

Half-Yearly Financial Stability Report – the Securities Industry Intermediaries Supervision Department¹

February 2005

Summary

The Hong Kong stock market turnover continued its strong growth in the second half of 2004 on the back of positive news and events. Total profits of the securities industry for 2004 recorded 86% increase as compared to 2003.

Overview of the Securities Industry in the Second Half of 2004

1. The Hong Kong securities market maintained its momentum in the second half of 2004. Turnover was boosted by strong market sentiment, positive economic figures, improved consumer confidence, and market events such as concept stock fever.
2. Table 1 summarised the securities industry's statistical information and financial highlights for the second half of 2004.
3. The total value of transactions reported in the second half of 2004 is similar to that of the first half of 2004. Total expenses reported in the second half was higher than that of the first half as a result of year-end expenditure provisions such as staff related costs and management fees.
4. The overall profitability of the industry increased by 86% to HK\$13 bn in 2004 (HK\$ 7 bn in 2003). The industry's capital base remained strong with shareholders' fund stood at HK\$ 77 bn as at the end of 2004.

¹ This paper is for pure fact-finding and research purpose, and is not an attempt to comment on the developments of any markets/ companies or interpret the policies concerned. The views expressed in this paper do not represent those of the SFC.

Table 1 – Statistical Information and Financial Position of the Securities Industry		
As at	31/12/2004	30/06/2004
Total number of securities dealers & securities margin financiers	663	667
Total number of active cash clients ¹	609,281	666,621
Total number of active margin clients ¹	76,546	75,419
Balance Sheet (HK\$ mn)		
Cash in hand and at bank ²	110,176	99,811
Amounts receivable from margin clients ³	17,158	16,008
Amounts receivable from clients and other dealers arising from dealing in securities	65,357	77,496
Other assets	138,922	103,754
Total assets	331,613	297,069
Amounts payable to clients and other dealers arising from dealing in securities	124,739	124,815
Total borrowings from financial institutions	56,264	41,642
Other liabilities	73,620	56,505
Total shareholders' fund ⁴	76,990	74,107
Total liabilities and shareholders' fund	331,613	297,069
	6 months to	6 months to
	31/12/2004	30/6/2004
Profit and loss (HK\$ mn)		
Total value of transactions ⁵	8,084,027	8,536,063
Net securities commission income	8,269	9,956
Gross interest income	1,322	1,233
Other income ⁶	15,282	15,566
Total overheads and interest expense	(21,090)	(17,710)
Net profit for the period	3,783	9,045
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\$49,305 mn (30/6/2004: HK\$43,019 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 31/12/2004</u>	<u>As at 30/6/2004</u>
	4.6	4.3
⁴ The value of shareholder's fund includes value of redeemable shares.		
⁵ The 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, net profit/loss on proprietary trading, intercompany charges and others.		
Sources: Monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by securities dealers and securities margin financiers.		

Business Performance of SEHK Participants

5. The total value of transactions in the second half of 2004 continued the strong growth trend of the first half. The total value of transactions for the whole year of 2004 recorded a 60% increase

as compared to 2003. The overall profitability of SEHK participants for 2004 was 77% higher than 2003.

Table 2 – Financial Performance of SEHK Participants

	6 months ended 30/6/2003	6 months ended 31/12/2003	6 months ended 30/6/2004	6 months ended 31/12/2004
Total value of transactions (HK\$ bn)	1,976	3,938	4,763	4,680
Net securities commission income (HK\$ mn)	3,700	6,696	7,438	6,575
Net profit/(loss) from proprietary trading (HK\$ mn)	108	326	285	128
Net profit for the period (HK\$ mn)	607	3,377	4,997	2,057

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

6. Table 3 summarised the financial performance of each category of SEHK participants. Category B SEHK participants earned higher operating income in the second half of the year because of more fee income received. ■

Table 3 – Financial Performance of SEHK Participants – Breakdown in Different Categories (HK\$ mn)

	Category A*		Category B*		Category C*		All SEHK Participants	
	6 months ended 30/6/2004	6 months ended 31/12/2004	6 months ended 30/6/2004	6 months ended 31/12/2004	6 months ended 30/6/2004	6 months ended 31/12/2004	6 months ended 30/6/2004	6 months ended 31/12/2004
Total value of transactions	2,225,353	2,212,385	1,659,588	1,587,656	877,700	879,718	4,762,641	4,679,759
Total operating income	7,010	5,590	2,884	3,373	2,265	2,038	12,159	11,001
Total overheads and interest expense	(3,804)	(4,570)	(1,895)	(2,408)	(1,463)	(1,966)	(7,162)	(8,944)
Net profit for the period	3,206	1,020	989	965	802	72	4,997	2,057

* 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 and securities margin financiers.