 2017 (31 December 2016: HK\$4,724,000).

Other commitments

The Group undertakes underwriting obligations on placing, IPO, takeover and merger activities. As at 30 June 2017, the underwriting obligations were approximately HK\$1,571 million (31 December 2016: HK\$576 million).

The Group also undertakes loan commitments for certain credit facilities granted to customers. As at 30 June 2017, the loan commitments amount was approximately HK\$741 million (31 December 2016: HK\$375 million) and an ECL impairment allowance of HK\$108,000 (31 December 2016: Nil) was provided.

MANAGEMENT DISCUSSION AND ANALYSIS

Guotai Junan International Holdings Limited (“Company” or “Guotai Junan International” or “we”, together with its subsidiaries, the “Group”) provides a range of innovative financial products and services, including a one-stop trading platform for global markets, professional corporate finance, loans and financing services, highly diversified products etc., to facilitate financing and investment opportunities for Mainland Chinese and overseas companies and investors. The Group’s businesses include brokerage, corporate finance, asset management, loans and financing as well as financial products, market making and investments. In recent years, leveraging on its diversified business lines and benefiting from the rapid development of loans and financing, corporate finance, fixed income, structured products and market making businesses, the Group has shifted its focus from the traditional fee-based brokerage to wealth management with a wide range of tailored financial products and services to maximize returns for investors.

For the six months ended 30 June 2017, we have been dedicating ourselves to strengthen the full range of businesses. We are pleased to report to our shareholders that the Group achieved a profit after tax of HK\$726.1 million (2016: HK\$541.2 million) for the period ended 30 June 2017, representing an increase of 34.2% as compared to the corresponding period of 2016. During the period under review, the Group’s corporate finance and financial products businesses increased significantly, resulting in the increases of the corresponding income by 181.1% and 68.0% respectively.

Market review

Macro environment

For the period ended 30 June 2017, the global economy experienced continuous recovery as the policies promulgated by the well-developed countries, such as the US and the European countries, became more certain, and the prices of bulk commodities stabilized gradually. Statistics of the labour markets and other economic factors of these well-developed countries started to pick up, while consumers and investors’ confidence has been strengthened. Following the interest rate hike in December 2016, the US Federal Reserve announced upward adjustments in the Federal Funds Rate in March and June of 2017 respectively, each by 0.25%.

For the six months ended 30 June 2017, the growth pace of the China's economy surpassed most of the emerging countries and recorded a year-on-year increase of 6.9% in Gross Domestic Product. The economic structure had shown sustainable improvement as consumption and investment sectors enjoyed steady growth, meanwhile RMB exchange rate became moderate with the range of decline considerably narrowed down during the period. Besides, albeit the fact that China still maintained relatively high domestic debts level, the admission of A shares into MSCI (Morgan Stanley Capital International) index was favourable to the investment atmosphere, and the improvement in PMI (Purchasing Managers' Index) and sales data also reflected a prosperous macro-economy, which strongly enhanced investors' confidence.

The Hong Kong Stock Market

The ideal global economic momentum along with the Stock Connect between the Mainland China and Hong Kong had provided favourable conditions for southbound capital flow from the Mainland China for the six months ended 30 June 2017. The Hang Seng Index rose to 25,765 as of 30 June 2017, representing a year-on-year increase of 23.9% and a growth of 17.1% over that of 31 December 2016. Driven by the overall optimistic market sentiments, the average daily turnover of the Hong Kong stock market surged to approximately HK\$76.0 billion, up 12.6% as compared with approximately HK\$67.5 billion for the same period last year.

For the period ended 30 June 2017, the IPO market and debt issuance market of Hong Kong had shown a flourishing trend. According to the statistics published by the Stock Exchange, there were 72 newly listed companies in the first six months ended 30 June 2017, representing an increase of 80.0% as compared with 40 for the same period of last year. Total funds raised through IPOs were approximately HK\$53.6 billion, accounting for a growth of 22.9% as compared with approximately HK\$43.6 billion for the same period of last year. In addition, based on the statistics published by Bloomberg, for the period ended 30 June 2017, the aggregate amount of G3 currencies (i.e. the US dollar, Euro and Yen) – denominated debt issuance (excluding Japan) amounted to approximately US\$167.4 billion, which was 82.2% higher than approximately US\$91.9 billion for the same period of last year.

Major Developments of the Company

For the six months ended 30 June 2017, Guotai Junan International demonstrated impressive strength in financial services. With the comprehensive and effective risk management system, a solid foundation has been laid for the healthy and rapid development of the Company's business, the core businesses such as corporate finance and financial products continued to prosper. Following the Company's credit rating upgrade, together with the stronger synergies achieved from the cooperation with parent company and financial institutions of Mainland China, each of Company's business areas experienced sustained optimization and development.

A financial institution with leading credit rating in Hong Kong

For the period ended 30 June 2017, the Group's international credit ratings have seen upgraded steadily. 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 2017, the S&P Global Ratings raised the Group's long-term issuer rating to "BBB+" with "stable" outlook. As of 30 June 2017, the Group's international credit ratings have been upgraded to the highest level among Mainland China brokerage firms in Hong Kong. The leading credit ratings will constantly optimize the Group financial cost structure and conditions.

Maintained the leading position in corporate finance market

For the six months ended 30 June 2017, the corporate finance team of the Group has completed seven IPO projects, including the one of Guotai Junan Securities Co., Ltd. ("Guotai Junan Securities", Stock code: 2611.HK/601211.SS) which was the largest IPO in the market in the first half of 2017 with HK\$17.2 billion raised. The Group served a pivotal role in this project as the sponsor, leading global coordinator and bookrunner. In the Jilin Jiutai Rural Commercial Bank Corporation Limited (Stock code: 6122.HK) IPO project, the fourth-largest IPO in the market for the first half of the year, the Group served key roles as the sole sponsor, leading global coordinator and joint bookrunner. The Group ranked Number One for the number of IPO deals it undertook as a sponsor in Hong Kong market during the period (Source: Dealogic).

For the period ended 30 June 2017, the Group's debt capital market team actively grasped business opportunities and maintained good communications with investors. The Group was able to maintain its leading position in the industry with outstanding performance which surpassed the full-year record made last year in terms of the number of bonds issued and the income generated.

The Growth of financial product business remained robust

For the period ended 30 June 2017, the growth of financial product business of the Group remained rapid. Our team adhered to the principle of being “customer-oriented” and devoted to offering appropriate products customized for different market environments, assisting clients with effective control against downside risks in their investment portfolio and at the same time, to achieve potential upside returns. On the other hand, the Group has been proactively expanding and diversifying its financing channels, building up and strengthening partnership with trading counterparties such as major international investment banks to effectively minimize financing costs as well as provide financial products with higher competitiveness and efficiency to clients.

High Industry Recognition on Fast Developments of Core Businesses

Based on our strong risk management system, the corporate finance and financial products businesses were able to maintain fast development and gain well recognition of clients and industry. In May 2017, the Group received several key awards from Bloomberg Businessweek/ Chinese Edition in its Financial Institution Awards 2017, including the “Excellence Award” in categories of “Securities Company of the Year”, “Corporate Finance” and “Urban Investment Bond” respectively, and “Outstanding Award” in “Derivatives Provider of the Year”.

Launched premium wealth management platform

The Group has been deeply rooted in Hong Kong for over 20 years with increasing number of clients amounting to more than 130,000, and accumulated a solid high net worth client base. Leveraging on its diversifying and outstanding services, the brokerage business of the Company has introduced the leading securities service club brand of its parent company called “Jun Hong Wealth Management (君弘財富管理)” to Hong Kong, under which the Group offers more sophisticated and customized financial services to its high net worth clients, including the opportunities of meeting representatives of listed companies, preferential financing interest rates and exclusive investment updates, which has received enthusiastic responses from our clients.

Established strategic alliance between brokers and banks

In April 2017, the Group entered into a strategic cooperation framework agreement with Shanghai Pudong Development Bank Co. Ltd. for a mutual and all-rounded cooperation, as well as to address the increasing and diverse needs in respect of cross-border financing from Mainland Chinese individuals, corporations and institutional clients. At the same time, the cooperation will strengthen and expand each party's client resources and business bases.

Business and Financial Review

For the period ended 30 June 2017, due to the overall recovering market conditions, the Group has shown outstanding growth in corporate finance and financial products businesses. The revenue of the Group increased by 28.8% to HK\$1,560.0 million (2016: HK\$1,210.9 million) for the period ended 30 June 2017. A breakdown of the revenue is set out below:

	For the period ended 30 June			
	2017		2016	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Fee and commission income				
– brokerage	289,210	18.5	211,132	17.4
– corporate finance	441,590	28.3	157,105	13.0
– asset management	14,513	1.0	13,756	1.1
Income from loans and financing	641,556	41.1	633,137	52.3
Gains from financial products, market making and investments	173,089	11.1	195,771	16.2
	<u>1,559,958</u>	<u>100.0</u>	<u>1,210,901</u>	<u>100.0</u>

Brokerage

Affected by various positive factors including the year-on-year increase in the market average turnover in Hong Kong, the revenue of the Group generated from the brokerage business increased by 37.0% to HK\$289.2 million for the period ended 30 June 2017 (2016: HK\$211.1 million). The breakdown of the revenue of the brokerage business is set out below:

	For the period ended 30 June			
	2017		2016	
	HK\$'000	%	HK\$'000	%
Securities	248,282	85.8	160,336	76.0
Futures and options	13,812	4.8	27,374	13.0
Leveraged foreign exchange	1,500	0.5	1,355	0.6
Insurance	7,823	2.7	5,116	2.4
Handling income	17,793	6.2	16,951	8.0
	<u>289,210</u>	<u>100.0</u>	<u>211,132</u>	<u>100.0</u>

The number of Group's professional investor clients has enjoyed a tremendous increase of 125.0% during the first six months of 2017 as compared to the end of last year. Overall, the Group successfully recruited 1,916 high-quality new clients with an average account balance of approximately HK\$8 million each, soared by 381.8% compared with that of the new accounts in the corresponding period of last year. Furthermore, the total clients' assets under custody have increased by 12.1% to HK\$191.7 billion during the period as compared to the end of last year. A reliable and efficient online trading platform is crucial to the expansion of our business, especially to individual clients. During the period under review, 80.0% of the brokerage commission was generated from our online trading system and 78.0% of the brokerage commission was from individual investors.

Due to market competitions, the brokerage income from futures and options decreased by 49.5% to HK\$13.8 million (2016: HK\$27.4 million) for the period ended 30 June 2017. The income from leveraged foreign exchange business was HK\$1.5 million (2016: HK\$1.4 million) during the period, representing an increase of 10.7% as compared to the same period last year.

We are committed to developing insurance brokerage services for our clients through cooperating with experienced market participants. The income from insurance brokerage increased by 52.9% to HK\$7.8 million (2016: HK\$5.1 million) for the period ended 30 June 2017.

Handling income from brokerage business also increased by 5.0% to HK\$17.8 million (2016: HK\$17.0 million) for the period ended 30 June 2017.

Corporate Finance

Our corporate finance business covers debt capital markets, equity capital markets and consultancy and financial advisory services. A breakdown of the revenue of corporate finance business is set out below:

	For the period ended 30 June			
	2017		2016	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Placing, underwriting and sub-underwriting commission				
– Debt capital markets	147,579	33.4	66,220	42.2
– Equity capital markets	231,963	52.5	43,958	28.0
Consultancy and financial advisory fee	62,048	14.1	46,927	29.8
	<u>441,590</u>	<u>100.0</u>	<u>157,105</u>	<u>100.0</u>

We endeavor to provide a range of high quality advisory services on corporate transactions as well as debt and equity capital market services to Hong Kong, China and international clients, which include acting as sponsor for the listing of securities on the Main Board and the GEM in Hong Kong, providing corporate finance and compliance advisory services and delivering a variety of services such as underwriting and placements in the primary and secondary equity capital and debt markets.

For the period ended 30 June 2017, the Group strived to maintain leading position in debt capital market in Hong Kong. We participated in 30 debt issue exercises in Hong Kong (2016: 16 debt issue exercises), and assisted corporates to raise HK\$63.2 billion in the Hong Kong debt capital market. The income from debt capital markets substantially increased by 122.9% to HK\$147.6 million (2016: HK\$66.2 million) for the period ended 30 June 2017.

For the period ended 30 June 2017, the Group completed seven IPO deals, in which we acted as sponsor for five companies, global coordinator for four companies as well as book runner for three companies. In the secondary market, we acted as placing agent for two placing exercises and underwriter for two rights issue transactions. We assisted corporates to raise more than HK\$23.4 billion in the primary market, nearly half of the total fund raising size in the market during the period, as well as HK\$1.38 billion in the secondary market in Hong Kong. The income generated from equity capital markets substantially increased by 427.7% to HK\$232.0 million (2016: HK\$44.0 million) for the period ended 30 June 2017.

For the six months ended 30 June 2017, corporate finance advisory activities were active. We were appointed as financial advisor for six projects and acted as compliance advisor for 35 companies during the period. The income generated from consultancy and financial advisory services significantly increased by 32.2% to HK\$62.0 million (2016: HK\$46.9 million) for the period ended 30 June 2017.

Asset Management

We provided a series of asset management services including portfolio management, investment advice and transaction execution to individual clients, private and public funds. Income from asset management business increased by 5.5% to HK\$14.5 million for the period ended 30 June 2017 (2016: HK\$13.8 million).

Loans and Financing

The income from the overall loans and financing business recorded a moderate increase of 1.3% to HK\$641.6 million (2016: HK\$633.1 million) for the period ended 30 June 2017.

To further strengthen our loans and financing business and to lay solid foundation for long-term, stable business growth, the Group placed great efforts in restructuring the margin loan portfolio in the first half of 2017 based on its prudent risk management strategy, in order to control and minimise our exposure on small capital stocks with low liquidity. During the course of the restructuring, our average margin loan balance decreased by 5.3% to HK\$12,639.4 million (2016: HK\$13,350.1 million) and the income from margin loan business decreased by 7.4% to HK\$513.0 million (2016: HK\$553.9 million).

Other than the margin loan business, the Group also engaged in term loan business to satisfy our customers' financing needs in multiple aspects, including provision of short-term merger and acquisition financing. The income from term loan business increased by 29.1% to HK\$35.3 million (2016: HK\$27.3 million).

The Group also engaged in securities borrowing and lending business. Interest income from securities borrowing and lending decreased by 31.6% to HK\$7.5 million for the period ended 30 June 2017 (2016: HK\$11.0 million).

A breakdown of the revenue of loans and financing is set out below:

	For the period ended 30 June			
	2017		2016	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Margin loans	513,000	80.0	553,877	87.5
Term loans	35,308	5.5	27,347	4.3
Securities borrowing and lending	7,509	1.1	10,976	1.7
IPO loans	509	0.1	74	0.0
Banks and others	85,230	13.3	40,863	6.5
	<u>641,556</u>	<u>100.0</u>	<u>633,137</u>	<u>100.0</u>

Financial products, market making and investments

The Group holds financial assets for business development, provision of sophisticated financial products and market making purposes. After the substantial market fluctuation in the middle of 2015, investors' risk appetite decreased and they tend to look for low risk investment products with acceptable level of leverage. The Group took advantage of lowered funding cost and strong business partnership with large-scale international financial institutions and substantially increased the competitiveness and business capacity, thus providing clients with a wide range of tailor-made financial products according to their needs and risk appetite. As a result, the income from financial products business significantly increased by 68.0% to HK\$104.2 million (2016: HK\$62.1 million). For the period ended 30 June 2017, the income from market making business increased by 33.1% to HK\$142.9 million (2016: HK\$ 107.4 million). The Group makes investment for the purpose of supporting the development of its corporate finance and institutional business. For the period ended 30 June 2017, the loss on investments was HK\$74.0 million (2016: HK\$26.3 million income).

RESULTS OF FINANCIAL POSITION

The Group's total assets increased by 9.4% to HK\$49,211.7 million as at 30 June 2017 (31 December 2016: HK\$45,000.7 million).

The Group's total liabilities increased by 11.8% to HK\$38,537.2 million as at 30 June 2017 (31 December 2016: HK\$34,466.9 million).

The equity attributable to holders of ordinary shares increased by 1.7% to HK\$8,314.1 million (31 December 2016: HK\$8,175.2 million) as at 30 June 2017. The leverage ratio (defined as total assets less accounts payable to clients divided by total equity) was 3.5 times as at 30 June 2017 (31 December 2016: 3.1 times).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2017, the net current assets of the Group decreased by 14.6% to HK\$10,125.3 million (31 December 2016: HK\$11,854.2 million). The Group's current ratio was at 1.26 times as at 30 June 2017 (31 December 2016: 1.37 times).

The Group had a net cash outflow of HK\$203.4 million (2016: HK\$445.0 million) for the period ended 30 June 2017 and the Group's bank balance was HK\$1,761.0 million as at 30 June 2017 (31 December 2016: HK\$1,964.4 million). As at 30 June 2017, the Group had outstanding bank borrowings of HK\$7,332.9 million (31 December 2016: HK\$8,911.4 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\$1,000,000,000 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\$15,000,000,000 (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 in the first half of 2017 in relation to financial products amounted to HK\$7,169.4 million (31 December 2016: HK\$5,647.5 million) and the notes outstanding as at 30 June 2017 were HK\$1,135.3 million (31 December 2016: HK\$175.7 million).

Taking into account the un-utilized facilities from various financial institutions and significant un-issued portion of the above-mentioned note programmes, we believe our 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.

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 period 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 period and at the end of the period.

OUTLOOK AND FUTURE PLANS

It is expected that the second half of 2017 will be full of challenges. Although the global economy experienced recovery, uncertainties spawned by the possibility of further interest rate hike, Brexit progress, elections of certain European countries and global scaled deleverage will unavoidably cast shadows in global markets and economic development in the remaining period of 2017.

In the Mainland China, given that capital control is strengthening, economic growth is steady and interest rates are climbing, the value of the RMB is expected to stabilize. The mutual access between stock markets in Hong Kong and the Mainland China is bringing a positive impact on the transaction volume of Hong Kong stock market over the long run. The inclusion of China A-shares in the MSCI index improves the market sentiment in Hong Kong. The Belt and Road Initiative is also expected to inject a fresh surge of energy to the economy of the Mainland China and Hong Kong.

In the second half of 2017, the Group will continue to exert itself in securing all cross border business opportunities that may arise from the mutual access of Hong Kong and the Mainland China markets and the Belt and Road Initiative. Adhering to our strategy of “risk management creates value”, and based on our effective risk management system, the Group will continue to steadily increase the market share of our core businesses and generate new source of revenue by providing one-stop wealth management services with highly diversified and innovative products. Despite uncertainties of global market, we will move ahead by fully leveraging on our core competitive strengths so as to bring reliable return to our investors and shareholders.

INTERIM DIVIDEND

The Board recommends the payment of interim dividend of HK\$0.045 per ordinary share for the six months ended 30 June 2017 to the shareholders whose names appear on the register of members of the Company on 7 September 2017. The dividend will be payable on or about 26 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 7 September 2017 to Tuesday, 12 September 2017 for ascertaining shareholders' entitlement to the proposed interim dividend. No transfer of shares will be registered on these days. In order to qualify for the proposed interim dividend, 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 no later than 4:30 p.m. on Wednesday, 6 September 2017.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

For the six months ended 30 June 2017, the Group had not made any material acquisitions and disposal of subsidiaries and associated companies. As at 30 June 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 six months ended 30 June 2017 other than as an agent for the trustee of the Company's share award scheme.

CHARGES ON THE GROUP'S ASSETS

No asset of the Group was subject to any charge as at 30 June 2017 and 31 December 2016.

OPERATING LEASE COMMITMENT, CAPITAL COMMITMENT AND OTHER COMMITMENT

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2017, the Company has adopted the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as its own code of corporate governance. During the period, save as disclosed below, the Company has complied with all the code provisions set out in the Corporate Governance Code.

In respect of code provision A.2.1, the roles of Chairman and Chief Executive Officer of the Company are not separated and are not performed by two different individuals. The Directors consider that vesting the 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”) set out in the Appendix 10 of the Listing Rules regarding securities transactions by its Directors. The Company has made specific enquiry with 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 dealing on the Stock Exchange) to the date of this announcement.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Group's external auditor has carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including the review of the unaudited interim financial information.

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 INTERIM RESULTS AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017 ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

This announcement of interim results for the six months ended 30 June 2017 is published on the website of Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk> under "Latest Listed Company Information" and the website of the Company at <http://www.gtja.com.hk>. The interim report for the six months ended 30 June 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, 23 August 2017