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GUOTAI JUNAN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1788)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 together with its comparative figures for the immediate preceding financial year as follows:

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2019	2018	Change
	HK\$'000	HK\$'000	
Fee and commission income			
– brokerage	531,233	454,962	16.8%
– corporate finance	809,047	594,970	36.0%
– asset management	36,439	16,716	118.0%
Income from loans and financing	1,134,972	1,307,294	–13.2%
Gain from financial products, market making and investments	1,733,845	651,948	165.9%
Revenue	4,245,536	3,025,890	40.3%
Profit for the year	902,559	849,174	6.3%
Profit attributable to ordinary equity holders of the Company	895,303	796,835	12.4%
Dividend for the year	513,271	404,723	26.8%
Basic earnings per share (HK cents)	11.7	10.5	11.4%
Diluted earnings per share (HK cents)	11.7	10.5	11.4%
Dividend per share (HK cents)	6.2	5.3	17.0%
Equity per ordinary share (HK\$) (Note)	1.47	1.42	3.5%
Dividend Payment ratio	57%	51%	6 p.p.

Note: Based on 7,678,783,690 shares (2018: 7,652,256,690 shares) as at 31 December 2019, being 7,715,673,090 shares issued and fully paid less 36,889,400 shares held under the Company’s share award scheme (2018: 7,715,673,090 shares issued and fully paid less 63,416,400 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 2019

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
Revenue	4	4,245,536	3,025,890
Other income		4,635	3,932
Revenue and other income		4,250,171	3,029,822
Staff costs	5	(842,912)	(642,853)
Commission to account executives		(124,278)	(68,894)
Depreciation		(65,078)	(36,541)
Other operating expenses		(1,333,166)	(584,508)
Operating profit		1,884,737	1,697,026
Finance costs	6	(879,294)	(713,754)
Profit before tax	7	1,005,443	983,272
Income tax expense	8	(102,884)	(134,098)
Profit for the year		902,559	849,174
Other comprehensive income for the year, net of tax			
– Exchange difference on translation of foreign exchange		(455)	294
Total comprehensive income for the year		902,104	849,468
Profit for the year attributable to:			
Owners of the parent:		902,619	848,651
– Holders of ordinary shares		895,303	796,835
– Holders of other equity instrument		7,316	51,816
Non-controlling interests		(60)	523
		902,559	849,174
Total comprehensive income for the year attributable to:			
Owners of the parent		902,164	848,945
– Holders of ordinary shares		894,848	797,129
– Holders of other equity instrument		7,316	51,816
Non-controlling interests		(60)	523
		902,104	849,468
Earnings per share attributable to ordinary equity holders of the parent			
– Basic (in HK cents)	10(a)	11.7	10.5
– Diluted (in HK cents)	10(b)	11.7	10.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		2019	2018
	Notes	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		508,939	471,644
Goodwill and other intangible assets		22,386	3,195
Other assets		8,526	5,531
Deferred tax assets		267,316	129,807
Loans and advances to customers	11	947,521	2,338,830
Bank deposits		66,440	–
Financial assets at fair value through profit or loss		7,862,292	4,333,237
– Financial assets held for trading and investments		1,594,507	–
– Financial products		6,267,785	4,333,237
Total non-current assets		9,683,420	7,282,244
Current assets			
Loans and advances to customers	11	10,768,381	9,936,545
Accounts receivable	12	4,151,021	5,347,223
Prepayments, deposits and other receivables		269,799	322,421
Financial assets at fair value through profit or loss		51,128,906	43,528,232
– Financial assets held for trading and investments		19,286,647	15,019,421
– Financial products		31,842,259	28,508,811
Derivative financial instruments		155,652	76,832
Receivable from reverse repurchase agreements		2,247,913	3,109,006
Tax recoverable		236	6,131
Client trust bank balances		11,181,982	14,319,985
Cash and cash equivalents		7,150,847	4,105,672
Total current assets		87,054,737	80,752,047

		2019	2018
	Notes	HK\$'000	HK\$'000
Current liabilities			
Accounts payable	13	(14,587,372)	(18,883,841)
Other payables and accrued liabilities		(584,126)	(537,400)
Derivative financial instruments		(149,851)	(23,620)
Interest bearing borrowings	14	(11,226,513)	(9,441,083)
Debt securities in issue		(25,819,688)	(21,158,094)
– At amortised cost		(5,128,330)	(6,721,259)
– Designated at fair value through profit or loss		(20,691,358)	(14,436,835)
Financial liabilities at fair value through profit or loss		(6,810,580)	(8,731,117)
Obligations under repurchase agreements		(18,199,226)	(13,156,517)
Tax payable		(243,323)	(67,159)
Total current liabilities		<u>(77,620,679)</u>	<u>(71,998,831)</u>
Net current assets		<u>9,434,058</u>	<u>8,753,216</u>
Total assets less current liabilities		<u>19,117,478</u>	<u>16,035,460</u>
Non-current liabilities			
Deferred tax liabilities		(2,429)	–
Interest bearing borrowings	14	(23,368)	–
Debt securities in issue		(7,679,894)	(4,841,178)
– At amortised cost		(1,555,874)	–
– Designated at fair value through profit or loss		(6,124,020)	(4,841,178)
		<u>(7,705,691)</u>	<u>(4,841,178)</u>
Net assets		<u>11,411,787</u>	<u>11,194,282</u>

	2019	2018
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity		
Share capital	8,125,856	8,125,856
Other reserve	(1,236,460)	(1,236,460)
Currency translation reserve	(1,110)	(655)
Share-based compensation reserve	56,089	66,186
– Share option reserve	30,513	37,816
– Share award reserve	25,576	28,370
Shares held under the share award scheme	(73,058)	(142,051)
Retained profits	4,424,607	4,019,055
Equity attributable to holders of the ordinary shares	11,295,924	10,831,931
Equity attributable to holders of other equity instrument	–	350,784
Equity attributable to owners of the parent	11,295,924	11,182,715
Non-controlling interests	115,863	11,567
Total equity	11,411,787	11,194,282

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 (“GJSCL”) incorporated in the People’s Republic of China, respectively.

The unaudited financial information relating to the year ended 31 December 2019 and the financial information relating to the year ended 31 December 2018 included in this preliminary announcement of annual results for the year ended 31 December 2019 does not constitute the Company’s statutory annual consolidated financial statements for those years but, in respect of the year ended 31 December 2018, 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 2019 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 2018 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 2018. 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 information 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 and 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. Certain comparative figures have been reclassified to confirm with current year’s presentation.

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.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, and HKAS 19, HKAS 28, which are not relevant to the preparation of the Group's consolidated financial information, the nature and impact of the new and revised HKFRSs are described below:

(a) *HKFRS 16 Leases*

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with cumulative effect of initial adoption at 1 January 2019 and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

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

Changes in accounting policies (Continued)

(a) HKFRS 16 Leases (Continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest bearing borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated financial information immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group included the right-of-use assets in property, plant and equipment.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

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

Changes in accounting policies (Continued)

(a) HKFRS 16 Leases (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	<i>HK\$'000</i>
Assets	
Increase in property, plant and equipment	<u>53,060</u>
Increase in total assets	<u><u>53,060</u></u>
Liabilities	
Increase in interest bearing borrowings	51,106
Increase in other payables and accrued liabilities	<u>1,954</u>
Increase in total liabilities	<u><u>53,060</u></u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	<i>HK\$'000</i>
Operating lease commitments as at 31 December 2018	54,043
Weighted average incremental borrowing rate as at 1 January 2019	4.29%
Discounted operating lease commitments as at 1 January 2019	<u>51,106</u>
Lease liabilities as at 1 January 2019	<u><u>51,106</u></u>

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

Changes in accounting policies (Continued)

(b) *HK(IFRIC) – Int 23, “Uncertainty over Income Tax Treatments”*

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

(c) *Annual Improvements 2015–2017 Cycle*

HKFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial information of the Group as there is no transaction where a joint control is obtained.

HKFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in HKFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial information of the Group as there is no transaction where a joint control is obtained.

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

Changes in accounting policies (Continued)

(c) Annual Improvements 2015–2017 Cycle (Continued)

HKAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial information of the Group.

HKAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial information of the Group.

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;

3. OPERATING SEGMENT INFORMATION (Continued)

Details of each of the operating segments are as follows: (Continued)

- (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 2019 and 2018 are as follows:

Year ended 31 December 2019

	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	531,233	809,047	36,439	1,134,972	1,733,845	4,635	4,250,171
Inter-segment sales	–	–	–	–	–	–	–
Total	531,233	809,047	36,439	1,134,972	1,733,845	4,635	4,250,171
Segment results	102,593	301,800	32,049	(378,879)	947,880	–	1,005,443
Income tax expense							(102,884)
Profit for the year							902,559
Other segment information:							
Net impairment charge on loans and advances to customers	–	–	–	908,530	–	–	908,530
Net impairment charge/ (reversal) on accounts receivable	(3,280)	3,537	358	–	1,334	–	1,949
Net impairment charge/ (reversal) on other financial assets	(5,945)	–	–	–	4,181	–	(1,764)
Depreciation	30,736	17,735	4,051	8,068	4,488	–	65,078
Finance costs	14,430	–	–	272,836	592,028	–	879,294

3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018

	Brokerage <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Loans and financing <i>HK\$'000</i>	Financial products, market making and investments <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue and other income:							
Sales to external customers	454,962	594,970	16,716	1,307,294	651,948	3,932	3,029,822
Inter-segment sales	—	—	—	—	—	—	—
Total	<u>454,962</u>	<u>594,970</u>	<u>16,716</u>	<u>1,307,294</u>	<u>651,948</u>	<u>3,932</u>	<u>3,029,822</u>
Segment results	144,173	304,822	(7,621)	578,322	(36,424)	—	983,272
Income tax expense							<u>(134,098)</u>
Profit for the year							<u>849,174</u>
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	<u>8,862</u>	<u>—</u>	<u>—</u>	<u>311,885</u>	<u>393,007</u>	<u>—</u>	<u>713,754</u>

4. REVENUE

The Group's revenue is disaggregated as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<i>Revenue from contracts with customers</i>		
Brokerage:		
Securities	452,531	366,654
Futures and options	17,311	28,488
Handling income	52,688	49,803
Insurance	6,592	7,658
Leveraged foreign exchange	2,111	2,359
	<u>531,233</u>	<u>454,962</u>
Corporate finance:		
Placing, underwriting and sub-underwriting commission		
– Debt securities	594,446	483,303
– Equity securities	136,326	78,219
Consultancy and financial advisory fee income	78,275	33,448
	<u>809,047</u>	<u>594,970</u>
Asset management:		
Management fee income	12,772	12,338
Performance fee income	23,667	4,378
	<u>36,439</u>	<u>16,716</u>
Financial products, market making and investments:		
Net income on structured financial products	418,447	641,667
	<u>418,447</u>	<u>641,667</u>

4. REVENUE (Continued)

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<i>Revenue from other sources</i>		
Loans and financing:		
Interest and handling income from customers and counterparty financing	742,388	1,013,992
Interest income from banks and others	392,584	293,302
	<u>1,134,972</u>	<u>1,307,294</u>
Financial products, market making and investments:		
Trading gain/(loss) on fixed income securities		
– Listed securities	308,017	(346,444)
– Unlisted securities	120,586	(16,415)
Interest income from fixed income securities		
– Listed securities	740,627	466,392
– Unlisted securities	75,478	37,757
Trading loss on exchange traded funds	(359)	(59)
Trading gain/(loss) on equity securities	26,770	(145,859)
Trading loss on unconsolidated investment funds	(17,400)	(73,695)
Net gain on foreign exchange	39,892	43,806
Net gain on financial instruments designated at fair value through profit or loss	54,890	7,700
Interest income from unlisted financial instruments at fair value through profit or loss	–	3,833
Dividend income	24,529	19,583
Trading (gain)/loss attributable to third-party interests in consolidated investment funds	(57,632)	13,682
	<u>1,315,398</u>	<u>10,281</u>
	<u>4,245,536</u>	<u>3,025,890</u>

5. STAFF COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Staff costs (including directors' remuneration):		
Salaries, bonuses and allowances	769,174	559,929
Share-based compensation expense		
– Share option scheme	6,798	5,297
– Share award scheme	57,325	69,471
Pension scheme contributions	9,615	8,156
	<u>842,912</u>	<u>642,853</u>

6. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Bank borrowings and overdrafts	324,624	301,771
Debt securities in issue	240,618	202,479
Securities borrowing and lending	7,272	2,330
Repurchase agreements	199,013	111,173
Financial instruments at fair value through profit or loss		
– Fixed income securities held for trading	82,546	82,204
Lease liabilities	1,862	–
Others	23,359	13,797
	<u>879,294</u>	<u>713,754</u>

7. PROFITS BEFORE TAX

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Auditor's remuneration		
(i) audit services	3,438	2,613
(ii) interim review	980	760
(iii) tax and other consultancy services	3,460	1,759
Foreign exchange differences, net	53,758	33,313
Other commission expenses	53,072	57,445
Information services expenses	35,439	28,820
Marketing, advertising and promotion expenses	11,823	6,058
Minimum lease payments under operating leases	–	12,227
Professional and consultancy fee	93,013	63,508
Repair and maintenance (including system maintenance)	59,980	45,740
Net impairment charge on loans and advances to customers	908,530	265,870
Net impairment/(reversal) charge on accounts receivable	1,949	(21,583)
Net reversal of impairment charge on other financial assets and loan commitments	(1,764)	(4,216)

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current – Hong Kong		
– Charge for the year	233,040	219,045
– Under provision in prior years	4,924	15,763
Deferred	(135,080)	(100,710)
Total tax charge for the year	102,884	134,098

9. DIVIDENDS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interim, paid – HK\$0.042 (2018: HK\$0.033) per ordinary share	324,058	254,617
Less: Dividend for shares held under the Company's share award scheme	<u>(2,747)</u>	<u>(2,939)</u>
	<u>321,311</u>	<u>251,678</u>
Final, proposed – HK\$0.020 (2018: HK\$0.020) per ordinary share	192,698	154,313
Less: Dividend for shares held under the Company's share award scheme	<u>(738)</u>	<u>(1,268)</u>
	<u>191,960</u>	<u>153,045*</u>
	<u>513,271</u>	<u>404,723</u>

* The Company paid a final dividend of approximately HK\$152,995,000 for the year ended 31 December 2018, as further adjusted to include the dividend for shares issued under the share option scheme amounted to nil, the dividend for shares held and vested shares under the share award scheme amounting to HK\$50,000 and nil 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:

	2019	2018
Profit attributable to ordinary equity holders of the parent (in HK\$'000)	<u>895,303</u>	<u>796,835</u>
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in '000)	<u>7,653,126</u>	<u>7,581,163</u>
Basic earnings per share (in HK cents)	<u>11.7</u>	<u>10.5</u>

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 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:

	2019	2018
Profit attributable to ordinary equity holders of the parent (in HK\$'000)	<u><u>895,303</u></u>	<u><u>796,835</u></u>
Weighted average number of ordinary shares in issue less shares held for the share award scheme used in the basic earnings per share calculation (in '000)	<u><u>7,653,126</u></u>	<u><u>7,581,163</u></u>
Effect of dilution – weighted average number of ordinary shares:		
Share options under the share option scheme (in '000)	<u><u>4,330</u></u>	<u><u>13,231</u></u>
Awarded shares under the share award scheme (in '000)	<u><u>14,272</u></u>	<u><u>12,072</u></u>
Number of ordinary shares for the purpose of the diluted earnings per share calculation (in '000)	<u><u>7,671,728</u></u>	<u><u>7,606,466</u></u>
Diluted earnings per share (in HK cents)	<u><u>11.7</u></u>	<u><u>10.5</u></u>

11. LOANS AND ADVANCES TO CUSTOMERS

	2019 HK\$'000	2018 HK\$'000
Non-current		
Term loans to customers	948,000	2,340,000
Less: Impairment	(479)	(1,170)
	<u>947,521</u>	<u>2,338,830</u>
Current		
Margin loans	11,719,143	9,430,753
Term loans to customers	532,480	1,079,788
Less: Impairment	(1,483,242)	(573,996)
	<u>10,768,381</u>	<u>9,936,545</u>
	<u>11,715,902</u>	<u>12,275,375</u>

As of 31 December 2019, the contractual amount outstanding on loans and advances to customers that have been written off but were still subject to enforcement activity was nil at 31 December 2019 (2018: HK\$95,557,000).

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

	12-month ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Total HK\$'000
ECL allowance as at 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 and 1 January 2019	<u>(13,316)</u>	<u>–</u>	<u>(561,850)</u>	<u>(575,166)</u>
Acquisition of a subsidiary	(25)	–	–	(25)
New assets originated or purchased	(159)	–	–	(159)
Assets derecognised or repaid	437	–	–	437
Changes to risk parameters	1,598	–	(308,543)	(306,945)
Transfer from stage 1 to stage 3	4,272	–	(4,272)	–
Changes arising from transfer of stage	–	–	(601,863)	(601,863)
Amount written off during the year	–	–	–	–
ECL allowance as at 31 December 2019	<u>(7,193)</u>	<u>–</u>	<u>(1,476,528)</u>	<u>(1,483,721)</u>

12. ACCOUNTS RECEIVABLE

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Accounts receivable arising from brokerage		
– cash and custodian clients	40,374	33,503
– the Stock Exchange and other clearing houses	1,366,064	1,310,012
– brokers and dealers	2,371,854	3,723,323
Accounts receivable arising from insurance brokerage services		
– cash and custodian clients	114	23
Accounts receivable arising from securities borrowing and lending		
– brokers and dealers	72,889	129,116
Accounts receivable arising from corporate finance, asset management, financial products, market making and investments		
– corporate clients, investment funds and others	307,300	156,871
	<u>4,158,595</u>	<u>5,352,848</u>
Less: Impairment	<u>(7,574)</u>	<u>(5,625)</u>
	<u><u>4,151,021</u></u>	<u><u>5,347,223</u></u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
At 1 January	5,625	44,137
Impairment charged to profit or loss during the year	5,579	467
Impairment reversed during the year	(3,630)	(22,050)
Exchange difference	–	21
Amounts written off	–	(16,950)
	<u>7,574</u>	<u>5,625</u>
At 31 December	<u><u>7,574</u></u>	<u><u>5,625</u></u>

The contractual amount outstanding on accounts receivable that have been written off but were still subject to enforcement activity was nil at 31 December 2019 (2018: HK\$16,950,000).

12. ACCOUNTS RECEIVABLE (Continued)

The detail analysis of accounts receivable arising from the course of business of the Group are as follows:

31 December 2019

	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>
Gross carrying amount	40,374	1,366,064	2,444,743	307,300	114	4,158,595
Less: Impairment						
– Stage 1	(20)	(668)	(2,126)	N/A	–	(2,814)
– Stage 2	–	–	–	N/A	–	–
– Stage 3	(183)	–	–	N/A	–	(183)
– Simplified approach	N/A	N/A	N/A	(4,577)	N/A	(4,577)
	<u>40,171</u>	<u>1,365,396</u>	<u>2,442,617</u>	<u>302,723</u>	<u>114</u>	<u>4,151,021</u>

31 December 2018

	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>
Gross carrying amount	33,503	1,310,012	3,852,439	156,871	23	5,352,848
Less: Impairment						
– Stage 1	(11)	(642)	(762)	N/A	–	(1,415)
– Stage 2	(3,109)	–	–	N/A	–	(3,109)
– Stage 3	(133)	–	–	N/A	–	(133)
– Simplified approach	N/A	N/A	N/A	(968)	N/A	(968)
	<u>30,250</u>	<u>1,309,370</u>	<u>3,851,677</u>	<u>155,903</u>	<u>23</u>	<u>5,347,223</u>

13. ACCOUNTS PAYABLE

	2019 HK\$'000	2018 HK\$'000
Accounts payable arising from brokerage		
– clients	11,611,433	14,840,232
– brokers and dealers	926,467	1,110,459
– the Stock Exchange and other clearing houses	745,612	302,901
Accounts payable arising from securities borrowing and lending	519,380	730,926
Accounts payable arising from corporate finance, asset management, financial products, market making, investments and others	782,358	1,897,770
Accounts payable arising from insurance brokerage services	2,122	1,553
	<u>14,587,372</u>	<u>18,883,841</u>

14. INTEREST BEARING BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Non-current:		
Lease liabilities	23,368	–
Current:		
Lease liabilities	25,403	–
Unsecured bank borrowings	7,711,110	9,441,083
Secured bank borrowings	3,490,000	–
	<u>11,226,513</u>	<u>9,441,083</u>
Total interest bearing borrowings	<u>11,249,881</u>	<u>9,441,083</u>

15. CAPITAL COMMITMENTS AND OTHER COMMITMENTS

Capital commitments

The Group had capital commitments for system upgrade and renovation of premises of approximately HK\$6,180,000 which were contracted but not provided for as at 31 December 2019 (2018: HK\$9,575,000).

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 2019, the underwriting and financial obligations were approximately HK\$6 million and nil respectively (2018: HK\$451 million and HK\$53 million).

16. EVENTS AFTER THE REPORTING PERIOD

Rights issue

On 14 January 2020, the Company proposed to raise a gross proceeds, before expenses, of up to approximately HK\$3,729 million, by way of a rights issue of not less than 1,919,219,266 rights shares but not more than 2,571,891,028 rights shares to the qualifying shareholders on the basis of one rights share for every 3 existing shares held on the record date 7 February 2020 at a price of HK\$1.45 per rights share.

On 17 March 2020, a total of 1,919,219,266 shares have been allotted. The gross proceeds raised from the rights issue are approximately HK\$2,782.87 million before expenses.

Impact of outbreak of Coronavirus

Since early January 2020, the coronavirus pandemic has spread globally, causing disruption to business and economic activity. This may affect the fair value of the financial assets and loans and advances to customers of the Group. The degree of the impact depends on the duration of the pandemic, the implementation of preventive measures and fiscal easing policies posted by the impacted countries.

Global stock markets in early 2020 have been adversely affected by concerns over the outbreak of coronavirus, resulting in increasing volatility and substantial decline. As the situation is rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The Group will continue monitoring the situation and actively react to the impacts to the Group's financial position and operating results.

Such impact is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial information for the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Hong Kong stock market

In 2019, the Hang Seng Index (“HSI”) showed a volatile trend and closed at 28,190 points at the end of the year, representing an increase of approximately 9% as compared to that of the end of 2018, under various factors such as the continued deepening of Sino-US trade dispute and three interest rates cuts by the Federal Reserve. During the first four months of 2019, the Hong Kong stock market performed strongly due to the steady progress of Sino-US trade negotiations. Since mid-late April, with Sino-US trade tension spilling into the technology sector, the capital market was under the impact of uncertainties, HSI dropped gradually and fluctuated continuously. Since June, social events in Hong Kong further weakened the investment sentiment in the Hong Kong stock market. Market sentiment was unable to turn positive until the China Securities Regulatory Commission announced the “full circulation reform” of H-share in November. Along with the announcement in December that Phase One trade agreement was reached between China and the United States, HSI rose gradually and steadily. Nevertheless, the trading volume of Hong Kong stock market declined, and the average daily turnover of the Hong Kong stock market in 2019 experienced a year-on-year decrease of approximately 19% to HK\$87.2 billion.

For initial public offering (“IPO”) in 2019, there were 183 companies newly listed in Hong Kong, representing a decrease of 16% as compared to 2018. With the listing of sizable new economy companies in Hong Kong, the total amount of Hong Kong IPO fundraising in 2019 reached HK\$312.9 billion, representing a year-on-year growth of approximately 9%, which was ranked the top of the world again. However, the total fundraising amount of the Hong Kong stock market decreased by 17% year-on-year to HK\$452.0 billion due to the low market investment sentiment.

US dollar-denominated bond market

Following the downward adjustment in the prices of US dollar-denominated bonds in 2018, due to factors such as easing of global monetary policies, the performance of the primary market and the secondary market of Chinese-issued US dollar-denominated bonds rebounded in 2019. For bond issuance, issuance of overseas bonds remained as one of the important means of financing for Chinese enterprises, therefore the demand for new bond issuance and refinancing was gradually released during the year under review. According to Bloomberg’s data, Asia (ex-Japan) G3 currency (USD, Euro and Yen) bond issuance amounted to US\$338.6 billion in total in 2019, representing an increase of approximately 27% year-on-year. For secondary market, risk appetite of investors gradually recovered and resulted in the repatriation of funds to the market. During the year under review, credit spreads of relevant indices for Chinese-issued US dollar-denominated bonds narrowed, bond yields dropped and bond prices rose steadily. Overall, the market experienced an upward trend.

Business Review

Expanded and optimized wealth management platform to enrich investment portfolios of high-net-worth clients

During the year under review, the Group continued to expand and optimize its wealth management platform to provide clients with comprehensive and quality products and services, and grasped the opportunity to launch new products for market expansion, which attracted quality clients from Hong Kong, Mainland China and overseas. The asset under management of new clients from wealth management business increased significantly, reaching over HK\$19.0 billion at the end of the year. In November, the Company became the third licensed issuer of listed structured products with Chinese-funded background in Hong Kong, and officially launched its warrants and callable bull/bear contracts products, thus providing clients with more choices with different risk appetites for their investment portfolios. Our new products received overwhelming response from clients. The expansion of the wealth management platform boosted the overall development of the Group's business, which was conducive to the risk-neutral income growth of the Group and further increased the risk-adjusted return on net assets.

Completed the acquisition of a Vietnam-based financial services company and became the first Chinese securities firm entering the Vietnam market

At the end of 2019, the Group completed the strategic investment acquisition of Vietnam Investment Securities Company ("IVS"). In this transaction, the Company subscribed for the new shares issued by IVS at a consideration close to its net asset value and became its substantial shareholder. IVS is a Vietnam-based financial institution listed on the Hanoi Stock Exchange. Its major businesses include securities brokerage, securities research and securities investment advisory, etc. Since December 2019, our clients have been able to invest in the stock market in Vietnam through our brokerage services. The Group considered that the acquisition of IVS would enrich the investment choices of the Group's clients, further optimize the Group's existing business structure, help the Company expand the business development in Southeast Asia after securing its footprints in Hong Kong and Singapore, and grasp the growing opportunities arising from the Belt and Road Initiative.

Optimized client structure and assisted high-quality enterprises to go global

During the year under review, given the continuous strategic adjustment, the Group actively explored opportunities to collaborate with large state-owned enterprises and institutional clients based on its outstanding service experience and global reputation accumulated in the international market. The client structure was remarkably improved whilst the overall risks were significantly reduced. In April 2019, the Company entered into a strategic cooperation agreement with China Forestry Group Corporation, the largest timber operator in the world, to provide it and its treasury center in Hong Kong with diversified financial products and services, assisting it in investment, financing and business development overseas.

Continuous expansion of the influence of the “Guotai Junan” brand

In 2019, the Group’s brand influence and reputation continued to grow in the financial markets in Southeast Asia such as Hong Kong, Singapore, etc. During the year, the Company received over 20 awards from a number of well-known global media in the industry, such as Bloomberg Businessweek, AsiaRisk, Corporate Governance Asia, The Asset, China Financial Market, Ta Kung Pao and Refinitiv Startmine. They all gave high recognition to the businesses of the Company, including wealth management, investment banking, financial products, asset management and research, etc. Meanwhile, the Group’s efforts on risk management, corporate governance and investor relations were highly rated as well.

Results Overview

The Group reports to the shareholders of the Company (“Shareholder(s)”) that total profit attributable to Shareholders of approximately HK\$895 million was recorded for the year ended 31 December 2019 (2018: approximately HK\$797 million), representing an increase of approximately 12.4% as compared with last year. The Board recommends a final dividend of HK\$0.020 per ordinary share of the Company (the “Share(s)”) for the year ended 31 December 2019 (2018: a final dividend of HK\$0.020 per Share). Together with the interim dividend of HK\$0.042 per Share paid on 19 September 2019, the total dividends for the year ended 31 December 2019 amounting to HK\$0.062 per Share (2018: HK\$0.053 per Share).

During the year under review, the Group recorded a total revenue of approximately HK\$4.246 billion (2018: HK\$3.026 billion), representing a significant increase of 40.3% as compared with last year, among which, the revenue of financial products, market making and investments and corporate finance maintained rapid growth, representing a year-on-year increase of 166% to approximately HK\$1.734 billion and 36% to approximately HK\$809 million, respectively. In addition, despite the decline in trading volume of the Hong Kong stock market, the revenue of brokerage business still achieved an increase of 17% to HK\$531 million as the wealth management business attracted high-net-worth clients.

Given the strategic adjustment in recent years, the Group's income structure in the financial year 2019 became more balanced, with fees and commission income accounting for 33%, interest income accounting for 36%, and investment income accounting for 31%. During the year under review, boosting the steady growth in income of corporate finance, asset management and brokerage business, the Group's fees and commission income increased by 26% year-on-year to a record high of HK\$1.419 billion, which is in line with the Group's sustainable development strategy as a financial service provider.

Breakdown of Revenue

	For the year ended 31 December			
	2019		2018	
	HK\$'000	%	HK\$'000	%
Fees and commission income				
– brokerage	531,233	12.5%	454,962	15.0%
– corporate finance	809,047	19.1%	594,970	19.7%
– asset management	36,439	0.9%	16,716	0.6%
Income from loans and financing	1,134,972	26.7%	1,307,294	43.2%
Gain from financial products, market making and investments	1,733,845	40.8%	651,948	21.5%
Total	<u>4,245,536</u>	<u>100.0%</u>	<u>3,025,890</u>	<u>100.0%</u>

Brokerage

Although the average daily trading volume of the Hong Kong stock market decreased by 19% year-on-year in 2019, the Group's brokerage business recorded a revenue of approximately HK\$531 million (2018: approximately HK\$455 million), representing a year-on-year increase of 17%, among which, brokerage commissions from securities trading increased by approximately 23% year-on-year to HK\$453 million. During the year under review, the Group's wealth management continued to attract quality clients, and the asset under management of new clients from wealth management business also increased gradually, thus driving the brokerage related trading activities.

Corporate finance

	For the year ended 31 December			
	2019		2018	
	HK\$'000	%	HK\$'000	%
Placing, underwriting and sub-underwriting commission				
– debt capital market	594,446	73.5%	483,303	81.2%
– equity capital market	136,326	16.8%	78,219	13.2%
Consultancy and financial advisory fee	78,275	9.7%	33,448	5.6%
Total	<u>809,047</u>	<u>100.0%</u>	<u>594,970</u>	<u>100.0%</u>

Debt capital market

During the year under review, the Group continued to maintain its leading position in the debt capital market in Hong Kong, and the number of bonds underwritten in the primary market and the fundraising amount also reached a new high, with the income from underwriting fees increased by 23% year-on-year to approximately HK\$594 million (2018: approximately HK\$483 million). During the year under review, the debt capital market team completed a total of 189 debt issuances (2018: 142) and assisted corporations raising funds of nearly HK\$423.3 billion (2018: HK\$319.7 billion) in the bond market. In 2019, the Group maintained its leading position in Chinese-issued US dollar-denominated bond issuance market in terms of market share, and ranked second and fourth in the Bloomberg's Asia (ex-Japan) G3 Currency Corporate High-Yield Bond Underwritten League Table (彭博亞洲 (除日本外) G3貨幣企業高收益債券承銷排行榜) in terms of number and amount underwritten, respectively.

Equity capital market

During the year under review, the Group's income from the equity capital market increased significantly by 74% year-on-year to approximately HK\$136 million (2018: approximately HK\$78.2 million). During the year, the Group secured its presence in major sectors, including energy, real estate, property management and finance, completed eight IPO sponsorship projects (2018: three), participated in 31 equity underwriting projects (2018: 18) in primary and secondary markets, assisting corporation raising funds of approximately HK\$44.11 billion in total. Sponsorship projects included China Risun (1907.HK), Aoyuan Healthy Life (3662.HK) and Zhongliang Holdings (2772.HK), etc. Moreover, the Group also successfully assisted listed companies such as China Gas (384.HK) and Guotai Junan Securities (2611.HK) in their share placing projects in the secondary market in Hong Kong. During the year under review, the Group's advisory and financing consultancy fee income also increased significantly by 134% year-on-year to approximately HK\$78.3 million (2018: approximately HK\$33.4 million). According to Dealogic's data, the Group was ranked fourth in the market in terms of the number of IPO sponsorship projects.

Asset management

	For the year ended 31 December			
	2019		2018	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Asset management				
– management fee	12,772	35.1%	12,338	73.8%
– performance fee	23,667	64.9%	4,378	26.2%
Total	<u>36,439</u>	<u>100.0%</u>	<u>16,716</u>	<u>100.0%</u>

During the year under review, benefiting from the performance of global stock and fixed income markets, the Group's management fee and performance fee income from its asset management business increased substantially by 118% year-on-year to HK\$36.4 million. In 2019, the Group's asset management team launched four fund products in total, and the total asset under management of clients reached HK\$8.3 billion as at the end of the year, of which bonds and equity linked funds amounted to approximately HK\$4.6 billion and HK\$3.7 billion, respectively.

During the year under review, Guotai Junan Asia High Income Bond Fund, under the Group's management, recorded a yield of 18.7%, becoming one of the best performing China funds among the offshore private Greater China bond funds in 2019, and won the "Best Fund Performance" of the 2019 Offshore China Fund Awards jointly organised by China Asset Management Association of Hong Kong and Bloomberg. The fund was the sole winner in this category.

Loans and financing

	For the year ended 31 December			
	2019		2018	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Customers and counterparty				
financing	742,388	65.4%	1,013,992	77.6%
Banks and others	392,584	34.6%	293,302	22.4%
Total	<u>1,134,972</u>	<u>100.0%</u>	<u>1,307,294</u>	<u>100.0%</u>

In 2019, the Group's income from loans and financing business decreased by 13% to approximately HK\$1.135 billion (2018: approximately HK\$1.307 billion).

In recent years, the Group continued to optimize the loans and financing business structure. Since 2017, the Group has taken the lead in adjusting the proportion of margin financing with collateral from small- and mid-cap stocks as well as increased the income from risk-neutral business to achieve diversified and stable growth of overall income. During the year under review, the strategic adjustments made by the Group has become effective, the proportion of margin financing income with large cap stocks and US dollar-denominated bonds as collaterals significantly increased. Due to the decline in profit margin of loans resulting from the increase of risk neutral business, interest income from loan financing to clients decreased by 27% year-on-year to HK\$742 million. However, the income recorded in the second half of the year stabilized and rebounded as compared to that of the first half of the year. The management considered that the decline in financing income from customers and counterparties was within the expectation and in line with the business transformation strategy of the Group in recent years, and in favour of improving risk-adjusted return on capital and quality of earnings.

Due to the increase in Hong Kong Interbank Offered Rate (“HIBOR”) during the year under review, the Group’s interest income from banks and others increased by 34% to approximately HK\$393 million.

Financial products, market making and investments

	For the year ended 31 December			
	2019		2018	
	HK\$'000	%	HK\$'000	%
Financial products	418,447	24.1%	641,667	98.4%
Market making	649,252	37.5%	52,098	8.0%
Investments	666,146	38.4%	(41,817)	(6.4%)
Total	<u>1,733,845</u>	<u>100.0%</u>	<u>651,948</u>	<u>100.0%</u>

During the year under review, the Group’s total income from financial products, market making and investments increased by 166% year-on-year to approximately HK\$1.734 billion (2018: approximately HK\$652 million).

Financial products

In 2019, the income from financial products decreased by 35% year-on-year to HK\$418 million. During the year, given the rise of indices of Chinese-issued US dollar-denominated bond market, return on the related assets declined, and the growth of financing needs of institutional clients gradually slowed down. Moreover, the Group also effectively controlled the risk appetite by increasing the proportion of risk-neutral notes business and the fee-based income. On the other hand, the Group further expanded its funding sources to lower financing costs continuously so that it could offer clients with diversified and customized products with stronger market competitiveness, thus helping the clients achieve a better return on investment.

Market making

To facilitate the development of the debt capital market business, the Group provides market making services for debt securities. During the year under review, since the Chinese-issued US dollar-denominated bond market gradually recovered, the Group's market making income significantly increased to approximately HK\$649 million (2018: approximately HK\$52.10 million).

Investments

For the long-term development of asset management and other businesses, the Group provides supports by investing under a prudent risk management system. Benefiting from the performance of the global stock and fixed income markets, the Company's investment income was recorded at HK\$666 million (2018: a loss of approximately HK\$41.8 million). During the year under review, the market making and investments income amounted to approximately HK\$1.315 billion, among which interest income from coupons of debt securities amounted to approximately HK\$840 million while trading income (recorded by mark-to-market) amounted to approximately HK\$475 million.

Financial Position

As at 31 December 2019, the Group's total assets increased by 10% to approximately HK\$96.738 billion (2018: approximately HK\$88.034 billion), and the Group's total liabilities increased by 11% to HK\$85.326 billion (2018: approximately HK\$76.840 billion). The equity attributable to holders of Shares increased by 4% to approximately HK\$11.296 billion as at 31 December 2019 (2018: approximately HK\$10.832 billion). The leverage ratio (defined as total assets less accounts payable to clients divided by total equity) was 7.46 times as at 31 December 2019 (2018: 6.54 times).

Liquidity, Financial Resources and Capital Structure

As at 31 December 2019, the net current assets of the Group increased by 12% to HK\$9.43 billion (2018: HK\$8.39 billion). As at 31 December 2019, the Group's current ratio was 1.12 times (2018: 1.12 times) and gearing ratio (defined as the sum of bank borrowings and debt securities in issue at amortised cost divided by total equity) was 1.57 times (2018: 1.44 times).

The Group had a net cash inflow of HK\$3,112 million for the year ended 31 December 2019 (2018: HK\$1,890 million). As at 31 December 2019, the Group's bank balance was HK\$7,217 million (2018: HK\$4,106 million), and outstanding bank and other borrowings amounted to HK\$11,201 million (2018: HK\$9,441 million).

The Company, through its subsidiaries, maintained a US\$15 billion Guaranteed Structured Note Programme under which unlisted notes denominated in any currency as determined by the issuer may be issued from time to time. On 12 July 2019, 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. On 14 January 2019, the Company issued 4.25% US\$200 million notes due 2022 pursuant to the Medium Term Note Programme. As at 31 December 2019, the structured notes and medium term notes issued and outstanding amounted to US\$3.5 billion (2018: US\$3.7 billion) and HK\$5.8 billion (2018: HK\$2.8 billion), respectively.

Taking into account the un-utilized facilities from various financial institutions and sufficient un-issued quota of the above-mentioned 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 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) by 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 was no other equity or debt instrument issued by the Group for the year ended 31 December 2019.

Material Acquisitions, Disposals and Significant Investments

For the year ended 31 December 2019, the Group had no material acquisition and disposal of subsidiaries and associated companies. As at 31 December 2019, the Group did not hold any significant investment.

Charges on the Group's Assets

No asset of the Group was subject to any charge as at 31 December 2019 and 2018.

Capital Commitments and Other Commitments

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

Prospects

Since the beginning of 2020, the pandemic caused by the novel coronavirus ("COVID-19") becomes a global focus. Many countries have adopted measures such as public activities cancellation, travel restriction, and cities lockdown, etc. The global economy and financial markets are facing pressures and challenges. Despite the United States Federal Reserve continued to cut interest rates and launched quantitative easing plans to alleviate the

impact of COVID-19 on the economy, the global markets fluctuated and tumbled in March. Investors have greater concerns about the global credit and debt crisis that may be caused by the global economic recession.

In recent years, the Group has continuously optimized its risk management system and strengthened its implementation. In 2019, the Group increased the amount of provision for impairment of the possible risk of loan assets, meanwhile, increased the proportion of risk-neutral businesses, significantly solidifying the risk management capability of the balance sheet. The Group's overall income became more balance and stable due to the increase of fee-based income. The Group is well prepared with its prudent risk management system, down-to-earth operating style, and balance and sustainable business strategy, which will help us to achieve a cross-cycle growth in the volatile market condition in 2020.

Despite the impact of COVID-19 on the market and the economy, the Company remains confident in the economic development of the Mainland China under a continuously opening up environment in medium to long run. The Group will further expand and strengthen its edge and influence by its quality financial service platform, and enhance its wealth management services and global asset allocation capabilities, providing clients with one-stop comprehensive investment and financing solutions.

Looking ahead, the Group's focus are as follows:

Develop institutional and corporate clients. By focusing on strategic partners such as major state-owned enterprises, the Group will step up its efforts to develop institutional and corporate client markets. Leveraging on its brand advantages and market experience built up for years, the Group will further refine its product chain and service quality, and bring returns to clients with diversified quality financial services.

Strengthen the synergy between wealth management and other businesses. The development of wealth management business will facilitate the growth and expansion of the Group's high-net-worth individual client base and bring new opportunities to corporate finance and asset management businesses. On the other hand, the Group's businesses, such as fixed income, financial products, corporate financing and asset management, are able to offer clients with more investment objectives and products, and continue to meet the diversified needs of our clients, thereby achieving a win-win situation for the Company and clients.

Sharpen core competencies of financial products. The customized and specialized financial products have put the Company in the leading position in the market of structured products. Together with the Group's funding edge over its peers, the financial products business has become one of our core competencies in recent years. The Company will continue to provide clients with differentiated, customized and specialized financial products, actively seek cooperation with its parent company, and explore new opportunities in the cross-border financial product market.

Consolidate the depth of development in Southeast Asia. After securing a foothold in the Singapore market, the Group became the first Chinese securities company to expand into the Vietnam market last year. Looking forward, the Group will continue to take the “Belt and Road Initiative” as an opportunity to expedite steps of exploring Southeast Asian markets, and further facilitate global development through its subsidiaries in Vietnam and Singapore. The Group determines to be a professional partner for Mainland Chinese clients who want to invest globally and for overseas clients who want to invest in China.

The Group will adhere to its solid and steady operation strategy, and also seize market opportunities in a timely manner to move forward. Furthermore, the Group will continue to improve its risk management measures and strengthen its implementation, as well as consolidate and enhance its outstanding risk management capabilities through timely identification, measurement, hedging and risk mitigation. The Group aims to increase the risk-adjusted net asset return rate with steady and solid compound growth to reward our clients and investors for their continuous supports.

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

The Company redeemed all of its outstanding subordinate perpetual securities issued in 2016 (the “Securities”) with an aggregate principle amount of US\$45,000,000 during the reporting year, the price payable per US\$1,000 principal amount of the Securities equals to US\$1,000 together with accrued distribution payments.

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 2019 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 2019 (the “Proposed Final Dividend”) (2018: a final dividend of HK\$0.020 per Share), subject to the approval by Shareholders at the annual general meeting of the Company (the “AGM”), which is expected to be held on Thursday, 21 May 2020, and will be payable on Monday, 15 June 2020 to Shareholders whose names appear on the register of members of the Company on Friday, 29 May 2020. Together with the interim dividend of HK\$0.042 per share which was paid on 19 September 2019, the total dividends for the year ended 31 December 2019 will amount to HK\$0.062 per share (2018: HK\$0.053).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 18 May 2020 to Thursday, 21 May 2020 (both days inclusive) for ascertaining Shareholders' entitlement to attend and vote at the AGM, during which period, no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, 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 Friday, 15 May 2020.

Subject to the approval of the Proposed Final Dividend by Shareholders at the AGM, the register of members of the Company will be closed on Friday, 29 May 2020 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 Thursday, 28 May 2020.

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 2019.

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 of the Company 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 directors. On specific enquiry made by the Company, all directors of the Company confirmed that they have fully complied with the required standard set out in the Model Code throughout the year of 2019.

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 2019 annual results announcement and the consolidated financial statements of the Group for the year ended 31 December 2019.

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 2019 ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement of final results for the year ended 31 December 2019 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 of the Company for the year ended 31 December 2019 will be despatched to Shareholders and published on the aforesaid websites in due course.

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

Hong Kong, 20 March 2020