

## Financial Review of the Securities Industry<sup>1</sup> For the year ended 31 December 2008

The market turnover on The Stock Exchange of Hong Kong Limited (SEHK) contracted by 18% in 2008 as compared to that in 2007. The average daily turnover in 2008 was \$72.1 billion versus that of \$88.1 billion in 2007.

At the end of 2008, the Hang Seng Index closed at 14,387 points, 48% lower than the preceding year's closing.

The overall net profit of all SEHK participants in 2008 fell to \$13.4 billion, a 59% drop from \$32.4 billion in 2007. The net profits of Category A, B and C brokers were \$8.25 billion, \$4.95 billion and \$0.16 billion respectively. The decrease in net profit of SEHK participants was mainly attributable to lower commission income and fee income.

As at the end of December 2008, the amount of margin loans stood at \$17.2 billion, representing a decrease of 59% from the end of 2007. Average collateral coverage decreased as well, from 5.3 times as at the end of 2007 to 4.4 times as at the end of December 2008.

Table 1 below summarises the statistical information and financial highlights relating to securities dealers and securities margin financiers<sup>2</sup>; and Table 2 summarises the financial performance of each category of SEHK participants for the year ended 31 December 2008.

**Table 1 — Statistical Information and Financial Position of Securities Dealers and Securities Margin Financiers<sup>a</sup>**

As at	31/12/2008	31/12/2007
Total number of securities dealers & securities margin financiers	741	691
Total number of active cash clients <sup>b</sup>	918,750	924,131
Total number of active margin clients <sup>b</sup>	113,823	110,043
<b>Balance Sheet (\$ mn)</b>		
Cash in hand and at bank <sup>c</sup>	251,982	257,372
Amounts receivable from margin clients <sup>d</sup> (-59%)	17,217	41,765
Amounts receivable from clients and other dealers arising from dealing in securities	86,369	204,336
Proprietary positions	94,003	139,394
Other assets	141,203	205,965
<b>Total assets (-30%)</b>	<b>590,774</b>	<b>848,832</b>

<sup>1</sup> The objective of this paper is to provide summary financial data for purposes of benchmarking, research analysis or other purposes. Observations made in this paper should not be taken as definitive market commentaries.

<sup>2</sup> Securities margin financiers are corporations licensed for providing securities margin finance to margin clients.



**Table 1 – Statistical Information and Financial Position of Securities Dealers and Securities Margin Financiers (Cont'd)**

As at	31/12/2008	31/12/2007
<b>Balance Sheet (\$ mn) (Cont'd)</b>		
Amounts payable to clients and other dealers arising from dealing in securities	211,565	333,904
Total borrowings from financial institutions	37,015	114,754
Short positions held for own account	11,186	50,909
Other liabilities	156,661	173,885
Total shareholders' funds <sup>e</sup>	174,347	175,380
<b>Total liabilities and shareholders' funds (-30%)</b>	<b>590,774</b>	<b>848,832</b>
	<b>2008</b>	<b>2007</b>
<b>Profit and Loss (\$ mn)</b>		
Total value of transactions <sup>f</sup> (-17%)	53,923,632	64,704,725
Net securities commission income (-28%)	40,120	55,560
Gross interest income (-43%)	9,586	16,781
Other income <sup>g</sup> (-30%)	59,188	84,610
Net profit on proprietary trading (-44%)	5,860	10,523
Total overheads and interest expense (-15%)	87,707	102,647
<b>Net profit for the period (-58%)</b>	<b>27,047</b>	<b>64,827</b>
Remarks:		
a 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 carrying out its principal business activities outside Hong Kong and operating in Hong Kong as a branch office were excluded from these computations.		
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 amounting to \$89,932 mn (31/12/2007: \$104,051 mn).		
d 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 31/12/2008</u>	<u>As at 31/12/2007</u>
	4.4	5.3
e The value of shareholders' funds includes value of redeemable shares.		
f Total value of transactions includes trading in equities, bonds and other securities both in Hong Kong and overseas.		
g Other income mainly comprises inter-company management fee income, fund management income, corporate finance income and others.		



**Table 2 – Financial Performance of SEHK Participants for the Year Ended 31 December 2008  
By Category (\$ mn)**

	Category A*		Category B*		Category C*		All SEHK Participants	
	2008	2007	2008	2007	2008	2007	2008	2007
Total income	26,649	35,383	19,098	29,932	7,677	12,727	53,424	78,042
Salary and staff benefits	(5,155)	(6,252)	(5,006)	(5,783)	(3,082)	(2,286)	(13,243)	(14,321)
Other overheads and interest expense	(13,242)	(16,058)	(9,138)	(11,107)	(4,431)	(4,116)	(26,811)	(31,281)
Net profit for the period	8,252	13,073	4,954	13,042	164	6,325	13,370	32,440

\* SEHK participants are classified by their monthly turnover on the SEHK as follows: Category A represents the top 14 brokers by market turnover; Category B represents brokers ranked 15<sup>th</sup> – 65<sup>th</sup>; and Category C represents the remaining brokers.

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