

Half-Yearly Financial Review of the Securities Industry Intermediaries Supervision Department¹ August 2006

Summary

The securities industry remained buoyant in the first half of 2006 with the following observations:

- *Market capitalization and market turnover reached record high; and*
- *Overall profitability of securities dealers doubled that of the second half last year.*

Overview of the Securities Industry in the First Half of 2006

1. Upward momentum of Hong Kong stock market continued in the first half of 2006, with market capitalization exceeding \$10,000 billion in May 2006.
2. Market turnover reached record high. The average SEHK daily turnover was sharply boosted by 65% to \$32.6 billion in the first half of 2006 as compared to \$19.7 billion in the second half of 2005.
3. Table 1 summarizes the securities industry's statistical information and financial highlights for the first half of 2006.

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.

Table 1 – Statistical Information and Financial Position of the Hong Kong Securities Industry¹		
As at	30/06/2006	31/12/2005
Total number of securities dealers & securities margin financiers	640	647
Total number of active cash clients ²	688,256	650,899
Total number of active margin clients ²	77,819	72,290
Balance Sheet (HK\$ mn)		
Cash in hand and at bank ³	120,483	106,798
Amounts receivable from margin clients	17,637	14,639
Amounts receivable from clients and other dealers arising from dealing in securities	165,822	102,724
Proprietary positions	94,807	96,892
Other assets	142,675	118,124
Total assets (+23%)	541,424	439,177
Amounts payable to clients and other dealers arising from dealing in securities	228,901	155,237
Total borrowings from financial institutions	95,965	102,171
Short positions held for own account	46,737	34,480
Other liabilities	77,051	67,093
Total shareholders' fund ⁴ (+16%)	92,770	80,196
Total liabilities and shareholders' fund	541,424	439,177
	6 months to	6 months to
	30/06/2006	31/12/2005
Profit and loss (HK\$ mn)		
Total value of transactions ⁵ (+33%)	14,987,422	11,258,602
Net securities commission income (+43%)	14,632	10,262
Gross interest income (+87%)	5,156	2,764
Other income ⁶ (+23%)	23,226	18,924
Net profit on proprietary trading	1,595	1,502
Total overheads and interest expense (+21%)	(32,263)	(26,624)
Net profit for the period (+81%)	12,346	6,828
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 \$49,283 mn (31/12/2005: \$38,496 mn).		
⁴ The value of shareholder's fund includes value of redeemable shares.		
⁵ Total value of transactions includes trading in equities and bonds both in Hong Kong and overseas.		
⁶ Other income mainly comprises corporate finance income, fund management income, intercompany charges and others.		

4. As illustrated in Table 1, the net profit of the industry in the first half of 2006 almost doubled to \$12.3 billion as compared to the second half of 2005. This considerable growth in net profit was mainly attributable to the substantial increase in all categories of income, which was principally due to the upsurge in trading activities.

Business Performance of SEHK Participants

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

Table 2 – Financial Performance of SEHK Participants for the First Half of 2006 – Breakdown in Different Categories (HK\$ mn)								
	Category A*		Category B*		Category C*		All SEHK Participants	
	6 months ended 30/6/2006	6 months ended 31/12/2005	6 months ended 30/6/2006	6 months ended 31/12/2005	6 months ended 30/6/2006	6 months ended 31/12/2005	6 months ended 30/6/2006	6 months ended 31/12/2005
Total value of transactions	4,794,267	3,321,015	4,306,048	2,658,939	1,347,604	947,982	10,447,919	6,927,936
Total income	9,256	6,486	7,060	4,775	3,246	2,503	19,562	13,764
Salary and staff benefits	(2,381)	(2,151)	(1,642)	(1,505)	(707)	(715)	(4,730)	(4,371)
Other overheads and interest expense	(3,219)	(2,641)	(3,064)	(1,944)	(1,163)	(1,248)	(7,446)	(5,833)
Net profit for the period	3,656	1,694	2,354	1,326	1,376	540	7,386	3,560

* 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. Remarkable upswings in the transaction value of each category of SEHK participants, ranging from 42% to 62%, were noted in the first half of 2006. The aggregate income of SEHK participants recorded a 42% growth as compared to the second half of 2005.
7. All categories of SEHK participants recorded a significant growth in net profit in the first half of 2006. The overall profitability of all SEHK participants for the first half of 2006 doubled that of the preceding 6 months. In particular, the aggregate profit of Category C brokers for the first half of 2006 was 2.5 times of that of the second half of 2005. 