

Subject: Re : Consultation Paper on Scripless Securities Market

To: Hong Kong Exchanges and Clearing Limited
For the attention of: The Scripless Project Team

We refer to the Consultation Paper on A Proposed Operational Model for A Scripless Securities Market published by HKEx in October 2003. We list out below our comments on this consultation paper.

1. EDI/EWI

According to the consultation paper, Registrar will generate Confirmed/Rejected EDI Files for upload to CCASS only at dayend. We understand that such proposal is a result of the implementation cost and the technology support. However, we do believe that it is essential for this process to be run on a real time basis or at least via a few batch run throughout the day so that the instruction status can be updated during the CCASS operation hours due to the following reason:

a. Just in case the investor only provides the SRN to the CCASS Participant (broker) on T+2, the broker will still have sufficient time to deposit the shares from the Issuer Register to the CCASS Register and settlement the CNS position on T+2. Otherwise, if the SRN cannot be obtained on T+1, the CNS position will be bought in on T+3.

b. In case the investor has provided a wrong SRN no. on T+1/T+2, the CCASS Participants will still have a chance to spot the error if the EDIs are processed during CCASS business hours.

Will HKSCC consider late SRN or wrong SRN provided by the investors as a reason to waive buy-in, as long as the EDI is effected on T+3?

2. Immediate Credit Policy

Under the proposed model, immediate credit of deposited shares will no longer be provided by CCASS which means that the CCASS Participants will not be able to turnaround the shares immediately. We believe that educating the public is very key before HKSCC implementing this policy so that the investors are aware of such arrangement.

Again, will HKSCC consider depositing physical certificates as a reason to waive-buy in as long as the certificates are deposited on or before T+2? We believe there should be a grace period after the implementation of this policy.

3. Use of SRN

Unintended disclosure of SRNs may expose the shareholders to a variety of risks including misappropriation of their shares. Under the proposed model, no instruction is required from the investors to the Registrars for EDI transfer. CCASS Participants just need to obtain the relevant SRN from investors and they can move stock on the investors' behalf. The burden to avoid misuse of the SRN and misappropriation of shares laid on the CCASS Participants and investors to have adequate protection to their SRN. Is it possible for the Registrar to get some sort of affirmation from the investors before transferring the shares

to the CCASS Participants? There is nothing mentioned in the consultation paper on what are the control procedures the Registrars will implement.

4. CCASS Register & Issuer Register

What are the major differences for an investor holding its shares as uncertificated shareholdings in the Issuer Register and as an IP in the CCASS Register, apart from one of them being managed by the Registrars while the other one is managed by HKSCC? Is it really necessary to have both options for the investors?

5. Clients' queries

Our clients are very eager to know the following. Do you know when the details will be available?

- Overall impact to the investors in terms of cost

- The indicative time-table for the project

- The schedule of the dematerialisation process (i.e. which one will go first)