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Hong Kong Exchanges and Clearing Limited
11th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Re: Consultation Paper on the Reduction of Minimum Spreads

To Whom It May Concern:

Thank you for allowing market practitioners to submit comments in response to the proposed reduction in minimum shares. Having over twenty years of professional experience in the Hong Kong securities market, our firm respects and appreciates the work of the HKEx in developing and maintaining the appropriate standards to operate in this increasingly global market environment. As your proposal fundamentally affects the procedures and practices pursuant to which our company and our clients operate, we have reviewed the proposal carefully internally in accordance with our fiduciary duty and have also discussed the matter with our clients.

On behalf of the clients to whom we represent, it is our determined belief that Phase 2 the proposed changes, as characterized in the proposal as Option A and Option B, should NOT be adopted. The rationales supporting this conclusion include, but is not limited to:

1. The change in the minimum spread will unnecessarily complicate broker-client discretionary relationships, thereby increasing transaction costs per trade. Lower minimum spreads result in the need for clients to provide detailed instructions when authorizing trades for their discretionary accounts. This increased onus increases the time and therefore transaction costs per trade.
2. The change in the minimum spread will unnecessarily decrease market liquidity. Because of historically low transaction costs, today's investors are able to earn profits from current minimum spreads. Phase 2 of the proposal, by specific association to low share-price stocks, will decrease the liquidity of the market at each price level and increase the transaction costs associated with the determination of profitability levels, thereby delaying and/or deterring potential investors from investing.
3. The change in the minimum spread will not improve on the ability to discover the true fundamental market price. The current price discovery mechanisms and minimum spreads already in place sufficiently support discovery of the true market prices—implementation of lower minimum spreads will not lead to materially different or more accurate share prices in the aggregate.
4. The change in the minimum spread will unnecessarily increase price volatility and market-price destabilization, both in the period of implementation and thereafter.

It is for the aforementioned reasons, in addition to others, that we must respectfully ask that Phase 2 the proposed changes, as characterized in by Option A and Option B, be rejected and rescinded for further review. Please feel free to contact us should you wish to further discuss any part of this letter. Thank you for your consideration.

Sincerely,



Karford Securities Ltd.