6 October 2004

To: Hong Kong Exchanges and Clearing Limited
11/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Re: Consultation Paper on the Reduction of Minimum Spreads

Dear Sirs:

In response to the captioned consultation paper, we write to oppose to the proposed reduction of minimum spreads for the following reasons:

1. The reduction in minimum spread might be used as a tool for certain market manipulators to "fine-tune" the future index but never increase the liquidity of the stock market. Conversely, we are of the view that it will reduce the frequency of a normal investor to trade stocks and will result in decrease in liquidity for those non-indexed stocks. A normal investor will sell the stock he/she purchased only when the net difference between the selling price and his/her purchase costs exceeds the transaction cost (i.e. brokers' commission, stamp duties and transaction levy ...etc.). The decrease in spread will increase the time for them to wait for the right price and, in turns, decrease their frequency of trading.

2. We are of the view that unless the Exchange can see a definite benefit to the investors and the participants as a whole else should make no amendment to the existing practice.

3. We agree that some of the counters are experiencing over-spreaded price ranges (like the $0.01 to $0.10) but some others are conversely having too small price spread. The Exchange should consider to widening or reducing the price spread of each counter, on an individual basis, but should never adopt a general move like the one proposed in the captioned consultation paper.

Should you have further enquires, please feel free to contact us at 3101 0908.

Yours faithfully,

For and on behalf of
Friedmann Pacific Securities Limited

Poon Ho Man
Managing Director