

PART B: DETAILED QUESTIONS FOR RESPONSE

Please indicate your preference by providing comments as appropriate. Where there is insufficient space, please attach additional pages as necessary.

- (1) Do you support Approach 1, Approach 2, Approach 3 or suspending the CAS as a whole? Please state.
Please refer to our comments in the attached letter.

- (2) If Approach 1 is adopted,

(i) Do you prefer the price limit to be set at 5%, 10% or other percentages?
25%

(ii) How much lead time would your firm require for its implementation?
[REDACTED]

- (3) If Approach 2 is adopted,

(i) Do you prefer the price limit to be set at 10 spreads, 24 spreads or other spreads?
[REDACTED]

(ii) How much lead time would your firm require for its implementation?
[REDACTED]

- (4) If Approach 3 is adopted,

(i) Do you prefer the outstanding orders priced outside the pre-set range to be cancelled instead of carrying forward to the CAS?
[REDACTED]

(ii) For securities without the day high and day low prices at 4 pm, do you prefer disallowing order input during the CAS for these securities or not imposing a price control limit at all?

(iii) Do you prefer the price control limit to be set at 0 spreads (i.e. simply using the day high and day low prices as limit), 10 spreads or other spreads above the day high and below the day low prices?

(iv) How much lead time would your firm require for its implementation?

(5) If suspension of the CAS is adopted, how much lead time would your firm require for its implementation?

(6) Do you have other proposed measures to reduce price volatility during the CAS or other comments or suggestions regarding the CAS? Please state.
Please refer to our comments in the attached letter.

- End -

Corporate Communications Department
Hong Kong Exchanges and Clearing Ltd
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30 December 2008

Dear Sirs

Re: Response to Consultation Paper on Introduction of a price control mechanism during the closing auction session in the securities market

We are pleased to have this opportunity to respond to the consultation on introduction of a price control mechanism during the closing auction session in the securities market.

In general, we consider that the current trading mechanism of the closing auction works well and the existing price control mechanism is sufficient. We do not see any need to impose further restrictions on the price, as additional measures to limit the price movement may result in diminishing market turnover and efficiency. However, if we must opt for any one of the three approaches proposed, we would choose Approach 1 with a limit set at 25%.

Though we are satisfied with the current trading mechanism, we would like to ask the HKEx to consider the following enhancement which may help to further promote the market efficiency and maximize the market liquidity.

1. Limitation on the IEP within the range of highest bid price and lowest ask price

According to Rule 501K(1) of the Trading Rules, the Indicative Equilibrium Price ("IEP") must fall within the range of the highest bid price of the buy at-auction limit orders and the lowest ask price of the sell at-auction limit orders. Such constraints imposed on the IEP would unnecessarily limit the trading volume, since the bid and ask orders with prices outside this range could not be matched even though liquidity is available in the market.

As such, we would like to ask the HKEx to consider removing such restrictions on the IEP.

2. Short selling during the closing auction session

We would also like to recommend that short selling should be made available during the closing auction session. The short selling activities can help the market to rebalance effectively if the bid prices increase excessively during the closing auction session. Certainly, the uptick rules should still be applied which may set at the closing price at the end of the Continuous Trading Session.

We hope our comments would be helpful. We would like to take this opportunity to invite the HKEx to meet with us so that we could explain our views on this topic in greater details and answer any questions you may have on the above.

Please do not hesitate to contact our compliance officer, [REDACTED] if you have any questions.