



SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

Financial Review of the Securities Industry

For the half year ended 30 June 2011



Executive Summary

In the first half of 2011, the total value of transactions of all securities dealers and securities margin financiers¹ decreased by 1.1% while total net profit was down 51% to \$7.5 billion². The drop in net profit from the second half of 2010 was mainly attributable to decreases in inter-company management fee income, underwriting fee income and proprietary trading profit. For the period, the total net profit of participants of the Stock Exchange of Hong Kong Ltd (SEHK) amounted to \$4.1 billion, of which \$2.6 billion was attributable to Category A brokerages, \$1.2 billion to Category B brokerages and \$0.3 billion to Category C brokerages.

The Hang Seng Index closed at 22,398 at the end of June 2011, 2.8% lower than its close on 31 December 2010. During the period, the average daily turnover on SEHK stood at \$73.6 billion³, down 0.7% from the previous six months.

At the end of June 2011, the total outstanding margin loan was \$62.1 billion, up 6.2% from the end of 2010. Average collateral coverage was 4.3 times^c.

Table 1 below summarises statistical information and financial highlights relating to securities dealers and securities margin financiers. Table 2 summarises the financial performance of each of the three categories of SEHK participants for the first half of 2011.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers^a		
	30/6/2011	31/12/2010
Total number of securities dealers, securities margin financiers	834	831
Total number of active cash clients ^b	1,056,439	1,036,897 ⁴
Total number of active margin clients ^b	134,537	132,101
Balance sheet (\$ mn)		
Cash in hand and at bank ^d	283,604	292,827
Amounts receivable from margin clients	62,110	58,468
Amounts receivable from clients and other dealers arising from dealing in securities	191,386	138,422
Proprietary positions	137,727	173,873
Other assets	153,649	147,754
Total assets	828,476	811,344

¹ "Securities dealers and securities margin financiers" refer to corporations licensed for dealing in securities or securities margin financing. Both SEHK participants and non-SEHK participants are included unless otherwise specified.

² Unless otherwise stated, figures given in the report are denominated in HK dollars.

³ Source of information: Hong Kong Exchanges and Clearing Ltd's website.

⁴ The discrepancy between the figure in this report and that in the December 2010 report is attributed to revisions by licensed corporations.



Table 1 Statistical information and financial position of securities dealers and securities margin financiers (cont'd)

	30/6/2011	31/12/2010
Balance sheet (\$ mn) (Cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	343,598	287,645
Total borrowings from financial institutions	57,374	71,558
Short positions held for own account	77,947	107,211
Other liabilities	120,333	126,899
Total shareholders' funds	229,224	218,031
Total liabilities and shareholders' funds (+2.1%)	828,476	811,344
	6 months to 30/6/2011	6 months to 31/12/2010
Profit and loss (\$ mn)		
Total value of transactions ^e	29,715,368	30,052,315
Net securities commission income	14,886	16,608
Gross interest income	3,132	2,900
Other income ^f	41,862	49,059
Net profit on proprietary trading	2,403	4,586
Total income (-15%)	62,283	73,153
Total overheads and interest expense	54,768	57,886
Net profit for the period (-51%)	7,515	15,267
Remarks:		
a Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded.		
b Active clients are clients for whom a 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 Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis:		
	<u>As at 30/6/2011</u>	<u>As at 31/12/2010</u>
	4.3 times	4.7 times
d Cash in hand and at bank includes \$117,670 mn in trust monies held on behalf of clients (31/12/2010: \$119,475 mn).		
e The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.		
f Other income comprises inter-company management fee income, fund management fee income, underwriting fee income, corporate finance income and others.		
<i>Sources: Monthly Financial Returns submitted to the Securities and Futures Commission by licensed corporations licensed for dealing in securities or securities margin financing in accordance with the Securities and Futures (Financial Resources) Rules.</i>		



Table 2 Financial performance of each of the three categories^a of SEHK participants for the half year ended 30 June 2011 (\$ mn)

	Category A		Category B		Category C		All SEHK Participants	
	H1 2011	H2 2010	H1 2011	H2 2010	H1 2011	H2 2010	H1 2011	H2 2010
Total value of transactions ^b	11,743,128	11,232,980	6,270,575	6,671,700	2,440,685	2,664,229	20,454,388	20,568,909
Net securities commission income	4,854	7,074	3,902	4,482	1,907	2,450	10,663	14,006
Gross interest income	309	272	1,092	986	837	811	2,238	2,069
Other income	6,661	7,919	1,931	3,374	1,768	2,146	10,360	13,439
Net profit/(loss) on proprietary trading	90	28	(4)	422	28	544	114	994
Total income	11,914	15,293	6,921	9,264	4,540	5,951	23,375	30,508
Total overheads and interest expense	(9,247)	(10,056)	(5,713)	(7,553)	(4,274)	(4,314)	(19,234)	(21,923)
Net profit for the period	2,667	5,237	1,208	1,711	266	1,637	4,141	8,585

Remarks:

- a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on the exchange. Category A SEHK participants refer to the top 14 brokers by market turnover, Category B participants refer to those ranked 15th to 65th and the remainders are grouped under Category C.
- b. The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

Sources: Monthly Financial Returns submitted to the Securities and Futures Commission by SEHK participants in accordance with the Securities and Futures (Financial Resources) Rules.

Disclaimer: As the objective of this paper is to provide summary financial data for interested parties to use in benchmarking, research analysis or other purposes, observations made here should not be taken as definitive market commentaries.