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HKEx 香港交易所

The Stock Exchange of Hong Kong Limited

(*A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)*

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To: Main Board Listed Issuers (Attn: Authorised Representatives)
GEM Listed Issuers (Attn: Authorised Representatives)
Market Practitioners

Dear Sirs

Policy on Share Trading Suspension

We have recently received enquiries about our approach in administering share trading suspensions. In the July 2004 edition of the *Exchange Newsletter* we published an article titled "Overview of Policy on Share Trading Suspension" which explains our suspension policy and practice. Since the Listing Rules and policy in this area have not changed, we consider it helpful to enclose this article to refresh your understanding of the Exchange's suspension policy. A copy is also available at the HKEx website at http://www.hkex.com.hk/eng/newsconsul/newsltr/2004/documents/2004-07-02-e.pdf.

While suspension of trading may be necessary to protect investors or maintain an orderly market, we expect issuers to plan their affairs so that trading suspension can be avoided if possible, and any suspension period should be kept as short as is reasonably possible.

Any request for suspension should be supported with reasons and the Exchange will consider if a suspension is appropriate in the circumstances. We set out below four common scenarios and explanations on how our suspension policy is applied in them.

Scenario 1

An issuer requests share trading to be suspended shortly before a transaction is expected to be executed.

In the interest of a continuous market we expect issuers to plan their actions so that trading suspensions can be avoided if possible. For example, significant agreements should not be signed during trading hours. The Exchange would only agree to a suspension if there appears to be a genuine, or reasonable, concern on the leakage of price sensitive information and/or practical difficulty in maintaining confidentiality.

Scenario 2

An issuer requests share trading to be suspended shortly before a block-trade is to be executed. While the principle set out in Scenario 1 applies, the issuer asks if it may suspend share trading in order to facilitate a sale of existing shares.

In our view it is inappropriate to suspend share trading in order to facilitate the sale process. A trading suspension is meant to allow time for the announcement to be made after price sensitive information has crystallized, and not to facilitate the execution of the price-sensitive event (e.g. a corporate action). In cases where a block-trade commences after trading hours but remains incomplete by the commencement of the next trading session there may be a better case for suspension, because information about the block-trade is in the market but not yet disseminated by way of an announcement.

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Exchange participants and market participants in receipt of non-public information involving a prospective block-trade are also reminded that trading on the information may be in breach of the insider trading provisions of the Securities and Futures Ordinance and the Securities and Futures Commission's Code of Conduct for Licensed Persons. If the Exchange becomes aware of circumstances calling into question the actions of the participants, we would refer them to the Securities and Futures Commission.

Scenario 3

Trading in the securities of an issuer has been suspended pending an announcement about a material acquisition. The issuer releases the announcement after trading hours. It then conducts a block-trade shortly after the announcement is issued and requests to continue the suspension.

The suspension policy set out in Scenario 2 applies. We would agree to a continuing suspension only if it is necessary to avoid a disorderly market (e.g. the block trade remains incomplete by the commencement of the next trading session and an announcement on the block-trade is yet to be made). However, the issuer should minimize suspensions as far as possible by conducting the block-trade outside trading hours after the release of the material acquisition announcement.

Scenario 4

For dual or multiple-listed issuers we proactively co-ordinate with issuers and other market regulators to ensure, as far as practicable, simultaneous dissemination of price sensitive information in the different markets and, if that is impracticable (e.g. for time zone differences), that the information is disseminated before the market opens in Hong Kong. If a price sensitive announcement can only be made during a trading session then a short suspension is normally necessary pending the release of that announcement.

If you have any question, please contact our case officers.

Yours faithfully
For and on behalf of
The Stock Exchange of Hong Kong Limited

[Signed]

Mark Dickens JP
Head of Listing

Encl.

Overview of Policy on Share Trading Suspension

The principal objective of the Stock Exchange is to provide an orderly, informed and fair market[1] for the trading of securities. In common with other jurisdictions there are arrangements in place in Hong Kong for the regulators to implement trading interruptions in order to help achieve these objectives.

Trading interruptions may be referred to in several different ways but most commonly they are referred to as either trading suspensions or trading halts. A trading suspension or halt is generally a temporary interruption in the trading of a security or group of securities in anticipation of, or in reaction to, an unusual event or condition affecting a security or group of securities. Trading suspensions are used to address both potential and actual market disorder. By creating a break in trading they aim to avert the risk of a disorderly market or where disorderly conditions are already emerging to facilitate the restoration of orderly trading.

Although other jurisdictions have trading interruption procedures in place based on broadly similar objectives, the detail of the arrangements is usually tailored to local circumstances and often varies considerably. In Hong Kong, the Listing Rules provide that the Stock Exchange may for the protection of investors or the maintenance of an orderly market suspend dealings in any securities, whether requested by the listed company or not. The Securities and Futures Commission may, through statutory rules, exercise equivalent powers to direct suspension of trading. These trading suspension powers focus on circumstances when the orderliness of the market is at risk through the need for the dissemination of information or circumstances exist which pose a risk to the investing public. The Stock Exchange's policy and practice in the exercise of its powers is described below in further detail.

Current Policy and Practice

In carrying out its functions the Stock Exchange considers the need to promote investor confidence in standards of disclosure by listed companies and in the conduct of their affairs, in particular compliance with the continuing obligations regime.

The continuing obligations are founded on the principles of timely disclosure of all relevant information and equal treatment of all shareholders. They perform an essential role in helping to maintain orderly markets and in ensuring acceptable levels of investor protection. When these obligations are not met the Stock Exchange will consider what remedial steps are necessary to restore an orderly market or, depending on the circumstances, to put a listed company into a position in which it can meet its obligations under the Listing Rules. Where appropriate, the Stock Exchange will also consider what sanctions should be imposed through formal disciplinary procedures.

Power to Suspend

Where the maintenance of an orderly market is or may be jeopardised or where protection of investors so requires the Stock Exchange may suspend trading with effect from such time as it may determine and in such circumstances as it thinks fit, whether or not a request is made by an issuer or its authorised advisers. The relevant powers are

[1] *Section 21 of the Securities and Futures Ordinance (Chapter 571).*

described in Chapter 6 of the Main Board Listing Rules and Chapter 9 of the Growth Enterprise Market (GEM) Listing Rules.

The suspension of trading will often need to be considered under urgent time pressure. Listed companies and their directors who are in any doubt about whether a suspension of trading would be required or permitted by the Stock Exchange are encouraged to make early contact with the Listing Division to determine this. In the majority of cases listed companies and their advisers follow this advice and contact the Stock Exchange prior to the commencement of trading. This ensures that sufficient time is usually available to resolve any last minute problems.

The Stock Exchange, in considering whether or not to exercise its powers to suspend trading or to order the resumption of trading, will have regard to the interests of both current shareholders and potential future investors. While concerns are often raised about the impact of suspension of trading on shareholders who may be unable to dispose of their interest in the suspended securities, it is equally important to consider whether potential purchasers of those shares have at their disposal all the information they might need to make an informed investment decision.

Grounds for Suspension

The structure of the Listing Rules and the continuing obligations regime places the onus on listed companies to avoid any suspension of trading. Recourse to suspension should be avoided whenever it is reasonably practicable. The Stock Exchange places great importance on the responsibility of the directors of a listed company, not only to ensure proper security with regard to unpublished price-sensitive information, but also to ensure that relevant information is disclosed in a proper, equitable manner, in the interests of the market as a whole, not to the benefit of a select group or individual.

There are circumstances where steps cannot be taken in the time available to avoid a suspension of trading. The following is a non-exhaustive list of examples of circumstances in which the Stock Exchange will normally suspend trading:

(1) A listed company is unable to publish price-sensitive information;

(2) There is or may be a leak of price-sensitive information and the listed company is unwilling or unable to issue an announcement within an appropriate time frame;

(3) There is uneven dissemination or leakage of price-sensitive information in the market giving rise to an unusual movement in the price or trading volume of the listed company's securities;

(4) There are unexplained unusual movements in the price or trading volume of the listed company's securities and the listed company's authorised representative cannot immediately be contacted by the Stock Exchange to confirm that the listed company is not aware of any matter or development that is or may be relevant to the unusual price movement or trading volume of its listed securities;

(5) A listed company appoints receivers or liquidators are appointed;

(6) A listed company is unable to assess its financial position and inform the market accordingly;

(7) A listed company receives an offer for its securities and the listed company is unable to issue an announcement pursuant to the Takeovers Code within an appropriate time frame;

(8) The Stock Exchange considers that the listed company does not have a sufficient level of operations to warrant the continued listing of the company's securities;

(9) A listed company fails to meet the continuing obligations of listing in a manner severe enough, in the opinion of the Stock Exchange, to justify suspension. For example, with effect from 1 January next year. Main Board-listed companies which fail to publish financial results by the due date in accordance with the Listing Rules will be suspended; or

(10) The Stock Exchange considers there are insufficient shares in public hands.

The Stock Exchange reserves the right to suspend dealings without a request being made by the listed company and will not hesitate to do so if, in its judgment, this is the correct course of action. Decisions to direct the suspension of trading are made by senior executives of the Stock Exchange, usually by the Head of Listing. Once a decision is made to suspend the securities of a listed company the necessary actions to effect the suspension can be made in a matter of minutes.

Resumption of Dealings

In the interests of promoting a continuous market for the trading of listed securities, the Stock Exchange stipulates that the period of any suspension be kept as short as is reasonably possible. This means that a listed company and its advisers must produce an appropriate draft announcement for review by the Stock Exchange as soon as possible after the suspension arises. Under normal circumstances, the Stock Exchange will restore dealings as soon as possible following publication of an appropriate announcement, or after specific requirements have been met. In the majority of cases, the resumption of dealings will normally take place at the commencement of trading on the morning of the publication of the announcement.

However the procedure for lifting a suspension will depend on the circumstances and the Stock Exchange reserves the right to impose such conditions as it considers appropriate. An area of concern and the Stock Exchange's focus over the last year has been where listed companies appear not to have in place adequate compliance procedures, systems and controls.

Concerns are often signalled by qualified audit opinions where the auditor is unable to express an opinion on whether the listed company has been able to maintain proper books and records. Such an opinion raises serious concerns about the company's ability to meet its financial and other disclosure obligations under the Listing Rules. To protect investors the Stock Exchange will suspend trading pending clarification of the concerns raised and such remedial action as may be necessary.

In these circumstances the Stock Exchange may impose as a condition for resumption of trading that the listed company undertake a review of its systems and controls and obtain an independent confirmation that the directors have established procedures which provide a reasonable basis for them to make proper judgements with respect to the company's continuing obligations under the Listing Rules.

The remedial steps imposed by the Stock Exchange in circumstances where there has been a breach of the Listing Rules are imposed without prejudice to any disciplinary action that may be taken by the Stock Exchange or actions by other agencies and regulators.

Rejection of a Proposal for the Resumption of Trading

During any period of suspension the listed company may request the lifting of the suspension. The Stock Exchange will not entertain a request by a listed company to resume trading if it is not satisfied that the circumstances prevailing at the time warrant resumption of trading. Usually a decision to reject a request for a lifting of suspension is made by the Listing Division.

Where the Listing Division rejects an application by a listed company to lift a suspension of trading which has been in effect for more than 30 days, the listed company has the right to have that decision referred to the Listing Committee for review.

Where the Listing Committee endorses, modifies or varies the Listing Division's decision, that listed company shall have the right to have that decision reviewed by the Listing Appeals Committee, whose decision shall be conclusive and binding on that listed company.

These arrangements provide safeguards to ensure that the Listing Division exercise their powers and carry out their day to day administration of the Listing Rules in a professional and impartial manner.

A statistical analysis is set out below to provide information about the frequency, duration and reasons for suspension of trading. During the period covered by these statistics on one occasion the Listing Division sought the Listing Committee's endorsement of its approach to handling the suspension of a listed company. During the same period no requests for a review of a decision to maintain a suspension were received.

Trading suspension data

	January to December 2003	January to June 2004
Total number of suspensions	**703**	**428**
Primary reason for suspension		
Pending publication of price-sensitive information including clarification of an issuer's financial position and sufficiency of operations	384	189
Pending disclosure of information relating to notifiable transactions	122	111
Pending disclosure of information relating to the issue of securities	151	120
Pending further disclosure in respect of Takeover offers	46	8
How suspension was initiated		
At the request of the listed company	699	423
By direction of the Stock Exchange	3	3
By direction of the Securities and Futures Commission	1	2
Duration of suspension		
One day or less	270	150
Two days	118	77
Three days	73	47
Four days	50	28
Five days	26	24
Between six and 10 days	71	57
Between 11 and 20 days	36	19
Between 21 and 50 days	26	11
More than 50 days	33	15

Usually, when the reason for suspension is the pending release of price-sensitive information or transactions, trading can resume fairly soon. In the year to 31 December last year, 38 per cent of the suspensions were for a period of one day or less and 76 per cent of the suspensions lasted for five days or less. For the six months ended 30 June this year, the figures were 35 per cent and 76 per cent respectively.

The resumption of trading of the securities of a listed company in severe financial difficulty will usually take longer to achieve as it invariably involves rescue proposals with fund and/or asset injection and agreement with creditors. These proposals are considered on a case by case basis and often have to undergo the normal scrutiny of a new listing application.

As at 30 June this year, the securities of 59 listed companies (40 Main Board and 19 GEM) were suspended from trading. Of these, 69 per cent i.e. 41 listed companies (26 Main Board and 15 GEM) had been suspended for more than three months. These represent about 3 per cent and 8 per cent of the total Main Board and GEM listed companies respectively. Most of these companies were experiencing financial difficulties and/or lacked sufficient operations. If these companies cannot present a viable resumption proposal to the Stock Exchange in accordance with the provisions of the Listing Rules, their listings will ultimately be cancelled. Monthly updates on any development regarding these companies can be found on the HKEx website. Of the remaining 18 listed companies that were suspended on 30 June, six companies had resumed trading by 14 July.