

Research & Planning

Cash Market Transaction Survey
2004/05

April 2006



Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

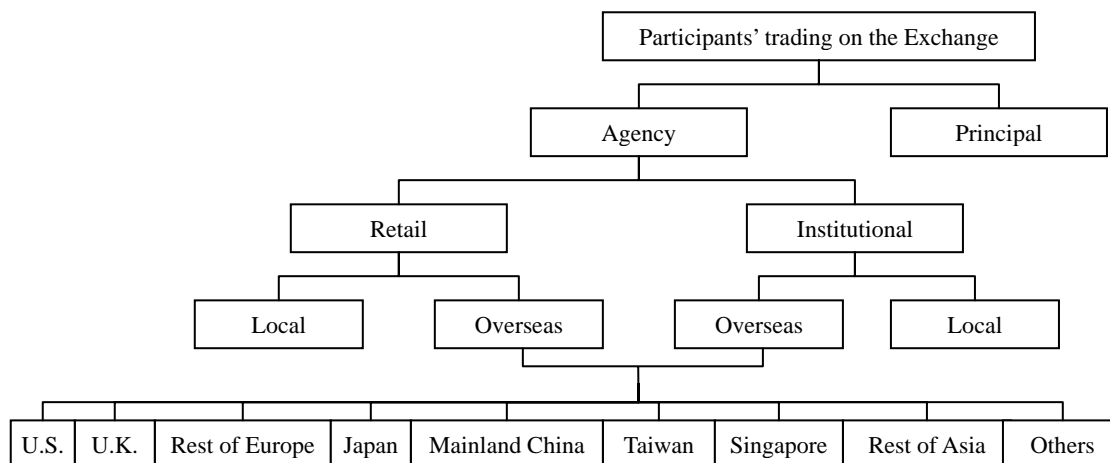
CONTENTS

	Page
1. Introduction	1
2. Key findings	2
3. Figures and tables	3
3.1 Distribution of market trading value by investor type.....	3
3.2 Distribution of overseas investor trading value by origin	6
3.3 Retail online trading	8
3.4 Distribution of market trading value by Broker Size Group	9
Glossary	12
Appendix 1. Response rate.....	13
Appendix 2. Representativeness of the responded sample vis-à-vis the target population of Exchange Participants	14
Appendix 3. Survey methodology.....	15
Appendix 4. Distribution of market trading value by broker category	17

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 investor type (see classification chart below). The market share of online trading¹ has been covered since 1999/2000.

Classification of Stock Exchange Participants' trading



The Cash Market Transaction Survey 2004/05 covered EPs' transactions on both the Main Board and the Growth Enterprise Market from October 2004 to September 2005. Fieldwork was conducted during November 2005 to January 2006.

The target population consisted of 416 EPs. For analysis purposes, they were ranked in descending order of their turnover values and were divided into three Size Groups with approximately equal shares by turnover value — 8 Large-Sized Brokers (contributing the top one-third of the target population's turnover), 16 Medium-Sized Brokers (contributing the second one-third) and 392 Small-Sized Brokers (contributing the bottom one-third).

Survey questionnaires were mailed to all EPs in the target population. Out of the 416 questionnaires sent, 378 duly completed questionnaires were received, representing an overall response rate of 91% by number or 97% by turnover value of target respondents.

The analysis by Size Group, consistent with previous surveys, should not be confused with the Exchange's classification by Category (Category A, B and C) which is based on a fixed number of brokers in Categories A and B. Separate analysis by Category is included in Appendix 4 for reference.

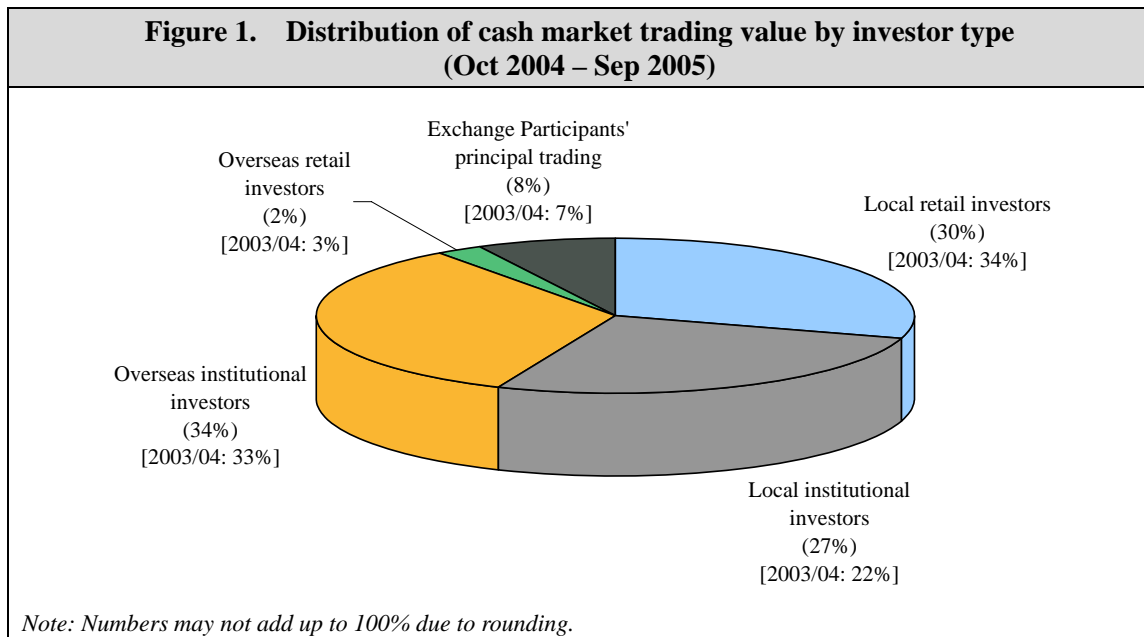
¹ Please refer to "Glossary" for definition.

2. KEY FINDINGS

- (1) Local investors remained the dominant contributors (56%) to the total market turnover in 2004/05, a similar level to the 57% in 2003/04. In the five years since 2000/01, the market share of local investor trading was between 56% and 58%, compared to 60% or above in the preceding five years.
- (2) Overseas investors, mainly institutional investors, contributed 36% to the total market turnover in 2004/05, the same level as in 2003/04. In the five years since 2000/01, the market share of overseas investor trading was between 36% and 40%, compared to 32% or below in the preceding five years.
- (3) The market share of Exchange Participants' principal trading was 8% in 2004/05, compared with 7% in 2003/04.
- (4) The contribution from local retail investors decreased from 34% in 2003/04 to 30% in 2004/05 while that from local institutional investors increased from 22% to 27%.
- (5) Overseas institutional investors made the largest contribution (34%) in 2004/05. They have been the largest contributor since 2000/01 except in 2003/04 when local retail investors' contribution was similarly large.
- (6) US investors became the major contributor to overseas investor trading in 2004/05 (29% vs 25% in 2003/04), surpassing the UK (25% vs 28% in 2003/04) for the first time in the past decade. The rest of Europe was the third most important source (22% vs 24% in 2003/04).
- (7) The aggregate contribution from Asian origins to overseas investor trading was 18% in 2004/05, slightly down from 20% in 2003/04. The contribution has been at around 18% to 23% since 1997/98.
- (8) Among the Asian origins, Singapore and Mainland China had the largest market shares of overseas investor trading in 2004/05 (8% and 5% respectively).
- (9) Local investor trading was mainly channeled through Small-Sized Brokers (48%) while overseas investor trading was mainly channeled through Medium- and Large-Sized Brokers (47% and 36% respectively).
- (10) The majority of trading from the US was channeled through Medium-Sized Brokers (63%); the majority from the UK through Medium-Sized Brokers (46%) and Large-Sized Brokers (44%); and the majority from the rest of Europe through Large-Sized Brokers (61%). Small-Sized Brokers had the majority market shares in channeling trading from Asia (46%) — Japan (55%), Mainland China (65%), and Taiwan (71%). Trading from Singaporean investors was channeled mainly through Medium-Sized Brokers (42%).
- (11) Retail online trading accounted for 11% of total retail investor trading in 2004/05, up from 10% in 2003/04 (or 4% of total market turnover, similar to 2003/04).
- (12) Retail online trading was served mainly by Small-Sized Brokers and Medium-Sized Brokers in 2004/05 (market shares of 49% and 48% respectively).

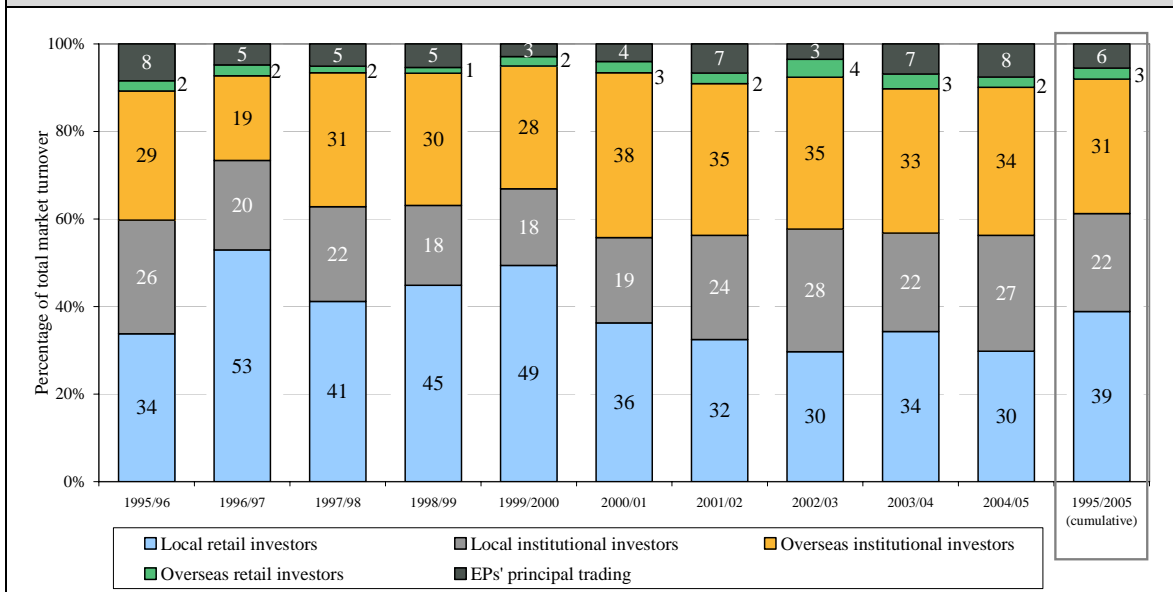
3. FIGURES AND TABLES

3.1 Distribution of market trading value by investor type



Type of trade	2002/03	2003/04	2004/05
All trading			
Agency	96.51	93.11	92.43
Principal	3.49	6.89	7.57
	100.00	100.00	100.00
Agency trading			
Retail	35.01	40.43	34.76
Institutional	64.99	59.57	65.24
	100.00	100.00	100.00
Agency trading			
Local	59.76	60.97	60.90
Overseas	40.24	39.03	39.10
	100.00	100.00	100.00
Retail investor trading			
Local	87.85	91.08	92.71
Overseas	12.15	8.92	7.29
	100.00	100.00	100.00
Institutional investor trading			
Local	44.62	40.53	43.96
Overseas	55.38	59.47	56.04
	100.00	100.00	100.00
Local investor trading			
Retail	51.48	60.40	52.91
Institutional	48.52	39.60	47.09
	100.00	100.00	100.00
Overseas investor trading			
Retail	10.57	9.24	6.48
Institutional	89.43	90.76	93.52
	100.00	100.00	100.00

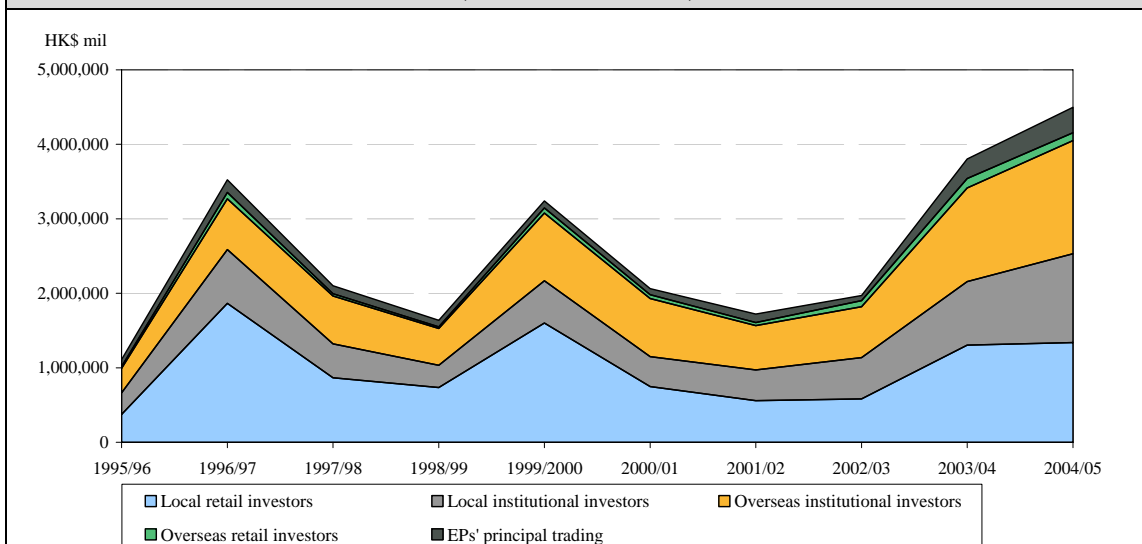
Figure 2. Distribution of cash market trading value by investor type (1995/96 – 2004/05)



Type of trade	Distribution of trading by type of trade (%)										1995/2005 cumulative market turnover (%)
	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	
EPs' principal trading	8.43	4.77	5.06	5.38	2.90	4.00	6.65	3.49	6.89	7.57	5.52
Overseas investor trading	31.84	21.85	32.11	31.53	30.19	40.23	37.08	38.84	36.34	36.14	33.25
Retail	2.35	2.49	1.54	1.30	2.13	2.58	2.39	4.10	3.36	2.34	2.51
Institutional	29.49	19.36	30.58	30.23	28.06	37.65	34.69	34.73	32.99	33.80	30.73
Local investor trading	59.73	73.38	62.83	63.09	66.91	55.77	56.27	57.67	56.77	56.30	61.23
Retail	33.76	52.94	41.16	44.87	49.38	36.27	32.46	29.69	34.29	29.78	38.86
Institutional	25.97	20.44	21.67	18.22	17.53	19.50	23.81	27.98	22.48	26.51	22.37

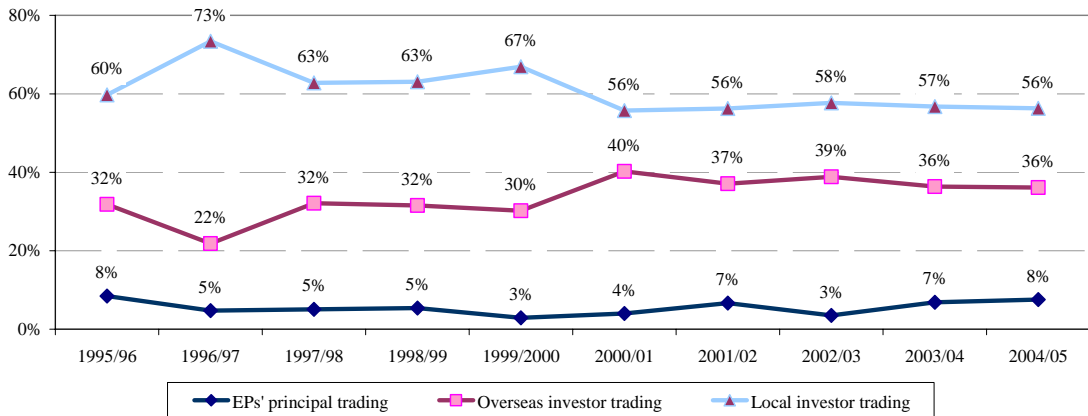
Note: Numbers may not add up to sub-totals or 100% due to rounding.

Figure 3. Implied value of cash market trading by investor type (1995/96 – 2004/05)



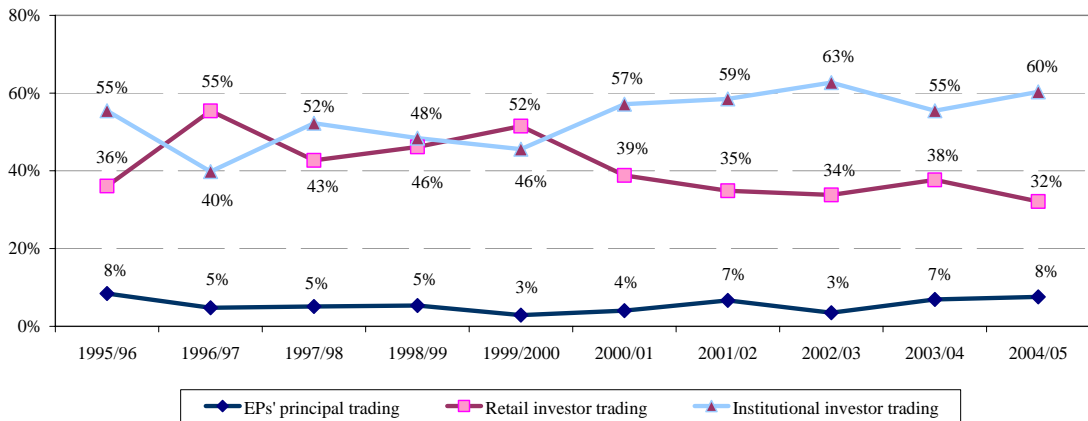
Note: The implied value of trading for a particular type of trade is determined by multiplying the percentage contribution to market turnover by that type of trade as obtained from the survey by the actual overall market turnover during the study period for that year of survey.

Figure 4. Distribution of cash market trading value by investor type (local vs overseas)(1995/96 – 2004/05)



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

Figure 5. Distribution of cash market trading value by investor type (retail vs institutional)(1995/96 – 2004/05)



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

3.2 Distribution of overseas investor trading value by origin

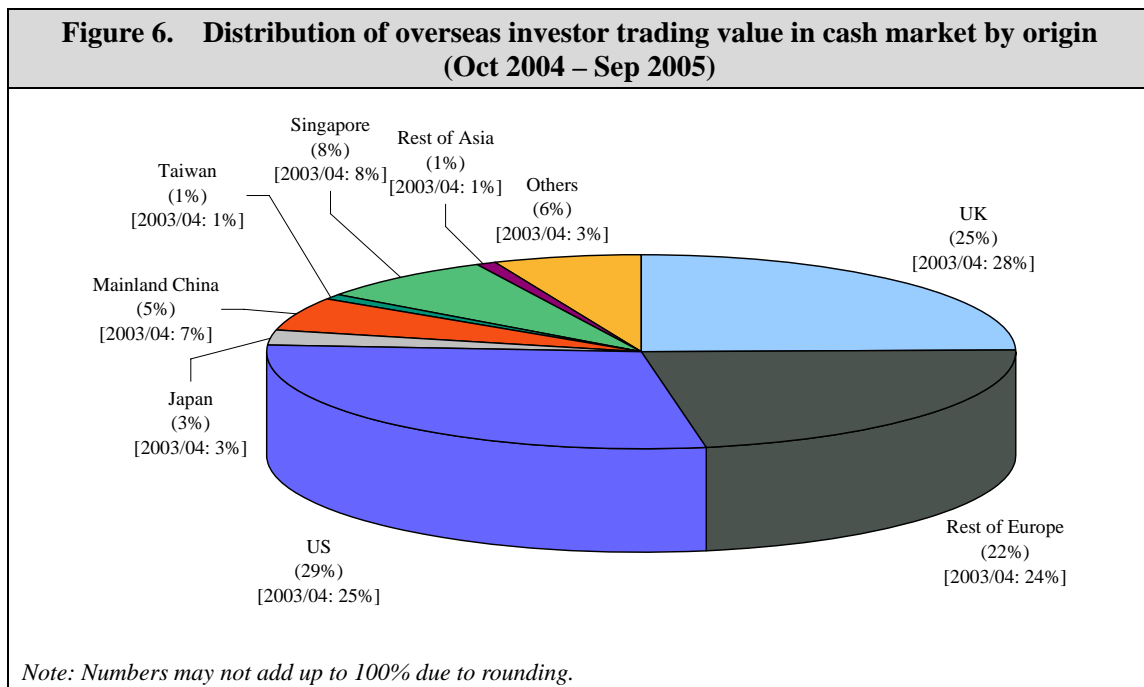
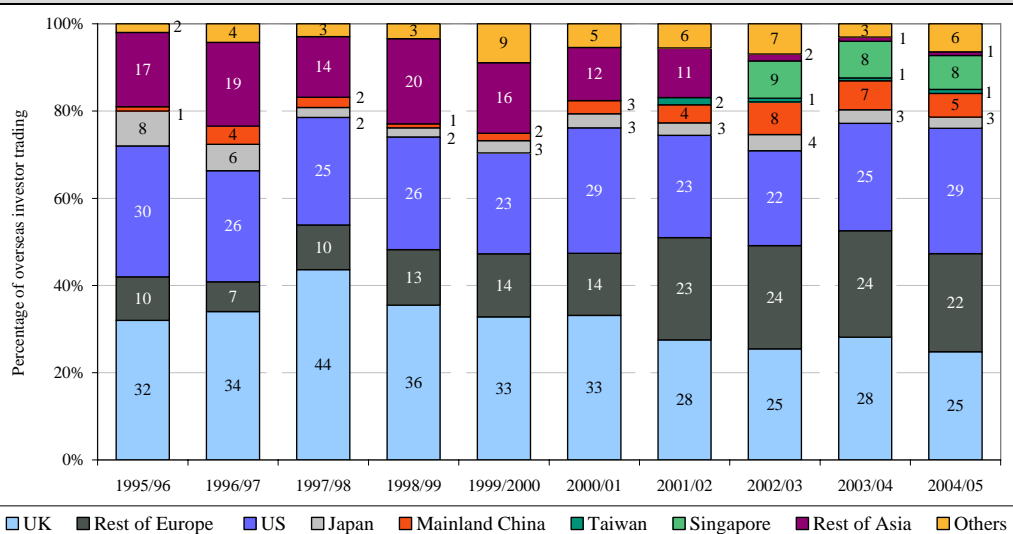


Figure 7. Distribution of overseas investor trading in cash market by origin (1995/96 – 2004/05)

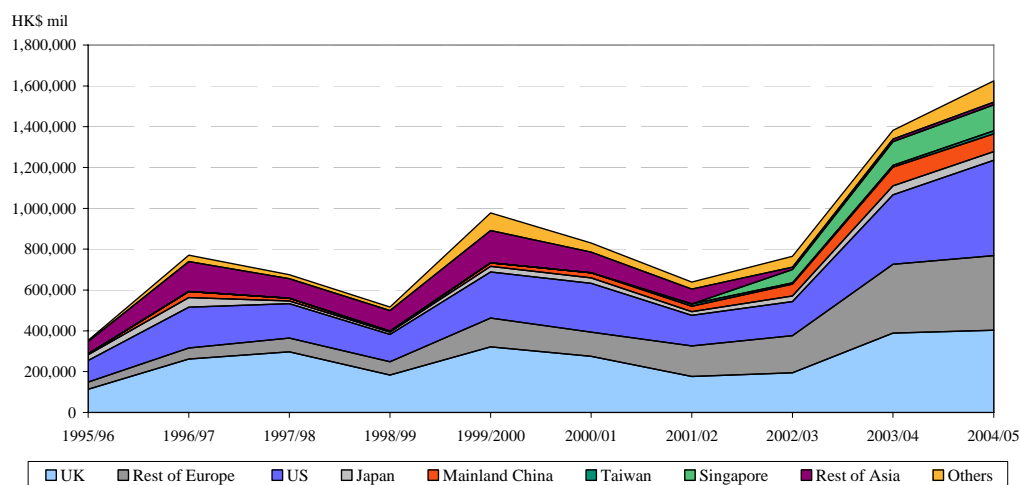


Overseas origin	Distribution of overseas investor trading by origin (%)									
	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05
UK & Europe	42	40.84	53.87	48.22	47.26	47.36	51.00	49.13	52.57	47.31
UK	32	34.02	43.64	35.52	32.82	33.11	27.53	25.45	28.13	24.82
Rest of Europe	10	6.82	10.23	12.70	14.44	14.24	23.47	23.68	24.44	22.50
US	30	25.50	24.66	25.84	23.12	28.80	23.42	21.81	24.61	28.75
Asia	26	29.41	18.56	22.55	20.71	18.44	20.07	22.11	19.77	17.53
Japan	8	6.01	2.28	2.07	2.83	3.20	2.88	3.66	3.13	2.56
Mainland China	1	4.20	2.35	0.93	1.70	3.06	4.13	7.50	6.65	5.41
Taiwan							1.68	0.83	0.66	0.92
Singapore								8.57	8.40	7.80
Rest of Asia	17	19.20	13.93	19.55	16.18	12.18	11.38	1.54	0.93	0.83
Others	2	4.24	2.90	3.39	8.91	5.40	5.51	6.95	3.05	6.40
Total	100	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Notes:

- (1) 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 sub-totals or 100% due to rounding.

Figure 8. Implied value of overseas investor trading in cash market by origin (1995/96 – 2004/05)



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) 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.

3.3 Retail online trading

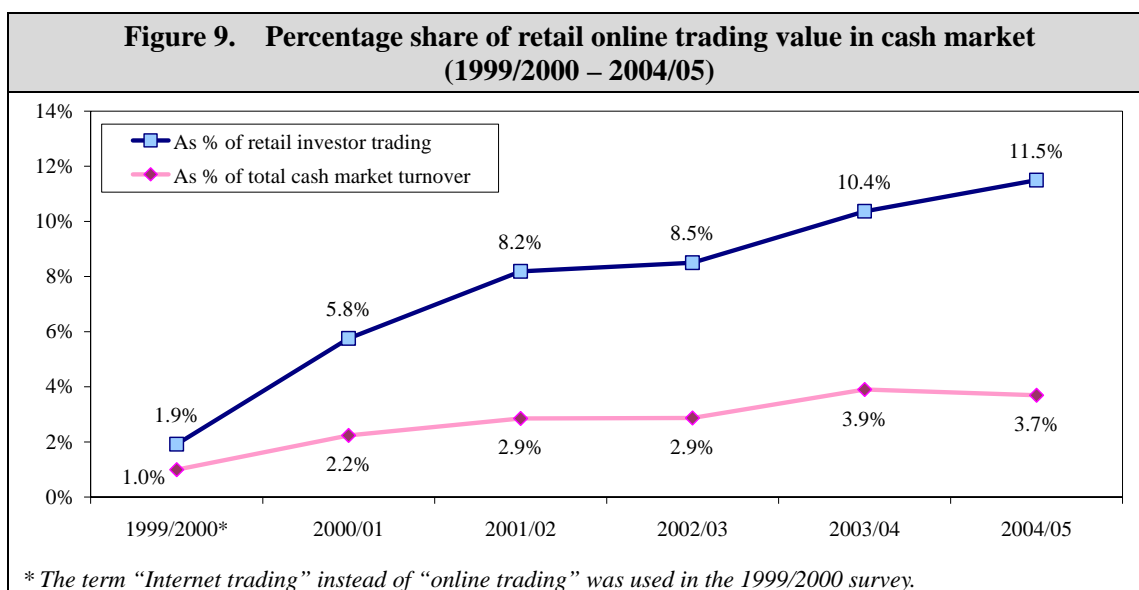


Table 2. Statistics on retail online trading in cash market by Broker Size Group (2003/04 – 2004/05)

	2003/04				2004/05			
	Large-Sized	Medium-Sized	Small-Sized	Overall	Large-Sized	Medium-Sized	Small-Sized	Overall
Responded sample size	8	19	361	388	8	15	355	378
<i>Online brokers</i> ⁽¹⁾								
Number of online brokers ⁽²⁾	2	6	77	85	1	5	91	97
- As % of the Size Group	25.00%	31.58%	21.33%	21.91%	12.50%	33.33%	25.63%	25.66%
No. of online brokers normally requiring manual order re-input ⁽³⁾	0	1	4	5	0	1	0	1
- As % of online brokers of the Size Group	0.00%	16.67%	5.19%	5.88%	0.00%	20.00%	0.00%	1.03%
<i>Online trading</i>								
<i>Among all brokers:</i>								
Total implied online trading value (HK\$ mil, 2-sided)	6,792	126,325	161,545	294,661	8,587	158,856	164,038	331,481
- As % of total market turnover	0.27%	5.03%	6.37%	3.90%	0.28%	5.56%	5.45%	3.69%
- As % of all investor trading	0.33%	5.03%	6.50%	4.19%	0.34%	5.62%	5.53%	4.00%
- As % of retail investor trading	1.70%	17.07%	9.48%	10.37%	3.15%	27.21%	8.09%	11.50%
Market share of the Size Group in online trading value	2.30%	42.87%	54.82%	100.00%	2.59%	47.92%	49.49%	100.00%
<i>Among online brokers only:</i>								
- As % of total turnover of online brokers	1.16%	19.66%	14.53%	12.59%	2.46%	20.93%	10.85%	12.65%
- As % of all investor trading	1.16%	19.69%	14.67%	12.66%	2.46%	20.93%	10.99%	12.75%
- As % of retail investor trading	1.89%	23.64%	18.50%	16.67%	3.27%	32.95%	13.72%	17.08%
Percentage of online trading requiring manual order re-input ⁽⁴⁾	0.00%	0.80%	0.08%	0.40%	0.00%	0.68%	0.00%	0.33%

Notes:

- (1) "Online brokers" refers to EPs offering online trading service to retail clients in the 2004/05 survey but refers to EPs recording retail online trading in the previous surveys.
- (2) In 2003/04 and 2004/05 surveys, one respondent in the Small-Sized Broker Group, which is believed to have substantial online trading business channeled from its subsidiary, did not provide the percentage on its online trading through its subsidiary. The respondent was nevertheless regarded as an online broker but was treated as a case with missing response in computing statistics on online trading value.
- (3) 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 at above market price, exceptionally large order size, odd lots or stock price lower than \$0.01.
- (4) Calculated in terms of implied online trading value as reported by responding EPs which indicated the need for manual re-input as a percentage of total implied online trading value of all responding EPs. Implied online trading value is the reported percentage of retail investor trading as online trading multiplied by the EP's retail turnover value. The retail turnover value of an EP is in turn calculated by multiplying the reported percentage of total turnover as retail trading by the EP's total turnover during the study period.

3.4 Distribution of market trading value by Broker Size Group

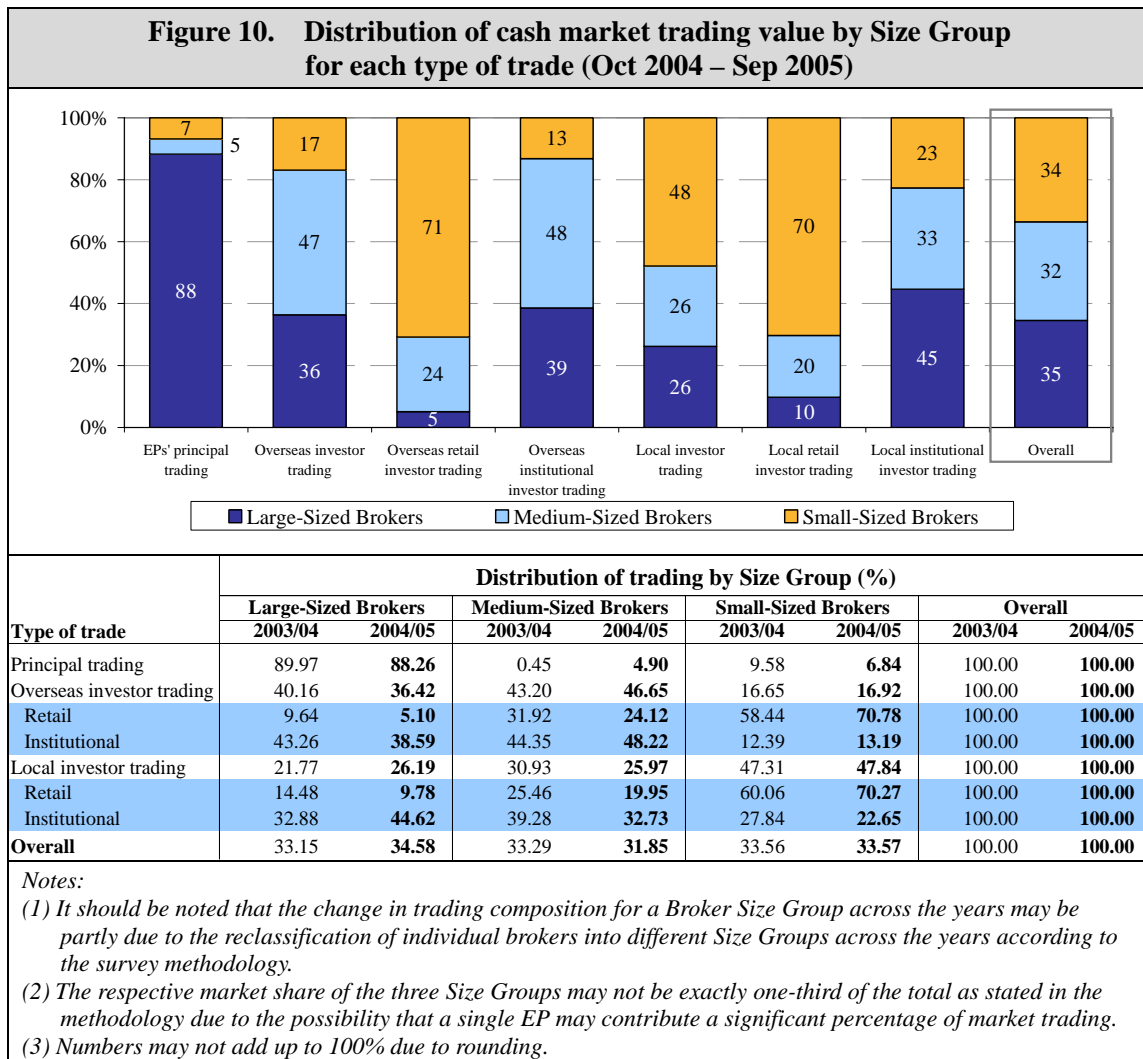
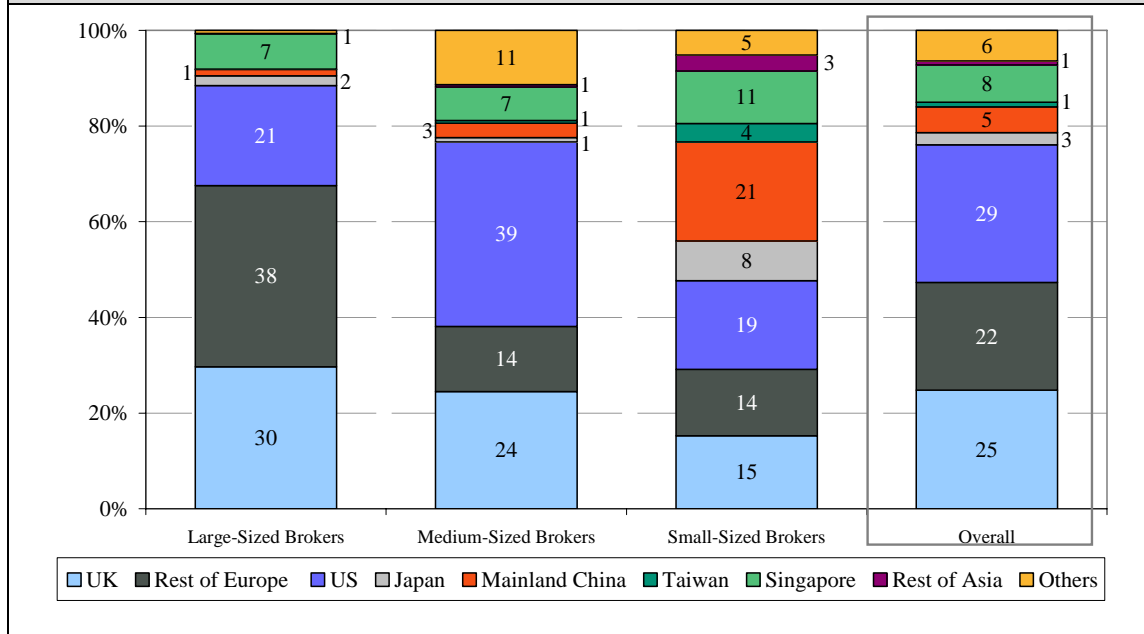


Figure 11. Distribution of overseas investor trading in cash market by origin for each Size Group (Oct 2004 – Sep 2005)



	Distribution of overseas investor trading by origin for each Size Group (%)							
	Large-Sized Brokers		Medium-Sized Brokers		Small-Sized Brokers		Overall	
	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05
Europe	52.07	67.57	60.42	38.10	33.39	29.12	52.57	47.31
UK	32.53	29.68	28.04	24.48	17.72	15.26	28.13	24.82
Rest of Europe	19.54	37.89	32.39	13.62	15.67	13.86	24.44	22.50
US	32.60	20.89	22.39	38.58	11.07	18.56	24.61	28.75
Asia	13.38	10.90	14.99	11.97	47.63	47.15	19.77	17.53
Japan	1.40	2.05	1.45	0.89	11.62	8.28	3.13	2.56
Mainland China	2.00	1.35	4.51	3.03	23.44	20.70	6.65	5.41
Taiwan	0.33	0.03	0.32	0.56	2.34	3.87	0.66	0.92
Singapore	9.53	7.39	8.15	6.98	6.31	10.97	8.40	7.80
Rest of Asia	0.12	0.08	0.55	0.51	3.92	3.33	0.93	0.83
Others	1.95	0.65	2.20	11.34	7.91	5.18	3.05	6.40
Overall	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

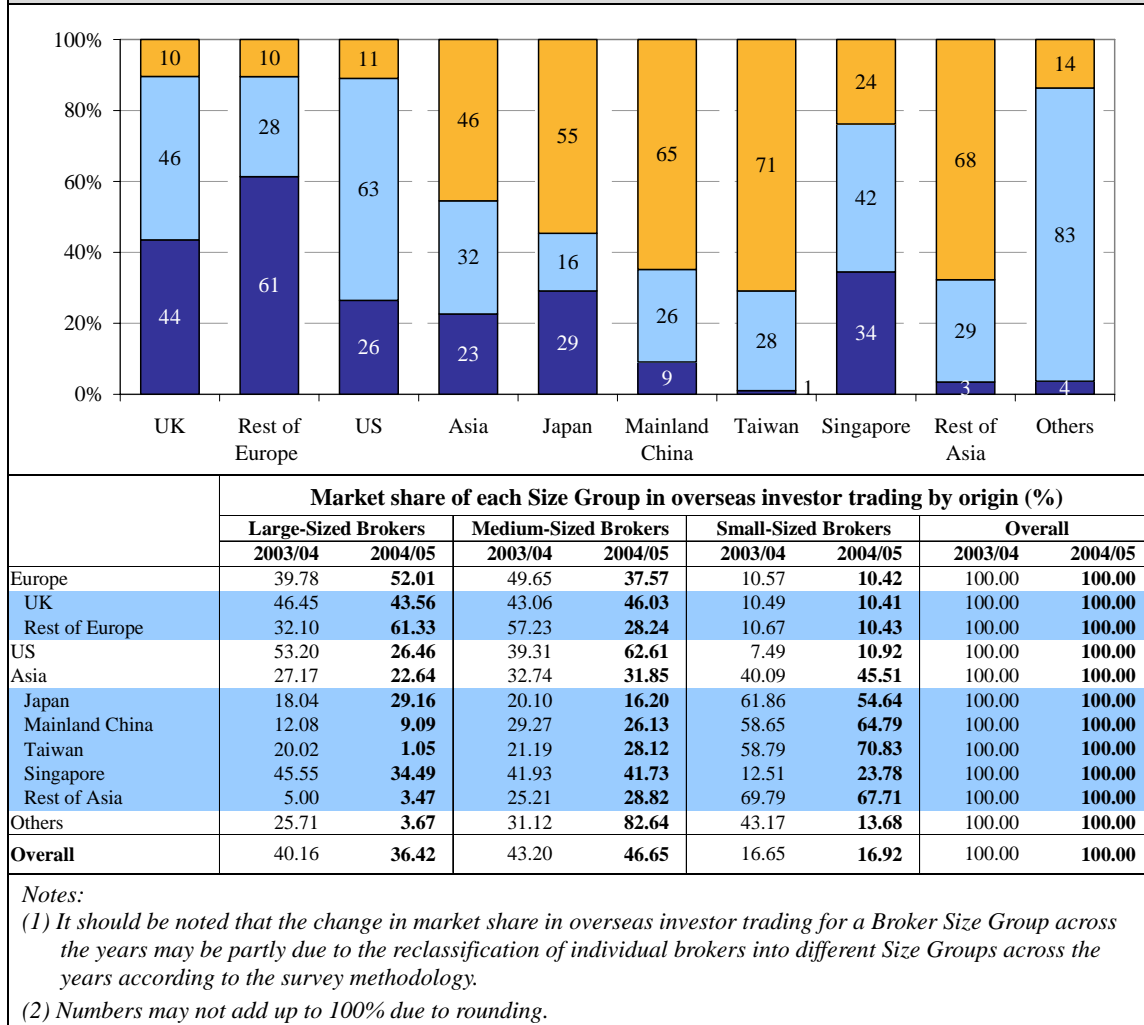
Note:

(1) It should be noted that the change in overseas investor trading composition for a Broker Size Group across the years may be partly due to the reclassification of individual brokers into different Size Groups across the years according to the survey methodology.

(2) Origins with contribution of less than 0.5% are not shown in the chart.

(3) Numbers may not add up to sub-totals or 100% due to rounding.

Figure 12. Market share of each Size Group in overseas investor trading in cash market by origin (Oct 2004 – Sep 2005)



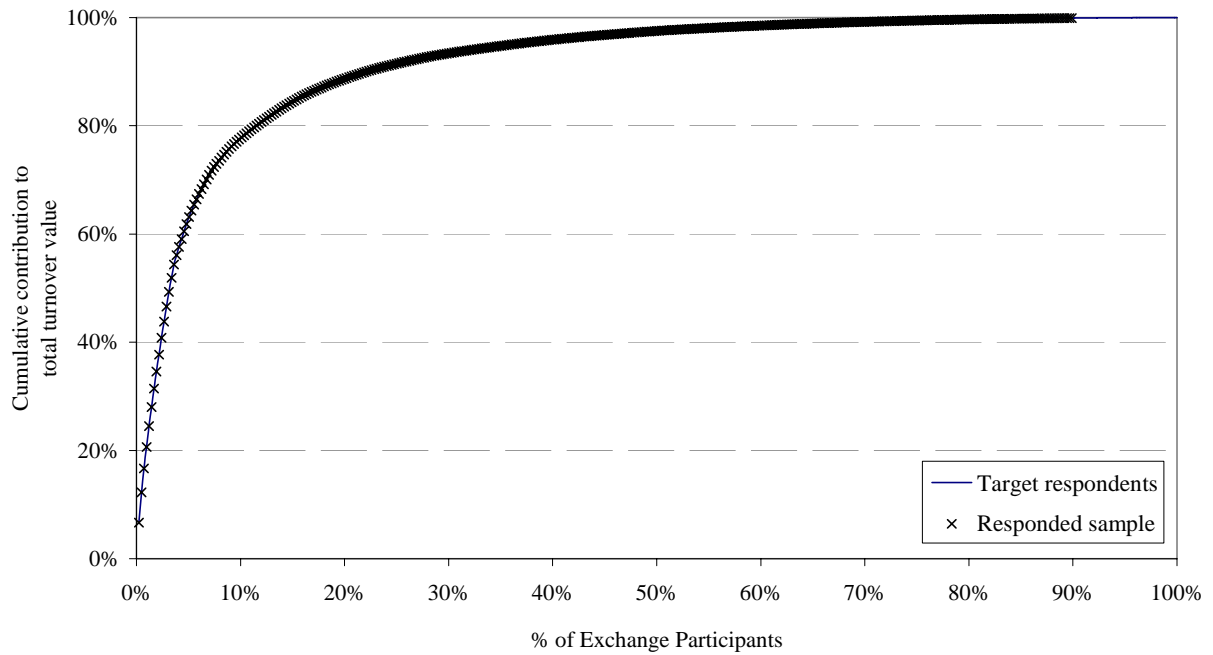
GLOSSARY

<i>Principal trading:</i>	Trading on the participant firm's own account.
<i>Agency trading:</i>	Trading on behalf of the participant firm's clients, including investor trading channeled from the firm's parent or sister companies.
<i>Individual/Retail investors:</i>	Investors who trade on their personal accounts.
<i>Institutional investors:</i>	Investors who are not individual/retail investors.
<i>Local investors:</i>	Individual/retail investors residing in Hong Kong or institutional investors operating in Hong Kong — Hong Kong as the source of funds.
<i>Overseas investors:</i>	Individual/retail investors residing outside Hong Kong or institutional investors operating outside Hong Kong — overseas as the source of funds.
<i>Online trading:</i>	Retail trading originating from orders entered directly by investors and channeled to the brokers via electronic media such as the Internet. This would include investor orders routed to the HKEx trading system automatically on a straight-through basis and investor orders received via electronic media but having to be manually re-input into the HKEx trading system.
<i>Online brokers:</i>	Stock Exchange Participants who offer online trading service to retail investors.
<i>Large-Sized Brokers:</i>	Stock Exchange Participants who contributed the top one-third of the total turnover value of the target population for the study period.
<i>Medium-Sized Brokers:</i>	Stock Exchange Participants who contributed the second one-third of the total turnover value of the target population for the study period.
<i>Small-Sized Brokers:</i>	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	100.00%	100.00%
Medium-Sized Brokers	16	15	93.75%	95.92%
Small-Sized Brokers	392	355	90.56%	95.98%
All participants	416	378	90.87%	97.35%

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



APPENDIX 3. SURVEY METHODOLOGY

(1) Target population

The target population included all trading Stock Exchange Participants of the cash market who became trading participants prior to the end of March 2005 (i.e. who had been in business for over 6 full months during the study period) and remained so at the end of September 2005. It excluded participants whose trading was suspended from July 2005 to September 2005 or ceased on or before September 2005 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.

Each Exchange Participant (EP) firm is regarded as one responding unit. A partnership firm operated by two or more individual participants is regarded as one responding unit.

(2) Methodology

The study period is from October 2004 to September 2005.

EPs in the target population were ranked in descending order by turnover value and were divided into three Size Groups with equal shares by turnover value during the study period — 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 period was less than 12 months during the study period were annualised for the ranking. The actual turnover of the EPs was used in analysing the results.

The survey sample consisted of all EPs in the target population. Survey questionnaires were mailed to each EP firm in the sample, with close telephone follow-up to ensure a high response rate.

The survey sampling method had changed in different years of the survey series. 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. In the prior years and since the 2003/04 survey, a census approach was adopted.

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. The question about online trading in the 2004/05 survey questionnaire was different from prior years. In the 2004/05 survey, respondents were asked whether they offered online trading service to retail clients and the proportion of retail online trading; in prior years they were asked to give only the proportion of retail online trading, if any. There might be cases where an EP provided the services but no online trading was recorded.

EPs were requested to provide their consolidated trading composition including trading channeled 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.

Each responding EP's answers in percentage terms were weighted by the respondent's total turnover value 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.

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

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.

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.

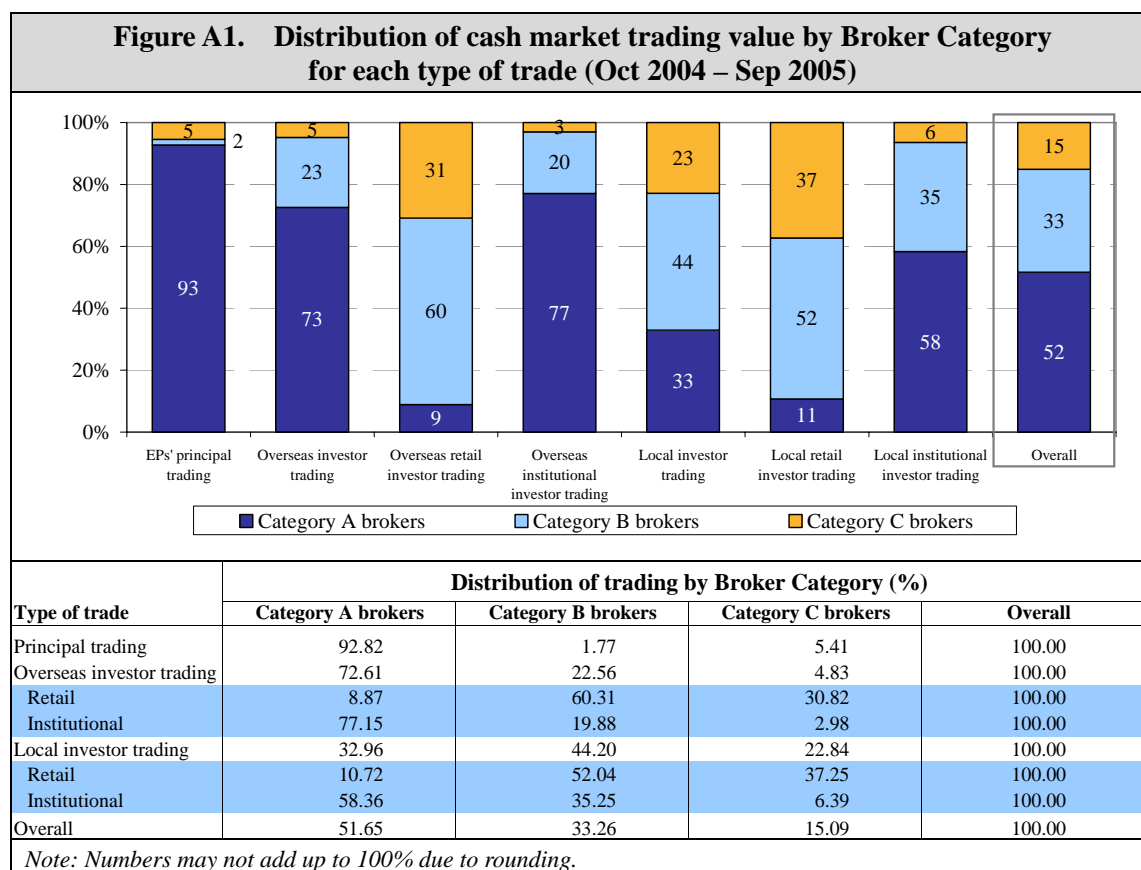
In practice, it is not unusual for EPs to convey client orders to other EPs for execution. When providing the breakdown of their investor composition, most of the EPs would treat those EPs who conveyed orders to them as their ultimate clients, i.e. as local institutions, regardless of the client origin.

The non-responded EPs (one Medium-Sized Broker and the rest are Small-Sized Brokers) may have different trading composition from the responded EPs. Since the survey has a 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.

The random sampling method used in the previous surveys in 2001/02 and 2002/03 would also have consequences similar to those stated in the above paragraph. Therefore, for trade types with very small contributions, the relative changes in their contributions over the years should be interpreted with caution.

APPENDIX 4. DISTRIBUTION OF MARKET TRADING VALUE BY BROKER CATEGORY²

Broker Category	Target population	Responded sample	Response rate	As % of turnover in target population
A	14	14	100.00%	100.00%
B	51	49	96.08%	95.13%
C	351	315	89.74%	93.17%
All participants	416	378	90.87%	97.35%



² Category A brokers were those ranking 1st to 14th in terms of levy and fee paid to the Exchange in 2005; Category B brokers ranking 15th to 65th; and Category C brokers ranking 66th or after.

Figure A2. Distribution of overseas investor trading in cash market by origin for each Broker Category (Oct 2004 – Sep 2005)

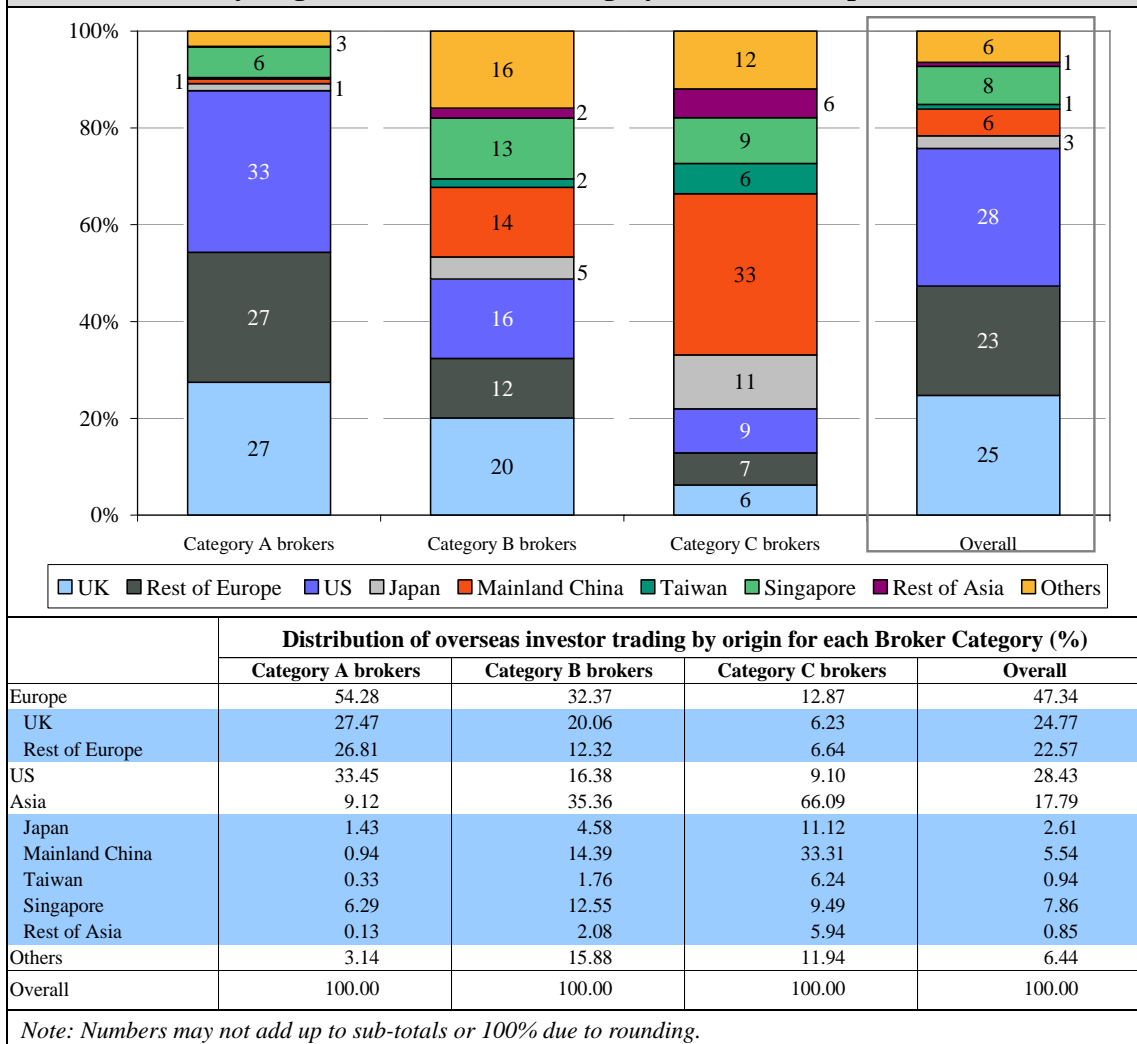


Figure A3. Market share of each Broker Category in overseas investor trading in cash market by origin (Oct 2004 – Sep 2005)

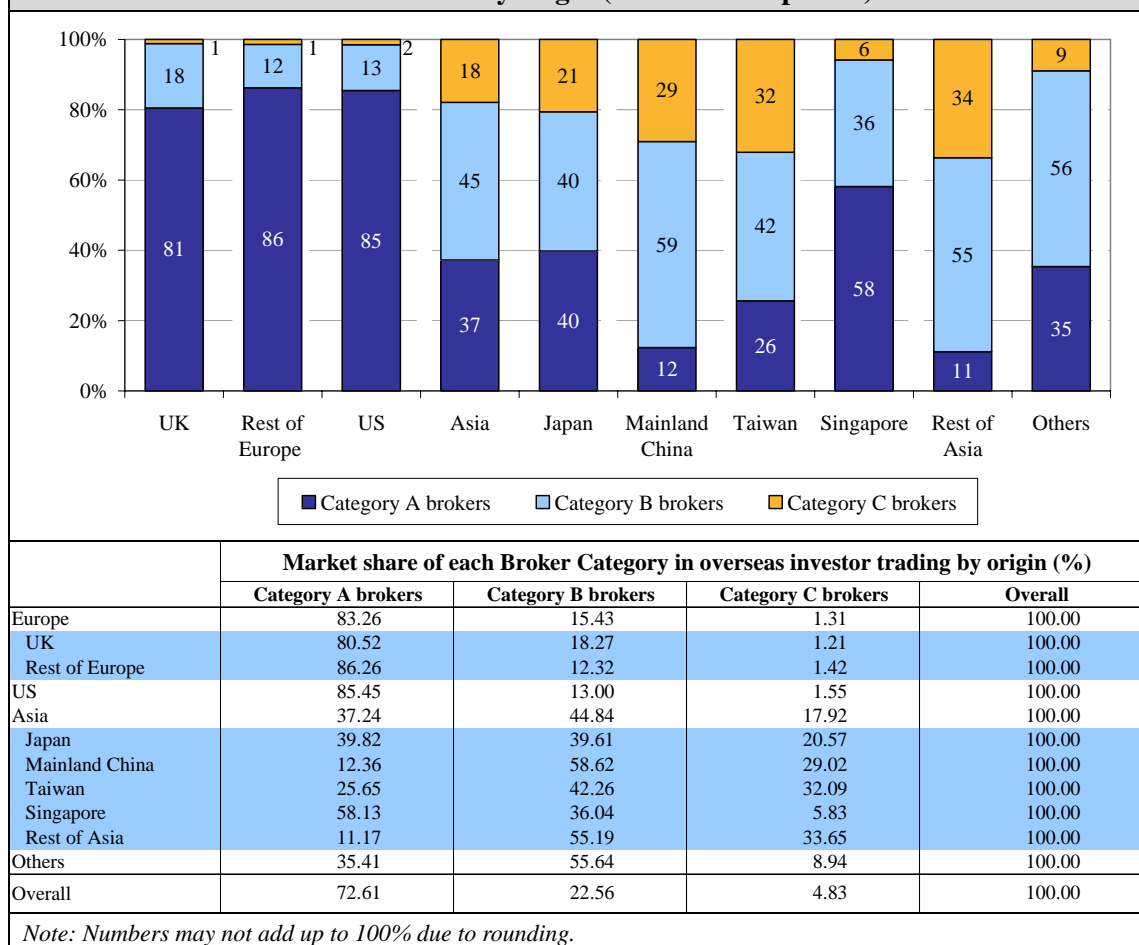


Table A2. Statistics on retail online trading in cash market by Broker Category (Oct 2004 – Sep 2005)				
	Category A	Category B	Category C	Overall
Responded sample size	14	51	351	416
<i>Online brokers</i>				
Number of online brokers ⁽¹⁾	1	29	67	97
- As % of the Broker Category	7.14%	56.86%	19.09%	23.32%
No. of online brokers normally requiring manual order re-input ⁽²⁾	0	1	0	1
- As % of online brokers of the Broker Category	0.00%	3.45%	0.00%	1.03%
<i>Online trading</i> ⁽³⁾				
<i>Among all brokers:</i>				
Total implied online trading value (HK\$ mil, 2-sided)	8,587	277,458	49,226	335,270
- As % of total market turnover	0.19%	9.29%	3.64%	3.74%
- As % of all investor trading	0.21%	9.33%	3.74%	4.04%
- As % of retail investor trading	2.77%	18.01%	4.57%	11.46%
Market share of the Broker Category in online trading value	2.56%	82.76%	14.68%	100.00%
<i>Among online brokers only:</i>				
- As % of total turnover of online brokers	2.46%	15.14%	10.50%	12.65%
- As % of all investor trading	2.46%	15.21%	10.79%	12.75%
- As % of retail investor trading	3.27%	21.26%	12.44%	17.08%
Percentage of online trading requiring manual order re-input ⁽⁴⁾	0.00%	0.39%	0.00%	0.33%
<i>Notes:</i>				
(1) In 2004/05 survey, one respondent in Category B, which is believed to have substantial online trading business channeled from its subsidiary, did not provide the percentage on its online trading through its subsidiary. The respondent was nevertheless regarded as an online broker but was treated as a case with missing response in computing statistics on online trading value.				
(2) 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 at above market price, exceptionally large order size, odd lots or stock price lower than \$0.01.				
(3) The analysis of results by Broker Category used the response rates (in turnover value) by Broker Category as the projection factor for calculating the projected turnover by trade type in the target population; while the analysis of results by Broker Size Group used the response rates by Size Group as the projection factor. Therefore, the overall results on online trading are slightly different.				
(4) Calculated in terms of implied online trading value as reported by responding EPs which indicated the need for manual re-input as a percentage of total implied online trading value of all responding EPs. Implied online trading value is the reported percentage of retail investor trading as online trading multiplied by the EP's retail turnover value. The retail turnover value of an EP is in turn calculated by multiplying the reported percentage of total turnover as retail trading by the EP's total turnover during the study period.				

* * *