

Financial Review of the Securities Industry Intermediaries Supervision Department¹ May 2006

Summary

The securities industry performed strongly in the first quarter of 2006 with the following observations:

- *Turnover of the securities industry increased by 34% in the first quarter of 2006 as compared to the fourth quarter of 2005; and*
- *Overall profitability in the first quarter of 2006 more than doubled that of the previous quarter.*

Overview of the Securities Industry in the First Quarter of 2006

1. The Hong Kong securities market was very active in the first quarter of 2006. Turnover was boosted by strong market sentiment and positive economic outlook.
 2. The Hang Seng Index reached its four-year high of 15,950 in February-end 2006 and closed at 15,805 as at the end of the first quarter of 2006, which marked an increase of 6% from 14,876 as
 3. Table 1 summarizes the securities industry's statistical information and financial highlights for the first quarter of 2006.
- at the end of the fourth quarter of 2005. The average SEHK daily turnover increased sharply by 63% to HK\$31 billion during the first quarter of 2006 as compared to HK\$19 billion in the previous quarter.

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.

Table 1 – Statistical Information and Financial Position of the Hong Kong Securities Industry¹		
As at	31/03/2006	31/12/2005
Total number of securities dealers & securities margin financiers	641	647
Total number of active cash clients ²	678,360	625,775
Total number of active margin clients ²	70,435	72,290
Balance Sheet (HK\$ mn)		
Cash in hand and at bank ³	115,222	106,798
Amounts receivable from margin clients	14,918	14,639
Amounts receivable from clients and other dealers arising from dealing in securities	163,587	102,724
Proprietary positions	114,263	96,892
Other assets	91,178	118,124
Total assets (+14%)	499,168	439,177
Amounts payable to clients and other dealers arising from dealing in securities	226,457	155,237
Total borrowings from financial institutions	67,631	102,171
Short positions held for own account	49,722	34,480
Other liabilities	68,416	67,093
Total shareholders' fund ⁴ (+8%)	86,942	80,196
Total liabilities and shareholders' fund	499,168	439,177
	3 months to	3 months to
	31/03/2006	31/12/2005
Profit and loss (HK\$ mn)		
Total value of transactions ⁵ (+34%)	7,308,666	5,471,706
Net securities commission income (+44%)	7,128	4,957
Gross interest income	2,568	1,616
Other income ⁶	11,192	10,398
Net profit on proprietary trading	1,811	637
Total overheads and interest expense (+14%)	(16,963)	(14,865)
Net profit for the period (+109%)	5,736	2,743
Remarks:		
¹ 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 quarters' figures.		
² Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statement of accounts in respect of the relevant reporting month in accordance with Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.		
³ Cash in hand and at bank includes trust monies held on behalf of clients amounting to HK\$48,708 mn (31/12/2005: HK\$38,496 mn).		
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.		

4. As illustrated in Table 1, all income categories of the industry increased significantly in the first quarter of 2006 as compared to the fourth quarter of 2005, which was consistent with the 34% increase in total value of transactions. As a result,

the net profit of the industry more than doubled to HK\$5.7 billion in the first quarter of 2006.

5. On the other hand, amounts receivable from margin clients stood at around HK\$15 billion.

Business Performance of SEHK Participants

6. Table 2 summarizes the financial performance of each category of SEHK participants for the first quarter of 2006.

	Category A*		Category B*		Category C*		All SEHK Participants	
	Quarter 1 2006	Quarter 4 2005	Quarter 1 2006	Quarter 4 2005	Quarter 1 2006	Quarter 4 2005	Quarter 1 2006	Quarter 4 2005
Total value of transactions	2,236,754	1,630,506	2,196,071	1,357,759	663,528	428,707	5,096,353	3,416,972
Total operating income	4,481	3,229	3,667	2,448	1,570	1,260	9,718	6,937
Salary and staff benefits	(1,149)	(1,092)	(851)	(903)	(362)	(379)	(2,362)	(2,374)
Other overheads and interest expense	(1,429)	(1,591)	(1,563)	(1,018)	(576)	(759)	(3,568)	(3,368)
Net profit for the period	1,903	546	1,253	527	632	122	3,788	1,195

* 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

7. As indicated in Table 2, all categories of SEHK participants recorded strong growth in turnover ranging from 37% to 62% in the first quarter of 2006. With strong market momentum and active market activities, total value of transactions of all SEHK participants increased by nearly half as compared to the previous quarter.
8. In the first quarter of 2006, overall profitability of all categories of SEHK participants increased tremendously, mainly attributable to the increase in total operating income. The net profit of all SEHK participants in the first quarter of 2006 tripled that of the previous quarter. ■■