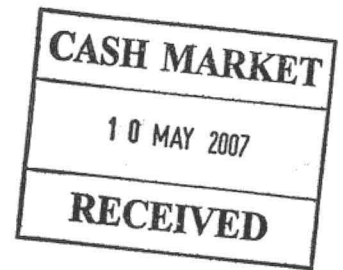


Andrew Lau
Head of Hong Kong Compliance

May 7, 2007

Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong



Dear Sirs,

Re: Consultation Paper on the Introduction of a Closing Auction Session (the "Consultation Paper")

We welcome the opportunity to comment on the Exchange's proposal to introduce a closing auction session.

Broadly speaking, we strongly agree that a closing auction session should be introduced. The proposed methodology is clearly the simplest and easiest to implement as it is a replica of the morning auction session. We nonetheless suggest the Exchange to consider several additional features which can possibly be considered further and implemented, if necessary, in the next stage of future enhancement of the auction process.

Determination of Auction Closing Price

Under the current Indicative Equilibrium Price ("IEP") calculation methodology, an IEP will only be calculated if the highest bid price of the buy at-auction limit orders is equal to or higher than the lowest ask price of the sell at-auction limit orders. No price will be established in cases where the above condition is not met but where there are market orders on both sides of the order book or where there are market orders only on one side of the order book and limit orders on the other.

This proposed approach does not seem to maximize the number of shares being executed during the closing auction period which is one of the key objectives of the closing auction session.

Therefore, we suggest the Exchange to consider taking a "reference price", for example the current median closing price, as the auction price. This will ensure that at-auction market orders entered during the closing auction period are matched to the extent possible. A similar approach is adopted by the London Stock Exchange ("LSE") in situations where limit auction orders does not provide a closing price, though the methodology of calculating the reference price may be different from that mentioned above.

Auction Extension Period

We agreed the Exchange's view in the Consultation Paper that a closing auction is beneficial to the market in a number of ways. However, a number of factors may impair its effectiveness, a number of which may include insufficient order flow and significant order imbalances.

We suggest the Exchange to consider, in the next stage of review if necessary, implementing extension periods to the auction session.

Taking the LSE as an example, when the LSE introduced its closing auction in May 2000, it was introduced with minimal time delays or extension periods, which resulted in excessive moves at the close. Time extensions and price limits were introduced soon after.

The extension periods introduced by the LSE will prolong the order entering period to provide the market with more time to react to market imbalances. During the extended auction call period market participants may enter limit and market orders to correct these imbalances.

In addition, price monitoring extension periods may also be applied if the indicative auction closing price breaches the price tolerance levels. The extra time a price monitoring extension period provides draws attention to a potential price movement. These extensions give participants the chance to review the prices of their orders entered during the original auction period before the auction match occurs. It also gives other participants a chance to enter orders if they deem that price to be reasonable and wish to trade against it.

Trading Hours

We support the suggestion that a 15 minutes gap to be maintained between the closing time of the cash market and the derivative market and that the market closing time of the derivatives market should be extended according.

Short Selling

We understand that the SFC and the Exchange are now working to consider putting in place a mechanism that would allow for the suspension of the up-tick rule. We suggest the exchange to consider allowing short selling orders to be entered in other trading periods including the auction sessions. We do not see any reasons why covered short selling should not be allowed during auction sessions upon the removal of the up-tick rule.

We are happy to provide further information if needed. If you have any questions to this submission, please contact Felix Chan at [REDACTED] or me at [REDACTED].

Yours faithfully,

