

**COMMENTS ON  
CONSULTATION PAPER ON PERIODIC FINANCIAL REPORTING**

**Do you agree that the time allowed for the release of half-year and annual results announcements and reports should be shortened by one month after the relevant financial period end for Main Board issuers?**

No, I do not agree, for the following reasons:

- 1) The provision of quality disclosures as demanded by the market and investors is of primary and overriding importance and should not be sacrificed by accelerating the reporting deadlines. The usefulness of the half-year and annual reports depends not only on their timeliness but also on their accuracy. The purposed shortening of the reporting deadlines will increase the chances of inaccurate or incomplete reports.
- 2) The proposal will result in increased, unnecessary costs in half-year and annual reporting, while not providing material corresponding benefit to investors. It will place significant undue pressure on the company's management, accounting staff, legal counsel, the Audit Committee and the external auditor trying to meet the reporting deadlines.
- 3) Multinational companies having global operations, such as those in the shipping industry, need a "window" for their offices around the globe to capture relevant data into their computer systems after the cut-off of a reporting period. The proposal will force these multinational companies to make estimates, to the detriment of the accuracy of the reported figures.
- 4) Not only the quality of financial reporting of the Main Board issuers, but also the normal functioning of their internal control systems, may be adversely affected, should the reporting deadlines be put forward. Companies will incline to cut corners and take short cuts to meet reporting deadlines as a consequence.
- 5) The whole standard of corporate governance among Main Board issuers in Hong Kong will be lowered as a result of the incomplete, inaccurate, and hastily prepared information.
- 6) To promote Hong Kong as a global financial centre, we need minimal laws and regulations and, at the same time, strict and efficient implementation of them. To promote corporate governance in Hong Kong, the HKEx or the Hong Kong Government could add little value simply by promulgating more laws and regulations. The market's invisible hand will ensure that companies following good corporate governance practices will be rewarded. On the topic in question, companies that are able to provide more timely information will have a clear competitive advantage over their peers. If such competitive advantage is so

important to these listed companies that the resultant benefits will outweigh the costs of preparing more timely information, these companies will proactively release their half-year and annual results earlier. The HKEx has already set the minimum standards for the Main Board issuers to follow; the rest should be left to the market.

**Do you agree that mandatory quarterly reporting should be introduced to Main Board issuers?**

No, I do not agree, for the following reasons:

- 1) Mandatory quarterly reporting will increase the costs of report preparation tremendously, providing at the same time only marginal benefit as important information is already being disclosed through half-year and annual reports.
- 2) Mandatory quarterly reporting forces controlling shareholders to bear the costs of making superfluous information available to minority shareholders.
- 3) Mandatory quarterly reporting encourages short-sightedness in how companies manage their businesses and how the public and the investors evaluate those companies. It will distract companies from taking a long-term perspective in formulating company strategies, which is harmful to not only the companies themselves but also their shareholders and even the long-term economic development of Hong Kong
- 4) Because of the short-term view encouraged by mandatory quarterly reporting, there will be unnecessary and undesirable volatility in the share prices of the Main Board issuers.
- 5) There is evidence showing that unnecessarily stringent listing regulations and comparatively high running costs in maintaining a listed status will hamper the further development of an international financial centre. For Hong Kong to be elevated to a global financial centre, it is important that we maintain a healthy governance structure enlisting the help of government bodies, HKEx, and other stakeholders such as HKICPA, and at the same time refrain from introducing unnecessary regulations that will only serve to stifle the economic development of Hong Kong.

The fact that mandatory quarterly reporting, which is found in the bourses of most developed countries, does not apply to Hong Kong has actually put Hong Kong in a more comparatively advantaged position, when companies are looking for a place for their IPOs.

- 6) The preparation of interim financial reports, let alone quarterly reports, in accordance with HKA34 generally requires a greater use of estimates than that required in the preparation of annual financial reports. A higher level of estimation in quarterly reporting will harm the accuracy and reliability of these quarterly reports.
- 7) The proposal entails quarterly reports to be reviewed by the Audit Committees of the Main Board issuers. The level of assurance and the degree of confidence a user of the quarterly report may have on the quality and reliability of those reports will be diminished if there is no external independent review by an external auditor.

Moreover, the proposal will put undue burden and liabilities on the Audit Committee members, most of them being non-executive directors of the Main Board issuers.

- 8) To promote Hong Kong as a global financial centre, we need minimal laws and regulations and, at the same time, strict and efficient implementation of them. To promote corporate governance in Hong Kong, the HKEx or the Hong Kong Government could add little value simply by promulgating more laws and regulations. The market's invisible hand will ensure that companies following good corporate governance practices will be rewarded. On the topic in question, companies that are able to provide quarterly reporting will have a clear competitive advantage over their peers by proactively offering the market more information. If such competitive advantage is so important to these listed companies that the resultant benefits will outweigh the cost of having quarterly reporting, these companies will proactively release quarterly reports.
- 9) Quarterly reporting should not be made mandatory but should be encouraged as a best practice to be adopted by all listed companies, which is already the case in the existing Appendix 14: Code on Corporate Governance Practices to the Listing Rules (Main Board).

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Note: The above views represent those of Paul Mok only, not of any organizations to which he is related.