

Research & Corporate Development

CASH MARKET
TRANSACTION SURVEY 2006/07

January 2008



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

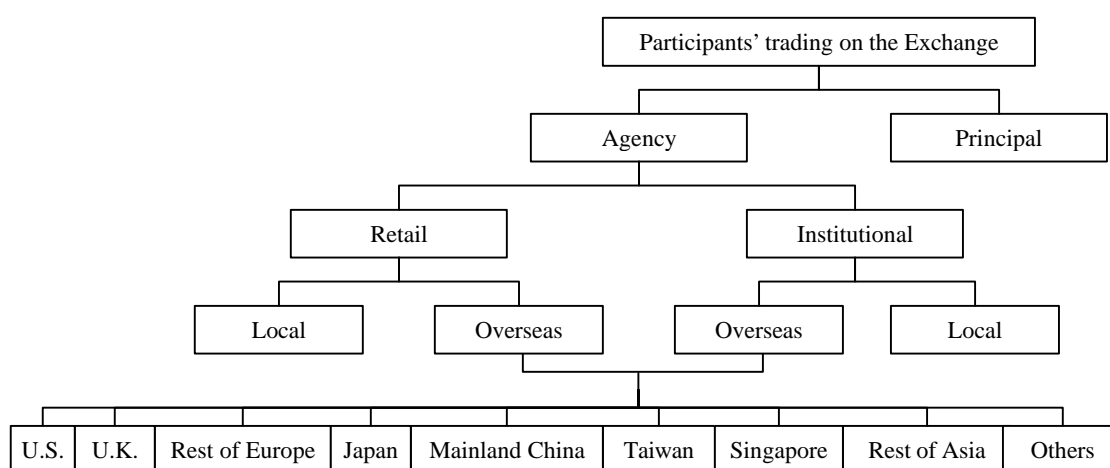
CONTENTS

	Page
1. Introduction	1
2. Key findings	2
3. Figures and tables	4
3.1 Distribution of market trading value by investor type	4
3.2 Distribution of overseas investor trading value by origin	8
3.3 Retail online trading	11
Glossary	12
Appendix 1. Representativeness of the responded sample vis-à-vis the target population of Exchange Participants	13
Appendix 2. Survey methodology	14

1. INTRODUCTION

The Cash Market Transaction Survey (CMTS) 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 securities market, including the Main Board and the Growth Enterprise Market (GEM), 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 2006/07 covered EPs' transactions on both the Main Board and the Growth Enterprise Market for the 12-month period from October 2006 to September 2007. Fieldwork was conducted during October 2007 to December 2007.

Survey questionnaires were mailed to 416 EPs in the target population. Out of the 416 questionnaires sent, 380 duly completed questionnaires were received, representing an overall response rate of 91% by number or 97% by turnover value of target respondents.

¹ Please refer to "Glossary" for definition.

2. KEY FINDINGS

Trading value by investor type

- (1) The distribution pattern of market turnover by investor type — local retail/institutional investors and overseas retail/institutional investors — in 2006/07 was similar to that in 2005/06, with little change in the percentage contributions from the respective investor types.
- (2) Local investors remained the major contributors (53%) of total market turnover in 2006/07, a similar level as in 2005/06 and the lowest during the past decade (the past ten study periods). It is in fact the lowest level since the survey started in 1991. Local investors contributed 56% of the cumulative market turnover in the past decade.
- (3) Overseas investors, mainly institutional investors, contributed 43% of total market turnover in 2006/07 (vs 41% in 2005/06), the highest level since the survey started in 1991. They contributed 39% of the cumulative market turnover in the past decade.
- (4) Institutional investors contributed 65% of total market turnover in 2006/07, a similar level as in 2005/06 and the highest since the survey started in 1991. Retail investors contributed 31% of total market turnover, a level much lower than in the 1990s.
- (5) The market share of Exchange Participants' principal trading was 4% in 2006/07, compared to 5% in 2005/06.
- (6) The contribution from local retail investors was 28% in 2006/07, similar to the 27% in 2005/06. Local institutional investors contributed 25% of total market turnover in 2006/07, compared with 26% in 2005/06.
- (7) The contribution from overseas institutional investors remained the largest among all contributor groups — 39% in 2006/07, an increase for the fourth consecutive year.

Trading value by overseas investors by origin

- (8) US investors overtook UK investors in 2004/05 to be the largest contributor to overseas investor trading and remained so in 2006/07. Their contribution to overseas investor trading increased from 26% in 2005/06 to 29% in 2006/07.
- (9) UK investors were the second largest contributor to overseas investor trading, their contribution increasing from 24% in 2005/06 to 27% in 2006/07. The contribution of investors from the rest of Europe to overseas investor trading decreased significantly from 23% in 2005/06 to 16% in 2006/07.
- (10) The aggregate contribution from Asian investors to overseas investor trading was 22% in 2006/07, compared to 21% in 2005/06. Among them, Mainland China and Singapore remained the largest contributors (8% and 7% respectively in 2006/07).

Retail online trading

- (11) Retail online trading accounted for 17% of total retail investor trading in 2006/07, up from 13% in 2005/06. Its contribution to total market turnover rose to 5% in 2006/07, compared to below 4% before².

² Since EPs might not be able to identify retail online trading channeled via banks (which might be regarded as their institutional clients), the level of retail online trading might be subject to under-estimation.

3. FIGURES AND TABLES

3.1 Distribution of market trading value by investor type

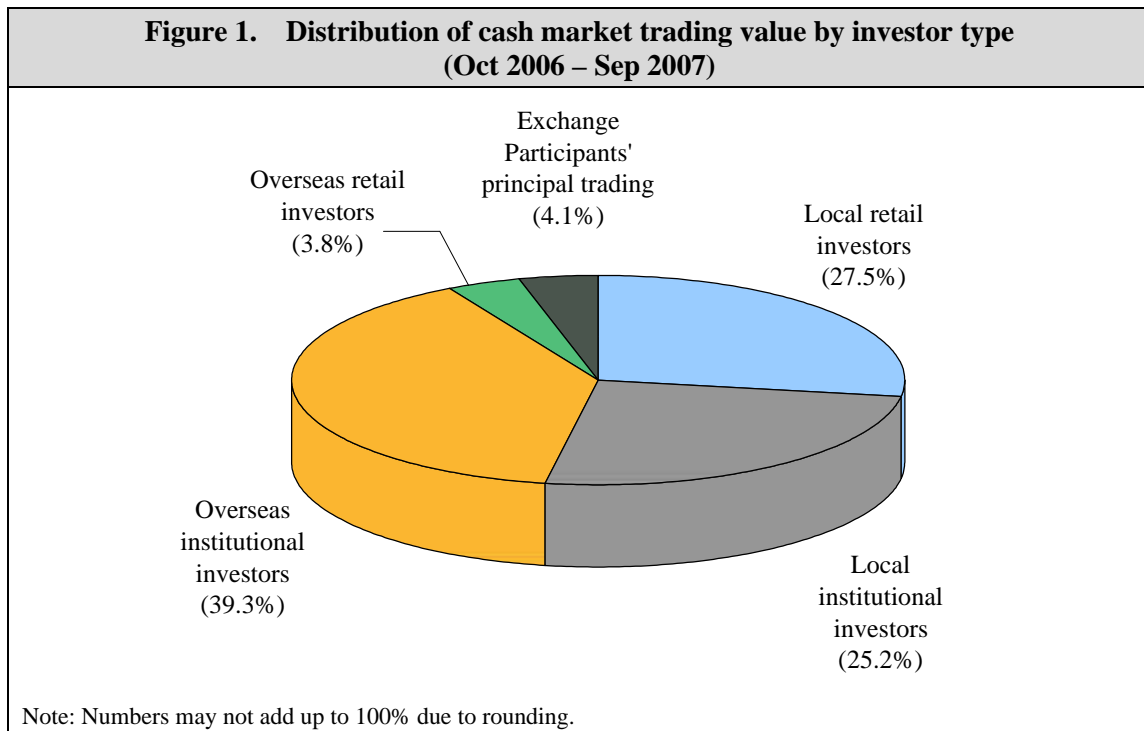
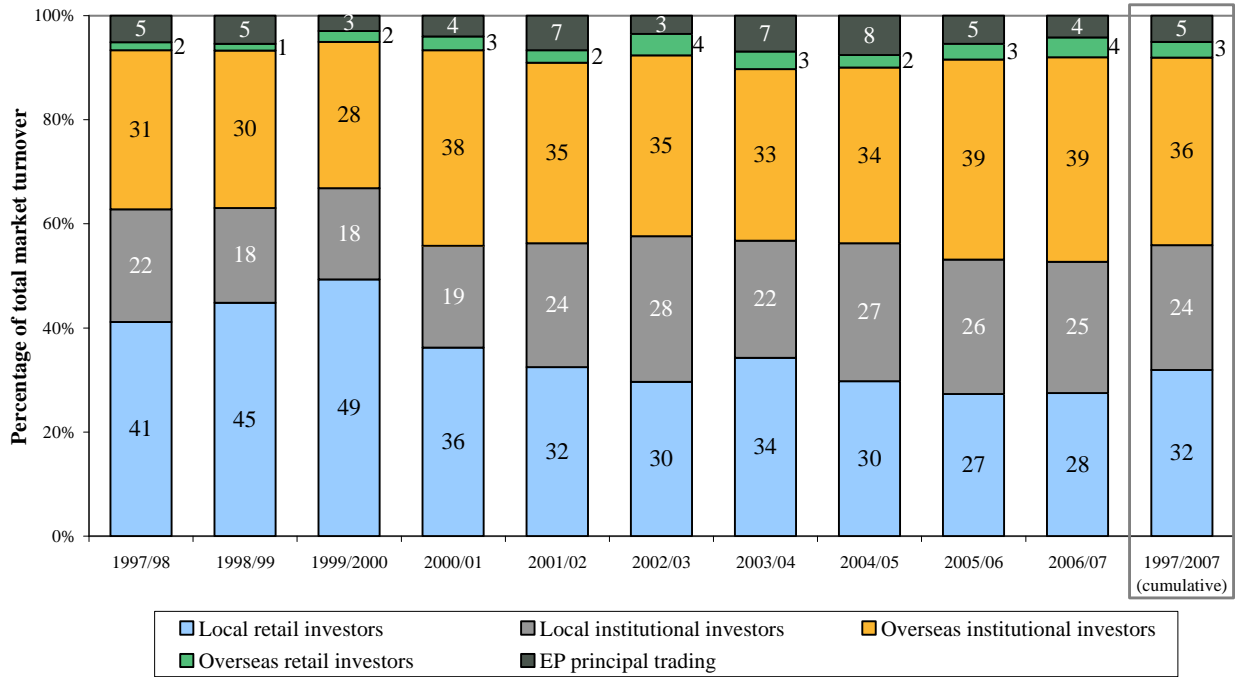


Table 1. Breakdown of contribution by type of trade in cash market (2004/05 – 2006/07)

Type of trade	2004/05	2005/06	2006/07
All trading			
Agency	92.43	94.59	95.85
Principal	7.57	5.41	4.15
	100.00	100.00	100.00
Agency trading			
Retail	34.76	32.03	32.67
Institutional	65.24	67.97	67.33
	100.00	100.00	100.00
Agency trading			
Local	60.90	56.16	55.03
Overseas	39.10	43.84	44.97
	100.00	100.00	100.00
Retail investor trading			
Local	92.71	90.22	87.84
Overseas	7.29	9.78	12.16
	100.00	100.00	100.00
Institutional investor trading			
Local	43.96	40.10	39.11
Overseas	56.04	59.90	60.89
	100.00	100.00	100.00
Local investor trading			
Retail	52.91	51.46	52.14
Institutional	47.09	48.54	47.86
	100.00	100.00	100.00
Overseas investor trading			
Retail	6.48	7.14	8.83
Institutional	93.52	92.86	91.17
	100.00	100.00	100.00

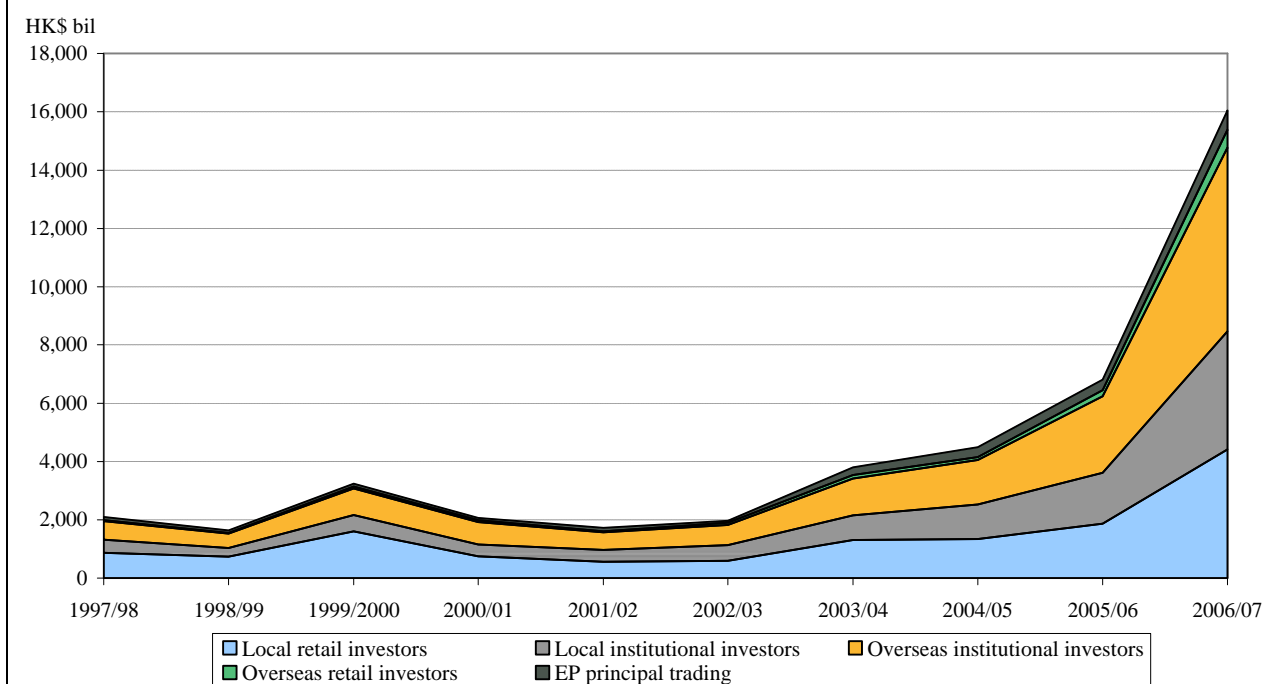
Figure 2. Distribution of cash market trading value by investor type (1997/98 – 2006/07)



Type of trade	Distribution of cash market trading by type of trade (%)										1997/2007 cumulative market turnover (%)
	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	
EP principal trading	5.06	5.38	2.90	4.00	6.65	3.49	6.89	7.57	5.41	4.15	4.99
Overseas investor trading	32.11	31.53	30.19	40.23	37.08	38.84	36.34	36.14	41.47	43.10	39.08
Retail	1.54	1.30	2.13	2.58	2.39	4.10	3.36	2.34	2.96	3.81	3.06
Institutional	30.58	30.23	28.06	37.65	34.69	34.73	32.99	33.80	38.51	39.30	36.02
Local investor trading	62.83	63.09	66.91	55.77	56.27	57.67	56.77	56.30	53.12	52.75	55.93
Retail	41.16	44.87	49.38	36.27	32.46	29.69	34.29	29.78	27.34	27.50	31.92
Institutional	21.67	18.22	17.53	19.50	23.81	27.98	22.48	26.51	25.78	25.24	24.01

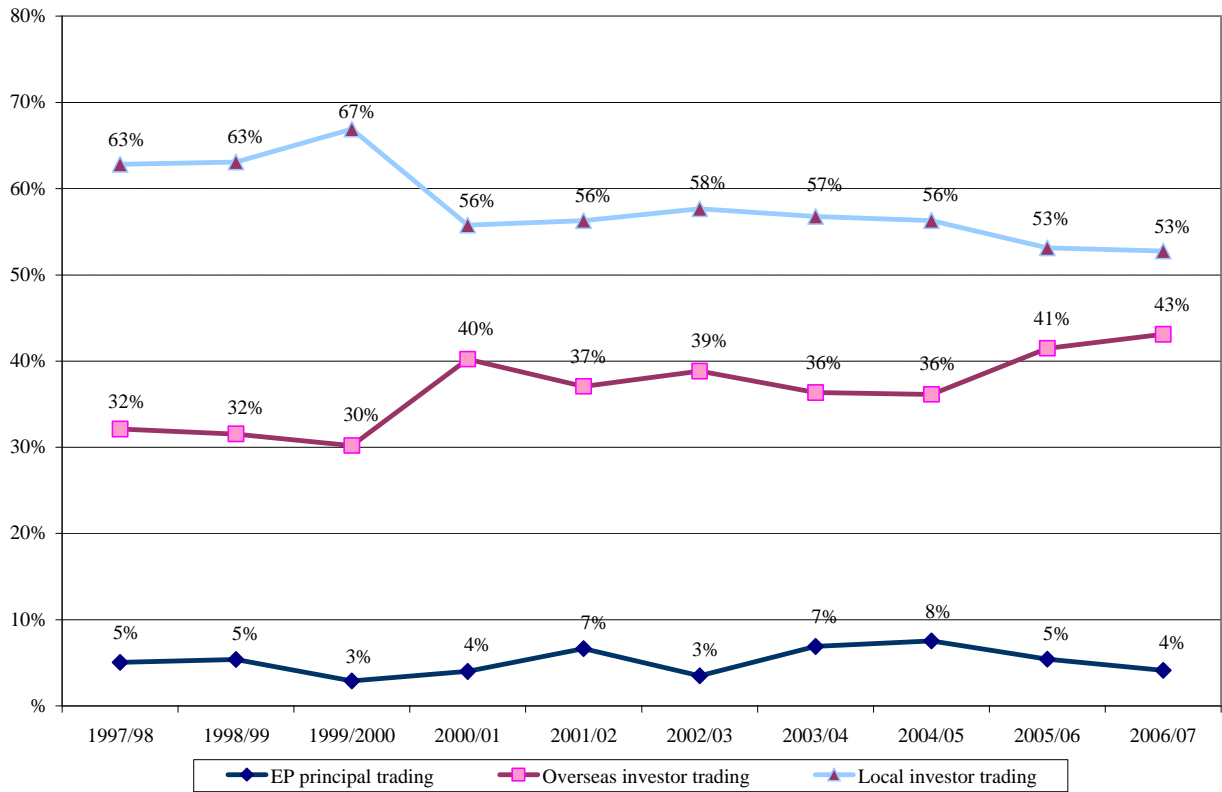
Note: Numbers may not add up to sub-totals or 100% due to rounding.

**Figure 3. Implied value of cash market trading by investor type
(1997/98 – 2006/07)**



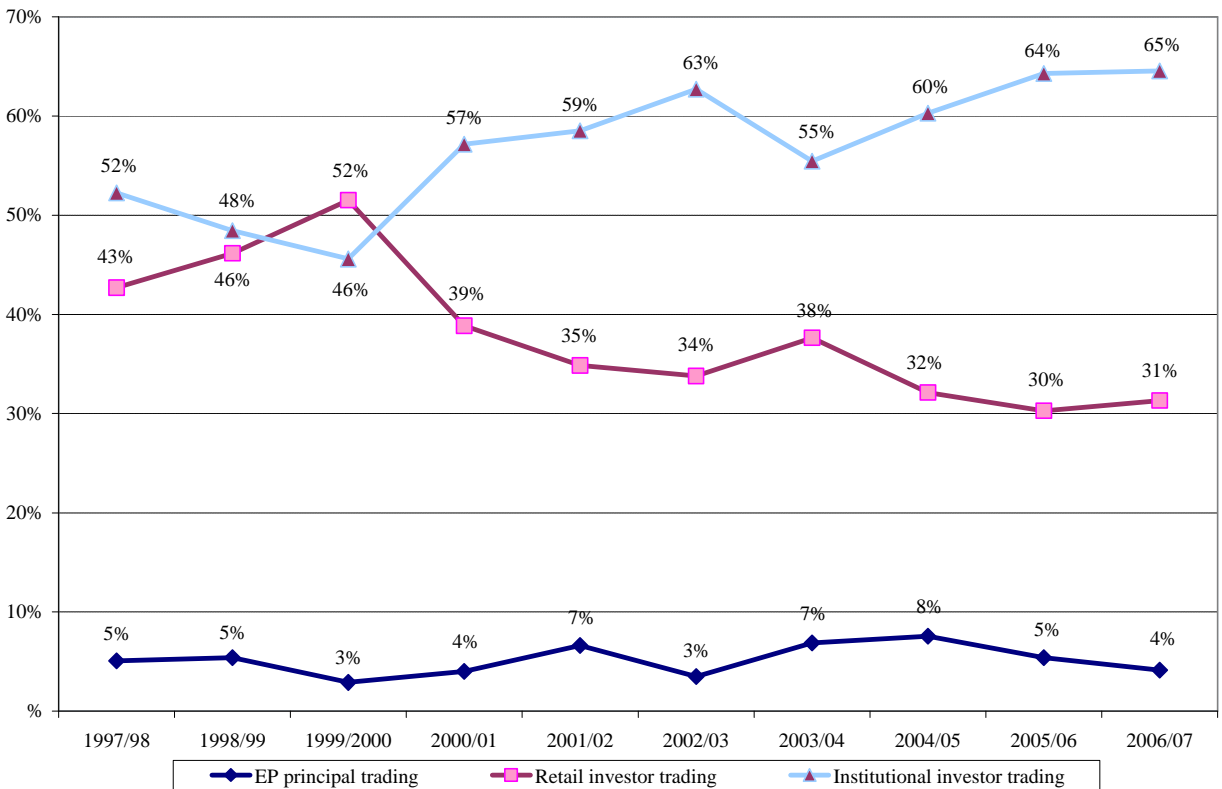
Type of trade	Year-on-year % change									
	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
EP principal trading	-36.70	-17.16	6.61	-12.08	38.70	-39.93	280.48	29.88	8.23	80.90
Overseas investor trading	-12.31	-23.52	89.43	-15.09	-23.04	19.75	80.54	17.57	73.87	144.94
Retail	-63.25	-33.82	222.72	-22.66	-22.77	96.42	57.87	-17.53	91.51	202.90
Institutional	-5.75	-23.00	83.67	-14.51	-23.06	14.47	83.21	21.14	72.65	140.48
Local investor trading	-48.92	-21.79	109.86	-46.90	-15.73	17.16	89.91	17.25	42.96	134.03
Retail	-53.62	-15.09	117.77	-53.21	-25.26	4.55	122.84	2.70	39.06	137.13
Institutional	-36.76	-34.51	90.38	-29.15	1.98	34.35	54.97	39.45	47.35	130.74
Retail investor trading	-54.05	-15.76	120.74	-51.95	-25.09	10.85	114.95	0.89	42.88	143.56
Institutional investor trading	-21.68	-27.77	86.19	-20.14	-14.51	22.56	70.61	28.56	61.53	136.57
Total	-40.34	-22.11	97.86	-36.29	-16.49	14.33	92.92	18.24	51.50	135.68

Figure 4. Distribution of cash market trading value by investor type (local vs overseas) (1997/98 – 2006/07)



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) (1997/98 – 2006/07)



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

3.2 Distribution of overseas investor trading value by origin

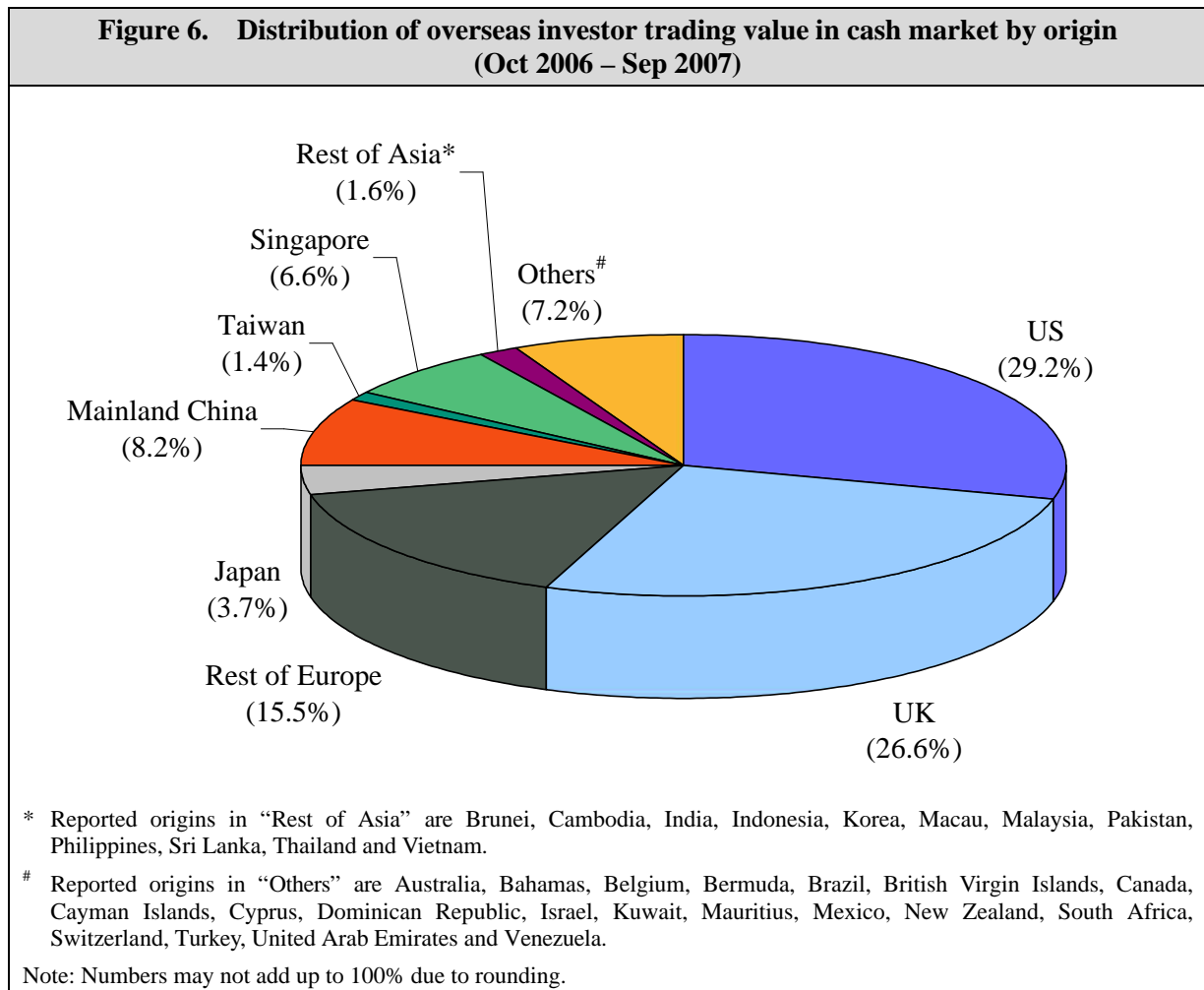
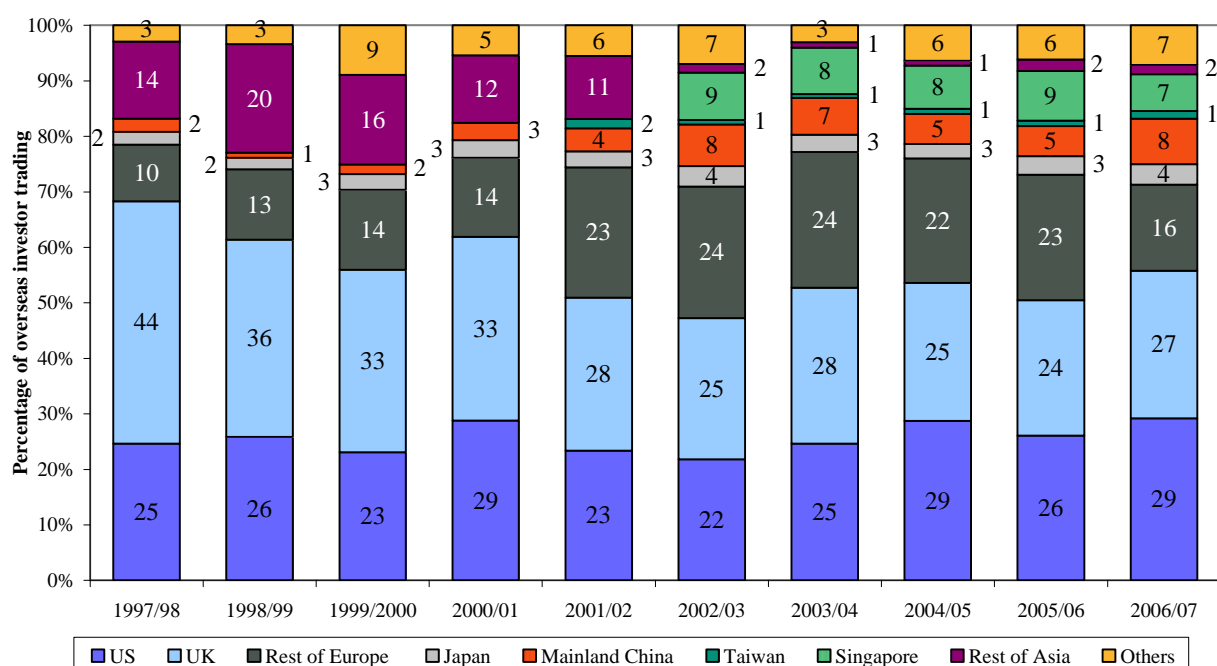


Figure 7. Distribution of overseas investor trading in cash market by origin (1997/98 – 2006/07)

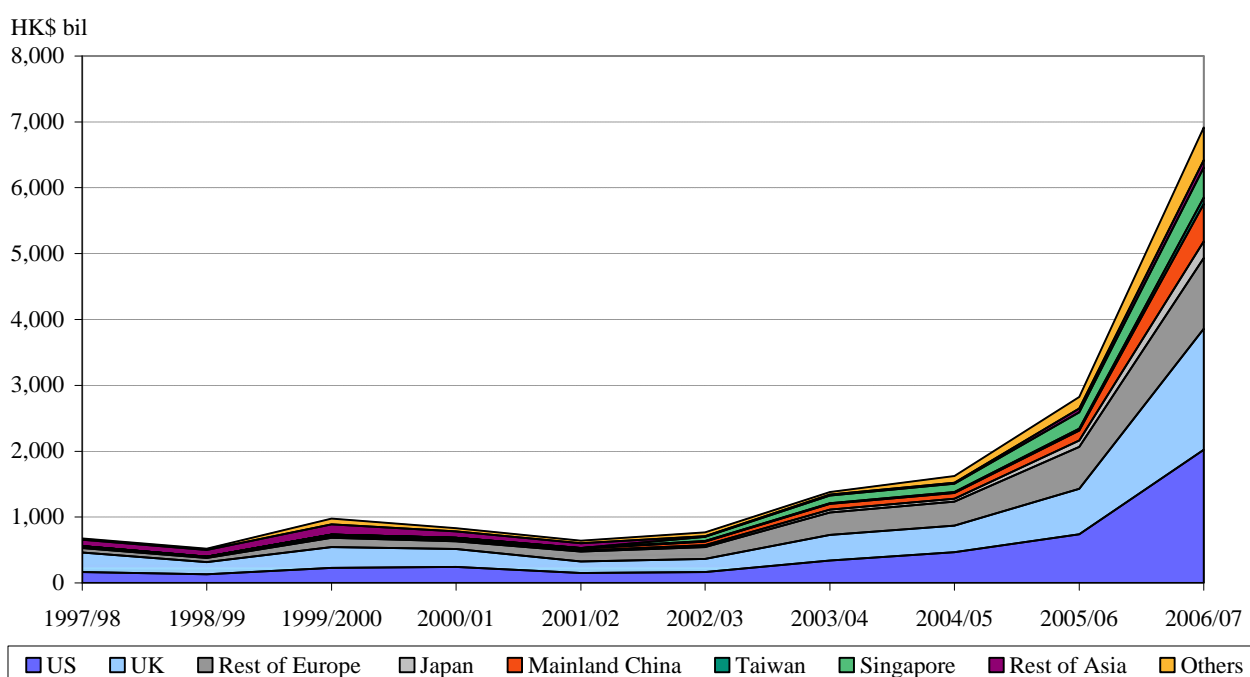


Overseas origin	Distribution of overseas investor trading by origin (%)									
	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
US	24.66	25.84	23.12	28.80	23.42	21.81	24.61	28.75	26.08	29.19
UK & Europe	53.87	48.22	47.26	47.36	51.00	49.13	52.57	47.31	47.03	42.12
UK	43.64	35.52	32.82	33.11	27.53	25.45	28.13	24.82	24.40	26.61
Rest of Europe	10.23	12.70	14.44	14.24	23.47	23.68	24.44	22.50	22.64	15.51
Asia	18.56	22.55	20.71	18.44	20.07	22.11	19.77	17.53	20.73	21.52
Japan	2.28	2.07	2.83	3.20	2.88	3.66	3.13	2.56	3.33	3.69
Mainland China	2.35	0.93	1.70	3.06	4.13	7.50	6.65	5.41	5.44	8.22
Taiwan					1.68	0.83	0.66	0.92	0.96	1.36
Singapore						8.57	8.40	7.80	8.95	6.63
Rest of Asia	13.93	19.55	16.18	12.18	11.38	1.54	0.93	0.83	2.06	1.63
Others	2.90	3.39	8.91	5.40	5.51	6.95	3.05	6.40	6.15	7.17
Total	100.00	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 (1997/98 – 2006/07)

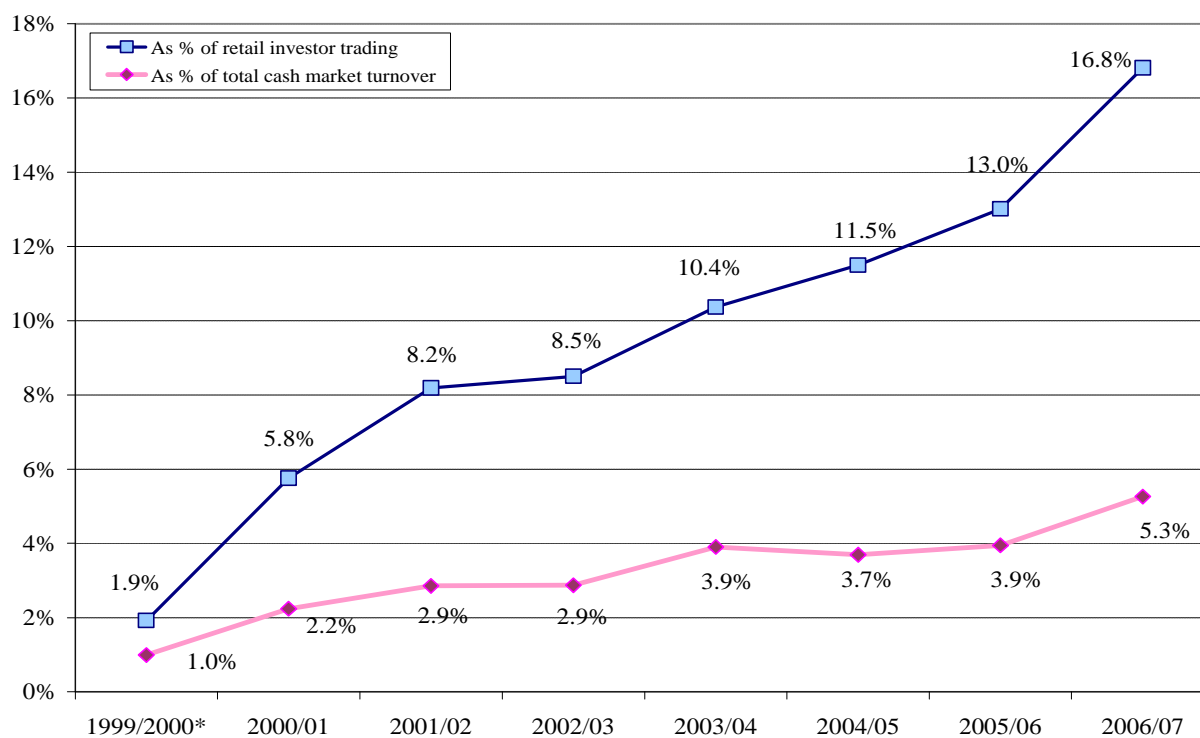


	Year-on-year % change									
	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
US	-15.69	-19.85	69.46	5.77	-37.43	11.56	103.65	37.35	57.74	174.18
UK & Europe	15.49	-31.54	85.64	-14.91	-17.11	15.35	93.18	5.81	72.84	119.34
UK	13.48	-37.75	75.02	-14.32	-36.00	10.67	99.55	3.73	70.94	167.18
Rest of Europe	25.27	-5.04	115.36	-16.25	26.82	20.83	86.34	8.21	74.94	67.79
Asia	-45.57	-7.09	74.01	-24.40	-16.23	31.93	61.44	4.25	105.56	154.28
Japan	-70.77	-30.71	159.05	-3.96	-30.59	52.19	54.08	-3.55	125.46	171.62
Mainland China	-56.16	-69.83	248.22	52.68	3.70	117.55	60.14	-4.42	74.77	270.15
Taiwan						-40.66	43.58	64.20	80.19	246.84
Singapore							76.82	9.26	99.33	81.53
Rest of Asia	-35.39	7.36	56.76	-36.09	-28.09	-83.77	9.39	4.63	330.99	93.48
Others	-34.24	-10.65	398.14	-48.49	-21.54	50.98	-20.69	146.76	67.10	185.15
Total	-12.31	-23.52	89.43	-15.09	-23.04	19.75	80.54	17.57	73.87	144.94

Notes: 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

Figure 9. Percentage share of retail online trading value in cash market (1999/2000 – 2006/07)



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

Table 2. Statistics on retail online trading in cash market (2002/03 and 2006/07)

Online brokers⁽¹⁾	2002/03	2003/04	2004/05	2005/06	2006/07
Number of online brokers	48	85	97	105	126
- As % of all responding EPs	18%	22%	26%	30%	33%
Online trading	2002/03	2003/04	2004/05	2005/06	2006/07
Total implied trading value	56,610	148,386	166,041	268,566	845,014
- As % of total market turnover	2.87%	3.90%	3.69%	3.94%	5.26%
- As % of all agency (investor) trading	2.98%	4.19%	4.00%	4.17%	5.49%
- As % of total retail investor trading	8.50%	10.37%	11.50%	13.01%	16.81%
- As % of total turnover of online brokers	12.19%	12.59%	12.65%	14.73%	16.27%

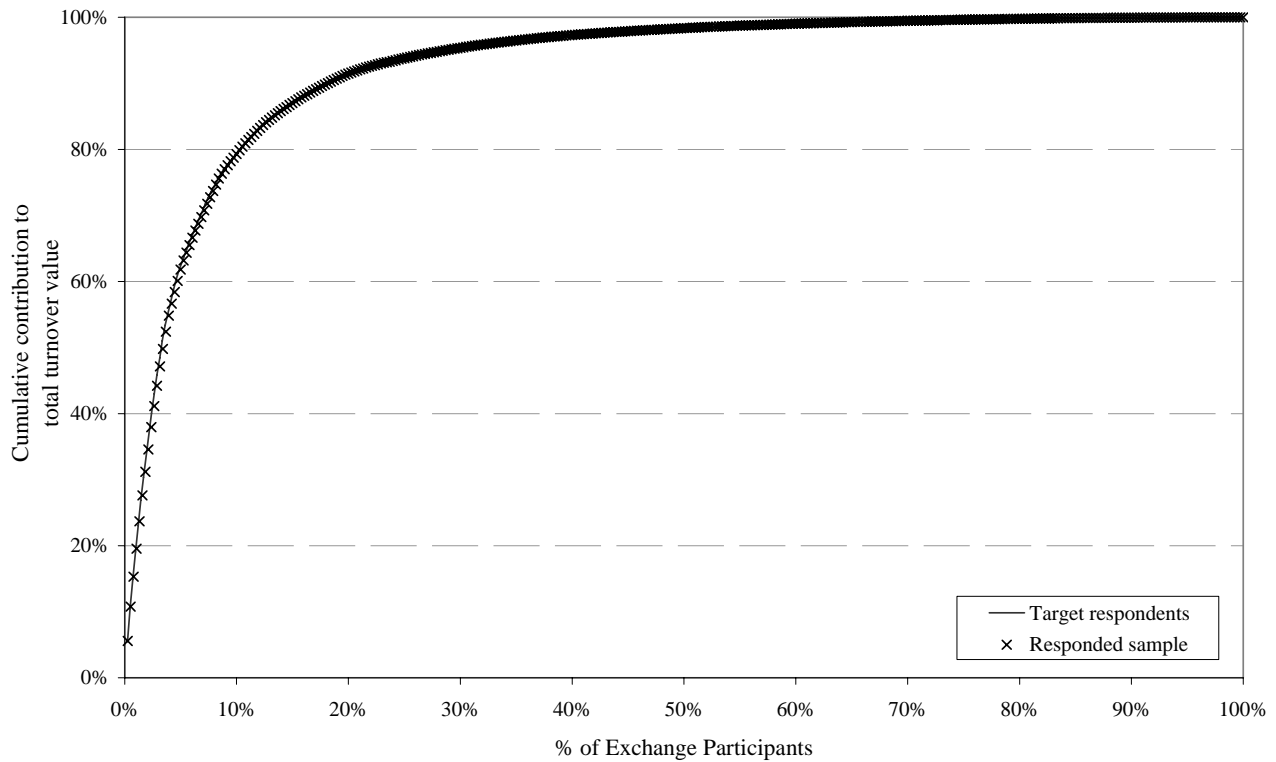
Notes:

(1) "Online brokers" refers to EPs offering online trading service to retail clients since the 2004/05 survey but refers to EPs recording retail online trading in the previous surveys.

GLOSSARY

Agency trading	Trading on behalf of the participant firm's clients, including client trading channelled from the firm's parent or sister companies.
Implied value of trading	<p>The implied value of trading for a particular type of trade is calculated 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.</p> <p>The implied value of trading from a particular overseas origin is calculated by first calculating the implied overseas agency trading value during the study period, and then multiplying it by the percentage contribution to overseas agency trading by that origin as obtained from the survey.</p>
Individual/retail investors	Investors who trade on personal account.
Institutional investors	Investors who are not individual/retail investors.
Local investors	Individual/retail investors residing in Hong Kong or institutional investors operating in Hong Kong, with Hong Kong as the source of funds.
Online brokers	Stock Exchange Participants who offer online trading service to individual/retail investors.
Overseas investors	Individual/retail investors residing outside Hong Kong or institutional investors operating outside Hong Kong, with the source of funds overseas.
Principal trading	Trading on the participant firm's own account.
Retail online trading	Trading originating from orders entered directly by individual/retail investors and channelled to the brokers via electronic media (e.g. the Internet).

APPENDIX 1. REPRESENTATIVENESS OF THE RESPONDED SAMPLE VIS-À-VIS THE TARGET POPULATION OF EXCHANGE PARTICIPANTS



APPENDIX 2. 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 2007 (i.e. who had been in business for over 6 full months during the study period) and remained so at the end of September 2007. It excluded participants whose trading was suspended from July 2007 to September 2007 or ceased on or before September 2007 or who traded for less than 6 months during the study period. This is to avoid distortion of the results by participants who were not in the normal course of business.

All Exchange Participants (EPs) are corporations.

(2) Methodology

The study period is from October 2006 to September 2007.

EPs in the target population were ranked in descending order by turnover value. 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, especially for the EPs which were top-ranked in the target population by turnover value.

The survey sampling method has changed in different years of the survey series. In 2001/02 and 2002/03 surveys, the survey sample consisted of all brokers contributing the top two-thirds of turnover value in the target population as well as a random sample covering 60% of brokers contributing the bottom one-third of turnover value. In the prior years and since the 2003/04 survey, a census approach was adopted, i.e. all brokers in the target population were included in the survey sample.

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 has been refined since 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, they were treated as cases with missing value for which a mean substitution method was adopted.

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. The implied percentage shares of different types of trade in the market were then calculated, adjusted by the response rate in value terms relative to the target population.

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.

Some bank-related EPs might not be able to provide the trading composition of client orders originating from their associated banks and would treat the banks as their local institutional clients. This would also affect the result of retail online trading since part of the retail investor trading channelled through banks would be online.

The non-responded EPs (who have very small market shares individually) may have different trading composition from the responded EPs. Since the survey has a high response rate by turnover value, the impact of the non-responded EPs to the overall findings should be negligible. Nevertheless, there might be some impact on the types of investor trading 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 the types of investor trading with very small contributions, the relative changes in their contributions over the years should be interpreted with caution.

* * *