

MEMBERS TRANSACTION SURVEY 1996

[FOR PUBLICATION]

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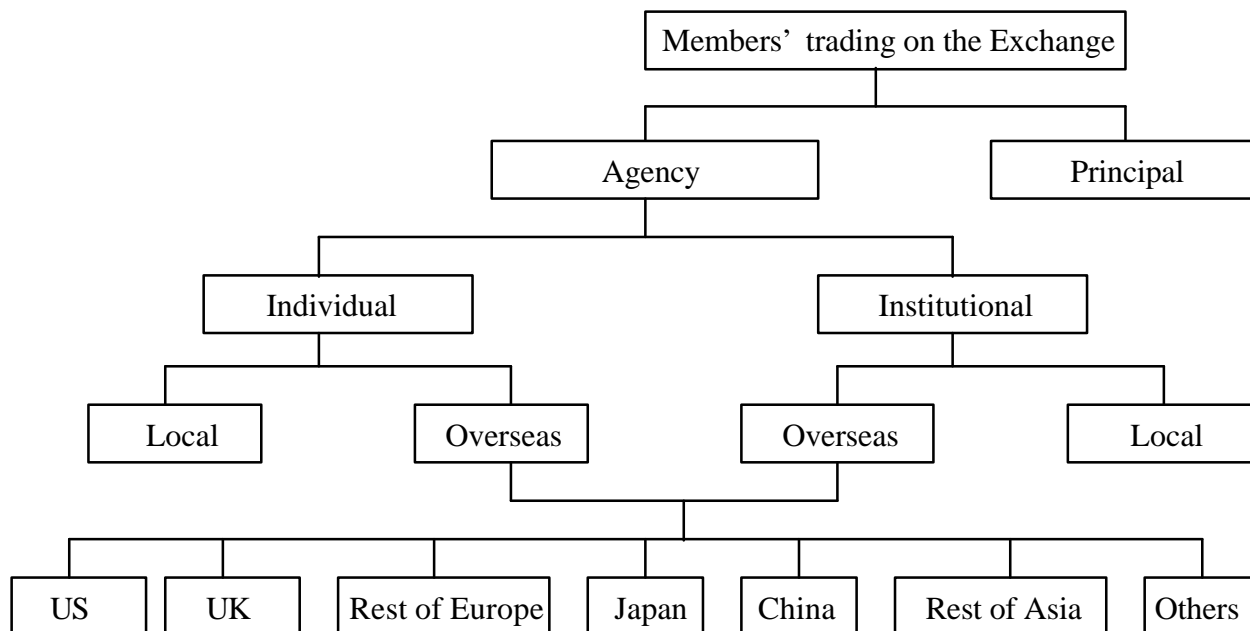
1. INTRODUCTION

The Exchange has conducted the Members Transaction Survey annually since 1991 to ascertain the composition of members' trading. The types of members' trading were classified as in Figure 1.

The 1996 Members Transaction Survey covered members' transactions from *October 1995 to September 1996*. Questionnaires were mailed to all members contributing the top and second one-third of total market turnover value (100% response rate); and a randomly selected sample comprising 60% of those members contributing the bottom one-third of total market turnover value (98% response rate). The overall response represented 86% in turnover value and 64% of the members.

The Survey results indicated that local investors, including individuals and institutions, were significant participants in the market, contributing 60% of total market trading in value terms. Overseas participation (mainly from institutions) increased from about 25% of total market turnover in 1991 to 32% in 1996. The major origins of overseas participation were the UK (32% of overseas participation) and the US (30%). Principal trading also increased over the years, and in 1996 the percentage contribution was 8% of the total.

Figure 1. Classification of Members' trading on the Exchange



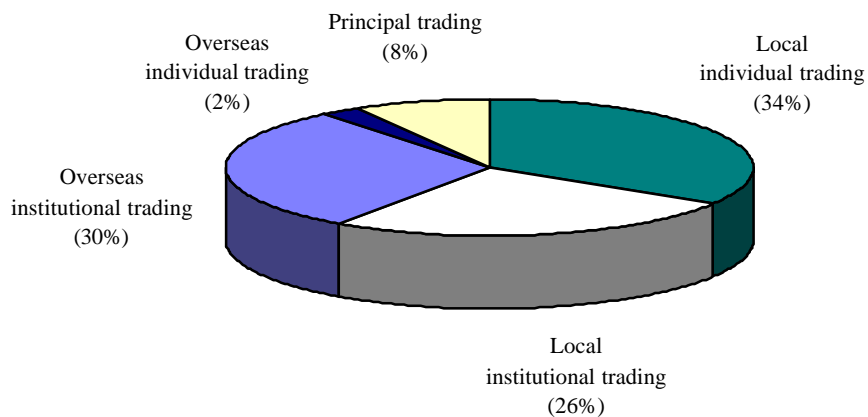
2. MAIN FINDINGS OF 1996 SURVEY

The findings were obtained by weighting each member's response by that member's turnover value.

2.1 Distribution of trading by type of trade (Figure 2)

- Local agency trading continued to be the largest component of total market turnover (60%).
- The contribution of institutional trading was much larger than that of individual trading (56% vs 36%).
- 32% of the market turnover originated overseas.
- The contribution of principal trading was 8% of the market turnover.

Figure 2. Distribution of trading by type of trade



2.2 Members' business composition by type of trade (Table 1)

We classified members into Group I, II and III by their turnover, each contributing the top, middle and bottom one-third of total market turnover value. The respondents consisted of 10 member firms in Group I, 42 in Group II and 241 in Group III. Comparison was made to see if there were significant differences in turnover composition between groups.

- Principal trading contributed 16% of the business of Group I members, substantially higher than the 5% in 1995, while for Group III members principal trading declined to 2% (1995: 3%).
- Agency trading was still the core business for members of all groups (84% or more of total turnover value for each group).
- Overseas clients accounted for 54% of the business of Group I members. The proportion was lower for Group II members (31%) and lower still for Group III members (11%).
- Institutional trading was the main business for Group I members (78%) and Group II members (63%). But Group III members' major clients were individuals (contributing 73% of their business).

Table 1. Business composition of different member groups by type of trade

Type of trade	Group I Members		Group II Members		Group III Members	
	%		%		%	
	1995	1996	1995	1996	1995	1996
Principal trading	5.07	16.36	4.80	7.83	3.39	1.56
Overseas individual trading	0.68	0.79	3.15	3.75	2.45	2.38
Overseas institutional trading	45.88	53.29	34.14	27.54	4.44	8.97
Local institutional trading	46.34	24.91	34.67	35.92	17.75	16.79
Local individual trading	2.03	4.65	23.24	24.96	71.97	70.30
All trading	100.00	100.00	100.00	100.00	100.00	100.00

2.3 Distribution of market share in different types of trade by member group (Table 2)

- Group I members captured about half of the institutional trading (45%) while Group III members captured 68% of the individual trading.
- Group III members alone captured 70% of the local individual trading while Group I members had only a small share (4%).
- Group I and Group II members together captured the bulk of overseas agency trading (88%), and almost all the principal trading (94%).

Table 2. Distribution of market share in different types of trade by member group

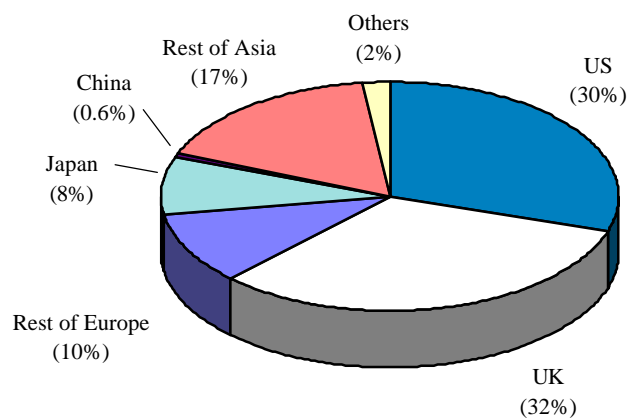
	Group I Members		Group II Members		Group III Members		All Members
	%		%		%		%
	1995	1996	1995	1996	1995	1996	1995 & 1996
All Trading	33.43	31.84	33.40	34.49	33.17	33.67	100.00
Agency	33.20	29.09	32.05	34.72	34.75	36.20	100.00
Principal	38.46	61.76	35.08	32.01	26.46	6.23	100.00
Agency Trading	33.20	29.09	32.05	34.72	34.75	36.20	100.00
Individual	2.58	4.80	24.28	27.43	73.14	67.77	100.00
Institutional	50.87	44.90	36.54	39.46	12.59	15.64	100.00
Agency Trading	33.20	29.09	32.05	34.72	34.75	36.20	100.00
Local	24.82	15.76	28.51	35.15	46.67	49.09	100.00
Overseas	52.15	54.09	40.01	33.90	7.84	12.01	100.00
Individual Trading	2.58	4.80	24.28	27.43	73.14	67.77	100.00
Local	2.08	4.39	22.99	25.50	74.93	70.11	100.00
Overseas	10.93	10.78	48.97	55.10	40.10	34.12	100.00
Institutional Trading	50.87	44.90	36.54	39.46	12.59	15.64	100.00
Local	47.51	30.54	34.01	47.70	18.48	21.77	100.00
Overseas	55.23	57.54	39.34	32.21	5.44	10.25	100.00

2.4 Distribution of overseas agency trading by origin (Figure 3)

Overseas agency trading contributed 32% of total market turnover value.

- The UK and the US remained as the two major sources of overseas orders, having comparable contribution to the total overseas agency trading (32% and 30% respectively). Together with Japan (8%), they accounted for 70% of overseas agency trading.
- China, the source newly identified in this year's survey, only accounted for 0.6% of overseas agency trading.

Figure 3. Distribution of overseas agency trading by origin



3. COMPARISON WITH PAST SURVEYS' FINDINGS (FIGURE 4, TABLES 1 & 2)

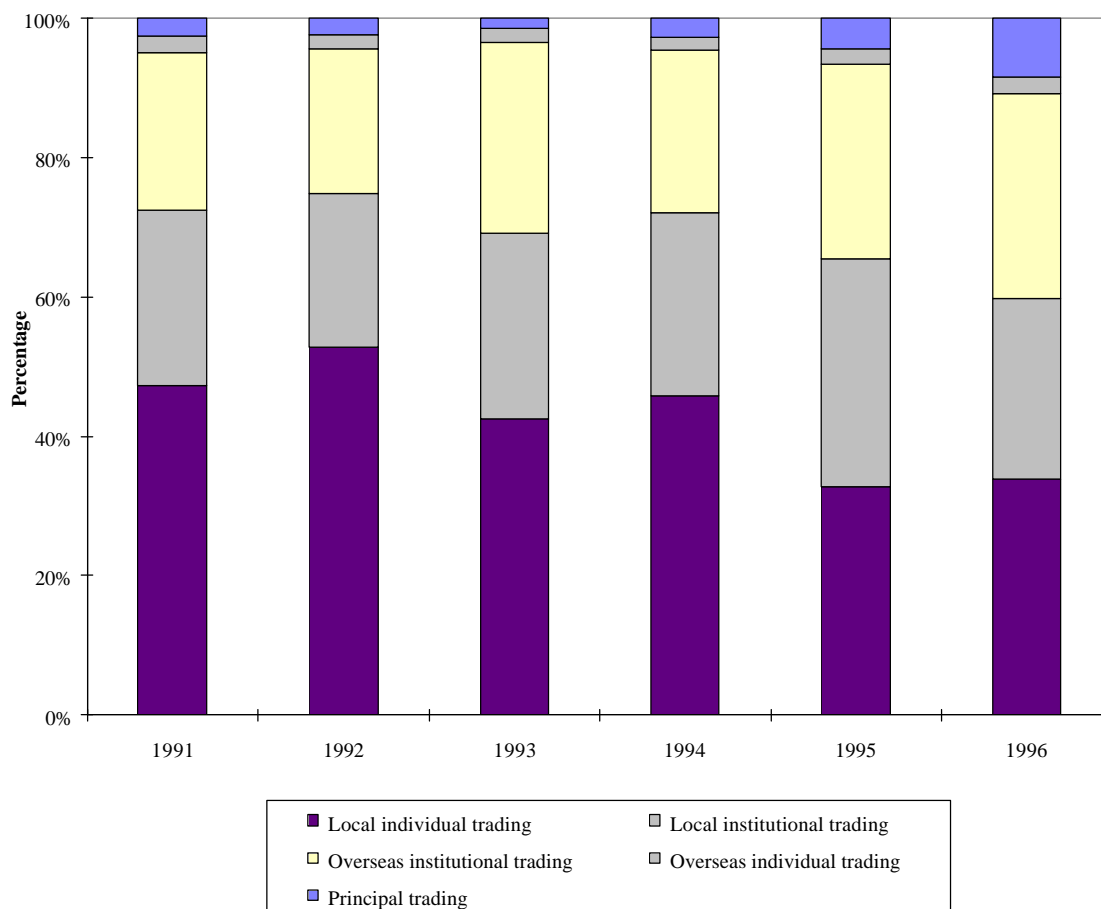
When compared with the survey findings of the past 5 years, it was observed that the market share of overseas agency trading increased gradually while that of local individual trading decreased. Nevertheless, over the past 6 years, local individuals have contributed most to the total market turnover (42%).

- Local agency trading contributed the majority of the total market turnover (over 60%) throughout the past 6 years. The contribution of overseas agency trading (mainly from institutions) increased to 32% in 1996, from 25% in 1991 and 23% in 1992.
- The *relative* contribution by local individuals was about one-third in 1995 and 1996, a level substantially lower than previously (over 40%).

However, the *absolute* value of retail trading increased significantly in 1996 (52%) after a substantial decline in 1995 (62%). But since the increase in overseas institutional trading (56%) and in principal trading (181%) in 1996 was even more, the *relative* contribution level of retail trading showed little change.

- The contribution of principal trading to market turnover showed a sharply increasing trend. In 1996, the contribution of principal trading to the business of Group I members (16%) was triple that in 1995 while that of Group II members (8%) increased by over 60% from 1995.
- Over the past years, Group III members have gained more business from overseas institutional clients. Their market share in both overseas agency trading and institutional trading also increased.

Figure 4. Comparison of the distribution of trading by type of trade (1991-1996)



Type of trade	1991 %	1992 %	1993 %	1994 %	1995 %	1996 %	% of 1991-1996 market turnover
Principal trading	2.60	2.33	1.43	2.70	4.43	8.43	3.88
Overseas individual trading	2.36	2.05	1.96	1.85	2.08	2.35	2.07
Overseas institutional trading	22.68	20.79	27.47	23.30	27.94	29.49	25.75
Local institutional trading	25.12	22.03	26.74	26.40	32.81	25.97	26.70
Local individual trading	47.24	52.80	42.40	45.75	32.73	33.76	41.60

GLOSSARY OF TERMS

Group I members :

Members of the Exchange who contributed the top one-third of the total market turnover value for the period October 1995 to September 1996.

Group II members :

Members of the Exchange who contributed the second one-third of total market turnover value for the period October 1995 to September 1996.

Group III members :

Members of the Exchange who contributed the bottom one-third of total market turnover value for the period October 1995 to September 1996.

Principal trading :

Trading on the member' s own behalf.

Agency trading :

Trading on behalf of the member' s clients.

(Local / Overseas) individual trading :

Trading on behalf of individual clients in Hong Kong or overseas.

(Local / Overseas) institutional trading :

Trading on behalf of institutional clients in Hong Kong or overseas.

Individual clients :

Clients who trade on their personal accounts.

Institutional clients :

Clients who are not individual clients.