

Quarterly Financial Review of the Securities Industry

Intermediaries Supervision Department¹

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Summary

Overall profitability of the industry in the third quarter of 2005 almost doubled that of the second quarter primarily due to the upsurge in turnover.

Overview of the Securities Industry in the Third Quarter of 2005

1. Despite the overhanging uncertainties such as interest rate hikes, inflation and oil price fluctuations, the local stock market performed well during the third quarter of 2005. Hang Seng Index rose to its four-year high of 15,466 in mid-August 2005 and closed at 15,429 in September 2005.
2. The average daily turnover increased sharply by 40% from HK\$15 bn to HK\$21 bn during this quarter. The total market turnover soared by 40% as compared with last quarter, reaching HK\$1,335 bn in the third quarter of 2005.
3. Table 1 summarizes the securities industry's statistical information and financial highlights for the third quarter of 2005.

Table 1 – Statistical Information and Financial Position of the Securities Industry		
As at	30/9/2005	30/6/2005
Total number of securities dealers & securities margin financiers	640	634
Total number of active cash clients ¹	610,062	629,960
Total number of active margin clients ¹	71,455	76,332
Balance Sheet (HK\$ mn)		
Cash in hand and at bank ²	107,812	101,286
Amounts receivable from margin clients ³	17,263	17,333
Amounts receivable from clients and other dealers arising from dealing in securities	160,211	110,562
Proprietary positions	109,720	85,055
Other assets	77,487	73,456
Total assets	472,493	387,692
Amounts payable to clients and other dealers arising from dealing in securities	226,188	168,770
Total borrowings from financial institutions	66,118	59,880
Short positions held for own account	36,855	26,717
Other liabilities	62,485	54,147
Total shareholders' fund ⁴	80,847	78,178
Total liabilities and shareholders' fund	472,493	387,692
	3 months to	3 months to
	30/9/2005	30/6/2005
Profit and loss (HK\$ mn)		
Total value of transactions ⁵	5,795,633	4,455,131
Net securities commission income	5,503	4,082
Gross interest income	1,284	1,109
Net profit / (loss) on proprietary trading	878	(105)
Other income ⁶	8,703	7,453
Total overheads and interest expense ⁷	(12,175)	(10,304)
Net profit for the period	4,193	2,235
Remarks:		
¹ 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 Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.		
² Cash in hand and at bank includes trust monies held on behalf of clients amounting to HK\$47,234 mn (30/6/2005: HK\$46,037 mn).		
³ 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 30/9/2005</u>	<u>As at 30/6/2005</u>
	4.4	4.2
⁴ The value of shareholder's fund includes value of redeemable shares.		
⁵ Total value of transactions includes trading in equities and bonds both in Hong Kong and overseas.		
⁶ Other income mainly comprises corporate finance income, fund management income, intercompany charges and others.		
⁷ Total overheads include salary and staff benefits paid to non-commission based staff of licensed corporations. Commission paid to account executives and others has been netted off with commission income to arrive at the net securities commission income.		
	<u>3 months to 30/9/2005</u>	<u>3 months to 30/6/2005</u>
	(HK\$ mn)	(HK\$ mn)
Salary and staff benefits	6,751	4,856
Sources: Monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by securities dealers and securities margin financiers.		

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 review should not be taken as definitive market commentaries.

4. The net securities commission income increased in line with the total value of transaction by about 30%. Together with the growth in net profit on proprietary trading and other income, the overall profitability of the industry in the third quarter of 2005 almost doubled that of the last quarter.
5. On the other hand, amounts receivable from margin clients stood at around HK\$17 bn and average collateral coverage slightly improved from 4.2 times to 4.4 times.
6. The increase in amounts receivable from and amounts payable to clients and other dealers were primarily in line with increased market turnover in September 2005 as compared to June 2005.

Business Performance of SEHK Participants

7. Table 2 summarizes the financial performance of each category of SEHK participants for the third quarter of 2005.

Table 2 – Financial Performance of SEHK Participants for the Third Quarter of 2005 – Breakdown in Different Categories (HK\$ mn)

	Category A*	Category B*	Category C*	All SEHK Participants
Total value of transactions	1,690,508	1,301,180	519,276	3,510,964
Total operating income	3,257	2,327	1,243	6,827
Overheads and interest expense	(2,109)	(1,528)	(824)	(4,461)
Net profit for the period	1,148	799	419	2,366

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

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

8. As indicated in Table 2, all categories of SEHK participants recorded strong turnover in the third quarter of 2005. Total value of transactions of all categories of SEHK participants increased by over one-third as compared with last quarter.
9. All categories of SEHK participants made net profits during the third quarter of 2005. The proportion of the net profits of each category of SEHK participants was broadly in line with their total value of transactions. ■