

23<sup>rd</sup> March 2007

Hong Kong Exchanges & Clearing Limited  
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1 Harbour View Street  
Central  
Hong Kong

To Whom It May Concern:

**Re: Introduction of a Closing Auction Session**

In response to your Consultation Paper on the Introduction of a Closing Auction Session, we generally agree with all the main points that it improves market transparency and efficiency, it would improve liquidity for certain derivative products that ultimately are benchmarked against closing prints, and it would boost liquidity and reduce volatility going into the close. Having a closing auction would remove the current confusion about price determination on the close and align the last traded price with the official closing price.

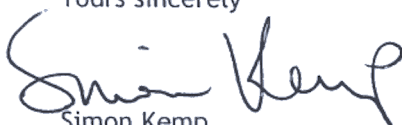
The biggest detractors cite market manipulation as a reason to not have a closing auction however it is our experience trading other markets in Europe/Asia/America that an auction process increases transparency and allows market participants to react to any order imbalance and to submit offsetting orders. Market manipulation by one or several large orders is possible under the current closing process as well as in continuous trading and in our view is not a valid concern, auctions work well for the opening rotation in HK and in other exchanges worldwide for closing price determination.

In terms of the price discovery dynamics we think it is advantageous to allow participants to continue to enter orders in the pre-order matching process. This can be limited to either only buys or sells depending on the IEP compared to the last traded price in continuous trading (ie always allows orders to be input in this minute to help offset any orders that are impacting on the price) or to allow the input of both buys and sells again to allow participants to react to any changes in IEP.

Having the closing auction also represent the FSP for derivative products would also greatly enhance market liquidity by allowing arbitrage players to be more active in both the cash and derivative markets because they have the opportunity to unwind their derivatives in a clear and transparent method that should allow participants to match off their risk exposure with a high degree of confidence.

In conclusion we wholly endorse the proposal to implement a closing auction and we think it represents a step forward for price discovery and market transparency.

Yours sincerely



Simon Kemp  
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on behalf of Gandhara Advisors Asia Ltd (ALP490)