

Financial Review of the Securities Industry

Intermediaries Supervision Department¹

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Summary

SEHK turnover continued to increase in the first quarter of 2007 and the total profits of all SEHK participants recorded a 5% increase from 2006 Q4. Net profits of Category A and C brokers increased 71% and 27% respectively amid the 19% surge of SEHK turnover. While the turnover of Category B brokers has increased by 12%, their net profit fell as a result of drop in non-commission income and increased expenses.

Overview of the Securities Industry in the First Quarter of 2007

1. The Hong Kong stock market was very active in the first quarter of 2007. The average SEHK daily turnover of the first quarter of 2007 surged by 19% to HK\$53.4 billion as compared to the fourth quarter of 2006.
2. The Hang Seng Index closed at 19,801 at the end of March 2007, 0.8% below the closing index of the previous quarter.
3. Table 1 summarizes the securities industry's statistical information and financial highlights for the first quarter of 2007.

Table 1 – Statistical Information and Financial Position of the Hong Kong Securities Industry ¹		
As at	31/03/2007	31/12/2006
Total number of securities dealers & securities margin financiers	652	641
Total number of active cash clients ²	746,107	730,356
Total number of active margin clients ²	83,145	80,348
Balance Sheet (HK\$ mn)		
Cash in hand and at bank ³	154,896	150,573
Amounts receivable from margin clients ⁴	24,079	20,591
Amounts receivable from clients and other dealers arising from dealing in securities ⁵	289,313	160,604
Proprietary positions	91,734	114,788
Other assets	145,837	171,520
Total assets (+14%)	705,859	618,076
Amounts payable to clients and other dealers arising from dealing in securities	268,104	244,766
Total borrowings from financial institutions	192,042	118,484
Short positions held for own account	42,888	62,714
Other liabilities	85,796	85,196
Total shareholders' fund ⁶	117,029	106,916
Total liabilities and shareholders' fund	705,859	618,076
	3 months to 31/03/2007	3 months to 31/12/2006
Profit and loss (HK\$ mn)		
Total value of transactions ⁷ (+19%)	10,976,016	9,222,049
Net securities commission income (+3%)	9,494	9,173
Gross interest income (+10%)	3,454	3,150
Other income ⁸ (-22%)	15,430	19,734
Net profit on proprietary trading (+102%)	1,884	933
Total overheads and interest expense (-9%)	(21,704)	(23,899)
Net profit for the period (-6%)	8,558	9,091
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 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 \$54,011 mn (31/12/2006: \$65,463 mn).		
⁴ 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):		
	As at 31/03/2007	As at 31/12/2006
	5.2	5.2
⁵ Amounts receivable from clients and other dealers arising from dealing in securities increased by 80% in the first quarter of 2007 as compared to the previous quarter, which was mainly due to the significant increase in IPO financing activities.		
⁶ The value of shareholders' fund includes value of redeemable shares.		
⁷ Total value of transactions includes trading in equities and bonds both in Hong Kong and overseas.		
⁸ Other income mainly comprises intercompany management fee income, fund management income, corporate finance income and others.		

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. Total value of transactions of the industry increased by 19% in the first quarter of 2007 as compared to the previous quarter whereas the net profit of the industry slightly dropped by 6%, which was mainly due to the significant drop in other income.

Business Performance of SEHK Participants

5. Table 2 summarizes the financial performance of each category of SEHK participants for the first quarter of 2007.

Table 2 – Financial Performance of SEHK Participants for the First Quarter of 2007 – Breakdown in Different Categories (HK\$ mn)

	Category A*		Category B*		Category C*		All SEHK Participants	
	Quarter 1 2007	Quarter 4 2006	Quarter 1 2007	Quarter 4 2006	Quarter 1 2007	Quarter 4 2006	Quarter 1 2007	Quarter 4 2006
Total value of transactions	3,983,425	3,164,476	3,270,030	2,907,912	1,089,592	820,407	8,343,047	6,892,795
Total income	6,195	5,468	4,827	5,505	2,032	1,868	13,054	12,841
Salary and staff benefits	(1,358)	(1,368)	(1,179)	(1,440)	(455)	(446)	(2,992)	(3,254)
Other overheads and interest expense	(2,465)	(2,714)	(2,238)	(1,698)	(704)	(734)	(5,407)	(5,146)
Net profit for the period	2,372	1,386	1,410	2,367	873	688	4,655	4,441

* 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

6. Total transaction value of all categories of SEHK participants continued to record growth in the first quarter of 2007, with Category C brokers recording the highest rate of increase of 33%.
7. Category A and Category C brokers respectively recorded 71% and 27% increase in net profit as

compared to the last quarter. While Category B brokers' total transaction value increased by 12%, their overall net profit fell by 40% due to substantial drop in other income and increase in total expense. As a whole, the overall net profit of all SEHK participants increased 5% in the first quarter. ■