

## **FROM PAPER TO PAPERLESS**

A Communication Paper on  
Straight-through Electronic Disclosure and  
Abolition of Paid Announcement Requirement  
(The Electronic Disclosure Project)

**March 2007**



**Hong Kong Exchanges and Clearing Limited**  
**香港交易及結算所有限公司**



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# EXECUTIVE SUMMARY

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A number of changes to the issuer information dissemination regime in Hong Kong, commonly referred to collectively as the “Electronic Disclosure Project”, will come into effect on 25 June 2007. The purpose of this document is to help issuers, their agents, market intermediaries and the investing public in better understanding the forthcoming changes and their impact on different market stakeholders as well as the actions that the Exchange has taken or will take to minimize such impact and facilitate the implementation of the Electronic Disclosure Project.

The Listing Rules include extensive requirements for issuers to provide timely information not only to their shareholders but also to the public. The current issuer information dissemination regime requires, inter alia, Main Board issuers to publish all announcements in the newspapers and to submit ready-to-publish electronic copies of all prescribed disclosures (including announcements and circulars, corporate communication and prospectus and application forms) to the Exchange for publication on the Exchange Website. Issuer disclosures may be submitted to the Exchange either electronically through the Exchange’s Electronic Submission System (“ESS”) or in the form of either a diskette or a CD-ROM. The vast majority of issuer submissions to the Exchange are at present made in the latter form.

Issuer disclosures are disseminated to market users through a variety of channels, including, inter alia, newspapers (by way of paid announcements as required under the Main Board Listing Rules), the Exchange Website, the third generation of the Automatic Order Matching and Execution System (“AMS/3”) of the Exchange, the Exchange’s information services such as the Market Datafeed (“MDF”), the Issuer Information *feed* System (“IIS”) and the Electronic Mailing Stock Information Service (“EMSIS”). Issuer disclosures carried by AMS/3, MDF and EMSIS are only a portion of all issuer news and include only pre-vetted announcements of Main Board issuers and summary versions of pre-vetted announcements of GEM issuers. Some issuers also disseminate their disclosures on their own websites.

The current issuer information disclosure regime was designed at a time when disclosures were still largely paper-based and most investors obtained market information from newspapers. The increasing popularity of the Internet has unleashed abundant opportunities for more timely disclosure and better market transparency previously unavailable. Issuer submissions in the form of diskette and CD-ROM require considerable manual processing on the part of the Exchange. The process is inefficient, time-consuming and presents numerous unnecessary risks. To satisfy the market’s demand for more timely information disclosure by issuers, electronic submission through the ESS must be made mandatory and publication of announcements in the newspapers optional.

The Stock Exchange of Hong Kong (“SEHK”) first proposed to have all issuer announcements released on the Exchange Website and to abolish the requirement to publish their announcements in newspapers (i.e. the “Electronic Disclosure Project”) in its consultation paper entitled “Dissemination of All Listed Issuers’ Announcements through the Exchange’s Website in place of Publication as Paid Announcements in Newspapers” published in April 2000. The consultation paper received a favourable response from the market. To take the Electronic Disclosure Project forward, the Listing Rules were amended in May 2001 to require the submission of electronic copies of announcements to the Exchange for publication on the Exchange Website. Since February 2002, issuers have also been required to submit electronic copies of other Listing Rules-related corporate communications (such as circulars and annual reports) for publication on the Exchange Website. Meanwhile, it has remained a requirement under the Listing Rules for Main Board issuers to publish their announcements in newspapers by way of paid advertisement.

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In November 2005, the Exchange published an exposure paper entitled “Abolition of Requirement for Main Board issuers to Publish Paid Announcements in Newspapers and Related Matters” to seek market views on three specific aspects of the Electronic Disclosure Project. The overwhelming majority of respondents to the 2005 Exposure Paper expressed support for the proposal. The Exchange also received a range of constructive comments on the way forward. The Exposure Conclusion published by the Exchange in July 2006 summarised the main comments raised and the final conclusions of the Exchange. The Exchange is now preparing for the implementation of the Electronic Disclosure Project and other related changes to the issuer information dissemination regime. As described in the Exposure Conclusion, there will be a transitional period of six months, or Phase 1 of the Electronic Disclosure Project, during which Main Board issuers will be required to publish notifications in the newspapers instead of the need to publish full announcements. Phase 1 is currently scheduled to come into force on 25 June 2007.

The thrust of the Exchange’s proposal is to abolish the requirement for issuers to publish their announcements in the newspapers and to require mandatory submission of issuer disclosures to the Exchange electronically through the ESS. The current official operational hours of the ESS are between 6:00 a.m. and mid-night from Monday to Friday. After the implementation of Phase 1 of the Electronic Disclosure Project, the operational hours of the ESS will be changed to the following:

- (a) on any business day, from 6:00 a.m. to 11:00 p.m.; and
- (b) on a non-business day immediately preceding a business day, from 6:00 p.m. to 8:00 p.m..

Issuers will also be required to maintain their own websites and to publish their Listing Rules documents thereon for free access by investors. This requirement will not come into effect until one year after the commencement of Phase 1 of the Electronic Disclosure Project (i.e. by 25 June 2008). Before the requirement for all issuers to have their own websites becomes effective, a Main Board issuer which does not have its own website will be required to publish its Listing Rules-related announcements not only on the Exchange Website but also in newspapers. Upon the requirement becoming effective, a Main Board or GEM issuer that does not have its own website will be in breach of the Listing Rules. All issuers must ensure that any document published on their respective websites pursuant to the Listing Rules remains available on that website on a continuous basis for at least five years and the public must be able to access these documents on its website free of charge.

Upon the coming into effect of Phase 1 of the Electronic Disclosure Project, issuers will no longer be required to send to the Exchange any text files (whether, as is currently the case, of pre-vetted announcements of Main Board issuers and summary versions of pre-vetted announcements of GEM issuers or, as was proposed in the 2005 Exposure Paper, of short-form announcements, where they relate to pre-vetted announcements) for onward dissemination over AMS/3, MDF and EMSIS.

Other consequential and related changes to the issuer information dissemination regime are set out in Chapter Three of this document.

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The Electronic Disclosure Project and the consequential and related changes to the issuer information dissemination regime will affect different market stakeholders in varying degrees. It will be optional for issuers to publish their full announcements in the newspapers (if they already published their announcements on their own websites), potentially bringing about some cost savings for issuers. It will become mandatory for issuers to submit documents to the Exchange for publication on the Exchange Website electronically via the ESS. Issuers, their staff and advisers must in future strictly observe the operational hours of the ESS. Failure to do so, where there is undisclosed price sensitive information, may render the issuer's securities suspended from trading for at least half a day as sufficient time must be given to investors to meaningfully digest the published information. In this regard, the market should be mindful that during Phase 1 of the Electronic Disclosure Project, the incidence of short duration trading suspension may increase. The situation should gradually improve when issuers become more familiar with the new regime. Issuers will also, in due course, have to have their own websites to publish their full announcements and other Listing Rules documents.

Investors will no longer be able to view all issuers' announcements in the newspapers. They may refer to the Exchange Website or the issuer's own website (where there is one) for issuer news. With mandatory electronic submission and dissemination of issuer news, investors will benefit from issuer information being available in a more timely manner to the market.

Exchange Participants will no longer receive the limited issuer news currently available from AMS/3. Like investors, they may view the full announcements from the Exchange Website or the issuer's own website (where there is one). Similarly, MDF and EMSIS subscribers will have to refer to the Exchange Website or the issuer's own website (where there is one) for issuers' full announcements. The actual impact should not be significant as the issuer news carried by AMS/3, MDF and EMSIS is currently incomplete.

To facilitate the implementation of Phase 1 of the Electronic Disclosure Project and to minimise its impact on different market stakeholders, the Exchange has taken or is taking a number of actions.

The Exchange has put substantial effort to upgrade the capacity and enhance the functionality of its systems relating to the issuer information dissemination regime in order to ensure that they can meet the market's expectation for greater resilience, reliability and user-friendliness. As part of its routine operations, the Exchange regularly reviews the capacity of these systems. Their capacity will be increased if the need arises.

Upon the implementation of Phase 1 of the Electronic Disclosure Project, AMS/3 and MDF will cease to carry any issuer disclosures. In order to enable their users to receive real-time information about what is happening in the market, the Exchange will introduce a new news alert function. This new function will send a short alert message via AMS/3 to its users whenever a piece of issuer news is published on the Exchange Website. The same alert message will also be carried by MDF.

With respect to the IIS, information vendors will continue to receive real-time issuer news once it is published on the Exchange Website for onward dissemination to their customers.

To assist investors in keeping track of the latest issuer disclosures, the Investment Service Centre portion of the Exchange Website provides e-mail/SMS alerts for the latest news (and disclosure of interests notices) published on the Exchange Website. The service is free of charge. To provide better service to the public, the Exchange will enhance the alert service by doubling the maximum number of stocks a subscriber may select under the service from 10 to 20, and by reducing the alert dissemination interval from one hour to 30 minutes. This service upgrade is expected to come into effect in early April 2007. The Exchange will consider further improvements in the future in response to market feedback and demand.

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The Exchange also opened its Public Viewing Room on 8 February 2007. Investors can use the workstations installed therein to search and view issuers' announcements, notices and other documents published on the Exchange Website, and also the SFC's website.

New functions will be added to the ESS and its "look-and-feel" will be noticeably different. To familiarise both existing and new users with the enhanced ESS, the Exchange has produced an interactive e-learning kit and will organise 12 on-line familiarisation sessions for issuers and their agents in March 2007. An ESS Operation Hotline has also been set up since January 2007 to provide technical support to issuers and their agents.

To ensure that the market as a whole and different market stakeholders in particular are fully aware of the changes engendered by the Electronic Disclosure Project and their impact on them, the Exchange has issued circulars to and organised a number of briefings and seminars for Exchange Participants and information vendors in the second half of 2006. We have also held a series of seminars for issuers and their agents both in Hong Kong and the Mainland in January and February 2007. The publication of this Communication Paper represents another major effort of the Exchange to help prepare the market for the new issuer dissemination regime. Workshops for the media will also be held closer to the launch of Phase 1. In addition, the Exchange will create a project corner on the Exchange Website. Interested parties may find all useful information relating to the Electronic Disclosure Project at this corner.

The Exchange believes that preparations of the implementation of Electronic Disclosure Project are well advanced and on track for commencement in late second quarter of 2007. We will continue to monitor final preparations and in the absence of unforeseen circumstances, Phase 1 of the Electronic Disclosure Project will commence on 25 June 2007.

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# CHAPTER ONE INTRODUCTION

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- 1.1 In April 2000, the Stock Exchange of Hong Kong (“SEHK”) published a consultation paper on “Dissemination of All Listed Issuers’ Announcements through the Exchange’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 listed issuers released on the world-wide web through the Exchange Website and to abolish the requirement for listed issuers to publish announcements in newspapers (hereinafter referred to as the “Electronic Disclosure Project”).
- 1.2 Having considered the responses and concerns raised with regard to the proposal, and taking into consideration other relevant factors, such as the increased popularity of the Internet in Hong Kong and environmental protection, the Exchange set out in an announcement of 24 April 2001 a revised proposal. The Exchange subsequently amended the Listing Rules to require the submission of electronic copies of announcements to the Exchange for publication on the Exchange Website. That amendment came into effect in May 2001. Since February 2002, issuers have also been required to submit electronic copies of other Listing Rules-related corporate communications (such as circulars and annual reports) for publication on the Exchange Website. Meanwhile, it has remained a requirement under the Listing Rules for Main Board issuers to publish their announcements in newspapers by way of paid advertisement.
- 1.3 In November 2005, the Exchange further published an exposure paper entitled “Abolition of Requirement for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters” (the “2005 Exposure Paper”). The 2005 Exposure Paper sought market views on three specific aspects of the Electronic Disclosure Project. 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 the Exchange were set out in the Exposure Conclusion published in July 2006.
- 1.4 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 manner in which such disclosures are disseminated by the Exchange through the following channels:
  - ❖ The Exchange Website;
  - ❖ The cash market trading system, i.e. the third generation of the Automatic Order Matching and Execution System (“AMS/3”);
  - ❖ The Market Datafeed (“MDF”);
  - ❖ The Electronic Mailing Stock Information Service (“EMSIS”); and
  - ❖ The Issuer Information *feed* System (“IIS”).

Through these dissemination channels, the Exchange transmits issuers’ disclosures to different users and participants of the Hong Kong securities market, including the public, the Exchange Participants, EMSIS subscribers as well as authorised information vendors of the Exchange’s information services (namely, MDF and IIS). These market stakeholders will be affected directly or indirectly and in varying degrees by the Electronic Disclosure Project.

- 1.5 In addition to the above-mentioned parties, advisers and other intermediaries who assist the issuers in preparing, submitting and disseminating disclosures will also be affected by the Electronic Disclosure Project.

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- 1.6 Given the wide-ranging impact on the market of the Electronic Disclosure Project, the Exchange considers it useful to articulate in a comprehensive manner how the above-mentioned parties will be affected by the changes and what the Exchange has done or is doing to minimise the impact. This Communication Paper first sets out the current practices of the issuer information disclosure regime. It then goes on to discuss the changes to be brought about by the Electronic Disclosure Project and their direct and indirect impact on the market, and finally the Exchange's action plan to implement the Electronic Disclosure Project and to ensure a smooth transition to the new regime.



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# CHAPTER TWO CURRENT PRACTICES

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## The Issuer Information Disclosure Regime

2.1 Listed issuers and new listing applicants on SEHK are regulated by the Rules Governing the Listing of Securities on the SEHK (“The Main Board Listing Rules”) and the Rules Governing the Listing of Securities on GEM of the SEHK (“The GEM Listing Rules”) (collectively “the Listing Rules”). The Listing Rules reflect currently acceptable standards in the market place and are designed to ensure that investors have and can maintain confidence in the market and in particular that, inter alia:

- (a) Potential investors are given sufficient information to enable them to make a properly informed assessment of an issuer; and
- (b) Investors and the public are kept fully informed by issuers and in particular that immediate disclosure is made of any information which might reasonably be expected to have a material effect on market activity in, and the prices of, listed securities.

Therefore, the Listing Rules have extensive requirements for issuers to provide timely information not only to their shareholders but also to the public.

2.2 Information disclosure by issuers under the Listing Rules can generally be grouped into the following categories:

- ❖ Announcements and notices;
- ❖ Corporate communications; and
- ❖ Prospectus and application forms.

2.3 The Listing Rules require an issuer to submit a ready-to-publish copy of all these three types of documents to the Exchange by electronic means for publication on the Exchange Website.

2.4 Both the Main Board and GEM Listing Rules contain extensive requirements for issuers to make disclosure to the public. Insofar as Main Board issuers are concerned, all announcements and notices, save a few exceptions, are required to be published in the newspapers. The Main Board Listing Rules also specify certain circumstances under which a general disclosure obligation will arise for issuers. Such general disclosure obligation will be satisfied for the purpose of the Listing Rules by information being published in the newspapers.

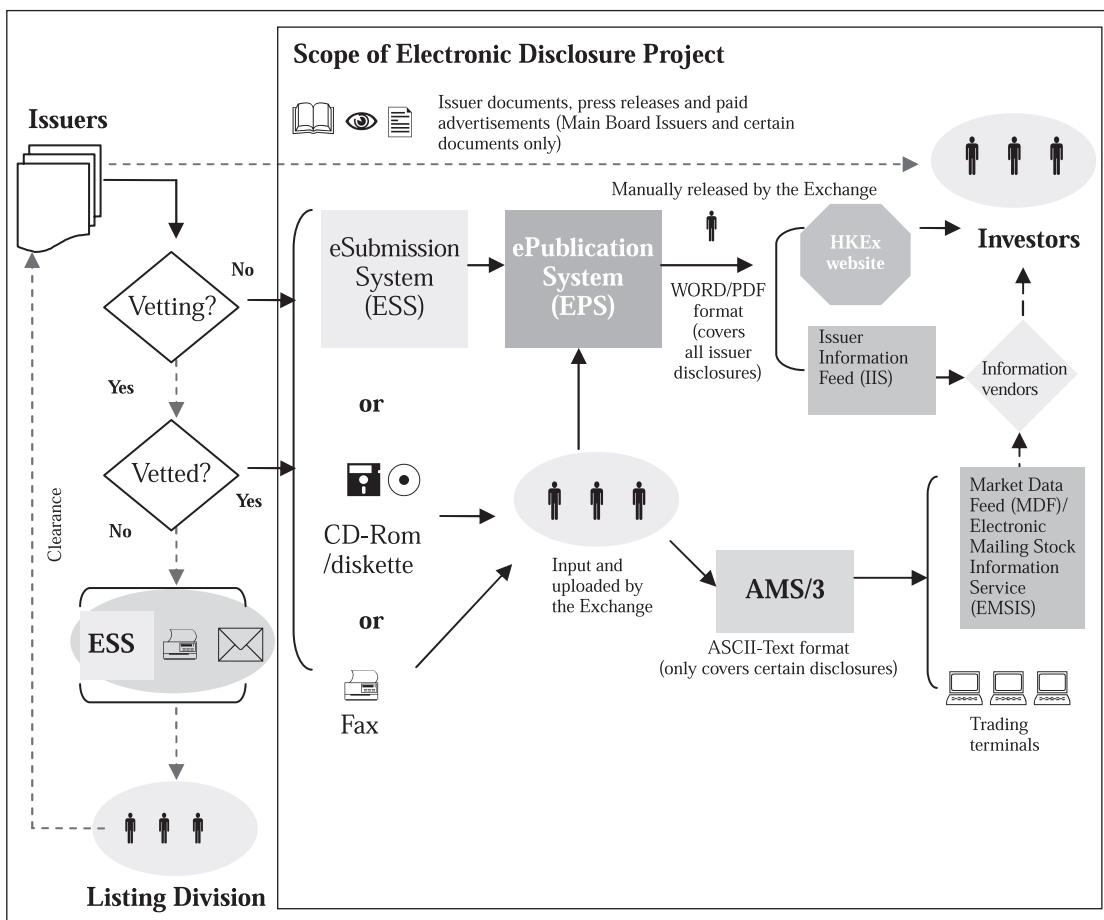
2.5 For the purpose of the GEM Listing Rules, the principal means by which a GEM issuer is required to disclose information is publication on the GEM website. GEM issuers are generally not required to disclose information by means of paid announcements in newspapers. The GEM Listing Rules particularly remind shareholders of GEM issuers to have access to the GEM website to obtain up-to-date information on GEM issuers.

2.6 Some of the announcements (such as some disclosure requirements relating to notifiable transactions, connected transactions, supplemental information regarding IPO transactions, announcements made pursuant to Takeovers Code, announcements relating to suspensions and resumptions and certain matters relating to issuers’ securities (e.g. sufficiency of public float and change to rights of securities)) require prior review by the Listing Division (generally referred to as “pre-vetted” announcements), for which issuers may only publish the announcements after they receive clearance from the Listing Division.

2.7 The Listing Rules also require a circular to be sent to holders of securities for certain types of corporate actions.

## Submission to the Exchange for Publication on Exchange Website

Diagram 1 — Existing Issuer Information Dissemination Regime



- 2.8 At present, both Main Board issuers and GEM issuers are required to submit electronic copies of Listing Rules disclosures (including announcements and notices, corporate communications and listing documents) for publication on the Exchange Website. Such electronic copies may be submitted either electronically through the web-based platform of the Exchange’s Electronic Submission System (“ESS”) or physically in the form of either a diskette or a CD-ROM by hand to our collection box at the office of the Exchange. Some disclosures (including standard announcements relating to unusual price/volume movements) may be submitted by fax to the Exchange for publication purpose.
- 2.9 Increasing number of issuers and tightened requirements for disclosure has led to continuous growth in the volume of issuer information. In 2003, the Exchange received a total of approximately 62,000 issuer disclosures (including both English and Chinese versions) for publication on the Exchange Website. The volume increased by 21% in 2004 and a further 8% in 2005. The total number of issuer disclosures for 2006 recorded a yet further growth of 16% to 94,000 documents.

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- 2.10 Certain “ad hoc” disclosures are event or transaction driven and are less predictable. Some periodic disclosures (such as annual reports and half-yearly reports) generally have a strong seasonal pattern, with its regular peaks falling at end April, end July and in August/September of the year. The number of documents received from issuers per day for publication also varies significantly from less than 100 a day to sometimes as many as 1,000. The average figure for 2006 was 380 documents a day, of which more than half were announcements and notices but on 2 May 2006, there were a total of over 1,000 documents submitted by issuers for publication. The aggregate file size processed per day likewise varies significantly from below 50 MB to as much as 1 GB (again recorded on 2 May 2006).
- 2.11 Submissions via the ESS are transmitted electronically and automatically to the Exchange’s Electronic Publication System (“EPS”) and released onto the Exchange Website for publication manually by Exchange staff. The operational hours of the ESS are between 6:00 a.m. and mid-night from Monday to Friday. Despite the fact that the ESS offers an efficient and low-cost means of disclosure submission, its utilization among issuers has remained low. As at end 2006, nearly one quarter of all issuers have yet to register for the ESS. And even less actually make use of it. According to the Exchange’s statistics for 2006, only 27% of all issuer disclosures were submitted electronically via the ESS. The vast majority of submissions were still made by means of diskette or CD-ROM.
- 2.12 The way that issuer disclosures submitted through diskette and CD-ROM are handled is inevitably largely manual. Exchange staff collect the diskettes and CD-ROM from the collection box at 8:00 a.m. every business day, and from 4:30 p.m. onwards until mid-night at approximately hourly intervals. Such copies are then manually uploaded onto the Exchange Website for publication via the EPS.
- 2.13 According to the Listing Rules, issuers are required to submit the electronic copies to the Exchange for publication on the Exchange Website by 9:00 p.m. at the latest. However, late submissions are common. According to the Exchange’s statistics for 2006, on average slightly more than one-third of all submissions were made after 9:00 p.m. and 19% were delivered to the Exchange on the following day (the day on which the announcements are supposed to be published in the newspapers). While Exchange staff have so far managed to publish all announcements received before mid-night of each trading day, late submissions received by the Exchange in the morning of the following day can only be published on the Exchange Website that morning.
- 2.14 Submissions by issuers to the Exchange for publication on the Exchange Website also include corporate communications and listing documents. The Listing Rules require that these documents (except for prospectuses to be registered under the Companies Ordinance) be submitted for publication on the Exchange Website on the business day immediately before they are supposed to be dispatched to shareholders. For a prospectus that needs to be registered under the Companies Ordinance, the electronic copy must be submitted to the Exchange by 9:00 a.m. on the day of registration of the document under the Companies Ordinance.

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## Dissemination of Issuers' Disclosures

- 2.15 Issuer disclosures are disseminated to market users through many different channels. Some of them are free of charge and publicly accessible and some are subject to a fee.

### *Newspapers*

- 2.16 For most announcements the primary means of dissemination under the Main Board Listing Rules is to publish them in the newspapers on a business day by way of an advertisement. Most issuers engage a professional financial printer to typeset the newspaper advertisement for them. There are about 12 Chinese daily newspapers and six English daily newspapers in Hong Kong that carry issuer announcements by way of paid advertisements. The paid advertisements for issuer announcements however tend to be concentrated in only a few of them.
- 2.17 Announcements that issuers wish to publish on the following day will have to reach the newspapers before their cut-off time which is usually set at late afternoon or early evening. In parallel, issuers also have to submit those announcements to the Exchange by 9:00 p.m. for publication on the Exchange Website. Failing to meet either submission deadline may result in non-compliance with the Listing Rules and, where the announcement is not published in the newspapers, will also result in suspension of trading generally where there is price sensitive information.
- 2.18 Not all announcements need to be published in the newspapers. The few exceptions include overseas regulatory announcements<sup>1</sup> and "standard" announcements relating to unusual price/volume movements. For such exceptions, posting of the relevant information on the Exchange Website is considered sufficient to satisfy the disclosure and publication requirement under the Listing Rules.

### *The Exchange Website*

- 2.19 Issuers are required under the Listing Rules to submit a ready-to-publish copy of any announcement which is required to be published in the newspapers, any corporate communications as well as any prospectus and any application forms in electronic form (either on a diskette or CD-ROM) to the Exchange for publication on the Exchange Website. Other than where a prospectus is to be registered under the Companies Ordinance, submission must be by 9:00 p.m. on the business day last preceding the day on which the announcement is published in the newspapers or the corporate communication is sent to shareholders. In the case of a prospectus to be registered under the Companies Ordinance, submission must be by 9:00 a.m. on the day of registration.
- 2.20 Since 2002, the Exchange Website (and since 1999 the GEM website) has been publishing all issuer disclosures (including announcements, corporate communications as well as listing documents) for free access by investors. Current day issuer disclosures can be found at the Latest Listed Company Information section of the Exchange Website.

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<sup>1</sup> Overseas regulatory announcements mean announcements published by an issuer whose securities are also listed on another exchange or whose subsidiary is listed on another exchange where the information is being released to that other exchange.

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- 2.21 Issuers may submit their disclosures to the Exchange for publication on the Exchange Website at any time during a business day. The Exchange normally starts handling issuer submissions shortly after the market closes. Exchange staff collect issuers' diskettes and CD-ROMs from the collection box, upload them to the EPS and release them onto the Latest Listed Companies Information section of the Exchange Website. Similarly, Exchange staff also publish issuer submissions submitted electronically via the ESS onto the Exchange Website through the EPS. Publication on the Exchange Website of announcements received during the day starts at 8:00 p.m.. Due to the volume of submissions and the manual procedures involved in handling diskettes and CD-ROMs submitted by issuers, the Exchange usually gives priority to announcements over corporate communications and listing documents to make sure that the former are published on the Exchange Website before mid-night of the submission day.
- 2.22 Some types of announcements are however released upon receipt or during trading hours, instead of after market close. They include overseas regulatory announcements and "standard" announcements clarifying unusual price/volume movements (which will be published on the Exchange Website upon receipt) and results announcements (which may be published between 12:30 p.m. and 1:30 p.m. or after 4:15 p.m. on a trading day).
- 2.23 The Latest Listed Company Information section of the Exchange Website displays all the current day issuer disclosures as well as those of the last seven calendar days. A viewer may obtain the full content of the disclosure by clicking on that particular posting. He/she may sort the disclosures by time of publication, by stock code or by stock name, or retrieve disclosures only of certain types (such as announcements, circulars, results announcements, financial statements and others).
- 2.24 The Latest Listed Company Information section is one of the most popular sections on the Exchange Website. In 2006, the Exchange recorded on average nearly 180,000 requests to that section per day.
- 2.25 The public may also find previous issuer disclosures on the Listed Company Information Search section of the Exchange Website. That section supports different search methods including search by stock code, by stock name, by document type and by content search.
- 2.26 The Listed Company Information Search section currently contains more than 467,000 issuer disclosures, dating as far back as April 1999. On average, it received nearly 56,000 search requests per day in 2006.

#### *AMS/3*

- 2.27 AMS/3 is the Exchange's third generation securities market trading system. While AMS/3 is primarily a trading system, it also carries certain issuer news. Issuer disclosures available from AMS/3 however are only a portion of those available on the Exchange Website - only pre-vetted announcements of Main Board issuers and summary versions of pre-vetted announcements of GEM issuers are available on AMS/3.
- 2.28 Issuer disclosures carried by AMS/3 are in ASCII text format provided by Main Board and GEM issuers to the Exchange. Like submissions for publication on the Exchange Website, issuers may submit these text files either electronically by way of the ESS or by delivering diskettes or CD-ROM to the Exchange. These text files are then uploaded manually by Exchange staff onto the AMS/3 host system for onward dissemination to Exchange Participants through AMS/3 terminals and Open Gateways. As a matter of policy, the Exchange gives priority to the Exchange Website insofar as issuer disclosure is concerned. As a result, issuer disclosures usually appear slightly later on AMS/3 than on the Exchange Website.

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- 2.29 In addition, AMS/3 is normally shut down at around 6:00 p.m. each trading day. Exchange Participants therefore will not receive any issuer news from AMS/3 after 6:00 p.m.. Pre-vetted announcements of Main Board issuers and summary versions of pre-vetted announcements of GEM issuers submitted to the Exchange during the day and published on the Exchange Website between 8:00 p.m. and mid-night will be disseminated over AMS/3 the following morning when AMS/3 re-starts.
- 2.30 Issuer disclosures are contained in the Issuer News pages of AMS/3. However, AMS/3 is a real-time transaction based trading system and thus not specifically designed for disseminating format-rich documents. It therefore has certain limitations in disseminating issuer news:
- ❖ incomplete coverage of issuer news (as noted above);
  - ❖ inability to display graphical depictions such as charts;
  - ❖ slight delay as compared with the Exchange Website; and
  - ❖ limited news pages resulting in roll-over of issuer news during the day when the Issuer News pages are full.

*The Market Datafeed (“MDF”)*

- 2.31 MDF is a datafeed for securities market data. It sources its real-time market data from AMS/3 trading system. It also carries issuer news to the extent it is available on AMS/3. An information vendor who wishes to redistribute securities market data to its customers will have to obtain a redistribution licence for MDF and pay the Exchange the licence fee and subscriber fee. Currently, MDF has more than 60 authorised real-time data information vendors and nearly 40 delayed data information vendors. They collectively offer nearly 500 different information services to the market. Subscribers of information services include mainly Exchange Participants, banks, dealers, fund managers, other financial intermediaries, issuers, mass media, professional investors and retail investors, located both in Hong Kong and overseas.
- 2.32 MDF is normally shut down at around 6:30 p.m. Information vendors and their subscribers therefore will not receive any issuer news from MDF in the evening. Pre-vetted announcements of Main Board issuers and summary versions of pre-vetted announcements of GEM issuers submitted to the Exchange during the day and published on the Exchange Website between 8:00 p.m. and mid-night will be disseminated over MDF the following morning when MDF re-starts.
- 2.33 Like AMS/3, MDF also has certain limitations in its news dissemination functionality including:
- ❖ incomplete coverage of issuer news;
  - ❖ inability to display graphical depictions such as charts; and
  - ❖ slight delay as compared with the Exchange Website.

*Electronic Mailing Stock Information Service (“EMSIS”)*

- 2.34 EMSIS is an information service of the Exchange available on a subscription basis. It provides daily snapshots of issuer disclosures and trading reports of the securities and derivatives markets, including four intra-day stock quote reports and market close data. Subscribers are given unique ID and passwords for downloading the information directly from the Exchange Website. At present, EMSIS has around 20 subscribers.
- 2.35 Like MDF, EMSIS also sources its issuer news content mainly from AMS/3, and therefore has the same limitations as AMS/3 (and MDF). In addition, since EMSIS is a snapshot product, issuer disclosures carried by EMSIS are always delayed.

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### *Issuer Information feed Service (“IIS”)*

- 2.36 IIS is the key information system the Exchange uses to transmit issuer disclosures to authorised information vendors. Issuer disclosures are transmitted in the IIS in rich format documents (e.g. MS Word and pdf files) via a real-time feed. Disclosure headlines are transmitted over the IIS to the information vendors at the same time as they are published on the Exchange Website. The content of the disclosures is transmitted electronically over the IIS to the information vendors on an interactive basis.
- 2.37 IIS sources its issuer disclosures directly from the EPS. Its issuer news content therefore is complete and identical to that which is available on the Exchange Website. Since documents carried by the IIS are in rich format, they can contain pictures and other graphical depictions in the same way as the hard copies.

### *Email/Mobile Alerts for Latest Listed Companies News*

- 2.38 To assist investors in keeping track of the latest issuer disclosures, the Investment Service Centre portion of the Exchange Website provides free alerts for the latest news (and disclosure of interests notices) published on the Exchange Website. Interested investors may register on-line at the ISC to enjoy the free alert service covering up to a maximum of 10 listed companies per registration (which is expected to be increased to 20 towards early April 2007). Once registered, the investor will receive from the Exchange a standard alert message either by e-mail or SMS when a disclosure from any one of his/her selected listed companies is published on the Exchange Website. Alert messages are issued at hourly intervals from 9:00 a.m. to mid-night which will be shortened to 30 minutes towards early April 2007. The alert messages contain a hyperlink to the full disclosure on the Exchange Website.
- 2.39 At present, the ISC has approximately 20,000 subscribers. The system generates on average approximately 21,000 alert messages per day.

### *Issuer’s Own Website*

- 2.40 There is currently no requirement for an issuer to have its own website. Where a GEM issuer does have its own website, it will have to publish its disclosures thereon. Some Main Board issuers that do have a website may also publish their disclosures on their website for the information of investors (usually under “investor relations”). According to information available to the Exchange, slightly less than half of all Main Board and GEM issuers currently have their websites.

## **From Paper to Paperless**

- 2.41 The current issuer disclosure regime was designed at a time when disclosures were still largely paper-based and most investors obtained market information from newspapers. With the proliferation of the Internet and reduced costs for computers, mobile devices and telecommunications, the Internet has become a major and increasingly popular means for information dissemination, unleashing abundant opportunities for more timely information flow and better market transparency previously unavailable. Re-evaluation of the relevance, usefulness and effectiveness of the current issuer information dissemination arrangements is not only desirable but also necessary.
- 2.42 To satisfy the market’s demand for more timely information disclosure by issuers, electronic submission through the ESS has to be made mandatory and publication of announcements in the newspapers optional.
- 2.43 The next chapter sets out in detail the Electronic Disclosure Project and other consequential and associated changes to the issuer information disclosure regime in Hong Kong, and their impact on different market stakeholders.

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## CHAPTER THREE ELECTRONIC DISCLOSURE PROJECT AND CONSEQUENTIAL CHANGES

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### The Consultation Process and Final Conclusions

#### *The 2000 Consultation Paper*

- 3.1 The 2000 Consultation Paper proposed to have all announcements of issuers released on the Exchange 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 on the Exchange 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 the Exchange to be the appropriate body to administer the central website. Many expressed confidence that the Exchange 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.
- 3.2 Having considered the responses and concerns raised with regard to the proposal, and taking into consideration other relevant factors, such as the increased popularity of the Internet in Hong Kong and environmental protection, the Exchange 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 the Exchange for dissemination on the Exchange Website; and
  - (b) deliver a press release on the subject matter any announcement required to be published on the Exchange 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.
- 3.3 In line with the revised proposal, the Exchange subsequently amended the Listing Rules to require the submission of an electronic copy of announcements to the Exchange for publication on the Exchange Website. That amendment came into effect in May 2001. Since February 2002, issuers have also been required to submit electronic copies of other Listing Rules-related corporate communications (such as circulars and annual reports) for publication on the Exchange 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.



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*2005 Exposure Paper*

3.4 To fully implement the Electronic Disclosure Project, the Exchange published the 2005 Exposure Paper in November 2005. In order to ensure an orderly transition from the current arrangements to a purely web-based news dissemination regime, the Exchange 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 Exchange 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 or a notification<sup>2</sup>; and
- (c) on the appropriate duration of the interim measure.

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*

3.5 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 the Exchange are set out in the Exposure Conclusion published in July 2006.

3.6 The overwhelming majority of respondents expressed support for the abolition of the requirement to publish full announcements in the newspapers. In addition, the Exchange received a range of constructive comments on the way forward.

3.7 Based on the responses received, the Exchange has decided that:

- (a) the short-form announcement which, as an interim measure, Main Board issuers will be required to publish in the newspapers, will 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 will be required to publish notifications in the newspapers instead of the announcement, should last for six months.

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<sup>2</sup> A summary announcement would provide a summary of the contents of the full announcement and a notification would serve to notify investors of the publication of an announcement on the Exchange Website.

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3.8 In addition to the above changes, the Exchange will also introduce the following related changes to the current issuer disclosure regime through amendments to the Listing Rules:

- (a) Every Main Board and GEM issuer must have its own website on which it must publish its Listing Rules documents. This requirement will however not take effect until one year after the commencement of Phase 1 (i.e. by 25 June 2008). A Main Board issuer which does not have its own website will, before the requirement for all issuers to have their own websites becomes effective, be required to continue to publish its Listing Rules announcements in the newspapers in addition to publication on the Exchange Website. The issuer must ensure that any document published on its website pursuant to the Listing Rules remains available on its website on a continuous basis for at least five years and the public must be able to access these documents on the website free of charge.
- (b) The deadline for publication on the issuer's own website will be extended to 9:00 a.m. of the following business day where the document is submitted for publication on the Exchange Website after 7:00 p.m. the previous evening. In all other cases, publication on the issuer's own website must be within one hour of such submission as originally proposed in the 2005 Exposure Paper.
- (c) The prescribed minimum size of the notification will be based on that of the annual general meeting notice (i.e. 8 cm x 10 cm).
- (d) The 2005 Exposure Paper proposed that all documents required to be published on the Exchange Website must set out in a prominent position at the top of the document certain prescribed headlines. The list of headline categories attached to the 2005 Exposure Paper will be shortened to facilitate the selection process for issuers. The list of headline categories will also be included as an appendix to the Listing Rules. As noted in the Exposure Conclusion, the earlier proposal to require the headlines to appear in a prominent position in the full announcement is now considered not necessary. Further, since the purpose of the notification is merely to notify the public of the publication of an announcement on the Exchange Website and the issuer's own website (where there is one) and in the interests of keeping the notification reasonably short, the notification will, where there are multiple headlines, only need to display those headlines which together best describe the subject matter of the full announcement. For the purpose of submission of the full announcement to the Exchange via the ESS, all appropriate headlines must be selected regardless of the number.
- (e) Listed issuers currently give announcements and other documents an appropriate title reflecting the underlying content of the announcement or document. The Exchange expects that this practice will continue and therefore will require that during the ESS submission process, the title be input into a designated free-text field. The Exchange believes that the inclusion of case-specific information will serve as a further aid in identifying relevant documents among a list generated by an online search.

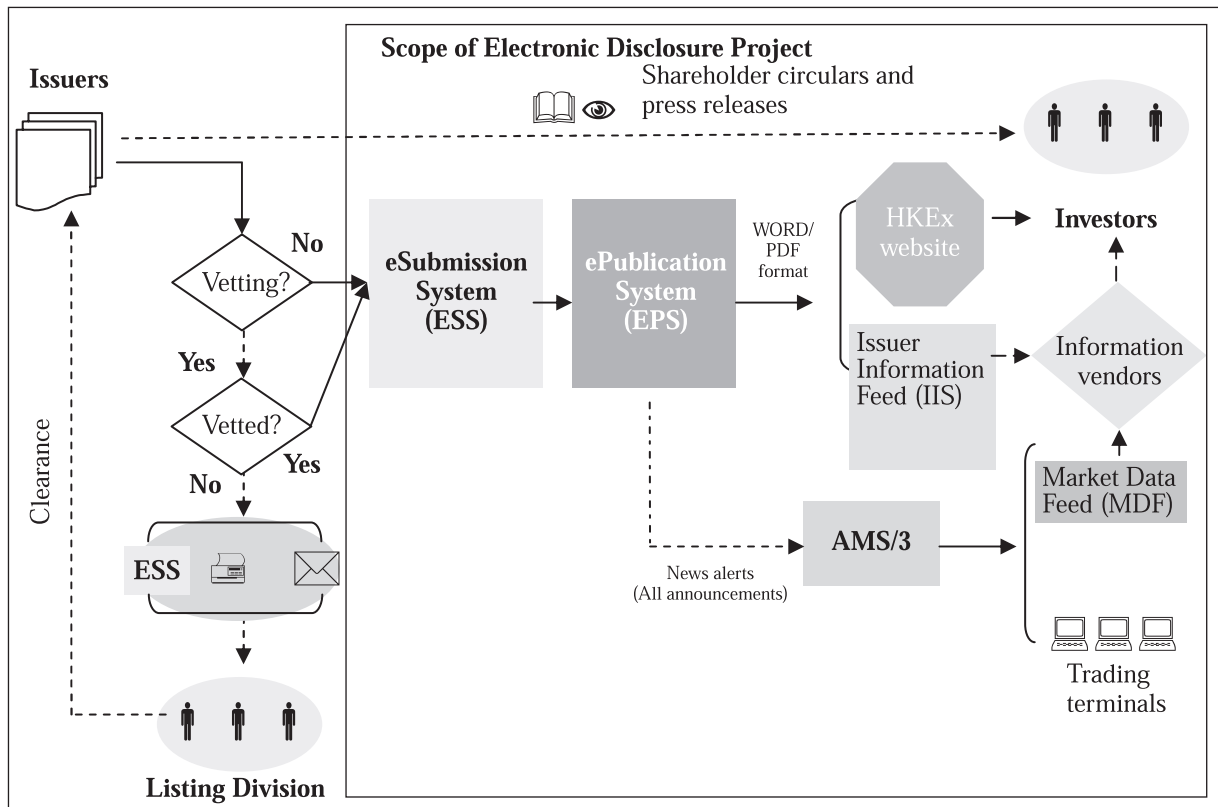
- 
- (f) To streamline the notification process, a provision will be included in the Listing Rules to the effect that, where an issuer requests a suspension of trading in its securities and the suspension has been effected, the issuer must immediately submit through the ESS to the Exchange for publication on the Exchange Website a ready-to-publish electronic copy of an announcement informing that trading in the securities of that issuer has been suspended and setting out briefly the reason for the suspension. Upon receipt of the electronic copy from the issuer, the Exchange will publish such an announcement on the Exchange Website provided the suspension has been effected. The announcement must also be published on the issuer's own website (where there is one).
  - (g) Upon implementation of Phase 1, Main Board issuers will be required to publish announcements of board meetings directly on the Exchange Website in the same way that such announcements are currently published by GEM issuers on the GEM website. As Main Board issuers are currently not required to publish such announcements in the newspapers, the Exchange considers it sufficient for the announcement to be published on the Exchange Website and the issuer's own website (where there is one) without a notification in the newspapers.
  - (h) All issuer documents submitted to the Exchange for publication on the Exchange Website must be text-searchable and printable.
  - (i) Where a Main Board issuer has published a notification in the newspapers, it must make the full announcement available for inspection during business hours at no charge at certain prescribed locations and provide a copy of the announcement to any person upon request for which it may charge a reasonable fee.
  - (j) Upon implementation of Phase 1, issuers will no longer be required to send to the Exchange any text files (whether, as is currently the case, of pre-vetted announcements of Main Board issuers and summary versions of pre-vetted announcements of GEM issuers or, as was proposed in the 2005 Exposure Paper, of short-form announcements, where they relate to pre-vetted announcements) for publication on AMS/3 trading devices or for dissemination to MDF and EMSIS subscribers. The Exchange will introduce a new issuer news alert function on AMS/3 at the same time when Phase 1 comes into force (for details, please refer to paragraphs 4.10 - 4.12).

## **Detailed Operational Model and Consequential Changes**

### *Mandatory Electronic Submission via the ESS*

- 3.9 At present, more than 70% of issuer submissions to the Exchange for publication on the Exchange Website are made by way of physical delivery. As discussed in paragraph 2.12, the process is inefficient, time-consuming and risk-prone.
- 3.10 To streamline the issuer news dissemination regime and reduce time to disseminate issuer disclosures to the market and therefore raise the quality of market transparency, upon implementation of Phase 1 of the Electronic Disclosure Project, all issuers and listing applicants will be required to submit all documents that are required to be published on the Exchange Website electronically via the ESS. Under normal circumstances, no diskette and CD-ROM will be accepted by the Exchange.

**Diagram 2 — Future Issuer Information Dissemination Regime**



- 3.11 To enhance the security of ESS submission, two passwords will be required for every submission for publication on the Exchange Website. One password will be used by the person uploading the document while the other will be used by the person giving final approval for publication of the document. These passwords will be set out in pre-designated pairs and the pairs must be used in a pre-designated sequence. The passwords will be issued by the Exchange to the registered users periodically. Passwords will be sent by registered mail to the issuer's authorised representatives who will be required to acknowledge receipt of the passwords in order for the passwords to be activated by Exchange staff. Passwords will be issued only to issuers and not market practitioners, although market practitioners can register as users. Issuers may at their own risk choose to share the submission related password from any pair with intermediaries involved in the preparation and/or formatting of the final proof of the document.
- 3.12 Starting from late December 2006, the Exchange has been re-registering all existing ESS users and registering new users for the enhanced ESS. Almost all issuers and their agents have completed their registration by end February 2007. The Exchange will take a number of actions to help existing and new users to get familiarised with the enhanced ESS (for details, please refer to paragraphs 4.8 - 4.9).
- 3.13 The new operational hours of the ESS will be as follows:
- (a) on any business day, from 6:00 a.m. to 11:00 p.m.; and
  - (b) on a non-business day immediately preceding a business day, from 6:00 p.m. to 8:00 p.m..

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However if an announcement requires prior clearance by the Listing Division, the issuer must obtain such clearance from the Listing Division before 7:00 p.m. of a business day before it submits the announcement to the Exchange via the ESS for publication on the Exchange Website. The two-hour window referred to in (b) above is to enable issuers to make use of weekends and statutory holidays to finalise documents for publication. Clearance of the document by the Listing Division, where required, must be obtained by 7:00 p.m. on the last business day before the window.

- 3.14 Generally issuers must not submit announcements and notices to the Exchange for publication between 9:00 a.m. and 4:15 p.m.. Certain limited exceptions to this prohibition are set out in paragraph 3.18.
- 3.15 When submitting a document through the ESS for publication on the Exchange Website, the issuer must select all such headline categories as may be appropriate from the prescribed list of headlines displayed in the ESS and input into the designated free-text field in the ESS the same title as appears in the document. If the issuer selects an incorrect headline category, it may amend it on-line using ESS within five calendar days after the original submission. After that period of time, issuers may request the Exchange to effect the amendment to the headline category on their behalf.
- 3.16 Where a listed issuer is required by the Listing Rules to publish a document in both English and Chinese, both language versions of the document must be submitted to the Exchange simultaneously. The only exceptions to this general requirement are for listing documents and annual reports which may be submitted one language version after the other.

*Straight-through Publication on HKEx Website*

- 3.17 Upon implementation of Phase 1, all issuer documents that are required to be submitted to the Exchange for publication will, except as noted in paragraph 3.18, be published automatically on the Exchange Website through the EPS in a straight-through manner after they have been submitted electronically via the ESS. The new arrangement will remove the current manual procedures of collecting, uploading and publishing a disclosure onto the Exchange Website.
- 3.18 As mentioned in paragraph 3.14, an issuer must not submit any announcements to the Exchange for publication between 9:00 a.m. and 4:15 p.m.. There are two exceptions to the above rule:
- (a) full preliminary results announcements, which may be submitted and published on the Exchange Website between 12:30 p.m. and 1:30 p.m. on a trading day;
  - (b) the following announcements, which may be submitted and published at any time during operational hours:
    - (i) overseas regulatory announcements;
    - (ii) certain announcements clarifying unusual price or volume movements; and
    - (iii) announcements notifying the suspension of trading in an issuer's securities.
- 3.19 When the EPS is not operating in a straight-through publication mode, the act of releasing an issuer document from the EPS to the Exchange Website will be manually executed by Exchange staff.

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### *Removal of Issuer News from AMS/3, MDF & EMSIS*

3.20 As noted in paragraph 3.8(j) above, upon the coming into effect of Phase 1 of the Electronic Disclosure Project, issuers will no longer be required to provide ASCII text files to the Exchange for publication on AMS/3 and onward dissemination over MDF and EMSIS. In other words, with effect from Phase 1, AMS/3, MDF and EMSIS will cease to carry any issuer news. However, an issuer news alert function will be added to AMS/3 as a replacement measure (for details, please refer to paragraphs 4.10 - 4.12).

### *More Timely Disclosure on IIS*

3.21 IIS sources issuer disclosures directly from the EPS. As a result of mandatory electronic submission via the ESS and straight-through publication on the Exchange Website, issuer disclosures will reach the market through the IIS more quickly than at present.

## **Impact on Different Stakeholders**

3.22 The Electronic Disclosure Project and the consequential changes as outlined in this section will affect different parties of the market in varying degrees. The paragraphs below set out what we consider the impacts are.

### *Issuers and their advisers*

3.23 Upon abolition of the paid announcement requirement, it will be optional for issuers to publish their full announcements in the newspapers (provided they have their own website – see paragraph 3.8(a)). This will potentially bring about cost savings for issuers, which should ultimately be for the benefit of their shareholders. Overall regulatory costs of Hong Kong issuers will as a result be reduced.

3.24 All issuers will ultimately have to have their own website to publish their full announcements and other documents. Issuers will have one year after the coming into effect of Phase 1 to establish their website (i.e. by 25 June 2008). Creating a website should not involve much difficulty for an issuer and the one-year grace period has been provided as a transitional measure. Issuers may also use the service of third-party hosted websites. We believe the requirement will not create a heavy financial and operational burden on issuers.

3.25 It will become mandatory for issuers to submit documents to the Exchange for publication on the Exchange Website electronically via the ESS. (Issuers may however continue to submit documents to the Listing Division for vetting purpose by fax or by hardcopy.) Issuers, their staff and advisers involved in disclosure submission will have to familiarize themselves with the operation of the ESS and its enhanced features, including the selection of headline categories, the new operational hours of the ESS and its double password arrangement. Assistance will be provided to them by the Exchange in this regard (more details in paragraphs 4.8 - 4.9).

3.26 Issuers, their staff and advisers must also observe the daily cut-off time of ESS submission which in future will be system-controlled. While issuers may still submit their announcement to the Exchange the following morning if they have failed to submit it by the cut-off time of 11:00 p.m. of the previous business day (or if applicable, the two-hour window referred to in paragraph 3.13(b)), they risk having their securities suspended from trading for at least half a day as sufficient time must be given to investors to meaningfully digest the published information. In this regard, the market should be mindful that during Phase 1 of the Electronic Disclosure Project, the incidence of short duration trading suspensions may increase. The situation should gradually improve when issuers become more familiar with the new regime.

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### *Investors*

- 3.27 After the commencement of Phase 1 of the Electronic Disclosure Project, investors will no longer find all issuer announcements in the newspapers. To see a comprehensive display of issuer announcements they will need to refer to the Exchange Website or the issuer's website (if there is one) for issuer news. With electronic submission for publication becoming mandatory, and the publication of most issuer disclosures on the Exchange Website automated and straight-through, the time taken for issuer disclosures to reach the market will be reduced. Investors will benefit from the availability of more timely issuer information.

### *Exchange Participants*

- 3.28 Exchange Participants will no longer receive the limited issuer news currently available from AMS/3 after implementation of Phase 1. They will be able to view the full announcements from the Exchange Website or the issuer's website (if there is one) and can also use paid information services which include issuer news. The actual impact on Exchange Participants should not be significant as the current display of issuer news on AMS/3 has many limitations as summarized in paragraph 2.30, making it an incomplete source of information for Exchange Participants. In fact, most Exchange Participants also subscribe for information terminals for market data, analysis and market news.

### *MDF Information Vendors and Subscribers*

- 3.29 As noted in Chapter Two, MDF sources issuer news from AMS/3. Hence, like AMS/3, MDF will also cease to carry any issuer news when Phase 1 of Electronic Disclosure Project comes into effect. MDF inherits AMS/3's limitations on issuer news dissemination and is itself an incomplete source of issuer disclosures. We understand that, to make the news coverage of their information products complete, some MDF information vendors also subscribe to newswires services and make reference to issuer news published on the Exchange Website. A few are also information vendors of the IIS, the Exchange's datafeed service dedicated to real-time dissemination of issuer news.

### *EMSIS Subscribers*

- 3.30 EMSIS currently has around 20 subscribers. Upon implementation of Phase 1, they will cease to receive issuer news from EMSIS. The actual impact on those subscribers however should be limited. Among the existing EMSIS subscribers, less than half of them currently make reference to the issuer news in EMSIS. We expect all of them should be able to obtain alternative access to issuer news from either the Exchange Website or news service provided by information vendors without much impact on their operation. In any event, news covered by EMSIS is incomplete (as is the case of AMS/3 and MDF) and we believe EMSIS subscribers are already accessing the remaining non-EMSIS issuer news from other sources (such as the Exchange Website).

- 4.1 Chapter Three discusses what changes the Electronic Disclosure Project will bring about directly and indirectly, and how those changes will affect different parties. This chapter sets out what the Exchange has done or is doing to facilitate the implementation of Phase 1 of the Electronic Disclosure Project and to minimise its impact on different market stakeholders.

## **Capacity Upgrade and Enhancement of Issuer News Related Systems**

- 4.2 As noted in previous sections, the issuer information dissemination regime is supported by several systems of the Exchange, including:

- ❖ ESS;
- ❖ EPS;
- ❖ Exchange Website;
- ❖ AMS/3;
- ❖ MDF; and
- ❖ IIS.

The abolition of paid announcements in the newspapers will result in the Exchange Website being the central location for public access to all Exchange issuers' news in respect of their obligations under the Listing Rules. As such, the Exchange's responsibility towards the market will further increase. Non-availability of the Exchange Website and the failure of the associated systems relating to news submission, publication and dissemination will potentially have serious consequence for the market and the Exchange. To better prepare the Exchange to discharge its increased responsibility and meet the reasonable expectation of the market for greater resilience, reliability and user-friendliness of our issuer news dissemination infrastructure, the Exchange has put substantial effort to upgrade the capacity and enhance the functionality of the relevant systems.

- 4.3 One of the key objectives in the system upgrade projects is to achieve high availability in the whole news dissemination infrastructure. Disaster recovery ("DR") sites were first built for the Exchange Website and the EPS in September 2005. Similar DR sites will be put in production for the ESS and the IIS when Phase 1 of the Electronic Disclosure Project comes into effect. These backup sites will ensure business continuity if the primary sites are not operational due to hardware failures or other site problems.
- 4.4 The Exchange has re-evaluated the system capacity requirements, taking into account growth in the number of issuer disclosures since mid-2005 as well as the pattern of distribution of issuer submissions during a day and over a period of time. The relevant systems have been upgraded and their capacity increased to make available a comfortable buffer on top of the projected peak volume and usage.
- 4.5 Capacity apart, the functionality of the ESS, the EPS and the IIS has also been enhanced. Such enhancements include, inter alia:

### *ESS*

- ❖ Introduction of bilingual traditional Chinese/English legend;
- ❖ Upgrade of security and access control;
- ❖ Ability to rectify incorrect document headlines;
- ❖ Selection of headline categories; and
- ❖ Straight through publication of announcements and other documents during the publication windows.



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*EPS*

- ❖ Document release handling mechanism;
- ❖ Enhancement in user-friendliness;
- ❖ Function to rectify incorrect document headlines; and
- ❖ Enhancement in administration and control.

*IIS*

- ❖ Enhancement and amendment of headline categories.

- 4.6 The Exchange also improved the presentation and user-friendliness of the Latest Listed Company Information and the Listed Company Information Search sections of the Exchange Website in September 2006. The search function on the Listed Company Information Search section was also enhanced.
- 4.7 All the system changes and capacity enhancements relating to the implementation of the Electronic Disclosure Project were successfully completed and thoroughly tested in December 2006. The enhanced systems will be put in production when Phase 1 of the Electronic Disclosure Project comes into effect. As part of its routine operations, the Exchange regularly reviews the capacity of these systems. Their capacity will be increased if the need arises.

### **Familiarisation with Enhanced ESS**

- 4.8 Although the ESS has been launched for five years, since it is not mandatory, many issuers have still not registered for the ESS and have never used the ESS to submit documents to the Exchange. To support the Electronic Disclosure Project, the ESS will be enhanced. New functions will be added and the “look-and-feel” will be noticeably different. To familiarise both existing and new users with the enhanced ESS, the Exchange:
- (a) has produced and given to all issuers and their agents an interactive e-learning kit. Users may run the e-learning kit on their own computers. The e-learning kit will take the users through the key functionalities of the ESS step by step. Users may also make a mock submission with the e-learning kit;
  - (b) has organised a series of briefing sessions both in Hong Kong and the Mainland for issuers and agents both in January and February 2007 to introduce the functions and workflow of the new ESS;
  - (c) will post on the ESS the revised ESS User Manual and answers to frequently-asked-questions regarding the operational procedure of the ESS for reference by ESS users; and
  - (d) will organise 12 on-line familiarisation sessions over three consecutive weekends in March 2007 for issuers and their agents to practice using the enhanced version of ESS including trial submission of documents.
- 4.9 The Exchange has also set up an ESS Operation Hotline since mid January 2007 to provide technical support and advice to issuers and their agents. The current service hours of the Hotline are the same as the office hours of the Exchange (i.e. from 9:00 a.m. to 6:00 p.m., Monday to Friday except public holidays). After Phase 1 of the Electronic Disclosure Project comes into effect, the service hours of the Hotline will be aligned with the operational hours of the ESS (i.e. from 6:00 a.m. to 11:00 p.m., Monday to Friday except public holidays and the two-hour window referred to in paragraph 3.13(b)).

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## News Alerts on AMS/3 and MDF

4.10 Post-Phase 1, AMS/3 and MDF will cease to carry any issuer disclosures. In order to enable Exchange Participants to be aware of any new issuer disclosure published on the Exchange Website, the Exchange will introduce a new news alert function to AMS/3. That new function will send a short alert message on AMS/3 to Exchange Participants whenever a piece of issuer news is published on the Exchange Website. The alert will contain the following information in relation to the subject news:

- ❖ stock code;
- ❖ stock name;
- ❖ date and time of disclosure;
- ❖ headline category(ies) of the disclosure; and
- ❖ the title of the news.

If AMS/3 users wish to review the full disclosure, they may refer to the Latest Listed Companies Information section of the Exchange Website. The news alerts will also be carried by MDF and therefore will also be available to MDF information vendors and their customers. The new function will not require any technical changes to the interface specifications of Exchange Participants' Broker Supplied Systems nor the systems of MDF information vendors.

4.11 While AMS/3 and MDF will no longer carry issuer news after Phase 1 comes into effect, the replacement measure (i.e. the news alert) is an improvement in two aspects over the current arrangement, namely:

- (a) it will cover all issuer disclosures, rather than just pre-vetted Main Board announcements and summaries of pre-vetted GEM announcements (which are the only issuer disclosures currently available from AMS/3 and MDF); and
- (b) the news alerts will be issued simultaneously with the publication of an issuer disclosure. AMS/3 and MDF issuer news is currently always published later than that on the Exchange Website due to the manual procedures involved.

4.12 The new news alert function will be rolled out at the same time as the effective date of Phase 1.

## Additional Internet Connection on Exchange Trading Floor

4.13 Some Exchange Participants have already installed Internet connections for their trading representatives in the Stock Exchange Trading Hall and use these connections to access, among other things, issuer information published on the Exchange Website. The Exchange will provide assistance to Exchange Participants in relation to the installation of Internet connections in the Trading Hall. Separately, the Exchange has also installed on-line facilities in four dealing desks in the Trading Hall for trading representatives to access the Exchange Website.

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## **Exchange Public Viewing Room**

4.14 To facilitate public access to issuer disclosures on the Exchange Website, the Exchange 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 those terminals is to provide access to the Exchange Website and the website of the Securities and Futures Commission, those terminals will restrict Internet access to only those websites.

## **Email/Mobile Alerts for Latest Listed Companies News**

4.15 The email/mobile alert service is described in paragraph 2.38. There are at present 20,000 subscribers for the e-mail/mobile alert service. We believe this service enhances the dissemination of issuer information, and we will continue to promote it to the public and upgrade our system capacity to meet the investors' demand. To provide better service to the public, the Exchange will enhance the alert service by doubling the maximum number of stocks a subscriber may select under the service from 10 to 20, and by reducing the alert dissemination interval from one hour to 30 minutes. The enhanced service will be introduced in early April 2007 and will remain free-of-charge. The Exchange will consider further improvements in the future in response to market feedback and demand.

## **IIS**

4.16 To encourage wider dissemination of issuer news to the market via information vendors, the Exchange has decided to reduce the vendor standard fee of IIS by more than half from \$96,000 per quarter to just \$45,000 per quarter. The new fee will come into effect on 1 June 2007.

## **Communication Plan**

4.17 The Exchange has made considerable efforts to ensure that the market as a whole and different market stakeholders in particular are given sufficient information about the Electronic Disclosure Project, changes it will bring about and their impact on them. Apart from the 2005 Exposure Paper and the Exposure Conclusion, the Exchange has issued from July to October 2006 circulars and notices to Exchange Participants, information vendors and EMSIS subscribers to set out the impact of the Electronic Disclosure Project to them. At the information vendor seminars held in October 2006 and at the quarterly meeting under the Participant Relationship Programme in November 2006, more details were given. A series of Electronic Disclosure related articles were published on the Exchange quarterly journal. We have also conducted a series of briefings both in Hong Kong and the Mainland for issuers and their agents in January and February 2007. The publication of this Communication Paper is another major effort of the Exchange to prepare the market for the new issuer dissemination regime.

4.18 In the next couple of months, the Exchange will continue its communication programme on Electronic Disclosure Project. It includes media workshops closer to the time of the effective date of Phase 1. In addition, the Exchange will create a project corner on the Exchange Website. Interested parties may find all useful information relating to the Electronic Disclosure Project at this corner.

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## CHAPTER FIVE      MARKET READINESS AND ROLLOUT

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- 5.1 The Exchange has substantially completed all of the changes and enhancements to its infrastructure and systems necessary for the implementation of the Electronic Disclosure Project. A series of system tests was executed in the final quarter of 2006. Some of them involved external users. The results confirm that we are now technically ready for the launch of the Electronic Disclosure Project.
- 5.2 Almost all issuers and a number of agents have completed the registration for the new ESS by end February 2007. In order to familiarise both existing and new users with the enhanced ESS, the Exchange has organised a series of briefing sessions both in Hong Kong and the Mainland in January and February to introduce the functions and workflow of the new ESS and provided them with an interactive e-learning kit. We are also running 12 ESS on-line familiarisation sessions in March. Issuers and agents are given the opportunity to practice the new ESS functions and the submission of document both off-line with the e-learning kit and on-line during the familiarisation sessions. Since mid January, the ESS hotline has come into service providing technical support and advice to issuers and agents.
- 5.3 The communication plan set out at the end of Chapter Four will help ensure that the market and its various stakeholders understand and are prepared for the forthcoming changes.
- 5.4 The Exchange believes that preparations for the implementation of Electronic Disclosure Project are well advanced and on track for commencement in late second quarter of 2007. We will continue to monitor final preparations and in the absence of unforeseen circumstances, Phase 1 of the Electronic Disclosure Project will commence on 25 June 2007.
- 5.5 The Exchange will shortly publish on the Exchange Website a comprehensive collection of frequently-asked-questions and their answers relating to the Electronic Disclosure Project and the related operational changes and Listing Rules amendments. Investors and other market users may also write to [e-disclosure@hkex.com.hk](mailto:e-disclosure@hkex.com.hk) if they have further enquiries about the Electronic Disclosure Project.

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# DEFINITIONS & ACRONYMS

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<b>2000 Consultation Paper</b>	means the consultation paper entitled “Dissemination of All Listed Issuers’ Announcements through the Exchange’s Website in place of Publication as Paid Announcements in Newspapers” published by the SEHK in April 2000  See link at <a href="http://www.hkex.com.hk/consul/paper/C0331e4.doc">http://www.hkex.com.hk/consul/paper/C0331e4.doc</a>
<b>2005 Exposure Paper</b>	means the exposure paper entitled “Abolition of Requirement for Main Board issuers to Publish Paid Announcements in Newspapers and Related Matters” published by HKEx in November 2005  See link at <a href="http://www.hkex.com.hk/consul/paper/expopaper_e.pdf">http://www.hkex.com.hk/consul/paper/expopaper_e.pdf</a>
<b>AMS/3</b>	means the third and current version of the Automatic Order Matching and Execution System
<b>EMSI</b>	Electronic Mailing Stock Information Service
<b>EPS</b>	Electronic Publication System
<b>ESS</b>	Electronic Submission System
<b>Exchange</b>	means, as the context requires, HKEx or the SEHK
<b>Exchange Website</b>	refers to collectively or individually the SEHK website, the GEM website or the HKEx website  See link <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> and <a href="http://www.hkgem.com">http://www.hkgem.com</a>
<b>Exposure Conclusion</b>	means the exposure conclusion paper entitled “Exposure Conclusion – Abolition of Requirement for Main Board issuers to Publish Paid Announcements in Newspapers and Related Matters” published by HKEx in July 2006  See link at <a href="http://www.hkex.com.hk/consul/conclusion/npa.pdf">http://www.hkex.com.hk/consul/conclusion/npa.pdf</a>
<b>GEM</b>	Growth Enterprise Market of the SEHK
<b>HKEx</b>	Hong Kong Exchanges and Clearing Limited
<b>IIS</b>	Issuer Information <i>feed</i> System
<b>ISC</b>	Investment Service Centre, a section of the HKEx website  See link <a href="http://www.hkex.com.hk/invest/isc.htm">http://www.hkex.com.hk/invest/isc.htm</a>
<b>MDF</b>	Market Datafeed
<b>SEHK</b>	Stock Exchange of Hong Kong, a wholly-owned subsidiary of the HKEx