

**CASH MARKET TRANSACTION SURVEY  
2003/04**



**Hong Kong Exchanges and Clearing Limited  
Research & Planning**

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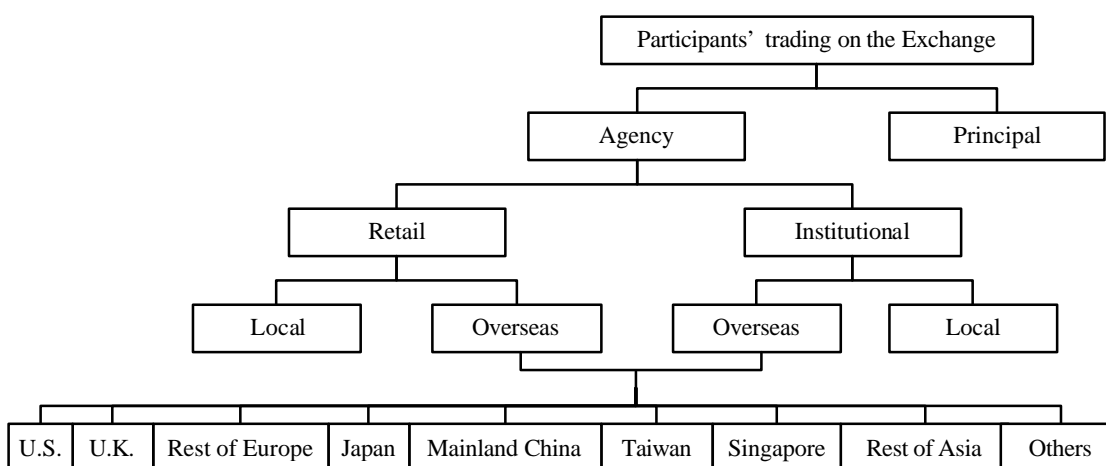
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## 1. INTRODUCTION

The Cash Market Transaction Survey has been conducted annually since 1991 to study the trading composition of Stock Exchange Participants (EPs). The main objective is to understand the relative contribution of trading value in the HKEx cash market by different investor types (see classification chart below). The market share of online trading<sup>1</sup> has been covered since 1999/2000.

### Classification of Stock Exchange Participants' trading



The Cash Market Transaction Survey 2003/04 covered EPs' transactions on both the Main Board and the Growth Enterprise Market from October 2003 to September 2004. Fieldwork was conducted during November to December 2004.

The target population<sup>2</sup> consisted of 422 EPs. They were ranked in descending order of their turnover values and were divided into three groups with equal shares by turnover value — 8 large-sized brokers (contributing the top one-third of the target population's turnover), 19 medium-sized brokers (contributing the second one-third) and 395 small-sized brokers (contributing the bottom one-third).

Survey questionnaires were mailed to all EPs in the target population. Out of the 422 questionnaires sent, 388 duly completed questionnaires were received, representing an overall response rate of 92% by number or 97% by turnover value of target respondents.

Each respondent was asked to provide the percentage breakdown of its trading value by the classified trade types and the percentage of retail agency turnover as online trading during the study period. The percentages were weighted by the respondent's total turnover value (or retail agency turnover value for online trading) accordingly to obtain the respective values in the responded sample. Based on the respective size group's total turnover value in the responded sample relative to that in the target population, the implied percentage shares of different types of trade in the market were then calculated.

<sup>1</sup> Please refer to "Glossary" for definition.

<sup>2</sup> Please refer to Appendix 3 for survey methodology. The sampling method used in this survey is different from that in the previous two surveys.



## 2. KEY FINDINGS

- Local investors remained the dominant contributors (57%) to the total market turnover in 2003/04, a similar level to the 58% in 2002/03.
- Overseas investors, pre-dominantly institutional investors, contributed 36% of the market total. The contribution from overseas investors remained between 36% to 40% in the past 4 years, a higher level than that in the 1990s (around 30%).
- Local retail investors' contribution increased to 34% from 30% in 2002/03, overtaking overseas institutional investors for the first time in 4 years to be the largest contributors to market turnover.
- As in prior years, the largest source of overseas investor trading was the UK (28%), followed by the US (25%) and the rest of Europe (24%). The aggregate trading from the Asia region contributed 20% of overseas investor trading — Singapore and Mainland China were the largest Asian origins, contributing 8% and 7% respectively.
- Almost half of local investor trading (47%) was channelled through small-sized brokers while overseas investor trading was mainly channelled through medium- and large-sized brokers (43% and 40% respectively).
- The majority of trading from the UK was channelled through large-sized brokers (46%) and medium-sized brokers (43%); the majority from the rest of Europe (57%) through medium-sized brokers; and the majority from the US (53%) through large-sized brokers. Small-sized brokers had the majority market share in channeling trading from Japan, Mainland China and Taiwan (about 60% respectively). Trading from Singaporean investors was channelled mainly through large-sized brokers (46%) and medium-sized brokers (42%).
- Online trading accounted for 10% of retail investor trading, up from 9% in 2002/03 (or 4% of total market turnover, up from 3% in 2002/03)



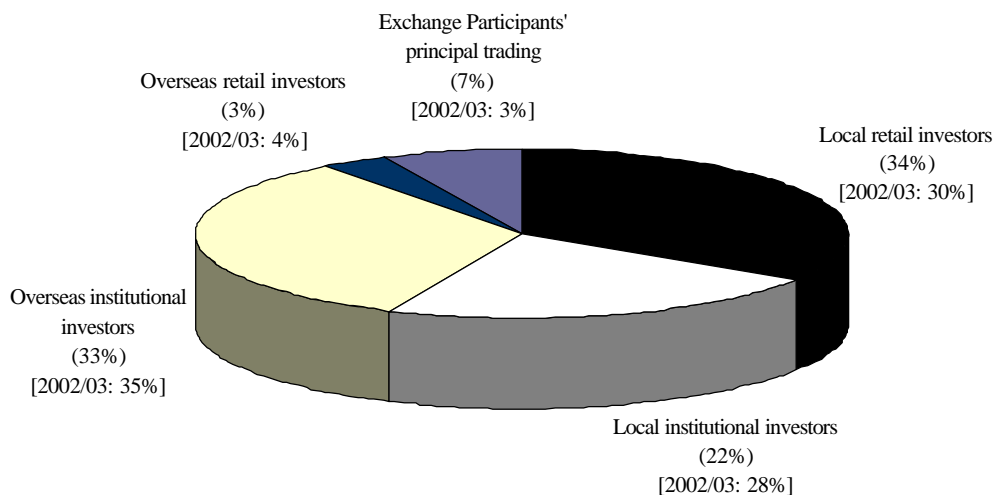
### 3. DISTRIBUTION OF MARKET TRADING VALUE BY INVESTOR TYPE

Market turnover value in the 2003/04 study period (October 2003 to September 2004) increased by 93% from the 2002/03 survey period (October 2002 to September 2003). As implied from the survey findings, turnover values of different investor types increased by different degrees during the period.

Findings on the distribution of market trading value by investor type are as below:

- Local investors remained the dominant contributors (57%) to the total market turnover in 2003/04, a similar level to the 58% in 2002/03. However, the contribution from local retail investors increased to 34% from 30% in 2002/03, while that from local institutional investors decreased to 22% from 28% in 2002/03.
- Overseas investors contributed 36% to the total market turnover in 2003/04, down from 39% in 2002/03. The contribution came mostly from overseas institutional investors (33% of total market turnover in 2003/04, compared to 35% in 2002/03).
- The contribution of EPs' principal trading doubled from 3% in 2002/03 to 7% in 2003/04.

**Figure 1. Distribution of market trading value by investor type (Oct 2003 – Sep 2004)**



*Note: Numbers may not add up to 100% due to rounding.*



#### 4. BREAKDOWN OF CONTRIBUTION BY TYPE OF TRADE

- By investor type, the majority of EPs' agency trading came from institutional investors (60%, albeit down from 65% in 2002/03) and the rest from retail investors. This pattern was similar over the past 3 years.
- By investor location, local investors contributed the majority of all agency trading (61%, similar to the 60% in 2002/03); the rest was by overseas investors. This pattern was also similar over the past 3 years.
- Institutional investor trading came mostly from overseas (59%, up from 55% in 2002/03) while retail investor trading came predominantly from local sources (91%, slightly up from 88% in 2002/03).
- Local investor trading came mostly from retail investors (60%, up from 51% in 2002/03), while overseas investor trading came predominantly from institutions (91%, slightly up from 89% in 2002/03).

**Table 1. Breakdown of contribution by type of trade**

Type of trade	All EPs (%)		
	2001/02	2002/03	2003/04
<b>All trading</b>			
Agency	93.35	96.51	<b>93.11</b>
Principal	6.65	3.49	<b>6.89</b>
	100.00	100.00	<b>100.00</b>
<b>Agency trading</b>			
Retail	37.33	35.01	<b>40.43</b>
Institutional	62.67	64.99	<b>59.57</b>
	100.00	100.00	<b>100.00</b>
<b>Agency trading</b>			
Local	60.28	59.76	<b>60.97</b>
Overseas	39.72	40.24	<b>39.03</b>
	100.00	100.00	<b>100.00</b>
<b>Retail investor trading</b>			
Local	93.14	87.85	<b>91.08</b>
Overseas	6.86	12.15	<b>8.92</b>
	100.00	100.00	<b>100.00</b>
<b>Institutional investor trading</b>			
Local	40.70	44.62	<b>40.53</b>
Overseas	59.30	55.38	<b>59.47</b>
	100.00	100.00	<b>100.00</b>
<b>Local investor trading</b>			
Retail	57.69	51.48	<b>60.40</b>
Institutional	42.31	48.52	<b>39.60</b>
	100.00	100.00	<b>100.00</b>
<b>Overseas investor trading</b>			
Retail	6.44	10.57	<b>9.24</b>
Institutional	93.56	89.43	<b>90.76</b>
	100.00	100.00	<b>100.00</b>

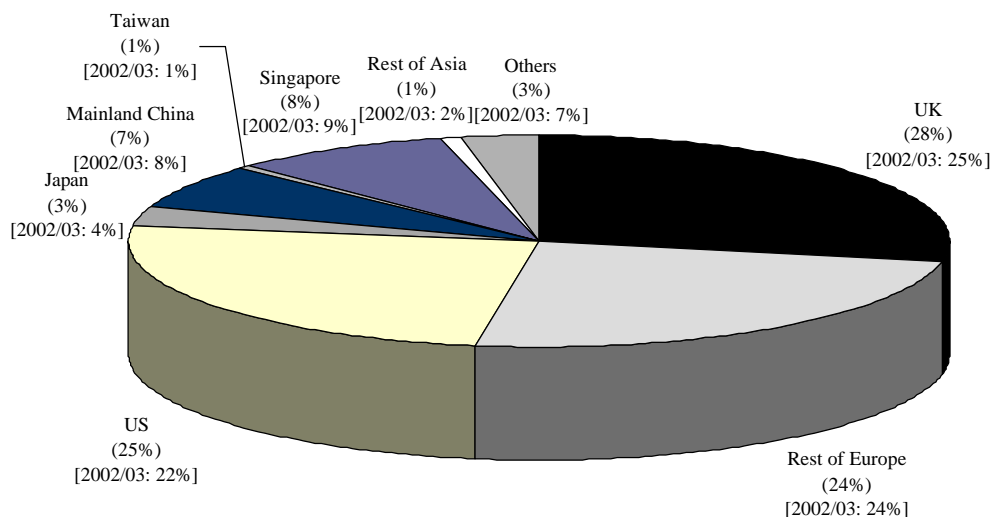


## 5. DISTRIBUTION OF OVERSEAS INVESTOR TRADING VALUE BY ORIGIN

Overseas investors contributed 36% to the total market turnover in 2003/04, down from 39% in 2002/03.

- The UK remained the largest source of overseas investor trading (28%, up from 25% in 2002/03), followed by the US (25%, up from 22% in 2002/03) and the rest of Europe (24%, same as in 2002/03). These origins already made up 77% of all overseas investor trading.
- The aggregate contribution of Asian origins to overseas investor trading was 20% in 2003/04, slightly down from 22% in 2002/03. Singapore and Mainland China were the largest Asian origins, contributing 8% and 7% respectively, similar to the 9% and 8% in 2002/03.
- The contribution from Japan and Taiwan remained low at 3% and 1% respectively.

**Figure 2. Distribution of overseas investor trading value by origin (Oct 2003 – Sep 2004)**



*Note: Numbers may not add up to 100% due to rounding.*



## 6. ONLINE TRADING

“Online trading” in this survey refers to retail trading originating from orders entered directly by clients and channelled to the brokers via electronic media such as the Internet. Respondents who claimed that part of their retail agency trading was online trading are defined as online brokers.

- The growth of online trading continued in 2003/04, after leveling off in 2002/03. In 2003/04, online trading value accounted for 10% of retail investor trading, up from 9% in 2002/03 (or 4% of total market turnover, up from 3% in 2002/03). This was the highest record since the survey began assessing this characteristic in 1999/2000.
- Among the responded sample, two (or 25% of the) large-sized brokers<sup>3</sup>, six (or 32% of the) medium-sized brokers and 77 (or 21% of the) small-sized brokers responded as online brokers. One medium-sized broker and four small-sized brokers in the responded sample reported that they require manual re-input for orders channelled online.<sup>4</sup>
- Over half of the online trading value was channelled through small-sized brokers (55%, up from 45% in 2002/03); 43% was channelled through medium-sized brokers (down from 55% in 2002/03); the remaining 2% through large-sized brokers.
- Among all brokers: Online trading constituted a larger proportion of retail agency trading for the medium-sized broker group (17%) and the small-sized broker group (10%) than for the large-sized broker group (2%, compared to nil in 2002/03). Notably, the share of online trading in the retail agency trading of the small-sized broker group doubled from 5% in 2002/03 to 10%.
- Among online brokers only: Online trading constituted 17% of retail agency trading of all online brokers, the same as in 2002/03. The contribution of online trading to the retail agency trading of medium-sized online brokers (24%, similar to the 23% in 2002/03) was larger than that of small-sized online brokers (19%, up from 13% in 2002/03). Large-sized online brokers had only 2% of their retail agency trading channelled online.

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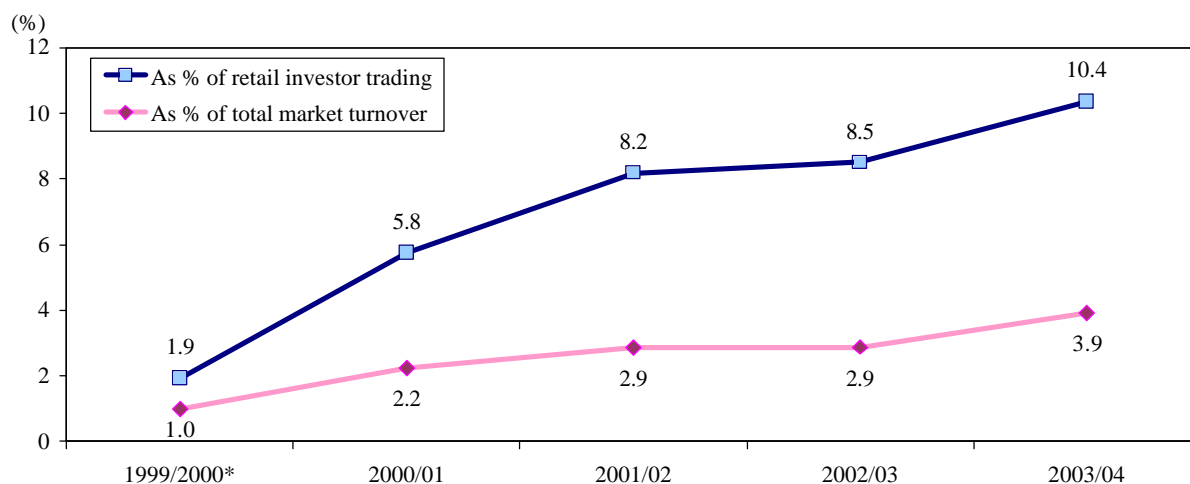
<sup>3</sup> In 2002/03, no large-sized brokers were identified as online brokers. Of the two large-sized online brokers in 2003/04, one was classified as medium-sized online broker in 2002/03. The other was a large-sized broker in 2002/03 which took over the online business in 2003/04 from a small-sized online broker.

<sup>4</sup> Since the sampling method of 2003/04 survey (including all samples in the target population) is different from that of 2002/03 survey (including all samples in large- and medium-sized brokers and a random sample covering 60% of small-sized brokers), the findings in the responded samples of the two years' survey cannot be directly compared.





**Figure 3. Percentage share of online trading value (1999/2000-2003/04)**



\* The term “Internet trading” instead of “online trading” was used in the 1999/2000 survey.

**Table 2. Statistics on online trading by broker size group**

	2002/03				2003/04			
	Large-sized	Medium-sized	Small-sized	Overall	Large-sized	Medium-sized	Small-sized	Overall
Responded sample size	8	20	244	272	8	19	361	388
<u>Online trading in responded sample</u>								
Number of online brokers*	0	6	42	-	2	6	77	85
as % of size group	-	30.0%	17.2%	-	25.0%	31.6%	21.3%	21.9%
No. of online brokers normally requiring manual order re-input**	-	0	7	-	0	1	4	5
as % of online brokers of the size group	-	0.0%	16.7%	-	-	16.7%	5.2%	5.9%
<u>Online trading in target population</u>								
<i>Among all brokers:</i>								
Projected online trading value (HK\$ mil, 2-sided)	-	62,274	51,324	113,598	6,792	126,325	161,545	294,661
As % of retail agency trading	-	18.7%	5.4%	8.5%	1.7%	17.1%	9.5%	10.4%
As % of all agency trading	-	4.8%	3.9%	3.0%	0.3%	5.0%	6.5%	4.2%
As % of total turnover	-	4.8%	3.8%	2.9%	0.3%	5.0%	6.4%	3.9%
Market share of broker group in online trading value	-	54.8%	45.2%	100.0%	2.3%	42.9%	54.8%	100.0%
<i>Among online brokers only:</i>								
As % of retail agency trading	-	23.3%	13.4%	17.4%	1.9%	23.6%	18.5%	16.7%
As % of all agency trading	-	15.9%	9.6%	12.3%	1.2%	19.7%	14.7%	12.7%
As % of total turnover	-	15.9%	9.5%	12.2%	1.2%	19.7%	14.5%	12.6%

\* In 2003/04, one respondent in the small-sized broker group, which is believed to have substantial online trading business channelled from its subsidiary, did not provide the percentage on its online trading through its subsidiary. This respondent was nevertheless regarded as an online broker but was treated as a case with missing response in computing statistics on online trading value.

\*\* For brokers with orders routed to HKEx trading system on a straight-through basis, manual re-input of orders may still be required under special circumstances like orders above market price, exceptionally large order sizes, odd lots or stock price below HK\$0.01.

Note: Survey sample in 2003/04 included the entire target population while that in 2002/03 included all large- and medium-sized brokers and a random sample of small-sized brokers in the target population. An overall figure is not presented for the responded sample in 2002/03 to avoid misleading comparison with 2003/04 figure.



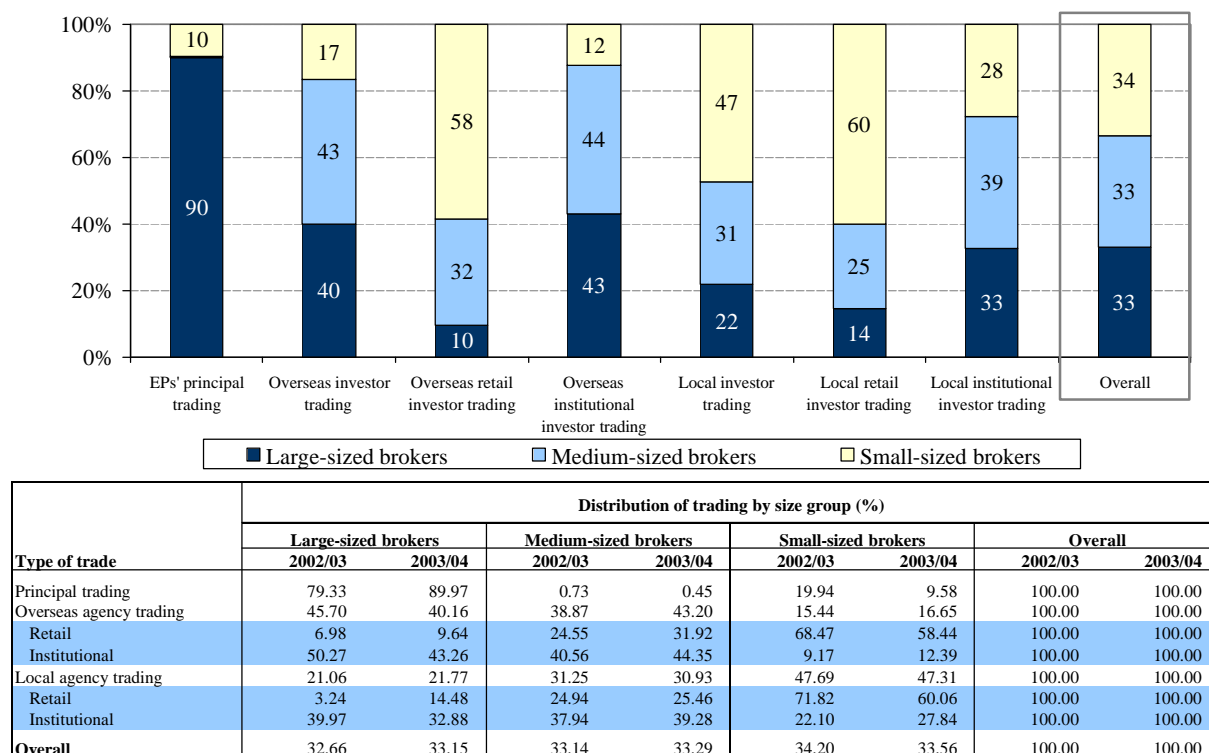
## 7. DISTRIBUTION OF MARKET TRADING VALUE BY BROKER SIZE GROUP

(It should be noted that the change in trading composition for a broker size group across the years may be due partly to the reclassification of individual brokers into different size groups across the years.)

### 7.1 Market share of each size group in each type of trade

- For local investor trading, almost half (47%) was channelled through small-sized brokers; medium and large-sized brokers respectively channelled 31% and 22%. This pattern was similar to that in 2002/03. For each type of local investors:
  - The majority of local retail investor trading (60%) was channelled through small-sized brokers, down from 72% in 2002/03. The proportion channelled through large-sized brokers increased from 3% in 2002/03 to 14%.
  - Medium-sized brokers contributed the major share of local institutional investor trading (39%, similar to 38% in 2002/03), followed by large-sized brokers (33%, down from 40% in 2002/03) and small-sized brokers (28%, up from 22% in 2002/03).
- For overseas investor trading (mainly from institutions), the major share was channelled through medium-sized brokers (43%, up from 39% in 2002/03) and large-sized brokers (40%, down from 46% in 2002/03). The proportion channelled through small-sized brokers remained low (17% in 2003/04 and 15% in 2002/03).
- 90% of EP's principal trading came from large-sized brokers, up from 79% in 2002/03.

**Figure 4. Distribution of trading value by size group for each type of trade (Oct 2003 – Sep 2004)**



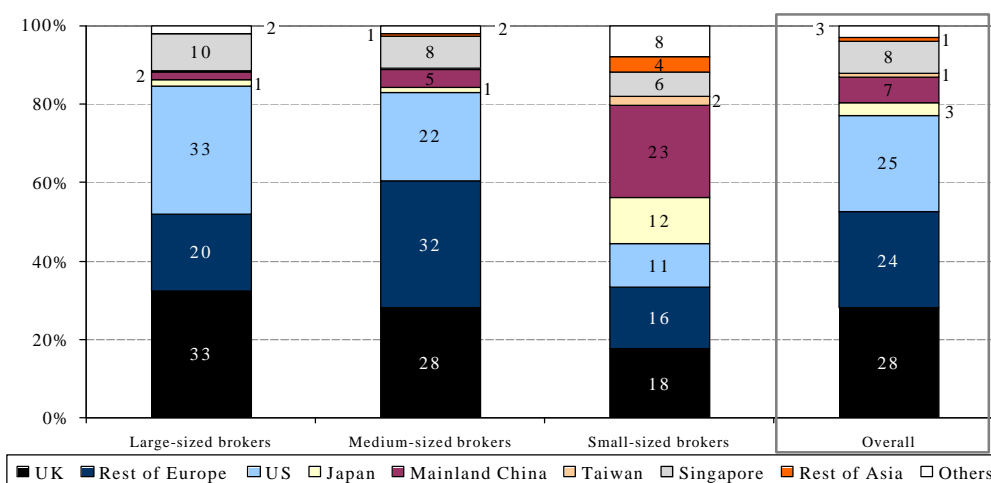
Note: Numbers may not add up to 100% due to rounding.



## 7.2 Composition of overseas investor trading by origin for each size group

- For large-sized brokers, the largest proportion of their overseas investor trading came from the UK (33%, up from 25% in 2002/03) and the US (33%, up from 31%); a significant proportion came from the rest of Europe (20%, similar to the 19% in 2002/03); and 13% from Asia.
- For medium-sized brokers, the largest proportion of their overseas investor trading came from the rest of Europe (32%, similar to the 33% in 2002/03); a significant proportion from the UK (28%, down from 31%) and the US (22%, up from 16%); and 15% from Asia.
- Small-sized brokers had a large proportion of their overseas investor trading came from Asia as a whole (48%, down from 59% in 2002/03) — mainly from Mainland China and Japan. Compared to 2002/03, the proportion from Japan increased (from 7% to 12%), while the proportion from Mainland China and Singapore decreased (from 28% to 23% for Mainland China; from 14% to 6% for Singapore).
- Overall, large- and medium-sized brokers had a larger business share of their overseas investor trading from Europe (including UK) and the US (about 80% in aggregate compared to 45% for small-sized brokers); while small-sized brokers had a larger business share from Asia (48% compared to 15% or less for large- and medium-sized brokers).

**Figure 5. Distribution of overseas investor trading by origin for each size group (Oct 2003 – Sep 2004)**



	Distribution of overseas investor trading by origin for each size group (%)							
	Large-sized brokers		Medium-sized brokers		Small-sized brokers		Overall	
	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04
Europe	44.65	52.07	63.62	60.42	25.92	33.39	49.13	52.57
UK	25.47	32.53	30.55	28.04	12.52	17.72	25.45	28.13
Rest of Europe	19.17	19.54	33.07	32.39	13.40	15.67	23.68	24.44
US	30.70	32.60	15.88	22.39	10.45	11.07	21.81	24.61
Asia	13.88	13.38	17.29	14.99	58.62	47.63	22.11	19.77
Japan	4.20	1.40	1.86	1.45	6.60	11.62	3.66	3.13
Mainland China	2.50	2.00	5.23	4.51	28.04	23.44	7.50	6.65
Taiwan	0.26	0.33	0.19	0.32	4.14	2.34	0.83	0.66
Singapore	6.31	9.53	9.11	8.15	13.92	6.31	8.57	8.40
Rest of Asia	0.61	0.12	0.89	0.55	5.93	3.92	1.54	0.93
Others	10.77	1.95	3.22	2.20	5.00	7.91	6.95	3.05
Overall	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

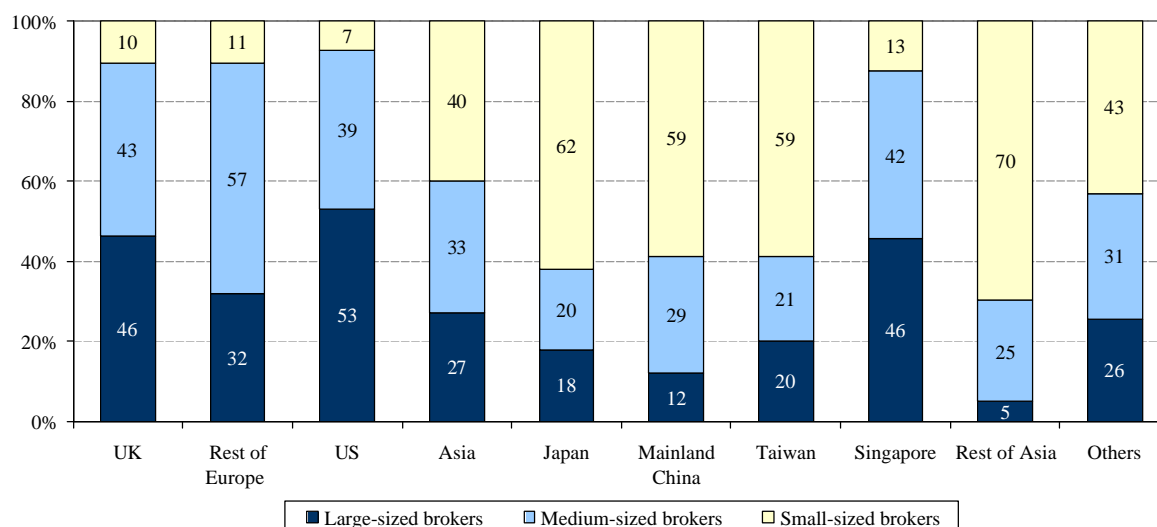
Note: Numbers may not add up to 100% due to rounding.



### 7.3 Market share of each size group in overseas investor trading by origin

- Overseas investor trading was channelled mainly through large- and medium-sized brokers — medium-sized brokers overtook large-sized brokers in channeling the majority of overseas investor trading (43% vs 40% for large-sized brokers).
- For trading by major overseas origins, trading from the UK was channelled mainly through large-sized brokers (46%) and medium-sized brokers (43%); the majority of trading from the rest of Europe (57%) was channelled through medium-sized brokers; and the majority of trading from the US (53%) was channelled through large-sized brokers. This pattern was similar to that in 2002/03.
- Small-sized brokers had the majority market share (40%) in channeling trading from the Asian origins. They were also dominant in channeling specific Asian origins except Singapore — about 60% of trading from Japan, Mainland China and Taiwan investors respectively and 70% for the rest of Asia. Trading from Singaporean investors was channelled mainly through large-sized brokers (46%) and medium-sized brokers (42%).

**Figure 6. Market share of each size group in overseas investor trading by origin (Oct 2003 – Sep 2004)**



	Market share of each size group in overseas investor trading by origin (%)							
	Large-sized brokers		Medium-sized brokers		Small-sized brokers		Overall	
	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04
Europe	41.53	39.78	50.33	49.65	8.14	10.57	100.00	100.00
UK	45.75	46.45	46.66	43.06	7.60	10.49	100.00	100.00
Rest of Europe	37.00	32.10	54.27	57.23	8.73	10.67	100.00	100.00
US	64.32	53.20	28.29	39.31	7.40	7.49	100.00	100.00
Asia	28.69	27.17	30.39	32.74	40.92	40.09	100.00	100.00
Japan	52.42	18.04	19.78	20.10	27.80	61.86	100.00	100.00
Mainland China	15.21	12.08	27.08	29.27	57.70	58.65	100.00	100.00
Taiwan	14.40	20.02	8.94	21.19	76.66	58.79	100.00	100.00
Singapore	33.62	45.55	41.31	41.93	25.07	12.51	100.00	100.00
Rest of Asia	18.18	5.00	22.50	25.21	59.33	69.79	100.00	100.00
Others	70.87	25.71	18.01	31.12	11.12	43.17	100.00	100.00
<b>Overall</b>	45.70	40.16	38.87	43.20	15.44	16.65	100.00	100.00

Note: Numbers may not add up to 100% due to rounding.



## 8. DISTRIBUTION OF MARKET TRADING VALUE ACROSS YEARS

### By investor type

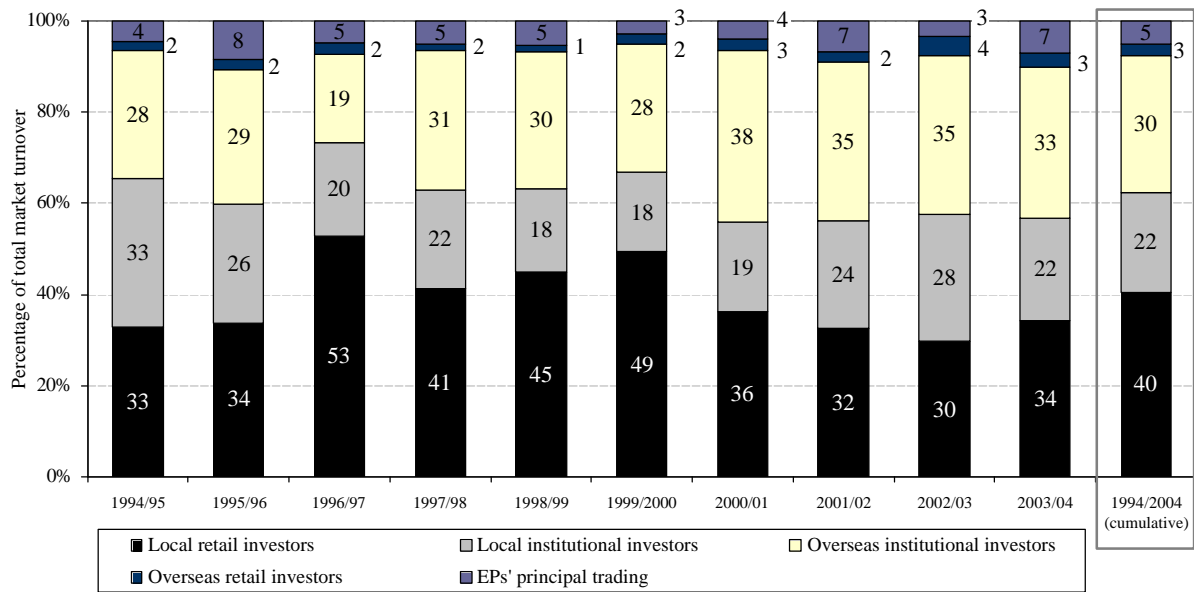
- Local investors remained the major contributors to market turnover (57% in 2003/04), a similar level as in the past 3 years, but lower than the relatively high level of 60% or above in the 1990s. Nevertheless, local investors contributed 62% of the cumulative market turnover in the past decade.
- The contribution from overseas investors remained at between 36% to 40% in the past 4 years, a higher level than in the 1990s (around 30%). Overseas investors contributed 33% of the cumulative market turnover in the past decade.
- Local retail investors were the dominant investor type in the past decade, contributing 40% of the cumulative market turnover. However, their contribution fluctuated a lot over the years in response to the change in market sentiment — increasing in bullish markets and decreasing in bearish markets. Their contribution declined to the lowest level in the past decade of 30% in 2002/03, but increased to 34% in 2003/04 as the market started to pick up in late 2003. They overtook overseas institutional investors again in 2003/04, the first time in 4 years, to be the largest type of contributors to market turnover.
- Overseas investor trading is dominated by institutional investors — overseas retail investors contributed only 3% of the cumulative market turnover in the past decade.
- EPs' principal trading remained at a relatively low level in the past decade (5% of cumulative market turnover), fluctuating within a narrow range.

### By overseas origin

- For overseas investor trading, the UK and the US remained the largest two origins in the past decade, both contributing above 20% of overseas investor trading in each year. The contribution from UK investors declined to below 30% since 2001/02 from over 30% in the years before. On the other hand, the contribution from the rest of Europe (excluding the UK) grew to about a quarter of overseas investor trading since 2001/02 from less than 15% in the years before. Trading from Europe as a whole (including UK and the rest of Europe) remained at around 50% of overseas investor trading in the past seven years.
- The contribution from Asian investors as a whole remained at around 20% of overseas investor trading in the past seven years.
- The contribution from Mainland China to overseas investor trading increased to 7%-8% in the recent two years from 1% in 1998/99.
- The contribution from Singapore, assessed since 2002/03, was the largest among the Asian origins over the past two years (8%-9%).



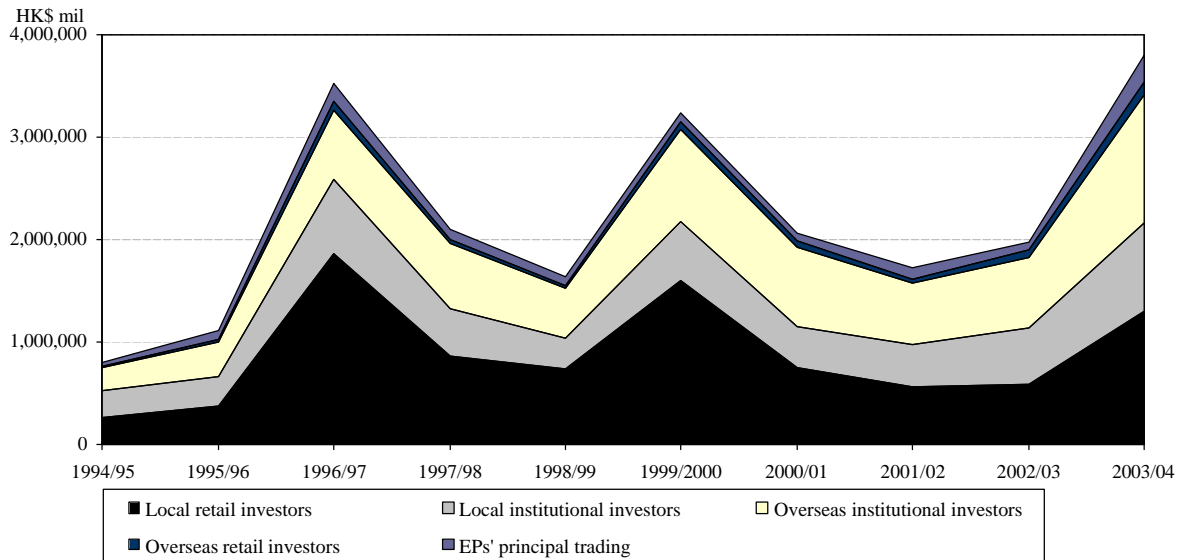
**Figure 7. Distribution of trading value by investor type (1994/95 – 2003/04)**



Type of trade	Distribution of trading by type of trade										1994/2004 cumulative market turnover (%)
	1994/95 %	1995/96 %	1996/97 %	1997/98 %	1998/99 %	1999/2000 %	2000/01 %	2001/02 %	2002/03 %	2003/04 %	
EPs' principal trading	4.43	8.43	4.77	5.06	5.38	2.90	4.00	6.65	3.49	6.89	5.07
Overseas investor trading	30.02	31.84	21.85	32.11	31.53	30.19	40.23	37.08	38.84	36.34	32.54
Retail	2.08	2.35	2.49	1.54	1.30	2.13	2.58	2.39	4.10	3.36	2.53
Institutional	27.94	29.49	19.36	30.58	30.23	28.06	37.65	34.69	34.73	32.99	30.01
Local investor trading	65.55	59.73	73.38	62.83	63.09	66.91	55.77	56.27	57.67	56.77	62.40
Retail	32.73	33.76	52.94	41.16	44.87	49.38	36.27	32.46	29.69	34.29	40.50
Institutional	32.81	25.97	20.44	21.67	18.22	17.53	19.50	23.81	27.98	22.48	21.90

Note: Numbers may not add up to 100% due to rounding.

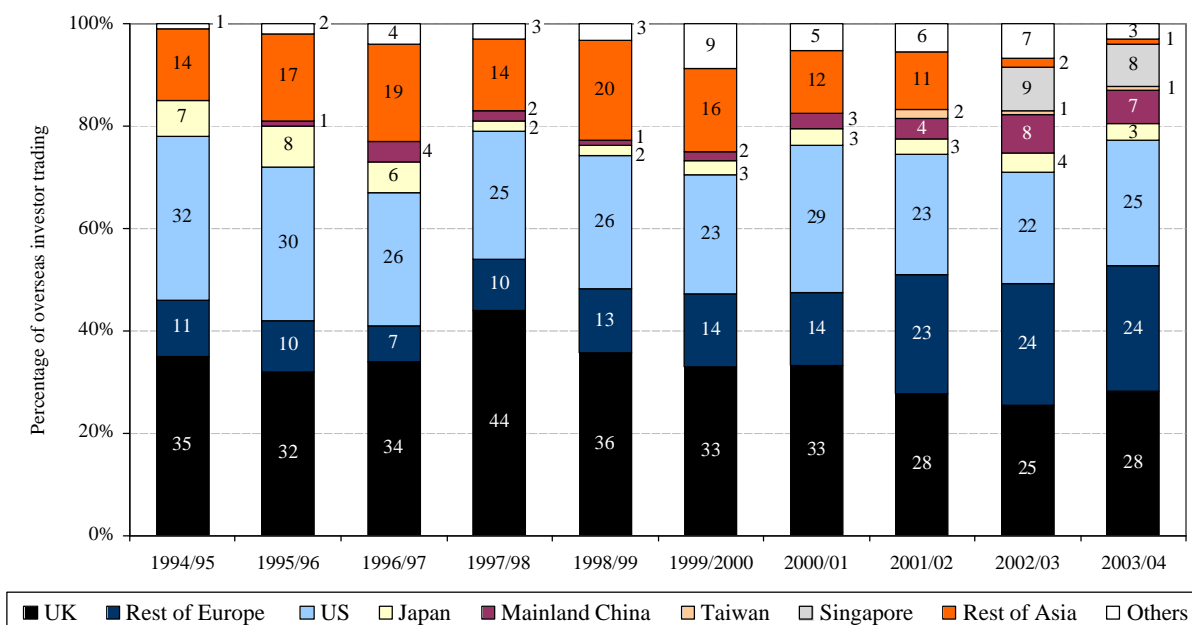
**Figure 8. Implied value of trading by investor type (1994/95 – 2003/04)**



Note: The implied value of trading for a particular type of trade is determined by multiplying the percentage contribution to market turnover by that type of trade as obtained from the survey by the total market turnover during the study period for that year of survey.



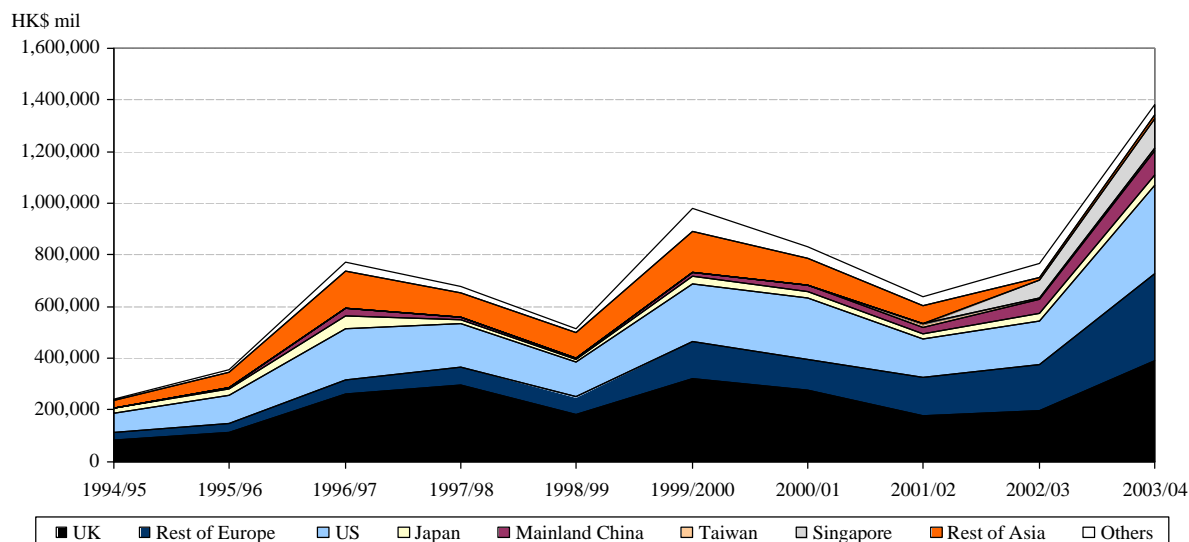
**Figure 9. Distribution of overseas investor trading by origin (1994/95 – 2003/04)**



**Notes:**

- (1) Mainland China was included in the rest of Asia in the 1994/95 Survey. Taiwan was included in the rest of Asia in surveys prior to 2001/02. Singapore was included in the rest of Asia in surveys prior to 2002/03.
- (2) Numbers may not add up to 100% due to rounding.

**Figure 10. Implied value of overseas investor trading by origin (1994/95 – 2003/04)**



**Notes:**

- (1) The implied value of trading from a particular origin is determined by first calculating the implied overseas agency trading value during the study period for that year of survey, and then multiplying it by the percentage contribution to overseas agency trading by that origin as obtained from the survey.
- (2) Mainland China was included in the rest of Asia in the 1994/95 Survey. Taiwan was included in the rest of Asia in surveys prior to 2001/02. Singapore was included in the rest of Asia in surveys prior to 2002/03.



## GLOSSARY

<b><i>Principal trading:</i></b>	Trading on the participant firm's own account.
<b><i>Agency trading:</i></b>	Trading on behalf of the participant firm's clients, including client trading channelled from the firm's parent or sister companies.
<b><i>Individual/Retail clients/investors:</i></b>	Clients/investors who trade on their personal accounts.
<b><i>Institutional clients/investors:</i></b>	Clients/investors who are not individual clients/investors.
<b><i>Local clients/investors:</i></b>	Individual/retail clients/investors residing in Hong Kong or institutional clients/investors operating in Hong Kong Hong Kong as the source of funds.
<b><i>Overseas clients/investors:</i></b>	Individual/retail clients/investors residing outside Hong Kong or institutional clients/investors operating outside Hong Kong overseas as the source of funds.
<b><i>Online trading:</i></b>	Retail trading originating from orders entered directly by clients/investors and channelled to the brokers via electronic media such as the Internet. This would include client orders routed to the HKEx trading system automatically on a straight-through basis and client orders received via electronic media but having to be manually re-input into the HKEx trading system.
<b><i>Online brokers:</i></b>	Respondents who claimed that part of their retail agency trading was online trading.
<b><i>Large-sized brokers:</i></b>	Stock Exchange Participants who contributed the top one-third of the total turnover value of the target population for the study period.
<b><i>Medium-sized brokers:</i></b>	Stock Exchange Participants who contributed the second one-third of the total turnover value of the target population for the study period.
<b><i>Small-sized brokers:</i></b>	Stock Exchange Participants who contributed the bottom one-third of the total turnover value of the target population for the study period.

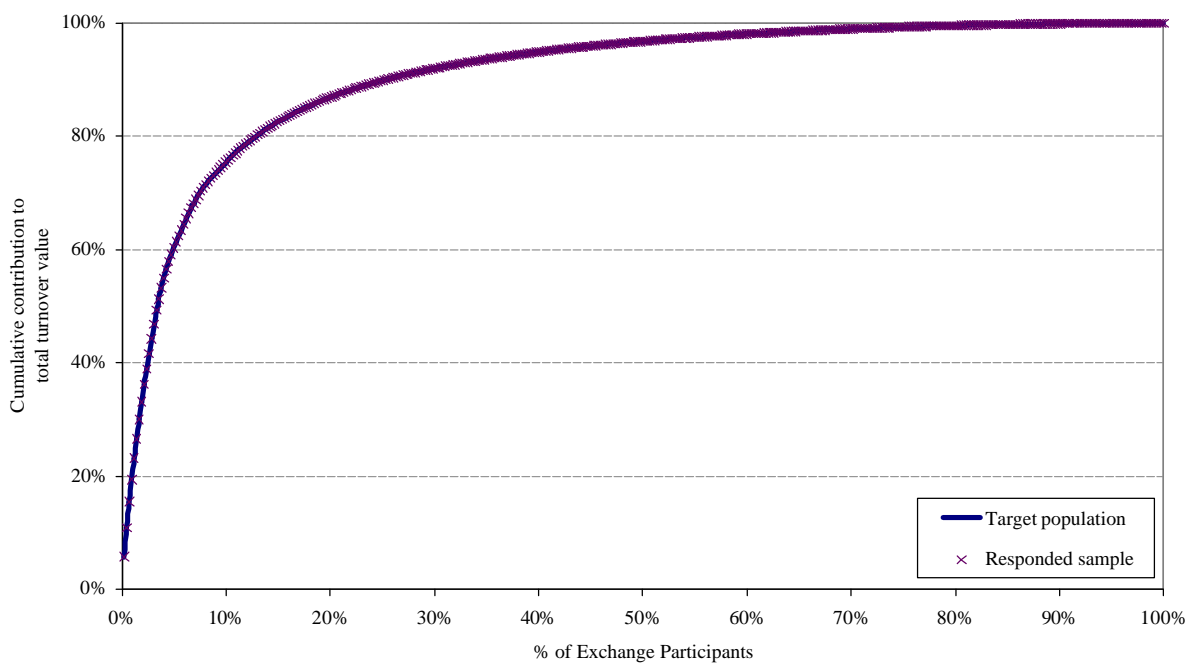




### APPENDIX 1. RESPONSE RATE

Participant group	Target population	Responded sample	Response rate	As % of turnover in target population
Large-sized brokers	8	8	100.0%	100.0%
Medium-sized brokers	19	19	100.0%	100.0%
Small-sized brokers	395	361	91.4%	92.0%
<b>All participants</b>	<b>422</b>	<b>388</b>	<b>91.9%</b>	<b>97.3%</b>

### APPENDIX 2. REPRESENTATIVENESS OF THE RESPONDED SAMPLE VIS-À-VIS THE TARGET POPULATION OF EXCHANGE PARTICIPANTS





## APPENDIX 3. SURVEY METHODOLOGY

### 1. Target population

- (1) Included all Stock Exchange Participants who became trading participants prior to the end of March 2004 (i.e. who had been in business for over six full months during the study period) and remained so at the end of September 2004.
- (2) Excluded participants whose trading was suspended from July 2004 to September 2004 or ceased on or before September 2004 or whose trading was less than 6 months during the study period. This is to avoid distortion of the results by participants who were in an abnormal course of business.
- (3) Each Exchange Participant firm was regarded as one responding unit. A partnership firm operated by two or more individual participants is regarded as one responding unit.

### 2. Methodology

- (1) The study period is from October 2003 to September 2004.
- (2) Exchange Participants (EPs) in the target population were ranked in descending order of their turnover value and were divided into three groups with equal shares by turnover value — large-sized brokers (contributing the top one-third of turnover in the target population), medium-sized brokers (contributing the second one-third of turnover) and small-sized brokers (contributing the bottom one-third of turnover). To achieve a fairer ranking, the actual turnover of new EPs whose trading periods were less than 12 months during the full-year study period were annualised for the ranking. The actual turnovers of the EPs were used in analysing the results.
- (3) The survey sample consisted of all brokers in the target population. Survey questionnaires were mailed to the respective target respondents in the sample. The survey sampling method is different from the past two surveys. In 2001/02 and 2002/03 surveys, the survey sample consisted of all large-sized and medium-sized brokers as well as a random sample covering 60% of small-sized brokers in the target population.
- (4) There was close telephone follow-up to ensure a high response rate.
- (5) In the survey questionnaire, EPs were requested to provide an estimated percentage breakdown of their trading value during the study period in accordance with the prescribed classification. For online trading, respondents were asked to give the percentage share of retail agency trading during the study period as online trading. EPs were requested to provide their consolidated trading composition including trading channelled through their affiliate or sister companies as far as possible, if applicable. For those who were known to have such situation but who refused to provide details, implied percentage figures from the rest of the responses in the same size group were used.



### Appendix 3. Survey methodology (cont'd)

- (6) Each responding EP's answers in percentage terms were weighted by the respondent's total turnover value (or retail agency turnover value for online trading) accordingly to obtain respective values in the responded sample. Based on the respective size group's total turnover value in the responded sample relative to that in the target population, the implied percentage shares of different types of trade in the market were then calculated.
- (7) The implied value of trading for a particular type of trade is determined by multiplying the percentage contribution to market turnover by that type of trade as obtained from the survey by the actual total market turnover during the study period for that year of survey.

### 3. Limitations

- (1) In providing the breakdown of total turnover value by the type of trade, many EPs could only provide their best estimates instead of hard data.
- (2) EPs might not know the true origins of all their client orders. For instance, an EP might classify transactions for a local institution as such when in fact the orders originated from overseas and were placed through that local institution, or vice versa.
- (3) In practice, it is not unusual for EPs to convey client orders to other EPs for execution. When providing the breakdown of their investor composition, most of the EPs would treat those EPs who conveyed orders to them as their ultimate clients, i.e. as local institutions, regardless of the client origin.
- (4) The non-responded EPs (all are small-sized brokers) may have different trading composition from the responded EPs. Since the survey has high response rate, the impact of the non-responded EPs to the overall findings should be negligible. Nevertheless, there might be some impact on trade types which had relatively low contribution to market turnover and which may be sourced mainly from a limited group of small-sized brokers, e.g. trading from minor overseas origins like Taiwan.
- (5) The random sampling method used in the previous two surveys would also have similar consequences as in point 4 above. Therefore, for trade types with very small contributions, the relative changes in their contributions over the years should be interpreted with caution.