

Financial Review of the Securities Industry¹ For the half year ended 30 June 2008

In the first half of 2008, the market turnover has declined by 25% compared to the second half of 2007. The average daily turnover on The Stock Exchange of Hong Kong Limited (“SEHK”) in the first half of 2008 was HK\$ 87 billion versus that of HK\$ 116 billion in the second half of 2007.

The Hang Seng Index closed at 22,102 at the end of June 2008, a 21% drop from the level at the end of 2007.

Overall net profit of all SEHK participants in the first half of 2008 decreased by 55% to HK\$ 9.6 billion as compared to HK\$ 21.3 billion in the second half of 2007. The net profits of Category A, B and C brokers were HK\$ 5.6 billion, HK\$ 3.4 billion and HK\$ 0.6 billion respectively. The decrease in profit of SEHK participants was mainly attributable to lower commission income.

As at the end of June 2008, margin loans decreased 17% from the end of 2007 level to HK\$ 34.8 billion, reflecting lower dealing activities. Average collateral coverage decreased from 5.3 as at the end of 2007 to 4.6 as at the end of June 2008.

Table 1 summarises statistical information and financial highlights relating to securities dealers and securities margin financiers² and Table 2 summarises the financial performance of each category of participants of the SEHK for the half year ended 30 June 2008.

Table 1 - Statistical Information and Financial Position of Securities Dealers and Securities Margin Financiers^a		
As at	30/6/2008	31/12/2007
Total number of securities dealers & securities margin financiers	717	691
Total number of active cash clients ^b	943,314	924,131
Total number of active margin clients ^b	117,142	110,043
Balance Sheet (HK\$ mn)		
Cash in hand and at bank ^c	252,334	257,372
Amounts receivable from margin clients ^d (-17%)	34,826	41,765
Amounts receivable from clients and other dealers arising from dealing in securities	193,288	204,336
Proprietary positions	124,878	139,394
Other assets	154,660	205,965
Total assets (-10%)	759,986	848,832

¹ The objective of this paper is to provide summary financial data so that those who are interested can use these data for benchmarking, research analysis or other purposes. Observations made in this paper should not be taken as definitive market commentaries.

² Corporations licensed for dealing in securities or securities margin financing. These include entities that are SEHK participants and those that are not.

Table 1 - Statistical Information and Financial Position of Securities Dealers and Securities Margin Financiers (Cont'd)

As at	30/6/2008	31/12/2007
Balance Sheet (HK\$ mn) (Cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	313,256	333,904
Total borrowings from financial institutions	67,367	114,754
Short positions held for own account	18,052	50,909
Other liabilities	182,777	173,885
Total shareholders' fund ^e	178,534	175,380
Total liabilities and shareholders' fund (-10%)	759,986	848,832
	6 months to 30/6/2008	6 months to 31/12/2007
Profit and loss (HK\$ mn)		
Total value of transactions ^f (-24%)	31,260,063	41,178,095
Net securities commission income (-30%)	24,324	34,694
Gross interest income (-39%)	5,707	9,301
Other income ^g (-27%)	36,113	49,461
Net profit on proprietary trading (-43%)	3,686	6,424
Total overheads and interest expense (-14%)	48,870	57,082
Net profit for the period (-51%)	20,960	42,798
Remarks:		
a The above data were extracted from the monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by licensed corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation which carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded from the above figures.		
b Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.		
c Cash in hand and at bank includes trust monies held on behalf of clients amounting to \$91,313 mn (31/12/2007: \$104,051 mn).		
d Average collateral coverage (the number of times the aggregate market value of securities collateral deposited by clients covers the amounts receivable from margin clients on a given date on an industry-wide basis):		
	<u>As at 30/6/2008</u>	<u>As at 31/12/2007</u>
	4.6	5.3
e The value of shareholders' fund includes value of redeemable shares.		
f Total value of transactions includes trading in equities, bonds and other securities both in Hong Kong and overseas.		
g Other income mainly comprises inter-company management fee income, fund management income, corporate finance income and others.		

Table 2 – Financial Performance of SEHK Participants for the Half Year ended 30 June 2008 By Category (HK\$ mn)

	Category A*		Category B*		Category C*		All SEHK Participants	
	H1 2008	H2 2007	H1 2008	H2 2007	H1 2008	H2 2007	H1 2008	H2 2007
Total income	16,273	22,264	12,030	18,574	4,322	7,855	32,625	48,693
Salary and staff benefits	(3,005)	(3,262)	(3,147)	(3,461)	(1,649)	(1,346)	(7,801)	(8,069)
Other overheads and interest expense	(7,682)	(10,415)	(5,417)	(6,428)	(2,077)	(2,528)	(15,176)	(19,371)
Net profit for the period	5,586	8,587	3,466	8,685	596	3,981	9,648	21,253

* Categories A, B and C SEHK participants are determined on a monthly basis, based on their turnover on the SEHK. Category A SEHK participants refer to the top 14 brokers by market turnover, Category B SEHK participants refer to those ranked 15 - 65 and the remainders are grouped under Category C.

Sources: Monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by SEHK Participants