

Yearly Financial Review of the Securities Industry Intermediaries Supervision Department¹

February 2007

Summary

The securities industry experienced a year of robust growth in 2006 with Hang Seng Index and market turnover reached record high. Overall profitability of the industry increased significantly by 124% as compared to 2005.

Overview of the Securities Industry in 2006

1. The Hong Kong stock market experienced significant upsurge in 2006. The average SEHK daily turnover of 2006 soared by 85% to \$33.9 billion during 2006 as compared to 2005. Hang Seng Index, closing at 19,965 at the end of 2006, recorded a 34% increase compared to the level at the end of 2005.
2. Table 1 summarizes the securities industry's statistical information and financial highlights for the year of 2006.

| Table 1 – Statistical Information and Financial Position of the Hong Kong Securities Industry¹ | | |
|--|--------------------------------|--------------------------------|
| As at | 31/12/2006 | 31/12/2005 |
| Total number of securities dealers & securities margin financiers | 641 | 647 |
| Total number of active cash clients ² | 730,356 | 650,899 |
| Total number of active margin clients ² | 80,348 | 72,290 |
| Balance Sheet (HK\$ mn) | | |
| Cash in hand and at bank ³ | 150,573 | 106,798 |
| Amounts receivable from margin clients ⁴ | 20,591 | 14,639 |
| Amounts receivable from clients and other dealers arising from dealing in securities | 160,604 | 102,724 |
| Proprietary positions | 114,788 | 96,892 |
| Other assets | 171,520 | 118,124 |
| Total assets (+41%) | 618,076 | 439,177 |
| Amounts payable to clients and other dealers arising from dealing in securities | 244,766 | 155,237 |
| Total borrowings from financial institutions | 118,484 | 102,171 |
| Short positions held for own account | 62,714 | 34,480 |
| Other liabilities | 85,196 | 67,093 |
| Total shareholders' fund ⁵ (+33%) | 106,916 | 80,196 |
| Total liabilities and shareholders' fund | 618,076 | 439,177 |
| | 12 months to 31/12/2006 | 12 months to 31/12/2005 |
| Profit and loss (HK\$ mn) | | |
| Total value of transactions ⁶ (+51%) | 30,754,491 | 20,367,924 |
| Net securities commission income (+59%) | 29,456 | 18,531 |
| Gross interest income (+141%) | 10,903 | 4,526 |
| Other income ⁷ (+64%) | 53,784 | 32,811 |
| Net profit on proprietary trading (+65%) | 2,733 | 1,657 |
| Total overheads and interest expense (+55%) | (71,855) | (46,378) |
| Net profit for the period (+124%) | 25,021 | 11,147 |
| 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 \$65,463 mn (31/12/2005: \$38,496 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): | | |
| | <u>As at 31/12/2006</u> | <u>As at 31/12/2005</u> |
| | 5.2 | 4.8 |
| ⁵ The value of shareholders' fund includes value of redeemable shares. | | |
| ⁶ Total value of transactions includes trading in equities and bonds both in Hong Kong and overseas. | | |
| ⁷ 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.

3. As shown in Table 1, the Hong Kong securities industry experienced a year of robust growth in 2006 as a result of the booming trading activities. The total margin loan of the industry saw a 41% increase while the average collateral coverage has slightly improved in the year. The total number of active clients also recorded a 12% growth.
4. Total value of transactions of the industry increased by 51% in 2006, attributing to the rise in the net securities commission income of 59%. The net profit of the industry soared

substantially by 124%. The shareholders' fund of the industry increased by 33% during the year, which was mainly due to the increase in paid-up capital, retained profits and other reserves.

Business Performance of SEHK Participants

5. Table 2 summarizes the financial performance of each category of SEHK participants for the year of 2006.

| | Category A* | | Category B* | | Category C* | | All SEHK Participants | |
|--------------------------------------|-------------|-----------|-------------|-----------|-------------|-----------|-----------------------|------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Total value of transactions | 10,090,471 | 5,913,965 | 8,962,780 | 4,670,937 | 2,809,530 | 1,743,146 | 21,862,781 | 12,328,048 |
| Total income | 18,291 | 11,187 | 15,669 | 8,586 | 6,519 | 4,909 | 40,479 | 24,682 |
| Salary and staff benefits | (4,608) | (3,617) | (3,978) | (2,578) | (1,532) | (1,599) | (10,118) | (7,794) |
| Other overheads and interest expense | (7,813) | (4,888) | (6,003) | (3,823) | (2,446) | (2,561) | (16,262) | (11,272) |
| Net profit for the period | 5,870 | 2,682 | 5,688 | 2,185 | 2,541 | 749 | 14,099 | 5,616 |

* 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. As shown in Table 2, total transaction value of all categories of SEHK participants soared in the year of 2006, with the rate of increase ranging from 61% to 92%. The aggregate total value of transactions and aggregate total income of all SEHK participants recorded a 77% and 64% growth respectively as compared to the preceding year.
7. Accordingly, all categories of SEHK participants recorded a significant upswing in net profit in 2006. In particular, the net profit of Category C brokers was almost 3.4 times of the 2005 figure as a result of increase in total income. ■■