

MEMBERS TRANSACTION SURVEY 1997

[FOR PUBLICATION]

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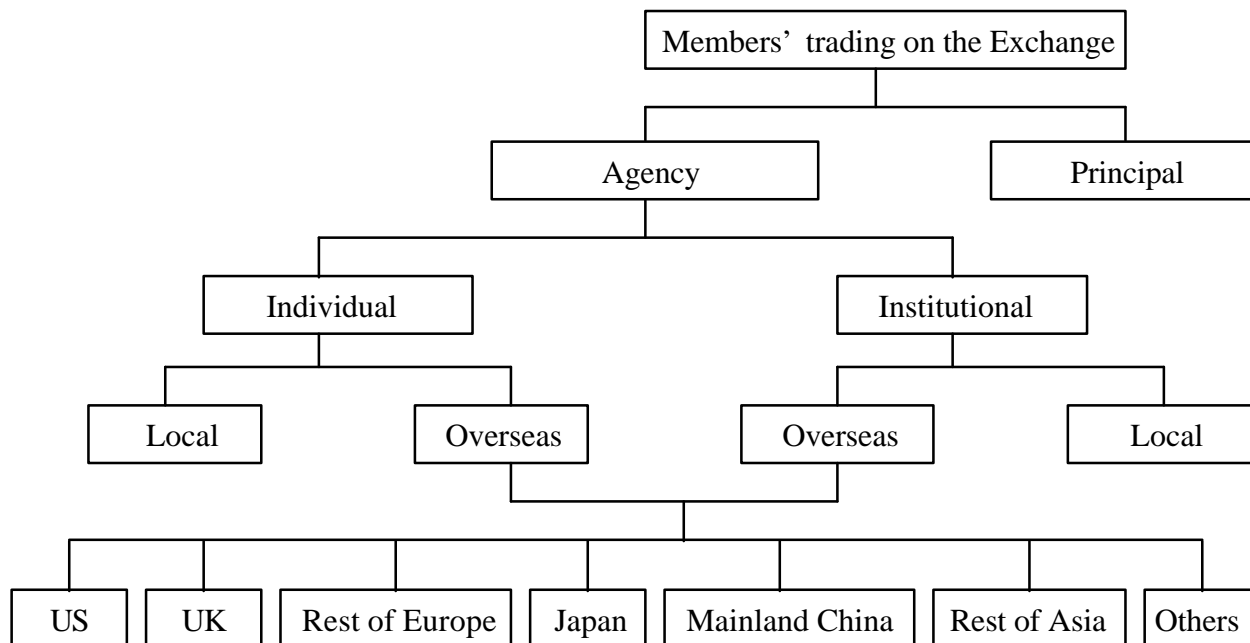
1. INTRODUCTION

The Exchange has conducted the Members Transaction Survey annually since 1991 to ascertain the composition of its members' trading. The types of members' trading were classified as in Figure 1. Principal trading refers to trading in the member firm's own account while agency trading refers to trading on behalf of the member firm's clients.

The 1997 Members Transaction Survey covered members' transactions from *October 1996 to September 1997*. 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 (99.6% response rate). The overall response represented 86% in turnover value and 67% of the members by number.

The Survey results indicated that the *absolute* value of all types of trade in 1997 increased significantly from the previous year. Local investors, including individuals and institutions, were major participants in the market, contributing 73% of total market trading in value terms. In particular, the contribution of local individuals jumped up from one-third in 1995 and 1996 to over half (53%) of the total market turnover in 1997. Overseas investors (mainly institutions) contributed 22% of the total. The major origins of overseas participation were the UK (34% of overseas participation) and the US (26%). Mainland China accounted for 4% of overseas participation.

Figure 1. Classification of members' trading on the Exchange



2. MAIN FINDINGS OF 1997 SURVEY

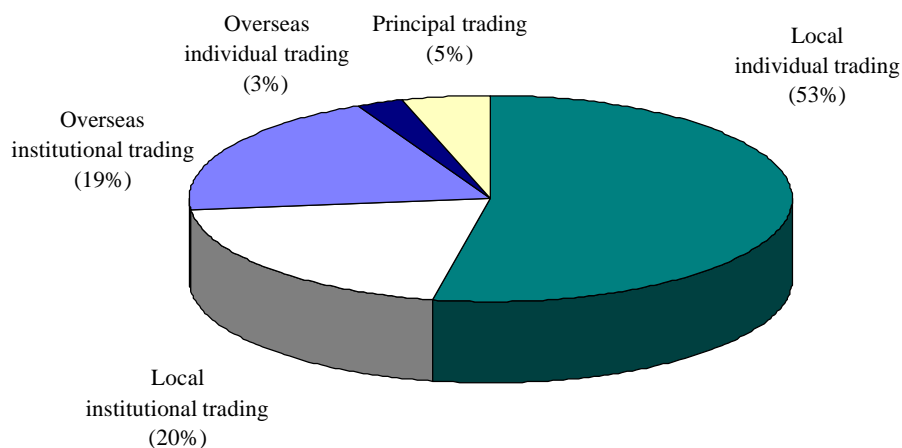
The findings were obtained by weighting each member's response by that member's turnover value.

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

The *absolute* value of all types of trade in 1997 increased significantly from the previous year. Positive or negative changes in the *relative* contribution of different types of trade in 1997 result from their different rates of increase.

- Local agency trading contributed the largest component of total market turnover (73%).
- Local individuals were the dominant contributor to market turnover (53%) while overseas and local institutions had almost equal shares (19% and 20% respectively).
- 22% of the market turnover originated overseas.

Figure 2. Distribution of trading by type of trade



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

Members were classified 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 20 member firms in Group I, 65 in Group II and 232 in Group III. Comparison was made to see if there were significant differences in turnover composition between groups. Since the distribution of market turnover value among members in 1997 was less skewed than before, some former Group II members in the past surveys were classified as Group I members in this survey and some former Group III members became Group II members. Such difference must be noted when comparing with past years' findings.

- Agency trading was still the core business for members of all groups (90% or more of total turnover value for each group).
- Institutional trading was the main business for Group I members (62%), the proportion decreased to 41% for Group II members and 17% for Group III members.
- Local agency trading accounted for 48% of the business of Group I members. The proportion was higher for Group II members (79%) and Group III members (93%).

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

Type of trade	Group I members		Group II members		Group III members	
	%		%		%	
	1996	1997	1996	1997	1996	1997
Principal trading	16.36	9.47	7.83	3.57	1.56	1.42
Overseas individual trading	0.79	3.06	3.75	2.71	2.38	1.72
Overseas institutional trading	53.29	39.76	27.54	14.87	8.97	4.02
Local institutional trading	24.91	22.31	35.92	25.83	16.79	13.13
Local individual trading	4.65	25.40	24.96	53.02	70.30	79.71
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 (51%) while Group III members captured about half of the individual trading (49%).
- Group III members captured about half of the local individual trading (50%) while Group I and II members captured 16% and 34% respectively.
- Group I and II members together captured the bulk of overseas agency trading (91%).

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

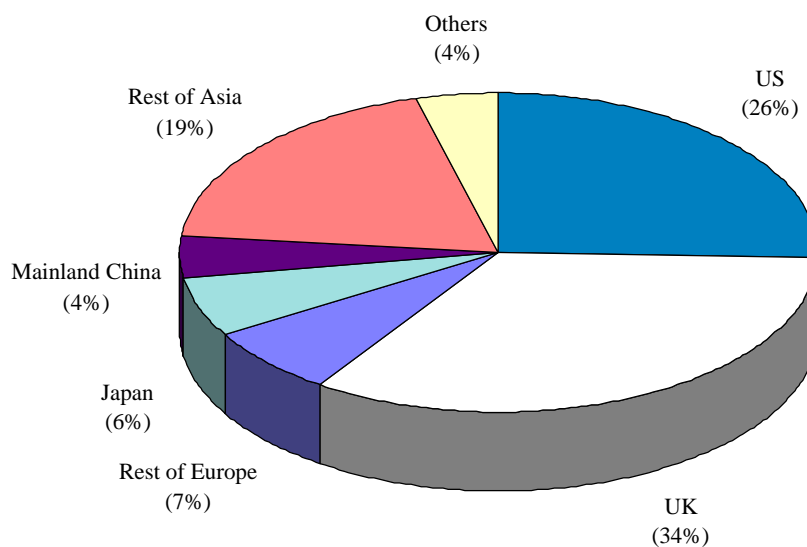
	Group I members		Group II members		Group III members		All members
	%		%		%		%
	1996	1997	1996	1997	1996	1997	1996 & 1997
All trading	31.84	32.55	34.49	34.08	33.67	33.37	100.00
Agency	29.09	30.95	34.72	34.51	36.20	34.55	100.00
Principal	61.76	64.60	32.01	25.50	6.23	9.91	100.00
Agency trading	29.09	30.95	34.72	34.51	36.20	34.55	100.00
Individual	4.80	16.71	27.43	34.26	67.77	49.03	100.00
Institutional	44.90	50.77	39.46	34.85	15.64	14.39	100.00
Agency trading	29.09	30.95	34.72	34.51	36.20	34.55	100.00
Local	15.76	21.16	35.15	36.61	49.09	42.22	100.00
Overseas	54.09	63.81	33.90	27.42	12.01	8.77	100.00
Individual trading	4.80	16.71	27.43	34.26	67.77	49.03	100.00
Local	4.39	15.62	25.50	34.13	70.11	50.25	100.00
Overseas	10.78	40.00	55.10	37.03	34.12	22.97	100.00
Institutional trading	44.90	50.77	39.46	34.85	15.64	14.39	100.00
Local	30.54	35.52	47.70	43.05	21.77	21.43	100.00
Overseas	57.54	66.87	32.21	26.19	10.25	6.94	100.00

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

Overseas agency trading contributed 22% of total market turnover value.

- The UK and the US remained the two major sources of overseas orders, contributing 34% and 26% respectively to the total overseas agency trading. Together with Japan (6%), they totally accounted for two-thirds of all overseas agency trading.
- Investors in the rest of Asia other than Japan and Mainland China were also significant contributors, accounting for 19% of overseas agency trading.
- Mainland China accounted for 4% of overseas agency trading.

Figure 3. Distribution of overseas agency trading by origin



3. COMPARISON WITH PAST SURVEYS' FINDINGS (FIGURES 4 & 5)

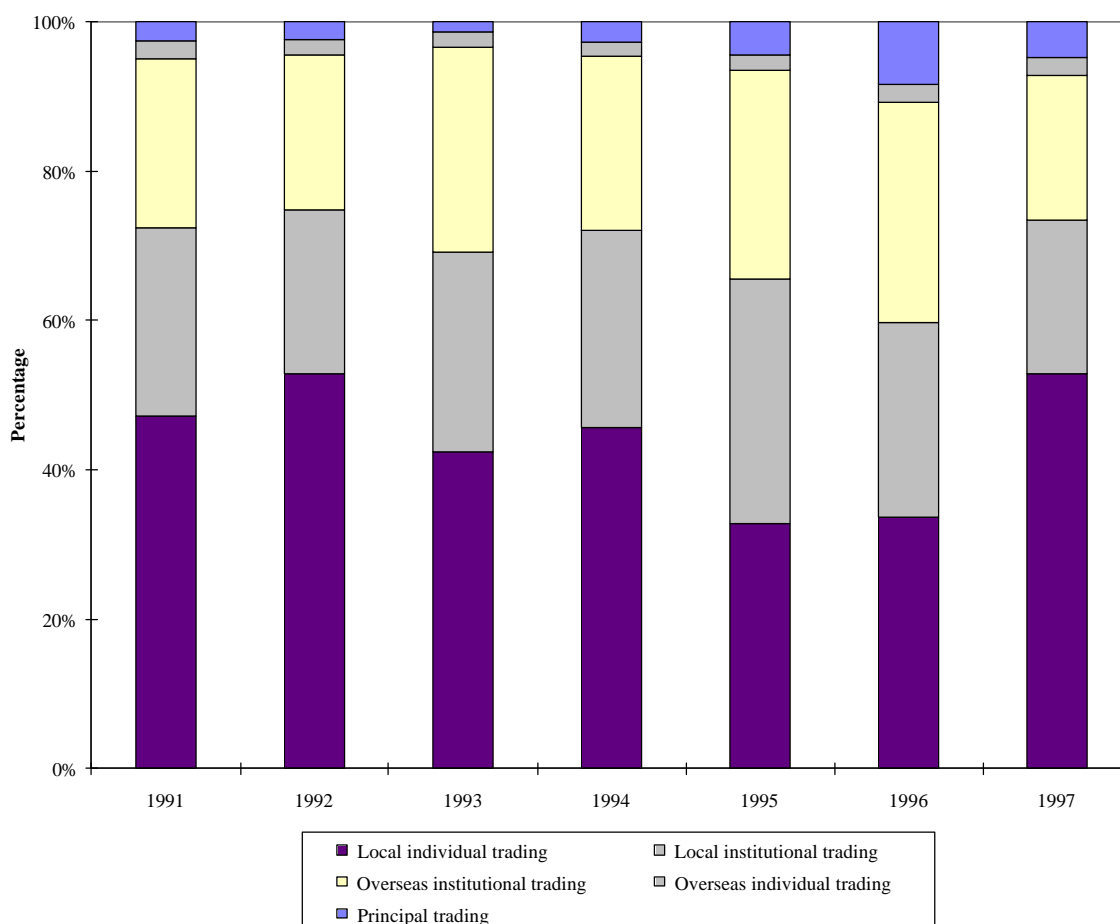
From the survey findings of the past 7 years, it was observed that retail participation is much more sensitive to changes in market sentiment than institutional participation. Retail participation reduces at a higher rate than institutional participation when the market turns bearish (e.g. 1995) and increases much faster than institutional participation when the market turns bullish (e.g. 1997).

- Local agency trading contributed the majority of the total market turnover (about 70%) throughout the past 7 years. The contribution of overseas agency trading decreased to 22% in 1997 after an increase for two consecutive years.
- In 1997, the *relative* contribution of both local and overseas institutional trading decreased significantly while local individual trading jumped up from one-third in 1995 and 1996 to over half of the total market turnover (53%).

However, the *absolute* value of both local and overseas institutional trading substantially increased under the bullish market sentiment in 1997 (149% and 108% respectively). But since local individual trading in 1997 increased even more (nearly 4 times), the *relative* contribution of institutional trading fell.

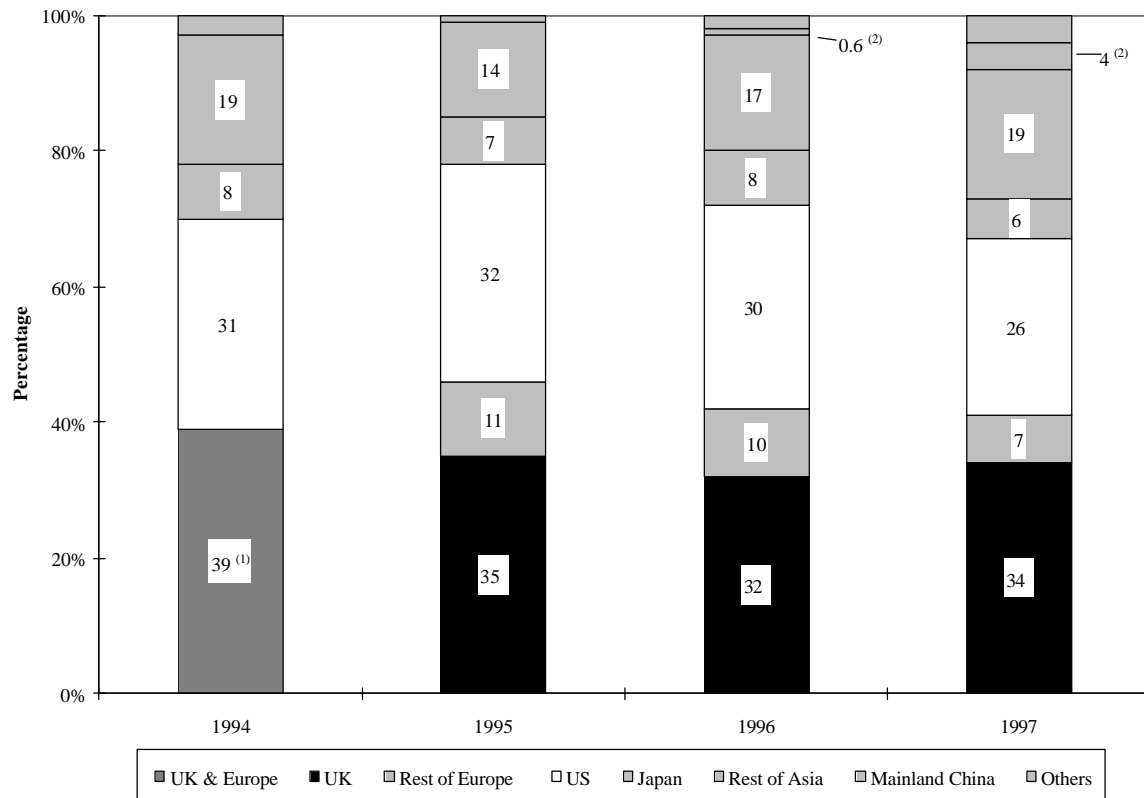
- The UK and the US remained the major sources of overseas agency business for the past 4 years.

Figure 4. Comparison of the distribution of trading by type of trade (1991-1997)



Type of trade	1991 %	1992 %	1993 %	1994 %	1995 %	1996 %	1997 %	% of 1991-1997 market turnover
Principal trading	2.60	2.33	1.43	2.70	4.43	8.43	4.77	5.14
Overseas agency trading	25.04	22.84	29.43	25.15	30.02	31.84	21.85	26.80
Individual trading	2.36	2.05	1.96	1.85	2.08	2.35	2.49	2.26
Institutional trading	22.68	20.79	27.47	23.30	27.94	29.49	19.36	24.54
Local agency trading	72.36	74.83	69.14	72.15	65.54	59.73	73.38	68.06
Individual trading	47.24	52.80	42.40	45.75	32.73	33.76	52.94	43.49
Institutional trading	25.12	22.03	26.74	26.40	32.81	25.97	20.44	24.57

Figure 5. Comparison of the distribution of overseas agency trading by origin (1994 - 1997)



Notes: (1) UK was combined with Europe in the 1994 Survey.

(2) Mainland China was included in the rest of Asia in the 1994 and 1995 Surveys.

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 1996 to September 1997.

Group II members :

Members of the Exchange who contributed the second one-third of total market turnover value for the period October 1996 to September 1997.

Group III members :

Members of the Exchange who contributed the bottom one-third of total market turnover value for the period October 1996 to September 1997.

Principal trading :

Trading in the member firm's own account.

Agency trading :

Trading on behalf of the member firm'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.