

Financial Review of the Securities Industry

Overview of the Securities Industry

1. Benefiting from the economic upturn since the second half of 2003, the Hong Kong stock market has grown from strength to strength as illustrated by the table below:-

Hong Kong Stock Market Highlights					
	9 months ended 30 Sep 2005	End 2004	End 2003	% change in first 9 months of 2005 over	
				2004	2003
Hang Seng Index	15,429	14,230	12,576	+8%	+23%
Average daily turnover (\$ billion)*	18.21	15.96	10.42	+14%	+75%
Number of listed companies *	1,109	1,096	1,037	+1%	+7%
Market capitalization (\$ billion) *	7,616	6,696	5,478	+14%	+39%

Source: HKEx

* Including Mainboard and Growth Enterprise Market figures

Financial Performance of All SEHK Participants¹

Financial Performance of All SEHK Participants			
	9 months ended 30 Sep 2005	2004 Full Year	2003 Full Year
Turnover (\$ billion)	3,387	3,994	2,598
Total operating income (\$ billion)	17.75	23.16	16.22
Total overheads and interest expense (\$ billion)	(13.32)	(16.11)	(12.24)
Net profit for the period (\$ billion)	4.42	7.05	3.98

Source: Monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by licensed corporations which are SEHK participants

2. Following the strong recovery of Hong Kong economy, the market turnover soared by 54% from \$2,598 billion in 2003 to \$3,994 billion in 2004. This upward trend of turnover remained and the total turnover for the first nine months of 2005 reached \$3,387 billion.
3. As a result of the strong turnover, the profitability of all SEHK participants increased sharply by 77% from \$3.98 billion in 2003 to \$7.05 billion in 2004. Despite the market uncertainties such as interest rate hikes, inflation and oil prices in 2005, the SEHK participants still recorded aggregate net profits of \$4.42 billion for the first nine months in 2005.

¹ A SEHK Participant is a corporation which may trade on or through the Stock Exchange of Hong Kong and is licensed under the Securities and Futures Ordinance to carry on securities dealing activity.

Financial Performance of Category C² SEHK Participants

Financial Performance of Category C SEHK Participants			
	9 months ended 30 Sep 2005	2004 Full Year	2003 Full Year
Turnover (\$ billion)	464	651	477
Total operating income (\$ billion)	3.65	4.3	3.69
Total overheads and interest expense (\$ billion)	(3.02)	(3.43)	(3.31)
Net profit for the period (\$ billion)	0.627	0.874	0.383

Source: Monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by licensed corporations which are SEHK participants

- Category C SEHK Participants benefited from the improved market sentiment, which was reflected from the significant growth of their total turnover by 36% from \$477 billion in 2003 to \$651 billion in 2004. The trend continued in the first nine months of 2005, during which Category C SEHK Participants generated a total turnover of \$464 billion.
- Based on the monthly financial returns submitted by SEHK Participants, the profitability of Category C SEHK Participants has also improved since 2003. Category C SEHK Participants recorded a 128% increase in net profit in 2004 as compared with 2003. In the first nine months of 2005, they recorded a total net profit of \$0.627 billion.
- Statistics of Category C SEHK Participants from 2001 to September 2005 and their market share in recent years are at Annexes 1 and 2 respectively.

Securities and Futures Commission
October 2005

² According to the HKEx, the first 14 SEHK Participants with the highest volume of turnover are categorized as Category A, the subsequent 15 to 65 as Category B, and the rest Category C.

Statistics of Category C SEHK Participants from 1 January 2001 to 30 September 2005

	9 months ended 30 Sept 2005	2004 Full Year	2003 Full Year	2002 Full Year	2001 Full Year
Total Turnover¹ (\$billion)	464	651	477	318	472
Total income² (\$billion)	3.650	4.303	3.691	2.536	3.911
Total expenses³ (\$billion)	3.023	3.429	3.308	3.042	4.073
Net profit or loss⁴ (\$billion)	0.627	0.874	0.383	(0.506)	(0.162)
No. of Category C brokers at the end of period	366	380	384	416	430
No. of licensed representatives at the end of period	4,701	4,464	4,445	4,768	6,368
Average no. of licensed representatives per firm	13	12	12	11	15

(Source: SEHK Participants Statistics and monthly financial returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by licensed corporations which are SEHK participants)

¹ Turnover of SEHK Participants that had paid Transaction Levy, Investor Compensation Levy and Trading Fee to the Stock Exchange of Hong Kong.

² The sum of net commission income arising from securities dealing, proprietary trading profit and loss, interest income and other income.

³ The sum of all overheads and interest expenses.

⁴ Total income after total expenses.

Market Share^{note} of Category A, B & C SEHK Participants

Year	Market Share (%)		
	Cat. A	Cat. B	Cat. C
1995	40.03	30.20	25.77
1996	31.64	33.37	34.99
1997	31.79	31.98	36.23
1998	39.27	30.84	29.89
1999	27.94	32.29	39.77
2000	41.53	31.60	26.87
2001	47.04	30.04	22.92
2002	49.29	33.30	17.41
2003	45.88	34.23	19.89
2004	49.48	33.04	17.48
2005 (as of end September)	52.38	34.45	13.17

(Source: Hong Kong Exchanges and Clearing Limited)

^{note} 1. Month-end or year-end figures.

2. The table, which is subject to adjustment, includes all SEHK participants who had paid transaction levy and trading fee to the Stock Exchange of Hong Kong.