



SECURITIES AND FUTURES COMMISSION 證券及期貨事務監察委員會

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10 July 2007

Mr Richard Williams  
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The Stock Exchange of Hong Kong Limited  
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By fax 2295 4806 & by post

Dear Richard,

At the Liaison meeting you asked us whether, in championing the suggestion from the Public Shareholders Group that the blackout period should start from the end of the financial period, we had considered the impact of the proposal on the periods when directors can trade and the likely response from those affected.

We well recognise that some insiders will see the increased blackout period as unnecessary and an intrusion on their ability to trade shares. Compared to the present very limited two months blackout each year, in conjunction with the proposals for quarterly reporting and tighter reporting deadlines this proposal could result an apparently draconian eight months blackout each year. Without the other changes the blackout period would still be increased to seven months.

For a company with a December year end the blackout period could be as follows:

- 1 January to 31 March - the three months allowed for publication of the annual report
- 1 April to 15 May - the 45 days allowed for publication of the first quarter's result
- 1 July to 31 August - the 2 months allowed for publication of the half year result
- 1 Oct to 15 November - the 45 days allowed for publication of the third quarter's result

Trading would be allowed in three windows mid May to end of June, September and mid November to end December. This assumes that companies report at the last possible time allowed under the proposed new reporting deadlines. This might provide an incentive for companies to report earlier; that would be good side effect of increasing the blackout, but is not a sufficient reason for supporting the change to the blackout period.

We think the issue is not whether the proposal would consist of a significant reduction in the window allowed for trading by directors, it would, but whether the remaining trading window is reasonable.

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We believe that directors should not be actively trading in their company's shares and should be long term investors of the company. We should not base regulations on the assumption that these insiders must be allowed to trade on any movement in the market. The trading windows that result from this proposal are more than adequate to allow directors to adjust their interests in their companies.

We also note that the current requirements are out of line with international best practice. We looked at UK, Australia and Singapore. As so often the USA approach is very different thus ruling it out as a benchmark for our rules.

Only the UK Listing Rules fix a fixed blackout requirement; this appears to be less restrictive than our proposal with a maximum blackout period of 60 days and a minimum blackout period from the period end to the results announcement/annual report. However, we think that in practice the UK rules operate much as the proposal because UK companies tend to report more quickly than the set deadlines, unlike Hong Kong companies who tend to report on the deadline.

The Australian and Singaporean Listing Rules do not have a specified blackout period, the rules leave it to the companies to set their own blackout periods. It appears that these markets rely on a mixture of insider dealing laws and market forces that drive companies to set tight rules. For instance, the ASX dealing rules for its employees and directors only allow a trading window of:

- A 5 week period beginning on the day after the release of the ASX half-year results or annual results;
- A 5 week period beginning on the day after the ASX's AGM; and
- A period commencing on the day after the issue of a prospectus offering ASX securities and ending on the day the offer closes.

Unfortunately, we do not think that either of these factors work well in Hong Kong and hence we need to set a benchmark for companies to follow.



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Overall we do not think that the proposal to lengthen the blackout period is unreasonable. While we recognize there will be some strong opposition we have no qualms in being associated with the proposal.

Yours sincerely,

Brian Ho

c.c.: Ms Ellie Pang -- SEHK  
Mr Martin Wheatley -- SFC