Speech by Martin Wheatley CEO of

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Good morning ladies and gentlemen

It is a pleasure to speak to you this morning about the information needs of investors.

A key part of good investor relations is getting the right message to the right people. I would like to talk about both the message and how to get the message out. I would also like to encourage feedback from you - the professionals responsible for investor relations: what do investors want to know that is not now required by the disclosure rules?

<u>The message</u>

Having spent most of my working life in the London market, I tend to draw parallels between practices in Hong Kong and London. One of the key differences I note relates to the flow of information from listed companies on their trading performance and results in between formal announcements of results be they annual or interim results.

As even a cursory reader of the Financial Times soon notes, UK listed companies release information about the trading performance throughout the year. In contrast Hong Kong listed companies seldom release similar information other than when they release their results.

I doubt that investors in Hong Kong are different from investors in the UK in wanting to be kept informed of any unexpected changes in trading performance. Why then do so few Hong Kong companies provide similar information?

One of the reasons often given for these very different approaches in the UK and Hong Kong is the Exchange's expectation that any profit forecast must be accompanied by an accountant's report. Prior to changes in the Listing Rules in early 2004, the Exchange had adopted the practice of asking a listed company to meet the formal reporting requirements when information was released that amounted to a profit forecast. This captured almost all forms of discussion on trading performance.

This practice was adopted to prevent forward-looking information being released that might mislead the market. This strict requirement increased the reluctance of listed companies to release information on trading performance except when releasing its results.

Whilst the Exchange revised the relevant Listing Rules in early 2004, there was little evidence of a move by listed companies to greater disclosure of trading performance outside the results announcements. To address this in September 2006 the Exchange issued a press release clarifying when formal reporting requirements apply to profits forecasts. It also commented on the need to release price sensitive information.

The Exchange clarified that the requirement for a profit forecast to be reviewed by accountants is not triggered automatically. A review and public report by accountants is only necessary when a profit forecast is included in a listing document, announcement or a circular that is issued in connection with notifiable or connected transactions.

With December year ends or half year ends approaching I would hope to see companies looking to inform investors as to their trading performance when this has deviated from the market's expectation.

Clearly information concerning trading performance will fall into the category of price sensitive information. For Main Board companies the general obligation is set out in Listing Rule 13.09. A listed company is expected to keep the Exchange and the market informed of information, which:

a) is necessary to appraise the position of the group;
b) is necessary to avoid the establishment of a false market in its securities; and
c) might be reasonably expected materially to affect market activity in the price of its securities.

In its September 2006 press release the Exchange reminded listed companies to carefully and continuously consider whether information on changes in its financial position, in the performance of its business or its expectation as to its performance meet these criteria. If it does then the information should be released.

If a listed company intends to release price sensitive information it should do so only after taking due care as to accuracy and completeness and by way of a public announcement. The Exchange's "Guide on disclosure of price sensitive information" issued in January 2002 provides useful guidance.

I would be interested to know if companies still feel constrained by the rules from releasing information about performance.

Getting the message out

The present system for making public announcements relies on publication of announcements in newspapers. Listed companies also submit copies of announcements to the Exchange for publication on the Exchange's website.

In July this year the Exchange announced that it will proceed with its plans to abolish the requirement to publish announcements in newspapers. During the first phase, planned for around April 2007, listed companies will publish announcements on the Exchange's website and will publish a notification of the announcement in newspapers. The first phase will last at least six months. After the first phase the requirement to publish a notification in the newspapers will be dropped.

To cater for an increase in the number of investors using the Exchange's website, the Exchange is upgrading its website and enhancing the search functions. The move to a fully electronic user-friendly source for information about all listed companies is an important development for Hong Kong investors. I hope that the significant cost savings for listed companies from not having to make newspaper announcements will be devoted at least in part to better investor relations.

Ready availability of listed company financial information is an important resource for investors. Over the past few years a number of companies and regulators have sought ways to make financial information readily searchable electronically. A number of jurisdictions have chosen a machine-readable language XBRL. Whilst hailed by its supporters as the way forward, support across the world is mixed.

In September 2006 the US SEC announced that it will invest US$54 million to transform its public company disclosure system from a form-based electronic filing cabinet to a dynamic real-time search tool with interactive capabilities using XBRL.

In contrast the UK FSA announced last month that it will not be requiring use of XBRL. One of the reasons given was, unlike other regulators the FSA is not required to provide or facilitate access to such corporate disclosures.

We would be very interested in hearing from you whether you would support development of the tools necessary to enable Hong Kong listed companies to issue XBRL reports. If the necessary infrastructure was provided would companies take the time and incur the costs needed to prepare financial reports in a machine-readable form? Are your investors asking for such information? Or even more fundamentally have you or the investors you deal with heard about XBRL?

Feedback

I said at the start that I would like feedback on information that investors ask for that is not provided under the existing rules and regulations. We receive few comments from investors, other than David of course, on their information requirements. I hear comments bemoaning the work of the International Accounting Standards Board for making financial statements more and more complex. Unfortunately, or fortunately, that is outside the SFC's remit, you need to send your comments to Sir David Tweedie in London.

Other disclosure obligations do fall within the SFC's remit but comments are rare and we would welcome views from investors and from those responsible for liasing with investors on how well the current disclosure requirements and practices meet the needs of investors.