

Research & Corporate Development

CASH MARKET
TRANSACTION SURVEY 2007/08

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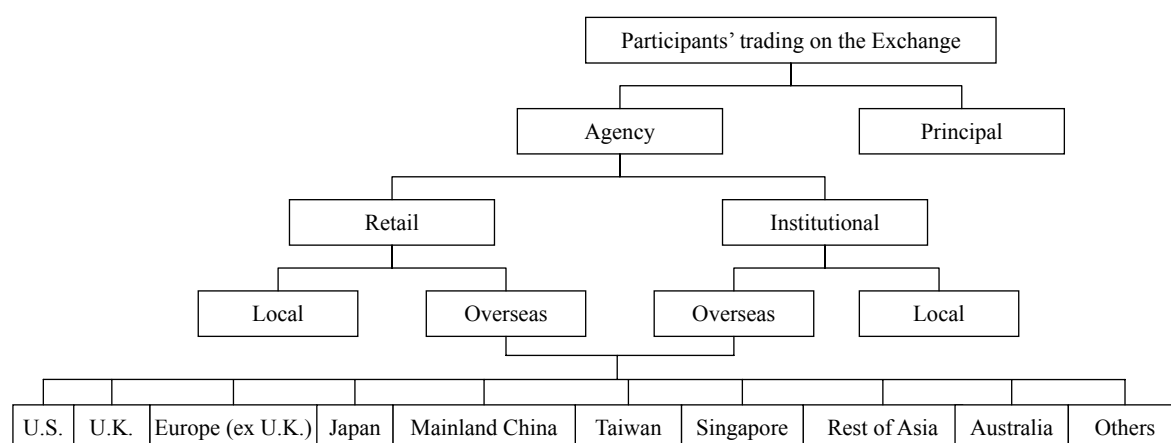
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1. INTRODUCTION

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 2007/08 covered EPs' transactions on both the Main Board and the Growth Enterprise Market for the 12-month period from October 2007 to September 2008. Fieldwork was conducted during October 2008 to December 2008.

Survey questionnaires were mailed to 431 EPs in the target population. Out of the 431 questionnaires sent, 404 duly completed questionnaires were received, representing an overall response rate of 94% by number or 99% by turnover value in the target population.

¹ Please refer to "Glossary" for definition.

2. KEY FINDINGS

In the context of a year-on-year increase of 42% in the total turnover value of the HKEx cash market to HK\$22,843,494 million during the study period, the following are the key findings of the survey.

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 2007/08 was little different from that in 2006/07.
- (2) **Local investors** were still the major contributors (52%) of total market turnover in 2007/08 compared to 53% in 2006/07. It was the lowest level since the survey started in 1991. Over the past decade, local investors contributed 54% of the cumulative market turnover.
- (3) The contribution to total market turnover from **overseas investors** was 41% in 2007/08, compared to 43% in 2006/07. They contributed 40% of the cumulative market turnover in the past decade.
- (4) The contribution to total market turnover from **institutional investors** in 2007/08 remained at the highest level — 65% — since the survey started in 1991, similar to the level in 2006/07. **Retail investors'** contribution to total market turnover declined somewhat from 31% in 2006/07 to 29% in 2007/08, which was the lowest since the survey started in 1991.
- (5) The market share of **EP** principal trading was 6% in 2007/08, compared to 4% in 2006/07.
- (6) **Local retail investors'** contribution to total market turnover decreased somewhat from 28% in 2006/07 to 26% in 2007/08. On the other hand, **local institutional investors'** contribution increased somewhat from 25% in 2006/07 to 27% in 2007/08.
- (7) **Overseas institutional investors** continued to be the largest contributors among all types of investors, contributing 38% in 2007/08 compared to 39% in 2006/07.
- (8) **In value terms**, EP principal trading more than doubled in 2007/08 relative to 2006/07 (compared to a 42% increase in total market turnover), although their percentage contribution was still small (6%). All investor types recorded an increase in their trading value in 2007/08.

Trading value by overseas investors by origin

- (9) **US investors** have been the largest contributors to overseas investor trading since 2004/05, followed by UK investors. The contribution of US investors was 35% in 2007/08, up from 29% in 2006/07.
- (10) **UK investors**, the second largest contributors to overseas investor trading, contributed 22% of overseas investor trading in 2007/08, down from 27% in 2006/07. This was the lowest level since trading from the UK began to be separately assessed in the 1994/95 survey. **Continental European investors** contributed 16% of overseas investor trading in 2007/08, similar to their contribution in 2006/07.
- (11) The aggregate contribution from **Asian investors** to overseas investor trading in 2007/08 was 22%, similar to their contribution in 2006/07. Among them, investors from **Mainland China** and **Singapore** remained the largest contributors, each with an 8% share of overseas investor trading.

Retail online trading

- (12) Retail online trading accounted for 17% of total retail investor trading in 2007/08, or 5% of total market turnover; both were similar to the shares in 2006/07².
- (13) There were 155 EPs reporting themselves as online brokers in the 2007/08 survey, compared to 126 in the 2006/07 survey. Online trading constituted 15% of the total turnover of online brokers in 2007/08, compared to 16% in 2006/07.

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

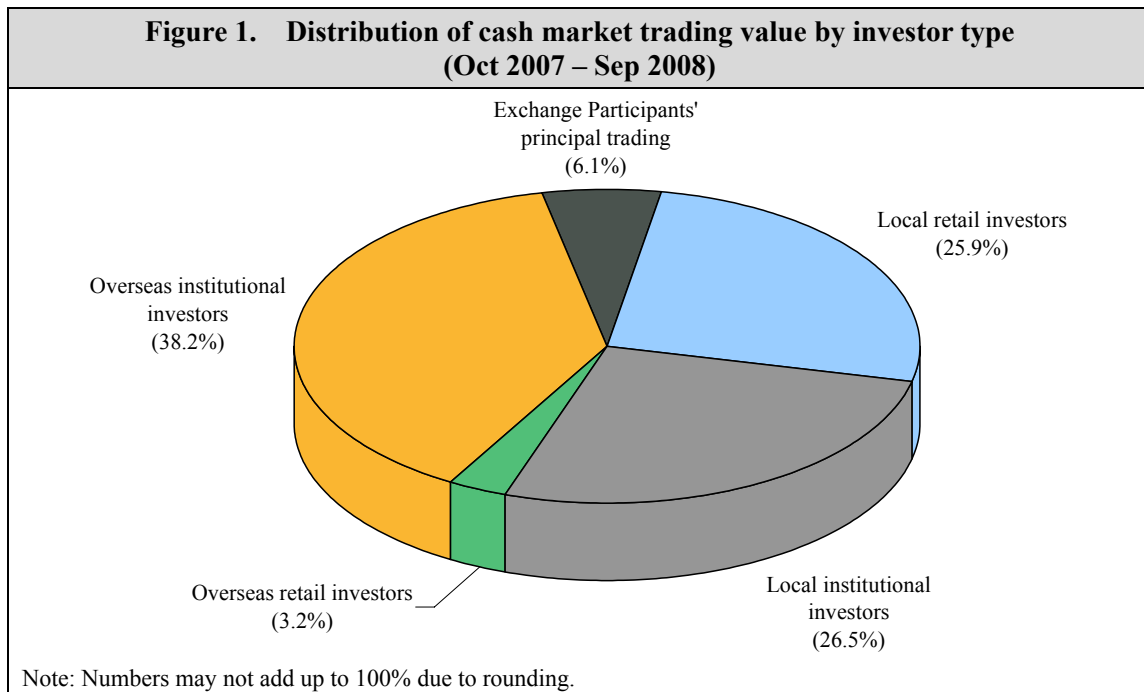
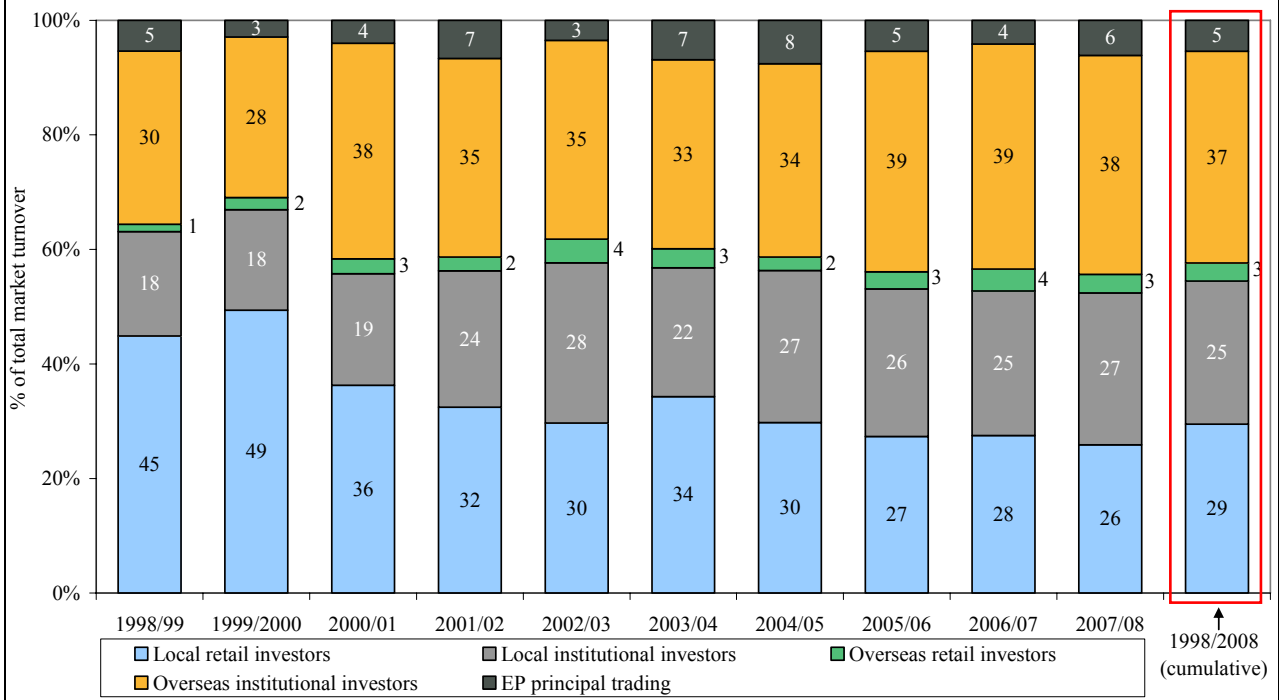


Table 1. Breakdown of contribution by type of trade in cash market (2005/06 – 2007/08)

Type of trade	2005/06	2006/07	2007/08
All trading			
Agency	94.59	95.85	93.88
Principal	5.41	4.15	6.12
	100.00	100.00	100.00
Agency trading			
Retail	32.03	32.67	31.02
Institutional	67.97	67.33	68.98
	100.00	100.00	100.00
Agency trading			
Local	56.16	55.03	55.81
Overseas	43.84	44.97	44.19
	100.00	100.00	100.00
Retail investor trading			
Local	90.22	87.84	88.88
Overseas	9.78	12.16	11.12
	100.00	100.00	100.00
Institutional investor trading			
Local	40.10	39.11	40.94
Overseas	59.90	60.89	59.06
	100.00	100.00	100.00
Local investor trading			
Retail	51.46	52.14	49.40
Institutional	48.54	47.86	50.60
	100.00	100.00	100.00
Overseas investor trading			
Retail	7.14	8.83	7.81
Institutional	92.86	91.17	92.19
	100.00	100.00	100.00

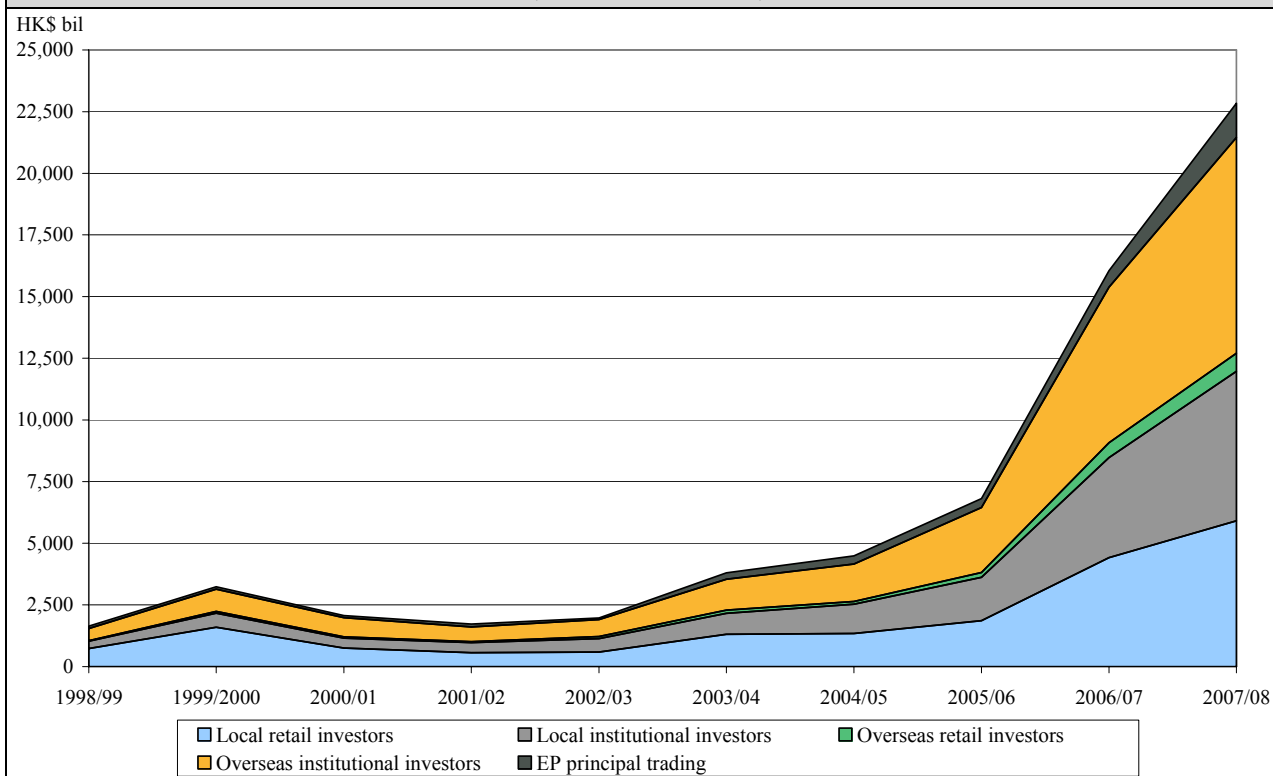
Figure 2. Distribution of cash market trading value by investor type (1998/99 – 2007/08)



Type of trade	Distribution of cash market trading by type of trade (%)										1998/2008 cumulative market turnover (%)
	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
EP principal trading	5.38	2.90	4.00	6.65	3.49	6.89	7.57	5.41	4.15	6.12	5.39
Overseas investor trading	31.53	30.19	40.23	37.08	38.84	36.34	36.14	41.47	43.10	41.49	40.16
Retail	1.30	2.13	2.58	2.39	4.10	3.36	2.34	2.96	3.81	3.24	3.17
Institutional	30.23	28.06	37.65	34.69	34.73	32.99	33.80	38.51	39.30	38.25	36.98
Local investor trading	63.09	66.91	55.77	56.27	57.67	56.77	56.30	53.12	52.75	52.39	54.46
Retail	44.87	49.38	36.27	32.46	29.69	34.29	29.78	27.34	27.50	25.88	29.49
Institutional	18.22	17.53	19.50	23.81	27.98	22.48	26.51	25.78	25.24	26.51	24.97

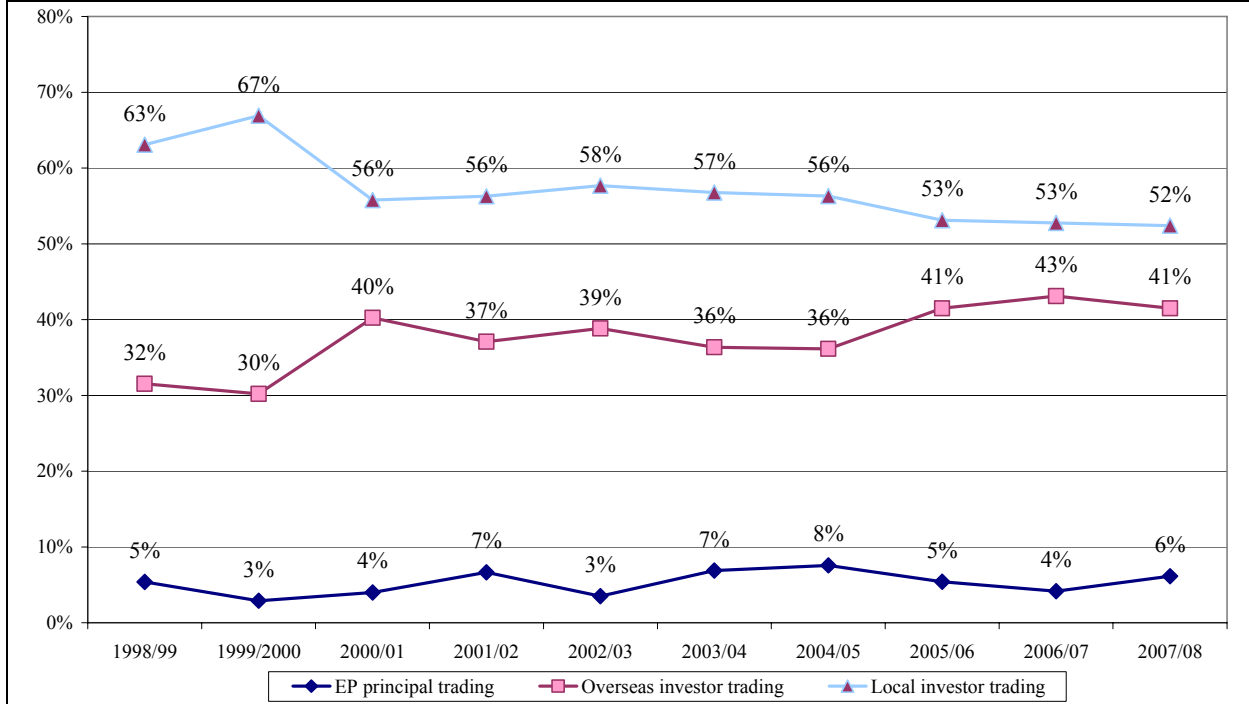
Note: Numbers may not add up to sub-totals or 100% due to rounding.

**Figure 3. Implied value of cash market trading by investor type
(1998/99 – 2007/08)**



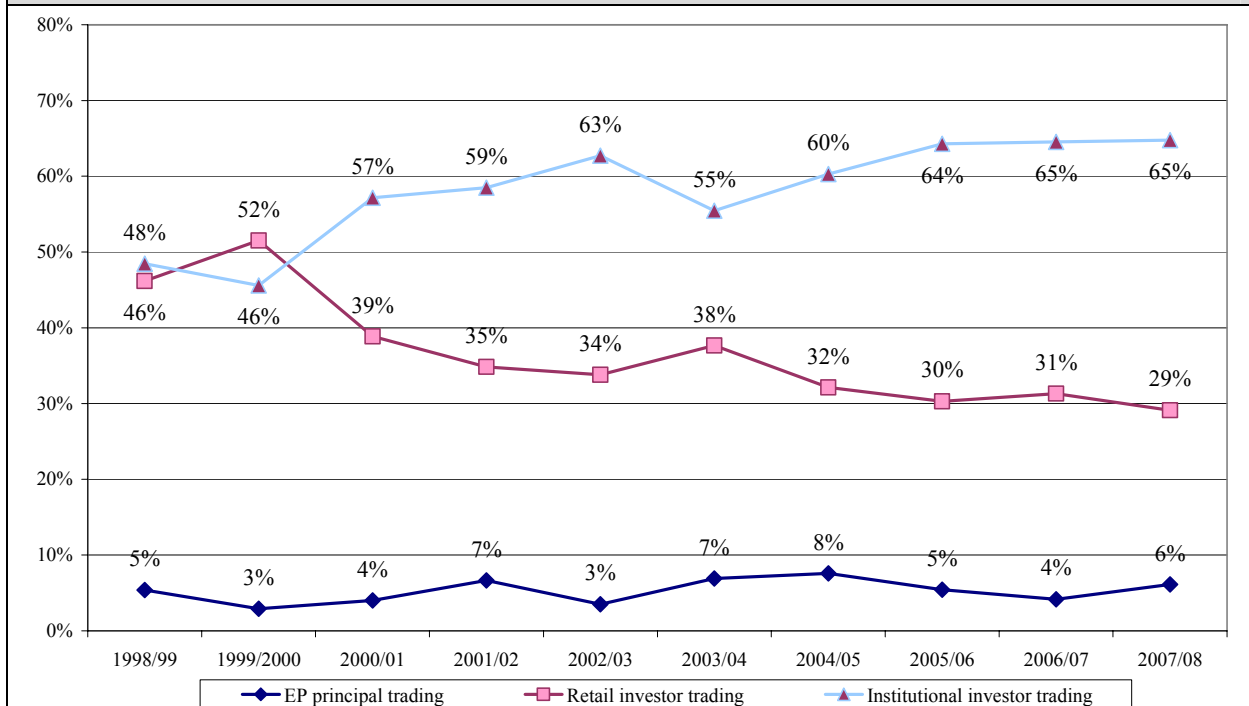
Type of trade	Year-on-year % change									
	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
EP principal trading	-17.16	6.61	-12.08	38.70	-39.93	280.48	29.88	8.23	80.90	110.00
Overseas investor trading	-23.52	89.43	-15.09	-23.04	19.75	80.54	17.57	73.87	144.94	36.98
Retail	-33.82	222.72	-22.66	-22.77	96.42	57.87	-17.53	91.51	202.90	21.08
Institutional	-23.00	83.67	-14.51	-23.06	14.47	83.21	21.14	72.65	140.48	38.52
Local investor trading	-21.79	109.86	-46.90	-15.73	17.16	89.91	17.25	42.96	134.03	41.35
Retail	-15.09	117.77	-53.21	-25.26	4.55	122.84	2.70	39.06	137.13	33.93
Institutional	-34.51	90.38	-29.15	1.98	34.35	54.97	39.45	47.35	130.74	49.44
Retail investor trading	-15.76	120.74	-51.95	-25.09	10.85	114.95	0.89	42.88	143.56	32.36
Institutional investor trading	-27.77	86.19	-20.14	-14.51	22.56	70.61	28.56	61.53	136.57	42.79
Total	-22.11	97.86	-36.29	-16.49	14.33	92.92	18.24	51.50	135.68	42.31

Figure 4. Distribution of cash market trading value by investor type (local vs overseas) (1998/99 – 2007/08)



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) (1998/99 – 2007/08)



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

3.2 Distribution of overseas investor trading value by origin

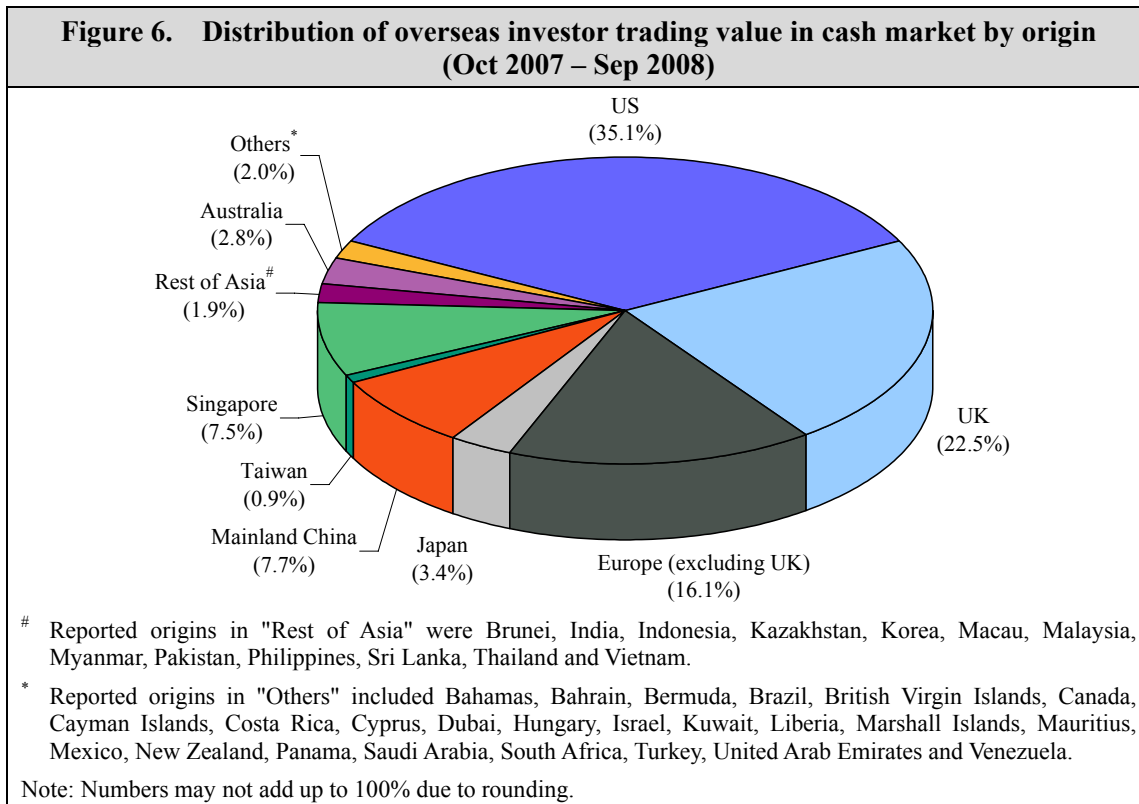
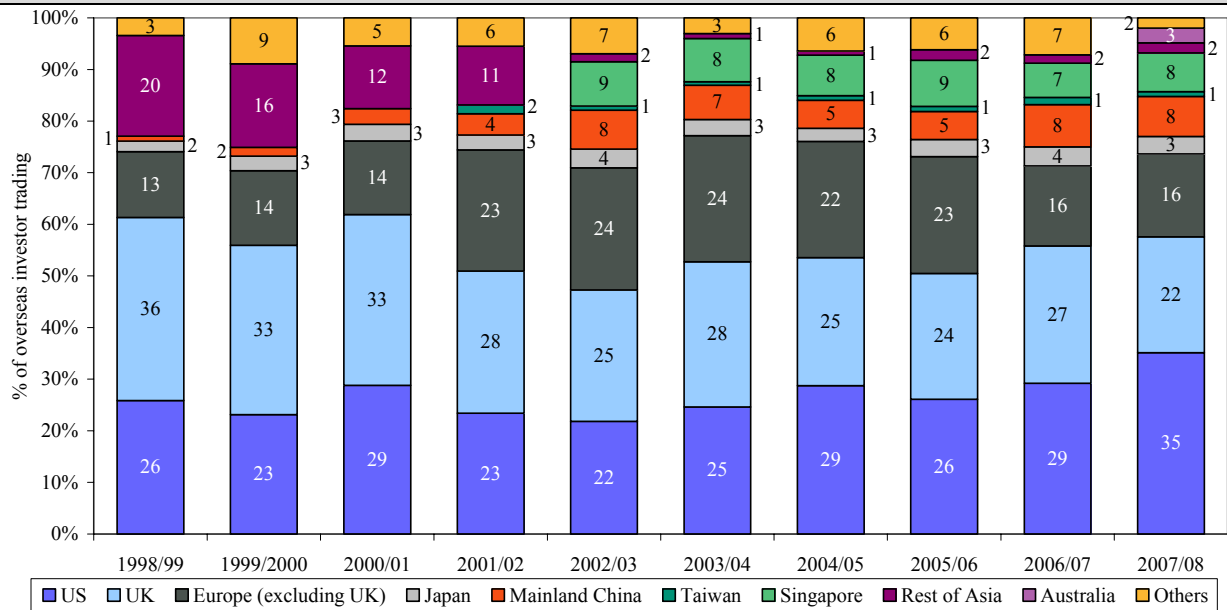


Figure 7. Distribution of overseas investor trading in cash market by origin (1998/99 – 2007/08)

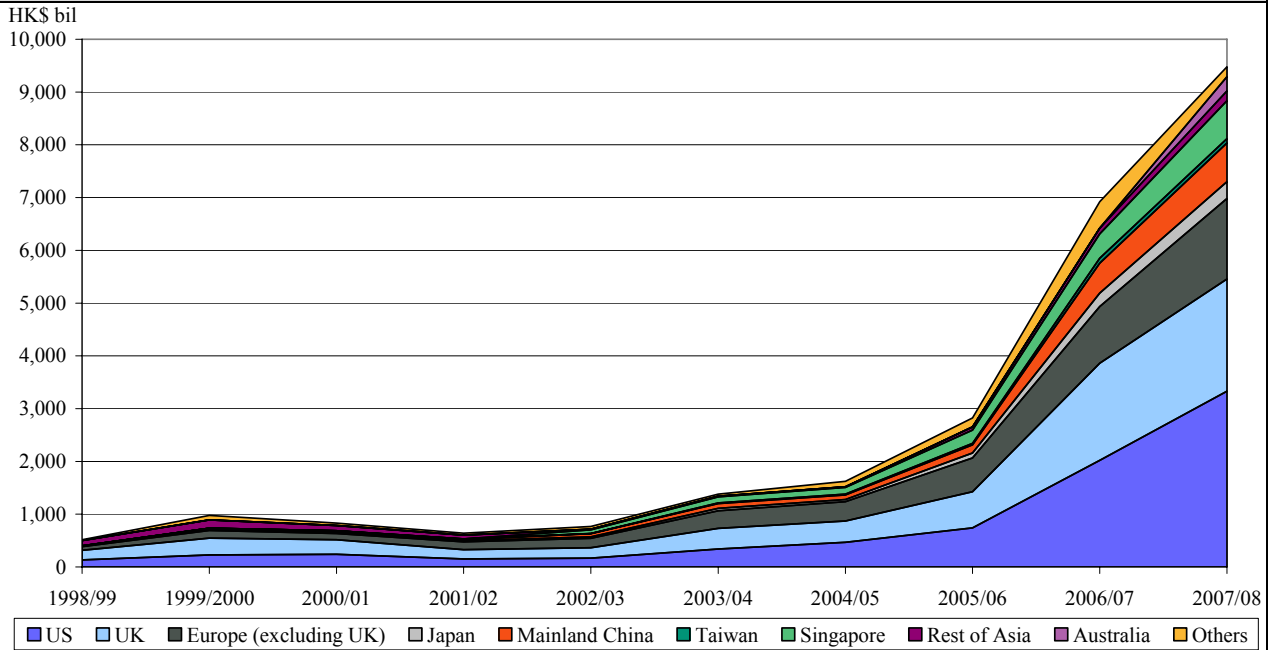


Overseas origin	Distribution of overseas investor trading by origin (%)									
	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
US	25.84	23.12	28.80	23.42	21.81	24.61	28.75	26.08	29.19	35.13
Europe	48.22	47.26	47.36	51.00	49.13	52.57	47.31	47.03	42.12	38.51
UK	35.52	32.82	33.11	27.53	25.45	28.13	24.82	24.40	26.61	22.46
Europe (excluding UK)	12.70	14.44	14.24	23.47	23.68	24.44	22.50	22.64	15.51	16.05
Asia	22.55	20.71	18.44	20.07	22.11	19.77	17.53	20.73	21.52	21.52
Japan	2.07	2.83	3.20	2.88	3.66	3.13	2.56	3.33	3.69	3.39
Mainland China	0.93	1.70	3.06	4.13	7.50	6.65	5.41	5.44	8.22	7.75
Taiwan				1.68	0.83	0.66	0.92	0.96	1.36	0.89
Singapore					8.57	8.40	7.80	8.95	6.63	7.55
Rest of Asia	19.55	16.18	12.18	11.38	1.54	0.93	0.83	2.06	1.63	1.94
Australia										2.85
Others	3.39	8.91	5.40	5.51	6.95	3.05	6.40	6.15	7.17	1.99
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 "Rest of Asia" in surveys prior to 2001/02. Singapore was included in "Rest of Asia" in surveys prior to 2002/03. Australia was included in "Others" in surveys prior to 2007/08.
- (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 (1998/99 – 2007/08)

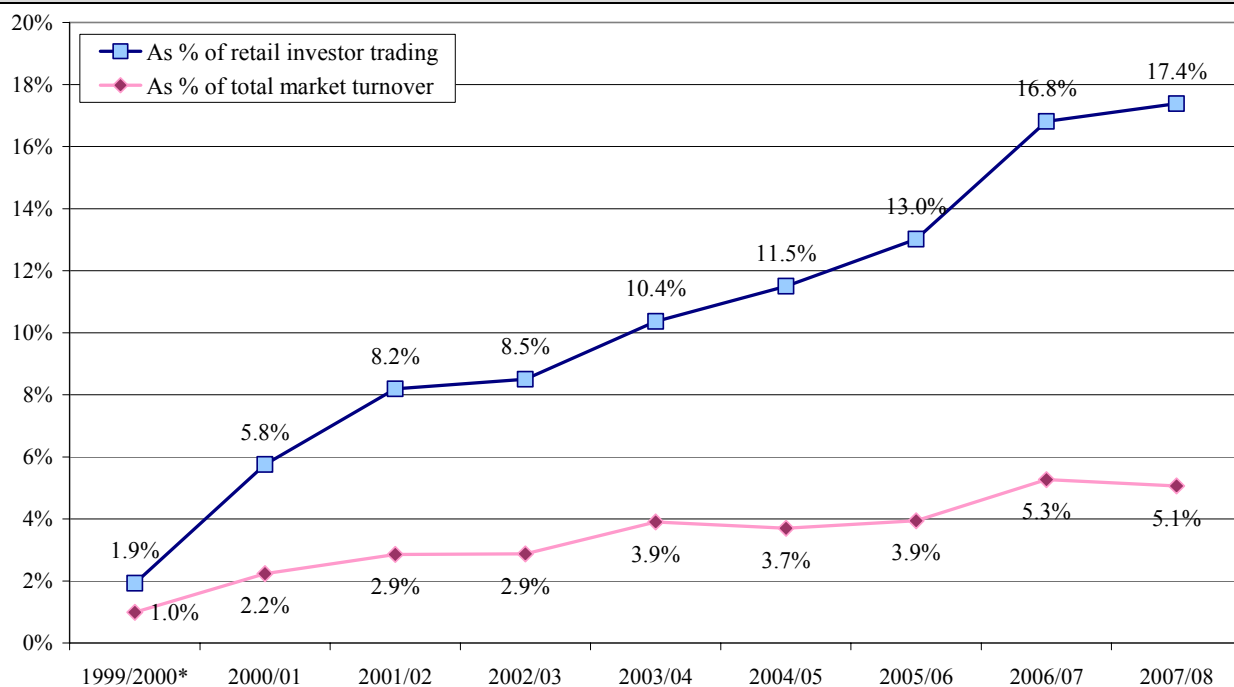


Overseas origin	Year-on-year % change									
	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
US	-19.85	69.46	5.77	-37.43	11.56	103.65	37.35	57.74	174.18	64.82
Europe	-31.54	85.64	-14.91	-17.11	15.35	93.18	5.81	72.84	119.34	25.24
UK	-37.75	75.02	-14.32	-36.00	10.67	99.55	3.73	70.94	167.18	15.59
Europe (excluding UK)	-5.04	115.36	-16.25	26.82	20.83	86.34	8.21	74.94	67.79	41.80
Asia	-7.09	74.01	-24.40	-16.23	31.93	61.44	4.25	105.56	154.28	36.96
Japan	-30.71	159.05	-3.96	-30.59	52.19	54.08	-3.55	125.46	171.62	25.94
Mainland China	-69.83	248.22	52.68	3.70	117.55	60.14	-4.42	74.77	270.15	29.16
Taiwan					-40.66	43.58	64.20	80.19	246.84	-9.74
Singapore						76.82	9.26	99.33	81.53	55.86
Rest of Asia	7.36	56.76	-36.09	-28.09	-83.77	9.39	4.63	330.99	93.48	63.26
Australia										
Others	-10.65	398.14	-48.49	-21.54	50.98	-20.69	146.76	67.10	185.15	-61.96
Total	-23.52	89.43	-15.09	-23.04	19.75	80.54	17.57	73.87	144.94	36.98

Notes: Taiwan was included in "Rest of Asia" in surveys prior to 2001/02. Singapore was included in "Rest of Asia" in surveys prior to 2002/03. Australia was included in "Others" in surveys prior to 2007/08, for which year-on-year percentage change in implied value of investor trading was not available.

3.3 Retail online trading

Figure 9. Percentage share of retail online trading value in cash market (1999/2000 – 2007/08)



* 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 (2003/04 and 2007/08)

	2003/04	2004/05	2005/06	2006/07	2007/08
Responded sample size	388	378	351	380	404
Online brokers⁽¹⁾	2003/04	2004/05	2005/06	2006/07	2007/08
Number of online brokers	85	97	105	126	155
- As % of all responding EPs	21.91%	25.66%	29.91%	33.16%	38.37%
Online trading	2003/04	2004/05	2005/06	2006/07	2007/08
Total implied trading value (HK\$m)	148,386	166,041	268,566	845,014	1,156,321
- As % of total market turnover	3.90%	3.69%	3.94%	5.26%	5.06%
- As % of all agency (investor) trading	4.19%	4.00%	4.17%	5.49%	5.39%
- As % of total retail investor trading	10.37%	11.50%	13.01%	16.81%	17.38%
- As % of total turnover of online brokers	12.59%	12.65%	14.73%	16.27%	15.39%

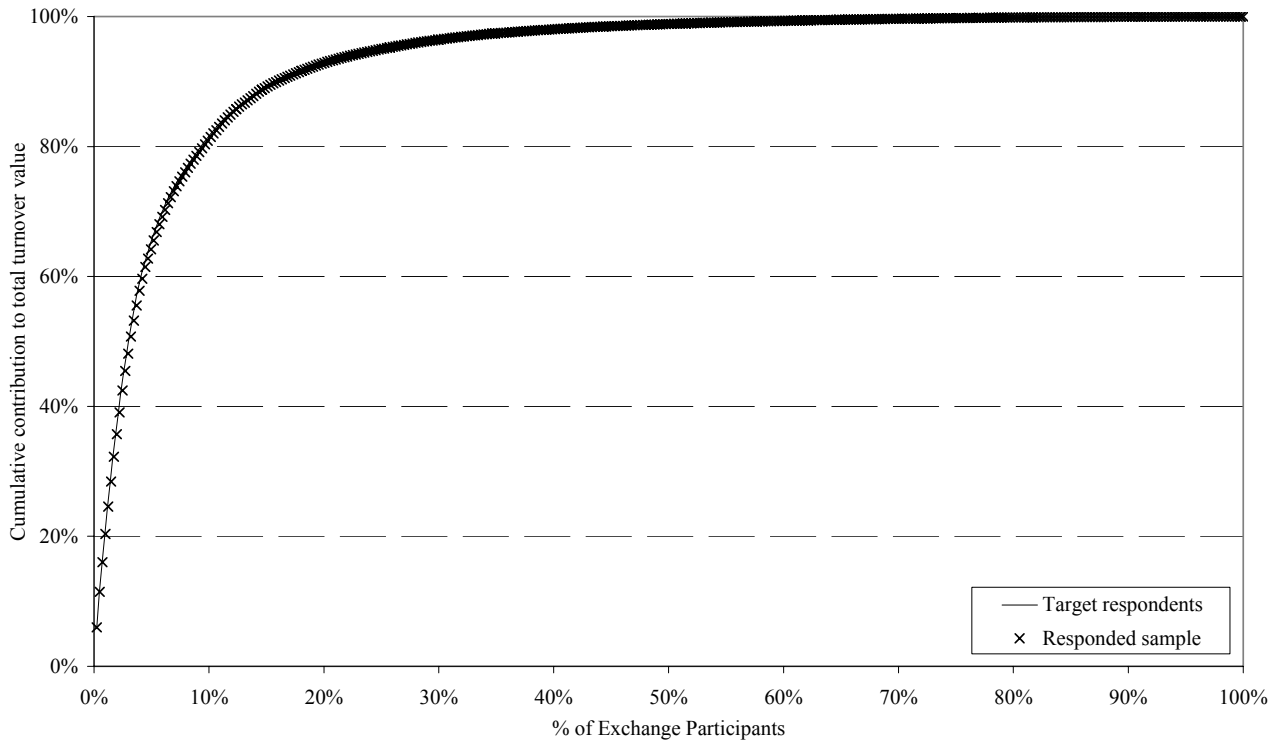
Notes:

(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 their 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 (EPs) of the cash market who became trading participants prior to the end of March 2008 (i.e. who had been in business for over 6 full months during the study period) and remained so before the fieldwork of the survey began. It excluded EPs whose trading was suspended from July 2008 to September 2008 or ceased on or before September 2008 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 EPs are corporations.

(2) Methodology

The study period is from October 2007 to September 2008.

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 was annualised for the ranking. The actual turnover of the EPs was used in analysing the results. Ranking of EPs by turnover was for the purpose of monitoring the responses and follow-up in the fieldwork as well as generating response rates by turnover size groups as weighting factors in the subsequent analysis.

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. 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. EPs were asked 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 in the overall market 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 total turnover by that type of trade as obtained from the survey by the actual total turnover in the overall market 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 2002/03³ 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.

* * *

³ 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.