

Legislative Council

**Panel on Financial Affairs
Meeting on 5 July 2007**

**Electronic Disclosure Project
of the Hong Kong Exchanges and Clearing Limited**

Background

Under the Electronic Disclosure Project which took effect on 25 June 2007, Main Board issuers are no longer required to publish paid announcements in the newspapers. A paid announcement in newspapers will be optional so long as the Main Board listed issuer publishes the full announcement on its own website, in addition to the Hong Kong Exchanges and Clearing Limited (HKEx) website. (Paid announcements are already optional for Growth Enterprise Market, or GEM, listed issuers.) HKEx and market participants have prepared thoroughly for the new electronic disclosure requirements.

2. The background to the Electronic Disclosure Project has been presented in great detail in material published by HKEx. The following papers are relevant –

- A paper issued in March 2007, entitled “From Paper to Paperless – A Communication Paper on Straight-through Electronic Disclosure and the Abolition of Paid Announcement Requirement”. The paper can be viewed on the HKEx website at http://www.hkex.com.hk/edp/ess_cp.pdf
- A paper issued in July 2006 entitled “Exposure Conclusion Abolition of Requirements for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters” (the “2006 Conclusion Paper”). The 2006 Conclusion Paper can be viewed on the HKEx website at <http://www.hkex.com.hk/consul/conclusion/npa.pdf>
- An exposure paper issued in November 2005, entitled “Abolition of Requirements for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters” (the “2005

Exposure Paper”). The 2005 Exposure Paper can be viewed on the HKEx website at http://www.hkex.com.hk/consul/paper/expopaper_e.pdf

- A news release dated 24 April 2001 entitled “Proposals on the Dissemination of Main Board Issuers’ Announcements through the HKEx website in place of Publication as Paid Announcement in Newspapers”. The news release can be viewed on the HKEx website at <http://www.hkex.com.hk/news/hkexnews/0424news.htm>; and <http://www.hkex.com.hk/news/hkexnews/1020401-HKEX-PA.pdf>

3. Throughout this project HKEx has recognised that its responsibility to the market will further increase upon implementation of the proposals as it will be the primary provider of regulatory information in Hong Kong. Therefore, HKEx has taken extensive steps to help ensure that the electronic systems are robust and reliable. The various systems have been upgraded, including their capacity. New security features have been introduced to the electronic systems and back-up arrangements have been put in place. The systems have been thoroughly tried and tested, most recently in a number of familiarisation sessions that provided an opportunity for all issuers and agents with hands-on experience. No major incidents were reported during these familiarisation sessions.

4. The Electronic Disclosure Project affects not only the way Main Board and Growth Enterprise Market (or “GEM”) issuers prepare, submit and publish their Listing Rules-related disclosures, but also the dissemination of such disclosures by HKEx through the following channels:

- ❖ The HKEx Website;
- ❖ The cash market trading system, i.e. the Automatic Order Matching and Execution System (“AMS”);
- ❖ The Market Datafeed (“MDF”) service;
- ❖ The Electronic Mailing Stock Information System (“EMSIS”); and
- ❖ The Issuer Information feed System (“IIS”).

Through these dissemination channels, HKEx transmits issuers’ disclosures to different users and participants of the Hong Kong securities market,

including the public, the SEHK Participants, EMSIS subscribers as well as authorised information vendors of HKEx's information services (namely, MDF and IIS). These market stakeholders will be affected directly or indirectly and in different degrees by the Electronic Disclosure Project.

5. Apart from the above parties, advisers and other intermediaries who assist the issuers in preparing, submitting and disseminating disclosures, and investors will also be affected by the Electronic Disclosure Project.

The Consultation Process and Final Conclusions

The 2000 Consultation Paper

6. In April 2000, the Stock Exchange of Hong Kong published a consultation paper on "Dissemination of All Listed Issuers' Announcements through the HKEx's Website in place of Publication as Paid Announcements in Newspapers" (the "2000 Consultation Paper"). The 2000 Consultation Paper proposed to have all announcements of issuers released on the HKEx Website and to abolish the requirement for issuers to publish announcements in the newspapers. The consultation received 140 submissions from various parties, including issuers, market participants, institutional investors and retail investors. There was a favourable response to the proposal. Many of the respondents considered that there should be a central website where all announcements of issuers listed on HKEx could be located. The respondents also considered the proposal to be a more cost effective way of news dissemination. A majority of the respondents considered HKEx to be the appropriate body to administer the central website. Many expressed confidence that HKEx would be able to ensure the integrity of the information provided. The main concerns with regard to the proposal were the convenience and accessibility of newspapers and that people without access to the Internet might be disadvantaged under the proposal.

7. Having considered the responses and concerns raised with regard to the proposal, HKEx decided to adopt a revised proposal but at the same time decided to take a cautious approach in its implementation. After taking into consideration the increased popularity of the Internet in Hong Kong and environmental protection, HKEx set out in an announcement of 24 April 2001 a revised proposal that the requirement under the Listing Rules for paid announcements be abolished and that Main Board issuers be required to:

- (a) provide an electronic copy of any announcement required under the Listing Rules to be published by them in the newspapers to HKEx for dissemination on the HKEx Website; and
- (b) deliver a press release on the subject matter of any announcement required to be published on the HKEx Website, with a copy of the relevant announcement attached to the press release, to at least a majority of the publishers of English language newspapers and Chinese language newspapers in Hong Kong.

8. In the same announcement dated 24 April 2001, HKEx stated that as interim arrangement, the Listing Rules would be first amended to require the submission of a soft copy of announcement to HKEx for publication on the HKEx website. The requirement for publication of announcements in the newspapers would be retained until the full implementation of the revised proposals when further rule amendments would be required. HKEx subsequently amended the Listing Rules to require the submission of an electronic copy of announcements to the Exchange for publication on the HKEx Website which came into effect in May 2001. Since February 2002, issuers have also been required to submit electronic copies of all Listing Rules-related corporate communications (including circulars and annual reports) for publication on the HKEx Website. However, the proposal to remove the requirement of Main Board listed issuers to publish their announcements in the newspapers has yet to be fully implemented.

2005 Exposure Paper

9. Against the background of the consultation carried out in 2000, HKEx published an exposure paper entitled “Abolition of Requirements for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters” (the “2005 Exposure Paper”) in November 2005 to address the mechanics of implementing a proposal that had already been subject to market consultation and a policy decision nearly five years earlier. In order to ensure an orderly transition from the current arrangements to a purely web-based news dissemination regime, HKEx proposed in the Exposure Paper an interim measure whereby Main Board issuers would be required to publish a short-form announcement in the newspapers, instead of the full version of the announcement which would be posted on the HKEx Website and the issuer’s own website. The Exposure Paper sought market views on three specific aspects of the future news dissemination regime:

- (a) on the detailed wording of the envisaged Listing Rules amendments with a view to removing ambiguities and providing clarity;
- (b) on whether the short-form announcements as an interim measure should be a summary announcement (a summary announcement would provide a summary of the contents of the full announcement) or a notification (a notification would merely serve to notify investors of the publication of an announcement on the HKEx Website); and
- (c) on the appropriate duration of the interim measure.

10. The 2005 Exposure Paper also set out the proposed operational model of the issuer news dissemination regime during Phase 1 of the implementation of the Electronic Disclosure Project.

Final Conclusions

11. The comment period for the 2005 Exposure Paper closed on 13 January 2006. The Exchange received 35 sets of comments from a total of 40 respondents. A summary of the main comments raised and the final conclusions of HKEx are set out in a paper entitled “Exposure Conclusion - Abolition of Requirements for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters” published in July 2006.

12. The overwhelming majority of respondents expressed support for the abolition of the requirement to publish full announcements in the newspapers. In addition, HKEx received a range of constructive comments on the way forward. There were 4 respondents that opposed the proposals (being 3 newspaper companies and one individual).

13. Based on the responses received, HKEx decided that:

- (a) the short-form announcement which, as an interim measure, Main Board issuers would be required to publish in the newspapers, would be a notification rather than a summary announcement; and

- (b) Phase 1 as described in the Exposure Paper, i.e. the transitional period during which Main Board issuers would be required to publish notifications in the newspapers instead of the announcement, should last for six months.

Justification

14. The Electronic Disclosure Project has been designed to address the mechanics of implementing a proposal that had already been subject to market consultation and a policy decision (which HKEx announced on 24 April 2001) more than six years ago. We set out below the primary factors which have contributed to HKEx reaching the conclusion that the proposed model of Electronic Disclosure is conceptually correct and that the market is now ready for the implementation of the Electronic Disclosure Project.

Comparison with other international markets

15. The current news dissemination model in Hong Kong is out of step with other leading international markets. This reflects that our model was designed at a time when disclosures were almost exclusively paper-based and most investors obtained market information from newspapers or through market intermediaries.

16. All other major international markets including London, New York and Tokyo and the Asian markets of Singapore, Malaysia and Korea have adopted electronic models of dissemination. In Europe, with the implementation of the Transparency Directive in January 2007, issuers are required to disseminate regulatory news within all member states in the European Union “as close to simultaneously as possible”. The majority of the EU member states have interpreted this requirement to mean dissemination must be electronic. Shanghai and Shenzhen have also adopted electronic means of dissemination in addition to designated newspapers.

17. A detailed comparison of the information dissemination models adopted, in 2001, in leading securities markets can be found in Chapter 4 of the Consultation Paper entitled “CP92 - Review of the UK mechanism for disseminating regulatory information by listed companies” published by the Financial Services Authority (“FSA”) in May 2001. The paper can be viewed on the FSA website at <http://www.fsa.gov.uk/pubs/cp/cp92.pdf>.

18. Implementation of the Electronic Disclosure project proposal will bring Hong Kong, which is an international finance centre, in line with international practice and better serve the community of local and overseas investors interested in investing in the Main Board.

GEM

19. GEM issuers already disseminate information electronically and have done so since the GEM was launched in 1999. To date we have not received complaints from investors concerning the inaccessibility of information published on the GEM website. Retail investors interested in GEM investments appear to have successfully adapted to accessing regulatory information electronically and we believe that a similar change in behaviour from retail investors interested in the Main Board will occur.

Availability of the Internet

20. According to information provided by the Hong Kong Trade Development Council on the Profiles on Hong Kong Major Service Industries which was last updated in November 2006:

- 69% of the total population of Hong Kong are Internet users
- 87% of households have personal computers and 66% of household computers are connected to the Internet
- Hong Kong has the highest Internet penetration in Asia
- Hong Kong has the highest broadband penetration in the world
- Over 1,000 internet enabled PCs are available and designated for public use in 78 public and tertiary/special libraries across Hong Kong

21. Further, according to a Notice Survey Report prepared by SCMP dated January 2006 which was submitted to HKEx as part of SCMP's response to the 2005 Exposure Paper, 71.5% of Hong Kong retail investors said that they were likely to use the Internet to read issuer disclosures after implementation of HKEx's proposals. Amongst, the youngest sample group, those aged 35 and below, the positive response rate increased to 92.6%.

22. These statistics indicate that the overwhelming majority of

investors will be able to access announcements disseminated electronically by issuers and the majority will be likely to do so.

Potential flaws inherent in the current arrangements

23. The Electronic Disclosure Project will also allow investors to obtain issuer information on a timely basis whilst providing a complete archive of information at any time. Publication of issuer regulatory information in the newspapers has inherent drawbacks and operational risks. Investors seldom have access to the entire population of such information as it is published in a fragmented and unpredictable manner in number of different newspapers depending on the preferences of issuers. There are fourteen Chinese language and seven English language newspapers in which paid announcements can be placed. Also those newspapers may not be sufficiently widely available to ensure adequate dissemination to all categories of investor, whether located in Hong Kong or abroad.

24. In addition, prioritising completion of the newspaper announcements under the current news dissemination model frequently results in delays in the publication of the electronic version of the announcement. This does not serve the needs and works to the disadvantage of those investors without access to local newspapers who consequently rely on electronic news. The proposed model of dissemination will ensure that there is fair disclosure of regulatory information.

Availability of media reporting

25. After the Electronic Disclosure Project is fully implemented, we believe that newspapers and other forms of media will continue to play a significant role in providing information to investors through their analysis and commentary on significant developments in the corporate world. In particular we think that newspapers will continue to provide a source of information to those investors who have become accustomed to rely on newspapers to alert them to market developments.

The changing profile of investors

26. The Cash Market Transaction Survey 2005/2006 published by HKEx (which can be viewed on the HKEx website at <http://www.hkex.com.hk/research/cmtrsur/cmtr06.pdf>) shows how the

profile and location of investors has significantly changed as the Hong Kong market has developed into its current position as a leading international market. In particular the percentage of local retail investors in the cash market (by trading value) has been decreasing (1996/97: 53% vs. 2005/06: 27%) with corresponding increases in the percentage of overseas institutional investors (1996/97: 19% vs. 2005/06: 39%) and local institutional investors (1996/97: 20% vs. 2005/06: 26%). To maintain Hong Kong's position as an international finance centre, it is essential that HKEx also addresses the current and future information needs of investors not located in Hong Kong (particularly the potentially substantial number of investors from the Mainland) without ready access to Hong Kong based newspapers. As the population of overseas investors increases we would expect that there will be higher usage of the Internet to gain convenient and comprehensive access to Hong Kong issuer information.

Current data on the market's electronic access and market readiness

27. Since February 2002, HKEx has published soft copies of issuer documents and announcements on the HKEx website in addition to issuers publishing announcements in the newspapers. As a result of this initiative, investors have increasingly been accessing issuer information on the HKEx website. The number of page views (being any hit that successfully retrieves a detailed content web page) on the HKEx website has increased steadily every year, from about 75.6 million in 2002 to 145.2 million in 2003, 219.7 million in 2004, 259 million in 2005 and 405.8 million in 2006. For the period from January to May 2007, visits to the Investment Service Centre on the HKEx website, where issuer announcements and other documents are disseminated, accounted for about 68% of the total page views.

Future modifications to the model for information dissemination

28. The Electronic Disclosure Project will provide an efficient and effective mechanism to disseminate regulatory information. It will also lay the foundation for further positive market developments such as real time dissemination of issuer information during trading hours and elimination of unnecessary suspensions which arise under the current model. Relying on information dissemination by newspapers rather than electronic dissemination forces the market to pause until information is published in newspapers. This results in an inefficient market to the detriment of all investors including retail investors. The inability to trade during these

suspensions imposes an opportunity cost for investors which can be removed in the future once the Electronic Dissemination Project is fully implemented.

Reduction in costs

29. Implementation of the Electronic Disclosure Project will result in substantial cost savings for issuers. This in turn will be beneficial to their shareholders as a whole. The amendments to the Listing Rules will not prevent issuers from choosing to continue to reach out to investors through the newspapers and to enjoy the flexibility in publishing announcements in the newspapers in addition to disseminating them on the HKEx website and their own issuer website.

Impact on investors' rights to information relating to issuers

30. After the implementation of the Electronic Disclosure Project, investors will no longer find all issuer announcements in the newspapers. For comprehensive access to issuer announcements, investors will need to refer to the HKEx website. Consequently some retail investors will have to change their habits in accessing issuer announcements. To facilitate this transition in behaviour, a number of measures have been put in place as discussed later in this section.

Access to free and timely information

31. The HKEx website will become a central repository for issuer announcements and other documents and investors will have free access to this repository of documents at all times. The display of documents on the HKEx website has been enhanced so that the headline categories and document title can be seen in the latest listed company announcements and other documents. Visitors can also search archives by headline categories and document title. This functionality will greatly shorten the time it takes an investor to find and access a specific announcement or group of announcements. This will help investors both access the most up to date information from issuers and also track and provide access to historic disclosures.

32. With mandatory electronic submission for publication and the automated and straight-through publication of most issuer disclosures on the

HKEx website, the time taken for issuer disclosures to reach investors will be greatly reduced. Therefore, investors will benefit from the availability of more timely issuer information.

33. For the avoidance of any doubt, HKEx does not currently charge investors for access to issuer disclosures on its website and HKEx has no intention to do so in the future. HKEx also has a range of commercial information products, including a real-time datafeed of issuer disclosures to information vendors, to meet market demands of different users in the market.

Notifications in newspapers

34. For a period of six months after implementation of the Electronic Disclosure Project, issuers will be required to publish a notification in the English and Chinese newspapers to inform the market of where the full announcement can be found. The notification serves to alert investors of regulatory news and ease the transition from newspaper publication to electronic publication for investors.

Enhancement of email/mobile alert service

35. Mobile phones provide another form of technology which can raise investor awareness of issuer disclosures. Mobile phone penetration in Hong Kong stands at or around 136%, one of the highest levels of mobile phone usage in the world. HKEx has enhanced the email/mobile alert service available through the Investment Service Centre on the HKEx website. The service provides free email or SMS alerts to each subscriber advising them of the publication of a new disclosure by or notices on disclosure of interests relating to companies that they invest in. The service now offers expanded stock coverage (from 10 to 20 stocks) and more frequent alerts (from hourly to half hourly). HKEx has promoted this service extensively. HKEx has purchased newspaper advertisements, arranged online promotions and worked with banks, brokers and other stakeholders to raise public awareness of the Electronic Disclosure Project and the HKEx website's role as the primary channel for listed issuer announcements starting 25 June 2007. As at 15 June 2007, about 28,300 investors had subscribed for the news alert service, representing an increase of approximately 42% since March 2007.

36. HKEx has arranged further promotions starting in the middle of

June 2007 to keep investors abreast of the changes and to remind them that the HKEx website will be the primary channel for accessing listed issuer announcements from 25 June 2007.

37. This form of alert service will remain free of charge and HKEx will consider further improvements in the future in response to market feedback and demand.

Hard copies of documents

38. For a period of six months after implementation of the Electronic Disclosure Project, issuers must also make available announcements for inspection during business hours at no charge at its principal place of business in Hong Kong or at a location in Central and Western District, Wanchai District, Eastern District or Yau Tsim Mong District. The full announcement must be made available for inspection for at least 10 consecutive business days. In some cases, e.g. where the issuer will also be sending a circular to its shareholders, the inspection period will be longer. Therefore investors can have access to a hard copy of an announcement if they so wish.

HKEx Public Viewing Room, other facilities and promotion

39. To facilitate public access to issuer disclosures on the HKEx Website, HKEx has, since 8 February 2007, made available four terminals with Internet connection in a public viewing room near the Trading Hall at the Exchange Square. Use of the terminals is free of charge. As the purpose of these terminals is to provide access to the HKEx Website and the website of the Securities and Futures Commission, these terminals will restrict Internet access to only those websites.

40. We note that all public libraries in Hong Kong provide free Internet access to library users. There are over 1,000 PCs with Internet access located at these public libraries designated for public use. Investors can therefore also access the Internet, including the HKEx website, using this facility.

41. To raise investors' and public awareness of the Electronic Disclosure Project and HKEx's free e-mail/mobile alert service, posters, handbills, and stickers were distributed to all 66 public libraries and 12

tertiary/special libraries in Hong Kong. These promotional materials were also distributed to investors through HKEx's broker Participants.

42. HKEx has also been working closely with a number of participating brokers (covering most of online brokers and major retail banks in Hong Kong) and market organisations (such as Hong Kong Securities Institute and Hong Kong Chamber of Listed Companies) to distribute electronic promotional materials about Electronic Disclosure Project and the free e-mail/mobile alert service to their clients.

Loss of revenue by newspapers

43. HKEx does not have an up-to-date figure for the revenue derived by newspapers from the paid announcement obligation for Main Board issuers. In correspondence dated August 2001, the Newspaper Society of Hong Kong quoted a figure for the advertising market for financial announcements at that time of HK\$400 million to HK\$500 million.

44. It should be noted that, under the Electronic Disclosure Project, issuers will be required to:

- publish a notification in the newspapers for a period of six months after the implementation date of the Electronic Disclosure Project; and
- publish the full announcement in the newspapers for a period of one year after the implementation date, if issuers do not have their own website to post their announcements (currently, about 70% of issuers have their own website for the purpose of this requirement).

45. Further, the Listing Rules do not prevent issuers from publishing paid announcements in the newspapers should they wish to do so. Therefore newspaper companies will still have revenue income from paid announcements although we expect that the amount will be substantially reduced.

Survey by the Newspaper Society of Hong Kong

46. We note that a survey was recently commissioned by the Newspaper Society of Hong Kong. The key conclusions they draw from this survey are similar to those from a survey commissioned by the Hong Kong Economic Times in May 2000. The concerns identified have been taken into account and given serious consideration by HKEx in developing a cautious approach to implementation of the Electronic Disclosure Project. This is reflected in the arrangements on information dissemination that were put in place since April 2001 and also the proposed transitional arrangements for implementation of the project.

Hong Kong Exchanges and Clearing Limited
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