

Financial Review of the Securities Industry (for the half year ended 30 June 2009)

The first half of 2009 saw a 48% increase in total net profit for all securities dealers and securities margin financiers¹ compared to the preceding six months. The sharp increase in net profit was mainly attributed to increases in the net profit on proprietary trading and other income². The industry's total net profit for the period was \$6.6 billion, of which \$2.5 billion were attributable to Category A brokerages, \$2 billion to Category B and \$0.5 billion to Category C.

The Hang Seng Index closed at 18,378 at the end of June 2009, 28% higher than its close on 31 December 2008. The average daily turnover on The Stock Exchange of Hong Kong Ltd (SEHK) for the period was \$58 billion, up 2% from the preceding six months.

At the end of June 2009, total margin loans made by the industry reached \$25.8 billion, an increase of 50% from the end of 2008. Average collateral coverage improved from 4.4 times to 5.3 times during the period.

Total borrowings from financial institutions rose \$39 billion during the period, mainly due to increased margin financing activities for initial public offerings.

Table 1 below summarises statistical information and financial highlights relating to securities dealers and securities margin financiers. Table 2 summarises the financial performance of each of the categories of SEHK participants for the half year ended 30 June 2009.

Table 1 Statistical information and financial position of securities dealers and securities margin financiers^a		
	30/6/2009	31/12/2008
Total number of securities dealers & securities margin financiers	754	741
Total number of active cash clients ^b	916,942	918,750
Total number of active margin clients ^b	112,044	113,823
Balance sheet (\$ million)		
Cash in hand and at bank ^c	251,337	251,982
Amounts receivable from margin clients ^d	25,795	17,217
Amounts receivable from clients and other dealers arising from dealing in securities	212,622	86,369
Proprietary positions	117,387	94,003
Other assets	129,383	141,203
Total assets (+25%)	736,524	590,774

¹ "Securities dealers and securities margin financiers" refers to corporations licensed for dealing in securities or securities margin financing. These include both entities that are SEHK participants and those that are not.

² Other income mainly comprises inter-company management fee income, fund management income, corporate finance income and sundry income.



Table 1 Statistical information and financial position of securities dealers and securities margin financiers (cont'd)

	30/6/2009	31/12/2008
Balance sheet (\$ million) (Cont'd)		
Amounts payable to clients and other dealers arising from dealing in securities	295,109	211,565
Total borrowings from financial institutions	76,569	37,015
Short positions held for own account	20,427	11,186
Other liabilities	161,678	156,661
Total shareholders' funds ^e	182,741	174,347
Total liabilities and shareholders' funds (+25%)	736,524	590,774
	6 months to 30/6/2009	6 months to 31/12/2008
Profit and loss (\$ million)		
Total value of transactions ^f	20,921,095	22,719,272
Net securities commission income	14,596	17,714
Gross interest income	1,709	3,952
Other income ^g	29,288	21,083
Net profit on proprietary trading	7,055	2,129
Total income (+17%)	52,648	44,878
Total overheads and interest expense (+14%)	46,074	40,425
Net profit for the period (+48%)	6,574	4,453

Remarks:

- a Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded from the above figures.
- b 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 the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.
- c Cash in hand and at bank includes trust monies held on behalf of clients and totalled \$106,687 million (31/12/2008: \$89,932 million).
- d Average collateral coverage represents 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 30/6/2009</u>	<u>As at 31/12/2008</u>
5.3 times	4.4 times
- e The value of shareholders' funds includes the value of redeemable shares.
- f The total value of transactions represents the sum of turnover of each licensed corporation in equities, bonds and other securities in Hong Kong and overseas.
- g Other income mainly comprises inter-company management fee income, fund management income, corporate finance income and sundry income.

Sources: 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.



Table 2 Financial performance of each of the categories^a of SEHK participants for the half year ended 30 June 2009 (\$ million)

	Category A		Category B		Category C		All SEHK Participants	
	H1 2009	H2 2008	H1 2009	H2 2008	H1 2009	H2 2008	H1 2009	H2 2008
Total value of transactions ^b	9,311,176	9,425,103	5,235,857	5,883,036	2,669,524	2,235,077	17,216,557	17,543,216
Net securities commission income	7,054	9,689	3,556	3,736	1,705	1,575	12,315	15,000
Gross interest income	228	662	433	821	487	803	1,148	2,286
Other income	2,624	39	2,138	1,677	1,034	1,021	5,796	2,737
Net profit on proprietary trading	(300)	71	143	348	452	(103)	295	316
Total income	9,606	10,461	6,270	6,582	3,678	3,296	19,554	20,339
Total overheads and interest expense	(7,089)	(7,841)	(4,234)	(5,147)	(3,186)	(3,902)	(14,509)	(16,890)
Net profit for the period	2,517	2,620	2,036	1,435	492	(606)	5,045	3,449

Remarks:

- a. SEHK participants are classified into Categories A, B and C on the basis of their monthly turnover on the exchange. Category A SEHK participants refer to the top 14 brokers by market turnover, Category B SEHK participants refer to those ranked 15 to 65 and the remainders are grouped under Category C.
- b. The total value of transactions represents the sum of turnover of each SEHK participant in equities, bonds and other securities in Hong Kong and overseas.

Sources: Monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by SEHK Participants

Disclaimer: As the objective of this paper is to provide summary financial data for interested parties to use in benchmarking, research analysis or other purposes, observations made here should not be taken as definitive market commentaries.