

Financial Review of the Securities Industry

Intermediaries Supervision Department¹

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Summary

Total value of transactions and total income of the securities industry continued to increase in 2005, mainly in line with active market momentum. Nevertheless, growth in profitability of the industry slowed down due to increase in overheads.

Overview of the Securities Industry in 2005

1. The Hong Kong securities market continued to be strong in 2005. The Hang Seng Index reached its four-year high of 15,466 in mid-August 2005 and closed at 14,876 as at the end of 2005, which increased by 5% from 14,230 as at the end of 2004.
2. The average SEHK daily turnover surged by 16% to HK\$19 bn during 2005 as compared to 2004.
3. Table 1 summarizes the securities industry's statistical information and financial highlights for 2005.

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 Securities Industry		
As at	31/12/2005	31/12/2004
Total number of securities dealers & securities margin financiers	648	663
Total number of active cash clients ¹	625,775	609,281
Total number of active margin clients ¹	72,290	76,546
Balance Sheet (HK\$ mn)		
Cash in hand and at bank ²	121,357	110,176
Amounts receivable from margin clients ³	18,020	17,158
Amounts receivable from clients and other dealers arising from dealing in securities	103,898	65,357
Proprietary positions	98,231	77,777
Other assets	118,979	61,145
Total assets	460,485	331,613
Amounts payable to clients and other dealers arising from dealing in securities	174,145	124,739
Total borrowings from financial institutions	102,171	56,264
Short positions held for own account	34,480	26,552
Other liabilities	67,550	47,068
Total shareholders' fund ⁴	82,139	76,990
Total liabilities and shareholders' fund	460,485	331,613
	2005	2004
Profit and loss (HK\$ mn)		
Total value of transactions ⁵	20,381,984	16,620,090
Net securities commission income	19,324	18,225
Gross interest income	5,039	2,555
Net profit / (loss) on proprietary trading	1,689	1,494
Other income ⁶	33,531	29,354
Total overheads and interest expense	(48,009)	(38,800)
Net profit for the period	11,574	12,828
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\$52,434 mn (31/12/2004: HK\$49,305 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 31/12/2005</u> 4.3	<u>As at 31/12/2004</u> 4.6
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.		
Sources: Monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by securities dealers and securities margin financiers.		

4. As illustrated in Table 1, total income of the industry increased by 15% in 2005 as compared to that of 2004, which was largely consistent with increase in total value of transactions.

Business Performance of SEHK Participants

5. Table 2 summarizes the financial performance of each category of SEHK participants for 2005.

	Category A*		Category B*		Category C*		All SEHK Participants	
	2005	2004	2005	2004	2005	2004	2005	2004
Total value of transactions	5,913,965	4,437,738	4,670,937	3,247,244	1,743,146	1,757,418	12,328,048	9,442,400
Total operating income	11,187	12,600	8,586	6,257	4,909	4,303	24,682	23,160
Salary and staff benefits	(3,617)	(3,656)	(2,578)	(1,109)	(1,599)	(1,088)	(7,794)	(5,853)
Other overheads and interest expense	(4,888)	(4,718)	(3,823)	(3,063)	(2,561)	(2,341)	(11,272)	(10,122)
Net profit for the period	2,682	4,226	2,185	2,085	749	874	5,616	7,185

* 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. Despite significant increase in total value of transactions, the net profit of Category A brokers fell by 37% in 2005 as compared to 2004 due to substantial drop in management fee income.
7. Category B brokers benefited from tremendous growth in total value of transactions and total operating income. This more than compensated for the increase in operating costs, resulting in a 5% growth in net profit in 2005.
8. Category C brokers still reported total net profits of HK\$1.6 bn in the past two years despite the increase in staff-related expenses by 47%. ■