## **Quarterly Financial Review of the Securities Industry Intermediaries Supervision Department**<sup>1</sup> November 2006

## **Summary**

Overall profitability of the securities industry reduced in the third quarter of 2006 as compared to the preceding quarter primarily due to shrinkage in market turnover.

## **Overview of the Securities Industry in** the Third Quarter of 2006

- 1. Market turnover slowed down in the third quarter of 2006 as compared to the preceding 3 months. The average SEHK daily turnover shrank by 23% to \$26.3 billion in the third quarter of 2006 from \$34.1 billion in the second quarter of 2006.
- 2. Table 1 summarizes the securities industry's statistical information and financial highlights for the third quarter of 2006.

Table 1 – Statistical Information and Financial Position of the Hong Kong Securities Industry <sup>1</sup>								
As at	30/09/2006	30/06/2006						
Total number of securities dealers & securities margin financiers Total number of active cash clients <sup>2</sup> Total number of active margin clients <sup>2</sup>	641 685,539 83,480	640 688,256 77,819						
Balance Sheet (HK\$ mn) Cash in hand and at bank <sup>3</sup> Amounts receivable from margin clients Amounts receivable from clients and other dealers arising from dealing in securities (+27%) Proprietary positions Other assets Total assets (+9%)	125,192 17,087 210,958 90,067 147,695 <b>590,999</b>	120,483 17,637 165,822 94,807 142,675 <b>541,424</b>						
Amounts payable to clients and other dealers arising from dealing in securities Total borrowings from financial institutions (+53%) Short positions held for own account Other liabilities Total shareholders' fund <sup>4</sup> (+3%) <b>Total liabilities and shareholders' fund</b>	232,217 146,488 41,325 75,527 95,442 <b>590,999</b>	228,901 95,965 46,737 77,051 92,770 <b>541,424</b>						
	3 months to 30/09/2006	3 months to 30/06/2006						
Profit and loss (HK\$ mn) Total value of transactions <sup>5</sup> (-15%) Net securities commission income (-25%) Gross interest income Other income <sup>6</sup> (-10%) Net profit/ (loss) on proprietary trading Total overheads and interest expense (+3%) Net profit for the period (-46%)	6,545,020 5,650 2,597 10,823 205 (15,692) <b>3,583</b>	7,678,756 7,505 2,588 12,034 (217) (15,300) <b>6,610</b>						

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.

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 the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

Cash in hand and at bank includes trust monies held on behalf of clients amounting to \$53,048 mn (30/06/2006: \$49,283 mn).

The value of shareholders' fund includes value of redeemable shares.

Total value of transactions includes trading in equities and bonds both in Hong Kong and overseas. Other income mainly comprises corporate finance income, fund management income, intercompany charges and others.

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 2 – Financial Performance of SEHK Participants for the Third Quarter of 2006– Breakdown by Different Categories (HK\$ mn)

	Category A*		Category B*		Category C*		All SEHK Participants	
	3 months	3 months	3 months	3 months	3 months	3 months	3 months	3 months
	ended	ended	ended	ended	ended	ended	ended	ended
	30/9/2006	30/6/2006	30/9/2006	30/6/2006	30/9/2006	30/6/2006	30/9/2006	30/6/2006
Total value of transactions	2,131,729	2,557,513	1,748,819	2,109,977	641,519	684,075	4,522,067	5,351,565
Total income	3,567	4,775	3,105	3,393	1,405	1,675	8,077	9,843
Salary and staff benefits	(859)	(1,232)	(896)	(791)	(379)	(345)	(2,134)	(2,368)
Other overheads and interest expense	(1,879)	(1,790)	(1,242)	(1,500)	(549)	(587)	(3,670)	(3,877)
Net profit for the period	829	1,753	967	1,102	477	743	2,273	3,598