

## Financial Review of the Securities Industry (for the half year ended 30 June 2010)

The total net profit for all securities dealers and securities margin financiers<sup>1</sup> for the first half of 2010 amounted to \$11.8 billion, 21% lower than the preceding six months. The drop in net profit was mainly attributable to decrease in securities commission income. For the period, Category A brokerages reported a net profit of \$2.6 billion; Category B brokerages, \$1.3 billion; and Category C brokerages, \$0.6 billion.

The Hang Seng Index closed at 20,129 at the end of June 2010, 8% lower than its close on 31 December 2009. During the reporting period, the average daily turnover on The Stock Exchange of Hong Kong Ltd (SEHK) amounted to \$64 billion, down 3% from the preceding six months.

At the end of June 2010, the total outstanding margin loan was \$45.4 billion, up 13% from the end of 2009. The average collateral coverage was 4.3 times.

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 three categories of SEHK participants for the first half year of 2010.

<b>Table 1 Statistical information and financial position of securities dealers and securities margin financiers<sup>a</sup></b>		
	<b>30/6/2010</b>	<b>31/12/2009</b>
Total number of securities dealers & securities margin financiers	788	769
Total number of active cash clients <sup>b</sup>	992,553	957,651
Total number of active margin clients <sup>b</sup>	125,205	138,772
<b>Balance sheet (\$ mn)</b>		
Cash in hand and at bank <sup>c</sup>	275,188	276,962
Amounts receivable from margin clients <sup>d</sup>	45,428	40,160
Amounts receivable from clients and other dealers arising from dealing in securities	162,830	120,754
Proprietary positions	127,110	143,467
Other assets	142,919	137,182
<b>Total assets (+5%)</b>	<b>753,475</b>	<b>718,525</b>

<sup>1</sup> "Securities dealers and securities margin financiers" refers to corporations licensed for dealing in securities or securities margin financing. These include entities that are SEHK participants as well as those that are not.



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

	<b>30/6/2010</b>	<b>31/12/2009</b>
<b>Balance sheet (\$ mn) (Cont'd)</b>		
Amounts payable to clients and other dealers arising from dealing in securities	293,843	263,372
Total borrowings from financial institutions	69,038	48,572
Short positions held for own account	80,909	36,891
Other liabilities	115,487	177,965
Total shareholders' funds	194,198	191,725
<b>Total liabilities and shareholders' funds (+5%)</b>	<b>753,475</b>	<b>718,525</b>
	<b>6 months to 30/6/2010</b>	<b>6 months to 31/12/2009</b>
<b>Profit and loss (\$ mn)</b>		
Total value of transactions <sup>e</sup>	24,376,476	25,949,666
Net securities commission income	14,759	17,206
Gross interest income	2,394	2,292
Other income <sup>f</sup>	34,005	35,113
Net profit on proprietary trading	5,862	5,298
<b>Total income (-5%)</b>	<b>57,020</b>	<b>59,909</b>
Total overheads and interest expense (+0.6%)	45,213	44,952
<b>Net profit for the period (-21%)</b>	<b>11,807</b>	<b>14,957</b>
Remarks:		
a Excluded were 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.		
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. It totalled \$114,164 million as of 30/6/2010 (31/12/2009: \$114,352 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 30/6/2010</u>	<u>As at 31/12/2009</u>
	4.3 times	5.2 times
e The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.		
f Other income comprises inter-company management fee income, fund management income, corporate finance income and others.		
Sources: Monthly Financial Returns submitted to the Securities and Futures Commission (SFC) by corporations licensed for dealing in securities or securities margin financing in accordance with the Securities and Futures (Financial Resources) Rules.		



**Table 2 Financial performance of each of the three categories<sup>a</sup> of SEHK participants for the half year ended 30 June 2010 (\$ mn)**

	Category A		Category B		Category C		All SEHK Participants	
	H1 2010	H2 2009	H1 2010	H2 2009	H1 2010	H2 2009	H1 2010	H2 2009
Total value of transactions <sup>b</sup>	10,227,628	10,722,098	5,769,166	6,576,376	2,363,891	3,114,494	18,360,685	20,412,968
Net securities commission income	6,865	7,609	3,634	4,442	2,173	2,618	12,672	14,669
Gross interest income	304	220	778	809	750	649	1,832	1,678
Other income	3,936	4,706	2,408	3,412	1,474	1,632	7,818	9,750
Net profit on proprietary trading	1	(74)	177	171	112	488	290	585
<b>Total income</b>	<b>11,106</b>	<b>12,461</b>	<b>6,997</b>	<b>8,834</b>	<b>4,509</b>	<b>5,387</b>	<b>22,612</b>	<b>26,682</b>
Total overheads and interest expense	(8,462)	(8,250)	(5,659)	(6,237)	(3,919)	(3,991)	(18,040)	(18,478)
<b>Net profit for the period</b>	<b>2,644</b>	<b>4,211</b>	<b>1,338</b>	<b>2,597</b>	<b>590</b>	<b>1,396</b>	<b>4,572</b>	<b>8,204</b>

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 refers to brokerages that ranked 15 to 65 and the remainder is grouped under Category C.

b. The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

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

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.