

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED

ABOLITION OF REQUIREMENT FOR MAIN BOARD ISSUERS TO PUBLISH PAID ANNOUNCEMENTS IN NEWSPAPERS AND RELATED MATTERS

Exposure Paper – November 2005

Overview

HSBC is strongly in favour of the proposal to abolish the requirement for paid advertisements. This requirement is out of step with international practices of disseminating information to the market, creates additional workload, incurs costs and has limited communication value. There has also been a requirement since May 2001 to submit to the Exchange electronic copies of announcements, and the existence of a viable alternative distribution system, namely the e-Submission System.

As the Exposure Paper outlines, the Exchange first issued a consultation paper proposing to abolish paid advertisements in April 2000, to which there was a favourable response. A further announcement was made by the Exchange in April 2001 with revised proposals which would lead to abolition of paid announcements, with full implementation expected by the second quarter of 2002. It is disappointing that it appears that full implementation may now not take place until at least 2007, seven years after the original consultation paper.

It is debatable how much, if any, reliance is placed by the market on paid advertisements. The assumption seems to be that these announcements are read by those who do not otherwise rely on accessing internet based information sources, or rely on the media to report newsworthy events. However, given that an issuer can take out these announcements in any one of nine English newspapers and fifteen Chinese newspapers (as noted in the attached Schedule), and given that these announcements tend to appear either in the classified sections or the inner pages of the business sections, it is hard to see how this form of dissemination of information can be effective in reaching retail investors, the category typically used as an example for retaining paid advertisements.

As such, we believe that the Exchange should move to full implementation of abolishing paid advertisements as soon as possible, and there should be no need for a transitional phase during which a press advertisement must still be taken out either by way of a summary of the announcement or a notification. Given the length of the consultation period and the progress with IT systems and usage during that time, a prolonged transitional phase does not appear appropriate. Those companies which are not yet geared to using the e-submission system could be permitted to continue to take out full paid advertisements for a set period, say six months, until they are in a position to use the e-submission system/Electronic Publication System. As stated above, the ability to publish the summary or notification in one of nine English newspapers and fifteen Chinese newspapers makes this an inefficient means of disseminating information.

Question Posed (Part C: Issues)

Q.1 *Do you consider that the envisaged Listing Rule amendments clearly reflect the operational model described in this paper? If not, how could these ambiguities be clarified?*

Proposed Rule 2.07C(2) states that, where the day for submission of a ready to publish electronic copy of an announcement falls on a business day immediately preceding a non-business day, the electronic copy may be submitted between 6 p.m. and 8 p.m. on the day immediately preceding the next business day (e.g. if a document is being dispatched to shareholders first thing on a Monday, the electronic version may be submitted on Sunday between 6 p.m. and 8 p.m.). It is not clear, however, whether a company may submit the electronic version on the business day immediately preceding a non-business day (e.g. by 11 p.m. on Friday in the example given above), or whether it must make the electronic submission between 6 p.m. and 8 p.m. on the day immediately preceding the next business day (e.g. between 6 p.m. and 8 p.m. on Sunday in the example given above).

It is also not clear why submissions cannot be electronically made over the weekend and on public holidays. If the HKEx-EPS system does need to be manned, and if an announcement must be made by electronic submission between 6 p.m. and 8 p.m. on the non-business day immediately preceding the next business day (e.g. Sunday), we submit that staff in both HKEx and listed companies would rather come in early on the next business day (e.g. Monday) to deal with these releases between, say, 7 a.m. and 9 a.m., rather than the previous non-business day.

Q.2 *Do you consider that the short-form announcement which, as an interim measure, Main Board issuers will be required to publish in the newspapers, should be a summary announcement or a notification?*

As indicated above, we do not believe that there should be any interim measure. However, if there is to be an interim measure, we believe that the notification method is the only viable option, rather than summary announcements.

The exposure paper has highlighted the difficulties of preparing an adequate summary. As set out in proposed Rule 2.17A(4) for Summary Announcements, the summary must not be misleading or inaccurate, when read on its own must be consistent with the full announcement, it must represent the directors' assessment, and convey, using non-technical language, sufficient information to enable investors to understand the essential characteristics and nature of the matter involved, and must not omit key information. Some of these terms are very subjective; bearing in mind that these publications will be subject to statutory backing under the Securities and Futures (Stock Market) Rules, this is likely to present considerable challenges in preparing an adequate summary, and may simply result in companies continuing to publish the full version rather than risk breaching a rule with statutory backing.

We also do not think that this will encourage the market to start accessing websites for corporate information, which is presumably one of the intentions of a transitional phase.

The Exposure Paper summarises that one of the disadvantages of notifications is that investors must refer to full announcements to obtain meaningful information. In fact, we believe that this is an advantage of having notifications rather than summary announcements.

Q.3 *Do you support the proposed implementation time-table? If not, please specify your points of disagreement and recommend an alternative implementation time-table.*

As stated above we do not favour having a transitional phase. If, however, there is to be a transitional phase we believe this should be no more than six months.

Other Matters

P8. 31(n) Releases to SEHK can affectively only be made before 10 a.m. or after 4.15 p.m. For overseas regulatory notices this can cause issuers some difficulty. We have experienced situations where another UK listed issuer has been required to make a release, in which reference was made to HSBC as the other party to the transaction, at 7 a.m. UK time (3 p.m. HK time); as the information was price-sensitive for that issuer, this then triggered the need for HSBC to make a simultaneous class 3 announcement under the FSA Rules. Whilst this was not material, price sensitive information for HSBC requiring publication in Hong Kong, we nonetheless submitted it simultaneously to HKEx at 3p.m.. It would be helpful if it could be clarified that the timing on restriction of announcements are confined to those requiring publication on the Exchange's website in accordance with the Listing Rules.

P9. 39 The HKEx-EPS Disaster Recovery Project will take about five months to complete. Work on implementation of the project will start after all necessary approvals have been obtained to abolish paid announcements. As there does not seem to be any suggestion that paid announcements will not be abolished, can this work not start immediately?

P22(7)(b) The requirement will be to submit text in ASCII version. However, our experience so far in using the e-submission system is very positive and "user friendly", where we are able to attach a word document without making any changes or conversions. Converting any document into a different format involves dangers of changes inadvertently being made. We question why there must be a requirement to submit an ASCII version.

Other draft Listing Rule amendments

1. Proposed Rule 2.07C(5)(a) refers to electronic copies of documents being submitted other than during the specified times. As indicated above, it would be helpful if the Listing Rules wording was amended to “other than announcements made pursuant to Rule 13.10 or paragraph 26 of Part H of Appendix 7, electronic copies of any documents required to be published on the Exchange’s website must not be submitted to the Exchange”
Similar wording should be used in (5)(b).
2. Rule 13.45, Note 1, still refers to “after the market closes at 4 p.m.”. Whilst the market does still close at 4 p.m., the Exchange has introduced a requirement that announcements must be made after 4.15 p.m., after the futures market closes. We suggest that this will be a good opportunity to amend this note to refer to announcements being made after 4.15 p.m.

12 January 2006

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G.N. 6229

NEWSPAPERS APPROVED BY
THE CHIEF SECRETARY FOR ADMINISTRATION
FOR PUBLICATION OF STATUTORY NOTICES

It is hereby notified that with effect from 26 September 2002, the following newspapers have been specified by the Chief Secretary for Administration for the purpose of the publication of statutory notices under section 71A(3)(a) of the Companies Ordinance (Chapter 32): –

Chinese Newspapers

Sing Tao Daily
Wen Wei Po
Oriental Daily News
Sing Pao Daily News
Ming Pao Daily News
Hong Kong Economic Journal
Hong Kong Daily News
Hong Kong Commercial Daily
Hong Kong Economic Times
Ta Kung Pao
Apple Daily
The Sun
Cyber 日報
Quamnet.com
財華新聞
etnet.com.hk
都市日報

English Newspapers

South China Morning Post
Asian Wall Street Journal
China Daily Hong Kong Edition
The Financial Times
The Standard
Quamnet.com
Finet Newswires
irasia.com
International Herald Tribune

It is further notified that this notice supersedes Gazette notice G.N. 4054 dated 5 July 2002.