

Financial Results of the Securities Industry¹

For the year of 2007

Summary

Overall profitability of the securities industry increased significantly in 2007, compared to 2006, on the back of a significant increase in the total value of transactions. Total net profit of all stock exchange participants in 2007 jumped 130% from 2006 to \$32.4 billion, with net profits of Category A, B and C brokers increasing by 123%, 129% and 149% respectively.

Business Performance of Stock Exchange Participants

1. The Hong Kong stock market was very active during 2007, with the average daily turnover of the stock exchange soaring by 160% to \$88.1 billion as compared to 2006.
2. The Hang Seng Index rose by 39% from 2006 to close at 27,813 at the end of 2007.
3. Table 1 summarises the financial performance of each category of SEHK participant for 2007.

**Table 1 – Financial Performance of SEHK Participants for the Year of 2007
By Category (HK\$ mn)**

	Category A*		Category B*		Category C*		All SEHK Participants	
	2007	2006	2007	2006	2007	2006	2007	2006
Total value of transactions	24,725,499	10,090,471	19,978,723	8,962,780	6,936,997	2,809,530	51,641,219	21,862,781
Total income	35,383	18,291	29,932	15,669	12,727	6,519	78,042	40,479
Salary and staff benefits	(6,252)	(4,608)	(5,783)	(3,978)	(2,286)	(1,532)	(14,321)	(10,118)
Other overheads and interest expense	(16,058)	(7,813)	(11,107)	(6,003)	(4,116)	(2,446)	(31,281)	(16,262)
Net profit for the period	13,073	5,870	13,042	5,688	6,325	2,541	32,440	14,099

* Category A, B and C SEHK participants are determined on a monthly basis based on their turnover on the SEHK. Category A SEHK participants refer to the top 14 brokers by market turnover, Category B SEHK participants refer to those ranked 15 - 65 and the remainder are grouped under Category C.

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

4. The total value of transactions for all categories of SEHK participants recorded significant growth of 136% in 2007.
5. Overall net profit of all SEHK participants increased by 130% to \$32.4 billion as compared to \$14.1 billion in 2006. The net profits of Category A, B and C brokers increased by 123%, 129% and 149% respectively to \$13.1 billion, \$13.0 billion and \$6.3 billion.

¹ The objective of this paper is to provide summary financial data so that those who are interested can use the data for benchmarking, research analysis or other purposes. Observations made in this paper should not be taken as definitive market commentaries.

Overview of Securities Dealers and Securities Margin Financiers²

6. Table 2 summarises statistical information and financial highlights relating to securities dealers and securities margin financiers for the year 2007.

Table 2 - Statistical Information and Financial Position of Securities Dealers and Securities Margin Financiers¹		
As at	31/12/2007	31/12/2006
Total number of securities dealers & securities margin financiers	691	641
Total number of active cash clients ²	924,131	730,356
Total number of active margin clients ²	110,043	80,348
Balance Sheet (HK\$ mn)		
Cash in hand and at bank ³	257,372	150,573
Amounts receivable from margin clients ⁴ (+103%)	41,765	20,591
Amounts receivable from clients and other dealers arising from dealing in securities	204,336	160,604
Proprietary positions	139,394	114,788
Other assets	205,965	171,520
Total assets (+37%)	848,832	618,076
Amounts payable to clients and other dealers arising from dealing in securities	333,904	244,766
Total borrowings from financial institutions	114,754	118,484
Short positions held for own account	50,909	62,714
Other liabilities	173,885	85,196
Total shareholders' fund ⁵	175,380	106,916
Total liabilities and shareholders' fund	848,832	618,076
	12 months to 31/12/2007	12 months to 31/12/2006
Profit and loss (HK\$ mn)		
Total value of transactions ⁶ (+110%)	64,704,725	30,754,491
Net securities commission income (+89%)	55,560	29,456
Gross interest income (+54%)	16,781	10,903
Other income ⁷ (+57%)	84,610	53,784
Net profit on proprietary trading (+285%)	10,523	2,733
Total overheads and interest expense (+43%)	(102,647)	(71,855)
Net profit for the period (+159%)	64,827	25,021
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 \$104,051 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):	
	<u>As at 31/12/2007</u>	<u>As at 31/12/2006</u>
	5.3	5.2
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.	

² Corporations licensed for dealing in securities or securities margin financing. These include entities that are exchange participants and those that are not.

7. Total value of transactions of all securities dealers and securities margin financiers increased by 110% in 2007 as compared to 2006. Total net profit increased by 159% to \$64.8 billion.
8. Amounts receivable from margin clients increased by 103% to \$41.8 billion as at the end of 2007 as compared to 2006, with the average collateral coverage slightly improved to 5.3 in 2007 from 5.2 in 2006.