國泰君安國際
GUOTAI JUNAN INTERNATIONAL

GUOTAI JUNAN INTERNATIONAL HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1788)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 (the "Group") for the year ended 31 December 2018 together with its comparative figures for the immediate preceding financial year as follows:

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2018	2017	Change
	HK$'000	*HK$'000*	
Fee and commission income			
– brokerage	**454,962**	517,118	−12.0%
– corporate finance	**594,970**	683,526	−13.0%
– asset management	**16,716**	29,792	−43.9%
Income from loans and financing	**1,307,294**	1,288,777	1.4%
Gain from financial products, market making and investments	**638,266**	613,180	4.1%
Revenue	**3,012,208**	3,132,393	−3.8%
Profit for the year	**835,492**	1,336,039	−37.5%
Profit attributable to ordinary equity holders of the Company	**796,835**	1,228,174	−35.1%
Profit attributable to ordinary equity holders of the Company (after excluding the contributions from the listing of parent company in 2017)	**796,835**	1,001,001	−20.4%
Basic earnings per share (HK cents)	**10.5**	17.7	−40.7%
Diluted earnings per share (HK cents)	**10.5**	17.6	−40.3%
Dividend per share (HK cents)	**5.3**	9.0	−41.1%
Equity per ordinary share (HK$) *(Note)*	**1.42**	1.24	14.5%
Dividend Payment ratio	**51%**	51%	no change

Note: Based on 7,652,256,690 shares (2017: 6,943,880,085 shares) as at 31 December 2018, being 7,715,673,090 shares issued and fully paid less 63,416,400 shares held under the Company's share award scheme (2017: 7,005,680,485 shares issued and fully paid less 61,800,400 shares held under the Company's share award scheme).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 *HK$'000*	2017 *HK$'000*
Revenue	*4*	**3,012,208**	3,132,393
Other income		**3,932**	2,399
Revenue and other income		**3,016,140**	3,134,792
Staff costs	*5*	**(642,853)**	(676,031)
Commission to account executives		**(68,894)**	(61,947)
Depreciation		**(36,541)**	(38,736)
Other operating expenses		**(584,508)**	(405,196)
Operating profit		**1,683,344**	1,952,882
Finance costs	*6*	**(713,754)**	(393,770)
Profit before tax	*7*	**969,590**	1,559,112
Income tax expense	*8*	**(134,098)**	(223,073)
Profit for the year		**835,492**	1,336,039
Other comprehensive income for the year, net of tax			
– Exchange difference on translation of foreign exchange		**294**	(1,548)
Total comprehensive income for the year		**835,786**	1,334,491
Profit for the year attributable to:			
Owners of the parent		**848,651**	1,333,336
– Holders of ordinary shares		**796,835**	1,228,174
– Holders of other equity instrument		**51,816**	105,162
Non-controlling interests		**(13,159)**	2,703
		835,492	1,336,039
Total comprehensive income for the year attributable to:			
Owners of the parent		**848,945**	1,331,788
– Holders of ordinary shares		**797,129**	1,226,626
– Holders of other equity instrument		**51,816**	105,162
Non-controlling interests		**(13,159)**	2,703
		835,786	1,334,491
Earnings per share attributable to ordinary equity holders of the parent			
– Basic (in HK cents)	*10(a)*	**10.5**	17.7
– Diluted (in HK cents)	*10(b)*	**10.5**	17.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**471,644**	480,006
Intangible assets		**3,195**	2,823
Other assets		**5,531**	13,174
Deferred tax assets		**129,807**	50,745
Loans and advances to customers	*11*	**2,338,830**	29,918
Total non-current assets		**2,949,007**	576,666
Current assets			
Loans and advances to customers	*11*	**9,936,545**	15,553,655
Accounts receivable	*12*	**5,347,223**	4,347,402
Prepayments, deposits and other receivables		**322,421**	120,252
Financial assets at fair value through profit or loss		**47,861,469**	37,170,762
– Financial assets held for trading and investments		**15,019,421**	8,924,271
– Financial assets products		**32,842,048**	28,246,491
Derivative financial instruments		**76,832**	110,461
Receivable from reverse repurchase agreements		**3,109,006**	1,513,177
Tax recoverable		**6,131**	7,495
Client trust bank balances		**14,319,985**	12,348,012
Cash and cash equivalents		**4,105,672**	2,212,502
Total current assets		**85,085,284**	73,383,718
Current liabilities			
Accounts payable	*13*	**(18,883,841)**	(16,952,250)
Other payables and accrued liabilities		**(537,400)**	(473,094)
Derivative financial instruments		**(23,620)**	(27,722)
Bank borrowings	*14*	**(9,441,083)**	(13,781,721)
Debt securities in issue		**(25,999,272)**	(16,363,891)
– At amortised cost		**(6,721,259)**	(5,885,015)
– Designated at fair value through profit or loss		**(19,278,013)**	(10,478,876)
Financial liabilities at fair value through profit or loss		**(8,413,380)**	(9,008,776)
Obligations under repurchase agreements		**(13,156,517)**	(6,244,957)
Tax payable		**(67,159)**	(94,899)
Total current liabilities		**(76,522,272)**	(62,947,310)
Net current assets		**8,563,012**	10,436,408
Total assets less current liabilities		**11,512,019**	11,013,074

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Non-current liabilities			
Deferred tax liabilities		—	(21,648)
		—	(21,648)
Net assets		**11,512,019**	10,991,426
Equity			
Share capital		**8,125,856**	6,118,060
Other reserve		**(1,236,460)**	(1,236,460)
Currency translation reserve		**(655)**	(949)
Share-based compensation reserve		**66,186**	64,973
– Share option reserve		**37,816**	40,769
– Share award reserve		**28,370**	24,204
Shares held under the share award scheme		**(142,051)**	(181,281)
Retained profits		**4,019,055**	3,843,743
Equity attributable to holders of ordinary shares		**10,831,931**	8,608,086
Equity attributable to holders of other equity instrument		**350,784**	2,346,794
Equity attributable to owners of the parent		**11,182,715**	10,954,880
Non-controlling interests		**329,304**	36,546
Total equity		**11,512,019**	10,991,426

NOTES TO FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

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

The unaudited financial information relating to the year ended 31 December 2018 and the financial information relating to the year ended 31 December 2017 included in this preliminary announcement of annual results for the year ended 31 December 2018 does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 31 December 2017, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The financial statements for the year ended 31 December 2018 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course.

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on these financial statements for the year ended 31 December 2017. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

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

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (Continued)

Changes in accounting policies

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

Standard	Content
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarification to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC) — Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	*Amendment to HKFRS 1 and HKAS 28*

HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The adoption of HKFRS 15 does not have any material impact on the financial statements.

The adoption of the other amendments, interpretation and annual improvements has had no significant financial effect on the financial statements.

3. OPERATING SEGMENT INFORMATION

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

3. **OPERATING SEGMENT INFORMATION (Continued)**

Details of each of the operating segments are as follows:

(a) the brokerage segment engages in the provision of securities, futures, options and leveraged foreign exchange dealing and broking as well as insurance brokerage services to customers;

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

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

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

(e) the financial products, market making and investments segment represents fund, debt and equity investments, structuring of financial products as well as trading and market making of debt securities, exchange traded funds ("ETF") and derivatives; and

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

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

The segment results of the Group for the years ended 31 December 2018 and 2017 are as follows:

Year ended 31 December 2018

	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	454,962	594,970	16,716	1,307,294	638,266	3,932	3,016,140
Inter-segment sales	–	–	–	–	–	–	–
Total	454,962	594,970	16,716	1,307,294	638,266	3,932	3,016,140
Segment results	144,173	304,822	(7,621)	578,322	(50,106)	–	969,590
Income tax expense							(134,098)
Profit for the year							835,492
Other segment information:							
Net impairment charge on loans and advances to customers	–	–	–	265,870	–	–	265,870
Net impairment charge/(reversal) on accounts receivable	(6,925)	1	196	–	(14,855)	–	(21,583)
Net impairment charge/(reversal) on other financial assets	(4,196)	5	2	–	(27)	–	(4,216)
Depreciation	8,698	10,066	2,008	11,905	3,864	–	36,541
Finance costs	8,862	–	–	311,885	393,007	–	713,754

3. **OPERATING SEGMENT INFORMATION (Continued)**

Year ended 31 December 2017

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

4. REVENUE

The Group's revenue is disaggregated as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
Brokerage:		
Securities	**366,654**	430,129
Futures and options	**28,488**	25,095
Handling income	**49,803**	47,966
Insurance	**7,658**	11,185
Leveraged foreign exchange	**2,359**	2,743
	454,962	517,118
Corporate finance:		
Placing, underwriting and sub-underwriting commission		
– Debt securities	**483,303**	350,269
– Equity securities	**78,219**	244,920
Consultancy and financial advisory fee income	**33,448**	88,337
	594,970	683,526
Asset management:		
Management fee income	**12,338**	27,722
Performance fee income	**4,378**	2,070
	16,716	29,792
Financial products, market making and investments:		
Net income on structured financial products	**641,667**	304,104
	641,667	304,104
Revenue from other sources		
Loans and financing:		
Interest and handling income from margin loans	**779,207**	968,661
Interest income from banks and others	**293,302**	173,878
Interest and handling income from term loans	**137,946**	107,035
Interest income from securities borrowing and lending	**56,410**	21,545
Interest income from IPO loans	**10,430**	12,314
Interest income from reverse repurchase agreements	**29,999**	5,344
	1,307,294	1,288,777
Financial products, market making and investments:		
Trading (loss)/gain on debt securities		
– Listed securities	**(346,444)**	30,477
– Unlisted securities	**(16,415)**	2,319
Interest income from debt securities		
– Listed securities	**466,392**	200,927
– Unlisted securities	**37,757**	11,223
Trading loss on exchange traded funds	**(59)**	(437)
Trading (loss)/gain on equity securities	**(145,859)**	37,434
Trading (loss)/gain on unconsolidated investment funds	**(73,695)**	22,292
Net gain on foreign exchange	**43,806**	27,046
Net gain/(loss) on financial instruments designated at fair value through profit or loss	**7,700**	(39,097)
Interest income from unlisted financial instruments at fair value through profit or loss	**3,833**	1,540
Dividend income	**19,583**	15,352
	(3,401)	309,076
	3,012,208	3,132,393

5. STAFF COSTS

	2018	2017
	HK$'000	*HK$'000*
Staff costs (including directors' remuneration):		
Salaries, bonuses and allowances	**559,929**	590,228
Share-based compensation expense		
– Share option scheme	**5,297**	7,611
– Share award scheme	**69,471**	70,801
Pension scheme contributions	**8,156**	7,391
	642,853	676,031

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Bank borrowings and overdrafts	**301,771**	310,408
Debt securities in issue	**202,479**	25,054
Securities borrowing and lending	**2,330**	863
Repurchase agreements	**111,173**	22,804
Financial instruments at fair value through profit or loss		
– Debt securities held for trading	**82,204**	18,057
Others	**13,797**	16,584
	713,754	393,770

7. PROFITS BEFORE TAX

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

	2018	2017
	HK$'000	*HK$'000*
Auditor's remuneration		
(i) audit services	**2,613**	2,292
(ii) interim review	**760**	707
(iii) tax and other consultancy services	**1,759**	3,308
Foreign exchange differences, net	**33,313**	(26,441)
Other commission expenses	**57,445**	77,171
Information services expenses	**28,820**	25,633
Marketing, advertising and promotion expenses	**6,058**	7,973
Minimum lease payments under operating leases	**12,227**	5,082
Professional and consultancy fee	**63,508**	68,237
Repair and maintenance (including system maintenance)	**45,740**	38,800
Net impairment charge on loans and advances to customers	**265,870**	74,679
Net (reversal)/impairment charge on accounts receivable	**(21,583)**	22,622
Net reversal of impairment charge on other financial assets and loan commitments	**(4,216)**	(9,887)

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2018	2017
	HK$'000	*HK$'000*
Current – Hong Kong		
– Charge for the year	**219,045**	239,056
– Under/(over) provision in prior years	**15,763**	(313)
Deferred	**(100,710)**	(15,670)
Total tax charge for the year	**134,098**	223,073

9. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Interim, paid – HK$0.033 (2017: HK$0.045) per ordinary share	**254,617**	315,023
Less: Dividend for shares held under the Company's share award scheme	**(2,938)**	(3,220)
	251,679	311,803
Final, proposed – HK$0.020 (2017: HK$0.045) per ordinary share	**154,313**	315,256
Less: Dividend for shares held under the Company's share award scheme	**(1,268)**	(2,781)
	153,045	312,475*
	404,724	624,278

* The Company paid a final dividend of approximately HK$343,960,000 for the year ended 31 December 2017, as further adjusted to include the dividend for shares issued under the share option scheme amounting to approximately HK$436,000, the dividend for shares held and vested shares under the share award scheme amounting to HK$466,000 and HK$15,000, respectively.

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

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

(a) Basic earnings per share

The calculation of basic earnings per share is as follows:

	2018	2017
Profit attributable to ordinary equity holders of the parent (in HK$'000)	**796,835**	1,228,174
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in '000)	**7,581,163**	6,923,078
Basic earnings per share (in HK cents)	**10.5**	17.7

(b) Diluted earnings per share

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

The calculation of diluted earnings per share is as follows:

	2018	2017
Profit attributable to ordinary equity holders of the parent (in HK$'000)	**796,835**	1,228,174
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)	**7,581,163**	6,923,078
Effect of dilution – weighted average number of ordinary shares:		
Share options under the share option scheme (in '000)	**13,231**	25,934
Awarded shares under the share award scheme (in '000)	**12,072**	18,991
Number of ordinary shares for the purpose of the diluted earnings per share calculation (in '000)	**7,606,466**	6,968,003
Diluted earnings per share (in HK cents)	**10.5**	17.6

11. LOANS AND ADVANCES TO CUSTOMERS

	2018	2017
	HK$'000	*HK$'000*
Non-current		
Term loans to customers	**2,340,000**	29,918
Less: impairment	**(1,170)**	–
	2,338,830	29,918
Current		
Margin loans	**9,430,753**	12,917,920
Term loans to customers	**1,079,788**	3,021,883
IPO loans	**–**	18,705
Less: impairment	**(573,996)**	(404,853)
	9,936,545	15,553,655
	12,275,375	15,583,573

The movements in the expected credit loss ("ECL") impairment allowances on loans and advances to customers are as follows:

	12-months ECL (Stage 1)	**Lifetime ECL not credit-impaired (Stage 2)**	**Lifetime ECL credit-impaired (Stage 3)**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
ECL allowance as at 1 January 2017	(21,854)	–	(308,320)	(330,174)
New assets originated, purchased or transferred	(2,263)	–	(105,269)	(107,532)
Assets derecognised or repaid	16,432	–	16,421	32,853
ECL allowance as at 31 December 2017 and 1 January 2018	(7,685)	–	(397,168)	(404,853)
New assets originated or purchased	**(272)**	**–**	**–**	**(272)**
Assets derecognised or repaid	**2,539**	**–**	**–**	**2,539**
Changes to risk parameters	**(8,062)**	**–**	**(199,280)**	**(207,342)**
Transfer from stage 1 to stage 3	**164**	**–**	**(164)**	**–**
Changes arising from transfer of stage	**–**	**–**	**(60,795)**	**(60,795)**
Amount written off during the year	**–**	**–**	**95,557**	**95,557**
ECL allowance as at 31 December 2018	**(13,316)**	**–**	**(561,850)**	**(575,166)**

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:

	2018	2017
	HK$'000	*HK$'000*
Accounts receivable arising from brokerage		
– cash and custodian clients	**33,503**	187,406
– the Stock Exchange and other clearing houses	**1,310,012**	893,259
– brokers and dealers	**3,723,323**	2,868,570
Accounts receivable arising from insurance brokerage services		
– cash and custodian clients	**23**	168
Accounts receivable arising from securities borrowing and lending		
– brokers and dealers	**129,116**	123,444
Accounts receivable arising from corporate finance, asset management, financial products, market making and investments		
– corporate clients, investment funds and others	**156,871**	318,692
	5,352,848	4,391,539
Less: impairment	**(5,625)**	(44,137)
	5,347,223	4,347,402

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

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**44,137**	16,960
Adoption of HKFRS 9	**–**	4,515
Impairment charged to profit or loss during the year	**467**	22,720
Impairment reversed during the year	**(22,050)**	(98)
Exchange difference	**21**	40
Amounts written off	**(16,950)**	–
At 31 December	**5,625**	44,137

12. ACCOUNTS RECEIVABLE (Continued)

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

	Accounts receivable from cash and custodian clients *HK$'000*	Accounts receivable from the Stock Exchange and other clearing houses *HK$'000*	Accounts receivable from brokers and dealers *HK$'000*	Accounts receivable from corporate clients, investment funds and others *HK$'000*	Accounts receivable from insurance brokerage *HK$'000*	Total *HK$'000*
As at 31 December 2018						
Neither past due nor credit-impaired	**21,809**	**1,310,012**	**3,852,439**	**106,854**	**23**	**5,291,137**
Less: impairment	**(11)**	**(642)**	**(762)**	**(58)**	**–**	**(1,473)**
	21,798	**1,309,370**	**3,851,677**	**106,796**	**23**	**5,289,664**
As at 31 December 2017						
Neither past due nor credit-impaired	155,884	893,259	2,992,014	218,220	168	4,259,545
Less: impairment	(78)	(423)	(1,151)	(110)	–	(1,762)
	155,806	892,836	2,990,863	218,110	168	4,257,783

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

12. ACCOUNTS RECEIVABLE (Continued)

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

	Accounts receivable from cash and custodian clients *HK$'000*	Accounts receivable from the Stock Exchange and other clearing houses *HK$'000*	Accounts receivable from brokers and dealers *HK$'000*	Accounts receivable from corporate clients, investment funds and others *HK$'000*	Accounts receivable from insurance brokerage *HK$'000*	Total *HK$'000*
As at 31 December 2018						
Past due less than 3 months	**11,514**	–	–	**48,451**	–	**59,965**
Past due 3 to 12 months	–	–	–	–	–	–
Past due over 12 months	–	–	–	–	–	–
Less: impairment	**(3,109)**	–	–	**(487)**	–	**(3,596)**
	8,405	–	–	**47,964**	–	**56,369**
As at 31 December 2017						
Past due less than 3 months	17,670	–	–	76,949	–	94,619
Past due 3 to 12 months	–	–	–	–	–	–
Past due over 12 months	–	–	–	–	–	–
Less: impairment	(4,771)	–	–	(15,107)	–	(19,878)
	12,899	–	–	61,842	–	74,741

Accounts receivable from cash and custodian clients which are past due but not credit-impaired represent client trades on various securities exchanges which are unsettled beyond the settlement date. When the cash and custodian clients fail to settle on the settlement date, the Group has the rights to force-sell the collateral underlying the securities transactions. The outstanding accounts receivable from cash and custodian clients as at 31 December 2018 and 2017 are considered past due but not credit-impaired after taking into consideration the recoverability from the collateral. The collateral held against these receivables are publicly traded securities.

Accounts receivable from corporate clients, investment funds and others which are past due but not credit-impaired represent receivables arising from asset management, corporate finance, investment holding and market making which have not yet been settled by clients after the Group's normal credit period. The outstanding accounts receivable from corporate clients, investment funds and others as at 31 December 2018 and 2017 were considered not to be credit-impaired as the credit rating and reputation of the trade counterparties were sound.

12. ACCOUNTS RECEIVABLE (Continued)

(d) Credit-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, investment funds and others	Accounts receivable from insurance brokerage	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2018						
Credit-impaired accounts receivable	**180**	–	–	**1,566**	–	**1,746**
Less: impairment	**(133)**	–	–	**(423)**	–	**(556)**
	47	–	–	**1,143**	–	**1,190**
As at 31 December 2017						
Credit-impaired accounts receivable	13,852	–	–	23,523	–	37,375
Less: impairment	(13,785)	–	–	(8,712)	–	(22,497)
	67	–	–	14,811	–	14,878

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

13. ACCOUNTS PAYABLE

	2018	2017
	HK$'000	*HK$'000*
Accounts payable arising from brokerage		
– clients	**14,840,232**	13,128,476
– brokers and dealers	**1,110,459**	1,895,561
– the Stock Exchange and other clearing houses	**302,901**	374,634
Accounts payable arising from securities borrowing and lending	**730,926**	1,479,445
Accounts payable arising from corporate finance, asset management, financial products, market making, investments and others	**1,897,770**	72,857
Accounts payable arising from insurance brokerage services	**1,553**	1,277
	18,883,841	16,952,250

14. BANK BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Unsecured bank borrowings	**9,441,083**	13,781,721

15. OPERATING LEASE COMMITMENTS, CAPITAL COMMITMENTS AND OTHER COMMITMENTS

As at 31 December 2018, the Group had total future minimum lease payables under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**20,851**	3,397
In the second to fifth years, inclusive	**33,192**	–
	54,043	3,397

Capital commitments

The Group had capital commitments for system upgrade and renovation of premises of approximately HK$9,575,000 which were contracted but not provided for as at 31 December 2018 (2017: HK$3,026,000).

Other commitments

The Group undertakes underwriting obligations on placing, IPO, takeover and merger activities and financial obligations to loan facilities granted to customers. As at 31 December 2018, the underwriting and financial obligations were approximately HK$451 million and HK$53 million respectively (2017: HK$2,836 million and HK$159 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

2018 is a tough year for the global economy and financial market. On one hand, four rounds of interest rate hikes of the United States ("US") Federal Reserve have led to a sharp tightening of liquidity of the emerging markets and restrained the recovery of the global economy. On the other hand, the trade friction initiated by the US has dragged the major exporting countries into difficult economic situations. As a result, the economic growth of many countries has slowed down or even resorted to a technical recession. In the People's Republic of China ("PRC"), the economy was under the dual pressures of the decline in external demand and the "de-leveraging" policies implemented to reduce financial risks, the demand for consumption and investment was restrained, while the demand for corporate financing has experienced a slowdown, credit risks appeared gradually, and market risks increased prominently.

Under the circumstances, while adhering to the stable and neutral monetary policy, the People's Bank of China, adopted more flexible approaches to enhance counter-cyclical adjustments, such as carrying out four rounds of the reductions in reserve requirement ratio and initiating certain measures to facilitate medium term loans. The Ministry of Finance and Administration of Taxation also introduced the tax cut and fee reduction measures to support the development of enterprises, especially private enterprises, by reducing operation cost, expanding financing channels, reducing financing cost and alleviating risk of share pledge. The annual gross domestic product (GDP) achieved a steady growth of 6.5% year-on-year, first exceeding RMB90 trillion, which was beyond the market expectation.

In 2018, the Hong Kong capital market also experienced certain degree of downward adjustment due to the impacts of external factors, such as the interest rate hikes of the US dollar and the Sino-US trade friction. Both Hong Kong Hang Seng Index and China Enterprises Index declined by nearly 14% during the year. Driven by the factors such as the first inclusion of A-share by MSCI index in the first half of the year, and the uncertainties brought by the Sino-US trade friction in the second half of the year, Hang Seng Index and market turnover experienced a boom first then followed by a fall during the year. Although the average daily trading volume increased by 22% year-on-year to HK$107.41 billion during the year, the stock market turnover showed a significant decline of 30% in the second half of the year as compared with the first half.

In the primary market, under the implementation of preferential listing policies for companies of "Weighted Voting Rights", there were 218 newly listed companies in Hong Kong in 2018, representing an increase of 25% as compared to the last year, and funds raised by initial public offerings amounted to HK$286.5 billion, representing an increase of 123% as compared to the last year. However, the total amount of funds raised (including funds raised by initial listing) was HK$541.7 billion, representing a decrease of 7% as compared to the last year.

In the bond market, under the increasing macro-economic uncertainties, corporate bond financing activities were hampered in 2018. The secondary market was affected by various factors, such as the tightened market liquidity and the decline of risk appetites, resulting in a wider credit spread in US dollar-denominated bonds issued by the Chinese corporates and an increase in bond yield. At the end of the year, due to the expected slowdown of US dollar interest rate hike, the US dollar-denominated high yield bonds issued by the Chinese corporates became more attractive in terms of allocation value, driving the repatriation of funds, and hence the development trend of the bond market improved.

Business Review

Being the first Chinese securities brokerage house rooted its operations in Hong Kong, Guotai Junan International adhered to its business philosophies of prudence, pragmatism and ambition. We maintained our focus on value of client service-oriented and market-oriented, continuously provided one-stop financing, investment, trading, asset management and wealth management services with support of innovative technology. We also offered competitive customized financial products and comprehensive financial service solutions.

During the year under review, the Group emphasized the sound risk management as the core competitiveness and foundation of business development, aimed for a better risk-income ratio with pragmatic asset quality improvement, business portfolio adjustment, customer composition optimization and income structure optimization, thereby achieving high quality and sustainable development.

Wealth management business rapidly growing, financial products highly received. With over 20 years of the brand value of "Guotai Junan", diversified financial products with strong competitiveness and its rich experience in comprehensive cross-border financial services with its strong client base, the Group focused on developing high-net-worth clients and providing clients with customized and differentiated global asset allocation and other wealth management services. In 2018, the Group further improved and enhanced its services for high-net-worth clients and expanded its network with a new wealth management center, the number of our high-net-worth clients increased by approximately 40% year-on-year. Meanwhile, the Group has put an immense effort in expanding the financial product lines for high-net-worth clients, the penetration rate of customized financial products against the investment of high-net-worth clients has been increasing, representing a significant increase of proportion in their investment portfolio. The strong market competitiveness of such financial products brought in a considerable increment in asset value, the overall scale of the assets under management has thus significantly increased.

Debt capital market business reached a new high, securing the leading position in the industry. The Company's debt capital market ("DCM") underwriting business maintained its leading position in the industry in 2018. Although the macro liquidity was tightened in 2018 and the blockage of financing channels became more severe as compared to previous years, the Group's DCM business made a remarkable achievement in terms of both "quality" and "quantity". A total of 142 bond underwriting projects were completed during the year, while the amount of funds raised increased by 28% year-on-year to HK$319.7 billion, representing a historic breakthrough, laying a solid foundation in terms of business and clients for the Group's fixed income, currencies and commodities ("FICC") market making and investments business.

Risk management facilitating the improvement of asset quality and laying a solid foundation for future growth. The high-quality growth has always been the Group's development strategy. In 2018, the Group further enhanced our risk management system to improve overall asset quality by proactively adjusting our customer structure, identifying and releasing risks. The Group significantly lowered the proportion of loan business with the stocks of middle to small cap or low liquidity as collaterals and implemented interest rates by tiers for all new loan products, which enabled the Group successfully overcome the credit risk rise cycle caused by the significant fluctuations in the market. Our customer structure, collateral structure and credit asset structure have been effectively optimized, significantly improved quality of assets. Moreover, the Company has made sufficient risk related provision in advance, effectively managed its risk tolerance, laying a firm foundation for a healthy and sustainable growth in future.

Leading global asset allocation platform, providing one-stop integrated financial services. Guotai Junan International bases itself in Hong Kong as a leading global asset allocation platform in the industry to provide individual, institutional and corporate clients with comprehensive customized financial products, global asset allocation strategies, one-stop integrated financial services and all-round investment and financing solutions. In 2018, the Group launched an integrated wealth management service platform for high-net-worth clients and upgraded the mobile trading platform with innovative technology to improve clients' overall trading and investment experience.

Proactively exploring Southeast Asian markets, accelerating the pace of international development. In 2018, the Group proactively explored the Southeast Asian markets and initiated an acquisition of the majority interest in a financial service institution in Vietnam. This is an important initiative for the Group to further deepen its presence in Southeast Asia after Singapore. It is also an important step of internationalization of Guotai Junan. Upon the completion of the acquisition, the Group will become the first Chinese brokerage firm entering into Vietnam market, engineering the development momentum for the Group's business growth.

Results Overview

The Group reports to the shareholders that total profit attributable to equity holders of the Company ("Profit Attributable to Shareholders") amounted to approximately HK$800 million (2017: HK$1,230 million) for the year ended 31 December 2018, representing a decrease of approximately 35% as compared with last year. Excluding the effect of income (on brokerage and corporate finance businesses) arising from the listing of our parent company, Guotai Junan Securities Co., Ltd. (stock code: 2611.HK/601211.SS) in 2017, the Profit Attributable to Shareholders decreased by 20% year-on-year.

The Board recommends the payment of a final dividend of HK$0.020 per share for the year ended 31 December 2018 (2017: a final dividend of HK$0.045 per share), subject to the approval by shareholders at the annual general meeting of the Company. Together with the interim dividend of HK$0.033 per share which was paid on 26 September 2018, the total dividends for the year ended 31 December 2018 will amount to HK$0.053 per share (2017: HK$0.090).

Revenue Breakdown

	For the year ended 31 December			
	2018		2017	
	HK$'000	*%*	*HK$'000*	*%*
Fee and commission income				
– brokerage	**454,962**	**15.1%**	517,118	16.5%
– corporate finance	**594,970**	**19.7%**	683,526	21.8%
– asset management	**16,716**	**0.6%**	29,792	1.0%
Income from loans and financing	**1,307,294**	**43.4%**	1,288,777	41.1%
Gain from financial products, market making and investments	**638,266**	**21.2%**	613,180	19.6%
Total	**3,012,208**	**100.0%**	3,132,393	100.0%

For the year ended 31 December 2018, the Group recorded a total revenue of approximately HK$3.01 billion (2017: HK$3.13 billion), lowered by approximately 4% as compared with last year. Among the total revenue, loans and financing business, financial products, market making and investments business as well as corporate finance business contributed approximately 43%, 21% and 20%, respectively. Despite the market fluctuations, income from the Group's financial products and debt capital market businesses continued to grow rapidly and recorded the historic high, rising by 111% year-on-year to HK$640 million and 38% year-on-year to HK$480 million respectively. Excluding the effect of income (on brokerage and corporate finance businesses) arising from the listing of our parent company in 2017, the overall revenue of the Group increased by approximately 5% year-on-year during the year under review, still maintaining a steady growth in the fluctuating market.

Brokerage Business

	For the year ended 31 December			
	2018		2017	
	HK$'000	*%*	*HK$'000*	*%*
Securities	**366,654**	**80.6%**	430,129	83.2%
Futures and options	**28,488**	**6.3%**	25,095	4.8%
Handling income	**49,803**	**10.9%**	47,966	9.3%
Insurance	**7,658**	**1.7%**	11,185	2.2%
Leveraged foreign exchange	**2,359**	**0.5%**	2,743	0.5%
Total	**454,962**	**100.0%**	517,118	100.0%
Total (excluding income arising from the listing of our parent company in 2017)	**454,962**	**—**	421,358	—

In 2018, the Group's brokerage business recorded a revenue of approximately HK$450 million (2017: approximately HK$520 million). Excluding the effect of income arising from the listing of our parent company in 2017, brokerage income increased by 8% year-on-year.

The Hong Kong stock market experienced significant fluctuations during the year under review as Hang Seng Index was decreased by 14% year-on-year. However, our competitive financial products and advanced services and platform such as the "Jun Hong Wealth Management Club" (君弘財富管理俱樂部) and the upgraded mobile trading platform "Tradego" (交易寶) attracted many high-quality customers. During the year, the number of professional investors ("PI", i.e. customers with investible assets of over US$1 million) of the Company increased steadily by approximately 40% year-on-year.

During the year under review, excluding the effect of income arising from the listing of our parent company in 2017, securities brokerage commission income increased by 10% year-on-year to approximately HK$370 million, of which 76% of brokerage commissions arising from transactions conducted through the online trading system and 72% of brokerage commissions arising from individual investors.

The stock market fluctuations led to an increase in trading volumes of futures and options. During the year under review, income arising from futures and options brokerage commission increased by 14% to approximately HK$28.5 million (2017: approximately HK$25.1 million).

Corporate Finance

	For the year ended 31 December			
	2018		2017	
	HK$'000	***%***	*HK$'000*	*%*
Placing, underwriting and sub-underwriting commissions				
– debt capital markets	**483,303**	**81.2%**	350,269	51.3%
– equity capital markets	**78,219**	**13.2%**	244,920	35.8%
Consultancy and financial advisory fees	**33,448**	**5.6%**	88,337	12.9%
Total	**594,970**	**100.0%**	683,526	100.0%
Total (excluding income arising from the listing of our parent company in 2017)	**594,970**	**—**	507,222	—

<u>Debt capital market</u>

During the year under review, despite the market adjustments, the income arising from the Group's debt capital market business still increased by 38% year-on-year to approximately HK$480 million (2017: approximately HK$350 million). Our debt securities underwriting team has participated in a total of 142 debt issuance activities throughout the year (2017: 101 debt issuances). Although the scale of the issuance of the Asian (ex-Japan) G3 Currency Market decreased by approximately 20% year-on-year, the Group successfully assisted corporations raising fund of nearly HK$319.72 billion in the bond market during the year, up 28% year-on-year. We continued to maintain the leading position in Chinese US dollar-denominated bond issuance market, during the year under review, we ranked second in the Asia (ex-Japan) G3 Currency Corporate High-Yield Bond Underwritten League (亞洲地區（除日本）G3貨幣企業高收益債券承銷排行榜) in terms of number and amount underwritten.

Equity capital market

During the year under review, the Group's income derived from equity capital market decreased by 68% year-on-year to approximately HK$80 million (2017: approximately HK$240 million). The decrease was due to the high income base caused by the listing of our parent company in 2017 and the adjustment of our business strategies in 2018 by gradually shifting our focus to medium and large-size enterprise clients. In 2018, the Group's equity capital market team completed 18 equity financing projects, including the Bank of Gansu Co., Ltd. (2139.HK), which ranked top ten in terms of capital raised, and the Xiaomi Corporation (1810.HK), which was the the largest private enterprise listing project recorded in Hong Kong.

Loans and Financing

	For the year ended 31 December			
	2018		2017	
	HK$'000	*%*	*HK$'000*	*%*
Margin loans	**779,207**	**59.6%**	968,661	75.1%
Banks and others	**293,302**	**22.4%**	173,878	13.5%
Terms loans	**137,946**	**10.6%**	107,035	8.3%
Securities borrowing and lending	**56,410**	**4.3%**	21,545	1.7%
IPO loans	**10,430**	**0.8%**	12,314	1.0%
Reverse repurchase agreements	**29,999**	**2.3%**	5,344	0.4%
Total :	**1,307,294**	**100.0%**	1,288,777	100.0%

In 2018, the Group's overall income arising from loans and financing business increased by 1% to approximately HK$1,310 million (2017: approximately HK$1,290 million). Among which, apart from the decrease of interest income of margin financing as expected, the income from majority of the other financing products increased significantly year-on-year.

During the year under review, the Group continued its effort to adjust the proportion of margin financing with small and medium-cap stocks as collateral, and due to the continuous fluctuation of the Hong Kong stock market, some of our customers' demand for financing diminished, resulting in 20% decrease in margin loan financing interest year-on-year to HK$780 million. The management considered that the decline in margin financing income was within expectation.

During the year under review, the stability of our overall income was further strengthened by the Company's diversified financing products. Interest income arising from term loans and securities borrowing and lending business increased significantly year-on-year. Since the demand of customers grew steadily, interest income from the Group's term loans increased by 29% to approximately HK$140 million (2017: approximately HK$110 million). At the same time, the fluctuation in the financial market accelerated customers' securities borrowing and short selling activities, interest income from securities borrowing and lending business increased by 162% year-on-year to approximately HK$60 million (2017: approximately HK$20 million). With the increase of bank interest rate during the year under review, interest income from banks and others increased correspondingly by 69% to HK$290 million.

Financial Products, Market Making and Investments

During the year under review, overall income derived from the Group's financial products, market making and investments increased by 4% year-on-year to approximately HK$640 million (2017: approximately HK$610 million).

During the year, our financial products business achieved another historic breakthrough, with interest and handling fee income increased by 111% year-on-year to HK$640 million (2017: approximately HK$300 million). Leveraging on its leading credit ratings as well as well-established cooperation with major international financial institutions, the Group continued to refine its product competitiveness so as to broaden its customer coverage. In view of Chinese enterprises' investment and financing needs in overseas countries, the Group made every effort providing diversified and tailor-made financial products for corporations, institutions and high-net-worth clients.

During the year under review, due to fluctuations in the global financial markets, the Group's market-making income was approximately HK$50 million (2017: approximately HK$160 million), while the Group's investment recorded a loss of HK$50 million (2017: profit of approximately HK$140 million).

Financial Position

As at 31 December 2018, the Group's total assets increased by 19% to approximately HK$88,030 million (2017: approximately HK$73,960 million) and the Group's total liabilities increased by 22% to HK$76,520 million (2017: approximately HK$62,970 million).

The equity attributable to shareholders of ordinary shares increased by 26% to approximately HK$10,830 million as at 31 December 2018 (2017: approximately HK$8,610 million). The leverage ratio (defined as total assets less accounts payable to clients divided by total equity) was 6.36 times as at 31 December 2018 (2017: 5.53 times).

Liquidity, Financial Resources and Capital Structure

As at 31 December 2018, the current assets of the Group increased by 16% to HK$85,090 million (2017: HK$73,380 million). As at 31 December 2018, the Group's current ratio was 1.11 times (2017: 1.17 times) and gearing ratio (defined as the sum of bank borrowings and debt securities in issue at amortised cost divided by total equity) was 1.40 times (2017: 1.79 times).

For the year ended 31 December 2018, the Group had a net cash inflow of HK$1,890 million (2017: HK$250 million). As at 31 December 2018, the Group had bank balance of HK$4,110 million (2017: HK$2,210 million), and outstanding bank borrowings of HK$9,440 million (2017: HK$13,780 million).

On 6 February 2018, the Company allotted and issued 700,000,000 ordinary shares at a subscription price of HK$2.85 per share, resulting in additional share capital of approximately HK$1,990 million, being the proceeds of the above-mentioned ordinary shares issuance less issuing expenses of HK$8.1 million.

The Company through its subsidiary maintained a US$5 billion Guaranteed Structured Note Programme under which unlisted notes denominated in a currency determined by the issuer may be issued from time to time. On 3 July 2018, the Company also successfully renewed the Medium Term Note Programme of up to HK$15 billion (or the equivalent in other currencies at the date of issue), pursuant to which both listed and unlisted notes may be issued. The structured notes and the medium term notes issued as at 31 December 2018 amounted to HK$19.28 billion (2017: HK$10.48 billion) and HK$6.72 billion (2017: HK$5.89 billion), respectively.

Taking into account the un-utilized facilities obtained from various financial institutions and a sufficient un-issued portion of the abovementioned note programmes, we believe the Group's operating cash flow is adequate and sufficient 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 from time to time 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 have complied with their respective liquid capital requirements during the year and up to the date of this announcement.

Save as disclosed above, there were no other equity or debt instruments issued by the Group for the year ended 31 December 2018.

Material Acquisitions, Disposals and Significant Investments

For the year ended 31 December 2018, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies. As at 31 December 2018, the Group did not hold any significant investments.

Charges on the Group's Assets

No asset of the Group was subject to any charge as at 31 December 2018 and 2017.

Operating Lease Commitments, Capital Commitments and Other Commitments

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

Prospects

In 2019, the Group will come across many development opportunities. We expect improvements to the Sino-US trade condition and more relaxed monetary policies from the central bank of the major countries around the world as compared to 2018. The US' sluggish economic growth and the US Federal Reserve's slower pace of interest rate hike will lead to decline in the exchange rate of US dollar and the yield of US dollar-denominated bonds. After a sharp adjustment in asset prices in emerging markets in 2018, it is expected that the value of investment will go up and drive the repatriation of funds from Europe and the US. China is expected to boost its economy by further cutting the reserve requirement ratio and tax and increasing investment in infrastructure, the scale of corporate financing will gradually be recovered and the risk appetite of investors will be improved to certain extent, resulting in a stable GDP growth. Policies and ancillary measures on the development of the Great Bay Area will be introduced and implemented step-by-step and the construction projects under the "One Belt, One Road" initiative are also anticipated to achieve a further progress. Thereby, demands for cross-border investment and financing will be boosted greatly, which will bring us with important development opportunities.

In 2019, the Group will fully grasp the opportunities for business development brought by the Chinese government's efforts on the supply-and-demand reform of the financial industry, increment of direct financing, relaxation measures for releasing financing difficulties of private enterprises, etc.. By leveraging the brand influence of "Guotai Junan" and years of experience in cross-border financial services, we will continue to strengthen our corporate finance business, expand our wealth management business and improve our credit business. With the aid of innovative technology, we are fully committed to become an integrated financial service provider and a global leading investment bank with strong competitiveness. The Group will always adhere to its customer-oriented principle and will, upon the satisfaction of customers' demand, aim for higher-level of customer service and relationship management. We will provide differentiated, diversified, customized financial products and all-round, high-quality professional financial services, establishing long-term partnership with customers and grow stronger with them. On product side, the Group will substantially enhance its financial product lines in terms of quality and quantity to serve diversified customer needs. On sales side, we will continue to build our sales team, expand sales channels and enhance cross-selling activities. On customer side, the Group will strengthen its precise marketing activities and explore the investment and financing demands from potential customers by initiating an "Account Re-activation Program", so as to further strengthen our customer base.

For debt securities business, we expect that domestic corporate demand for overseas debt financing will rise sharply in 2019 and investors' demand for the US dollar-denominated bonds will remain strong. With our leading position among the Chinese firms in US dollar-denominated bonds issuance business in Hong Kong, the Group has its strength to seize the opportunities from the financing cycle of the debt market and further expand its debt underwriting business. As high-net-worth clients pay closer attention to the bond market, it is expected that the growth of the debt underwriting business will boost the trading volume of related products, thereby fueling the rapid growth of wealth management income.

The Group has been rated with "Baa2" and "BBB+" by the global credit rating agencies Moody's and Standard & Poor's respectively, which are the highest credit rating among the Chinese financial institutions in Hong Kong. In 2019, we will keep up with the efforts and maintain a strong and steady operation. We will continue to optimize our pioneer and comprehensive risk management system to strengthen risk control, further deepen the business cooperation with major international financial institutions with a view to actively exploring and developing diversified financing channels, maintain our advantage of lower funding cost, leverage on our key competitive strengths and fully grasp market opportunities, so as to strengthen our leading position in the industry. Our core objective is to increase risk adjusted return on capital and reward our clients and investors for their long-term support with a steady, sustained and high compound growth.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 24 May 2018, the Company had accepted all the subordinate perpetual securities (the "Securities") valid tenders for purchase of an aggregate principal amount of US$255,000,000, the price payable per US$1,000 principal amount of the Securities equals to US$1,000 together with accrued distribution payments. As at the date of this announcement, an aggregate principal amount of US$45,000,000 of the Securities is outstanding.

On 8 November 2018, the Company redeemed all of its outstanding 2.8% senior notes due 2018 with an aggregate principle amount of US$450,000,000, the redemption price equals to 100% of the principle amount plus accrued and unpaid interest.

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 2018 other than act as an agent for the trustee of the Company's share award scheme.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.020 per share for the year ended 31 December 2018 (the "Proposed Final Dividend") (2017: a final dividend of HK$0.045 per share), subject to the approval by shareholders at the annual general meeting of the Company and is payable on Thursday, 20 June 2019 to the shareholders whose names appear on the register of members of the Company on Wednesday, 5 June 2019. Together with the interim dividend of HK$0.033 per share which was paid on 26 September 2018, the total dividends for the year ended 31 December 2018 will amount to HK$0.053 per share (2017: HK$0.090).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019 (both days inclusive) for ascertaining shareholders' entitlement to attend and vote at the annual general meeting of the Company, during which period, no transfer of shares will be registered. In order to be eligible to attend and vote at the annual general meeting of the Company, all duly completed transfer documents accompanied by the relevant share certificates, must be lodged with the Company's 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, 22 May 2019.

Subject to the approval of the Proposed Final Dividend by shareholders at the annual general meeting of the Company, the register of members of the Company will be closed on Wednesday, 5 June 2019 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, all duly completed transfer documents accompanied by the relevant share certificates, must be lodged with the Company's 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 Tuesday, 4 June 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance. Save as disclosed below, the Company has complied with all code provisions set out in the Corporate Governance Code throughout the year of 2018.

Code Provision A.2.1. stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, whereas the roles of chairman and chief executive officer of the Company are performed by Dr. YIM Fung. The Directors believe that Dr. YIM can provide strong and consistent leadership in the development and execution of the Group's business strategies which 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 set out in Appendix 10 of the Listing Rules (the "Model Code") regarding securities transactions by its Directors. On specific enquiry made by the Company, all Directors confirmed that they have fully complied with the required standard set out in the Model Code throughout the year of 2018.

AUDIT COMMITTEE

The Audit Committee comprises Mr. TSANG Yiu Keung (chairman), Dr. FU Tingmei, Dr. SONG Ming, and Professor CHAN Ka Keung Ceajer, all of them are independent non-executive directors. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the 2018 annual results announcement and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

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 Dr. XIE Lebin and Mr. LIU Yiyong and four independent non-executive directors, being Dr. FU Tingmei, Dr. SONG Ming, Mr. TSANG Yiu Keung and Professor CHAN Ka Keung Ceajer.

APPRECIATION

The Board would like to take this opportunity to express our gratitude to our shareholders and customers for their trust and support and to thank our colleagues and the staff members of the Group for their hard work, loyal service and contribution during the year.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement of final results for the year ended 31 December 2018 is published on the websites of the Stock Exchange at http://www.hkexnews.hk and the Company at http://www.gtjai.com. The annual report for the year ended 31 December 2018 of the Company containing all the information required by the Listing Rules will be despatched 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, 18 March 2019