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From: Robert Kenrick

Sent: Tuesday, 16 October, 2007 10:03

To: pfr

Subject: Consultation paper on periodic financial reporting

Dear Sirs,

I attach my completed questionnaire in response to the Exchange's proposals.

I am responding chiefly as a private investor with investments in the Hong Kong, Australian, UK, US and European markets. I am a former audit partner of KPMG in Hong Kong and am presently an independent non-executive director and chairman of the Audit Committee of of Fubon Bank (Hong Kong) Limited. The views expressed are my personal views and not necessarily those of Fubon Bank (Hong Kong) Limited.

I support accelerated reporting for interim and final statements, subject to the provision of a 15 day permanent grace period for smaller companies to avoid the bunching of reports seen in Australia under their 60 day rule. The 60 day rule results in a very large number of companies reporting in the last week before the deadline, which overwhelms the capacity of analysts and private investors such as myself to absorb all the information.

I do not agree with the proposals for mandatory quarterly reporting:

- Just because it has been the practice in the United States for many years, quarterly reporting is not necessarily "best practice". In fact it was common in the US to use reserve accounts and other abuses to smooth quarterly earnings (although I have no evidence that this is still the case.)
- It ignores the role played by management estimates in financial reporting. For quarterly reports to give worthwhile additional information to investors, banks and companies with long term contracts would have to produce fresh estimates (of loan losses and contract outcomes) every quarter. In practice this will not be done unless there are compelling reasons to believe that the outcome will have changed since the previous final or interim statements.
- As a result both of smoothing and of the absence of fresh estimates, quarterly reports in other jurisdictions tend to be trading statements dressed up as financial reports. As an investor, I would far prefer either continuous reporting as practiced in Australia or compulsory interim trading statements as in the UK. These focus investors' attention on significant changes to the business without burdening them with reading a lengthy "boiler plate" document in an attempt to pick up trends.

Yours faithfully

Robert Kenrick

QUESTIONNAIRE ON PERIODIC FINANCIAL REPORTING

The purpose of this questionnaire is to seek views and comments from market users and interested parties regarding the issues discussed in the Consultation Paper on Periodic Financial Reporting published by The Stock Exchange of Hong Kong Limited (the Exchange), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEx), in August 2007.

Amongst other things, the Exchange seeks comments regarding whether the current Main Board Listing Rules and Growth Enterprise Market (GEM) Listing Rules (together, the Rules) should be amended.

A copy of the Consultation Paper and this questionnaire can be obtained from the Exchange or at <http://www.hkex.com.hk/consul/paper/consultpaper.htm>.

Please return completed questionnaires no later than **5 November 2007** by one of the following methods:

By mail or
hand delivery
to: Corporate Communications Department
 Re: Consultation Paper on Periodic Financial Reporting
 Hong Kong Exchanges and Clearing Limited
 12th Floor, One International Finance Centre
 1 Harbour View Street, Central
 Hong Kong

By fax to: (852) 2524-0149

By email to: pfr@hkex.com.hk

The Exchange's submission enquiry number is (852) 2840-3844.

Please indicate your preference by ticking the appropriate boxes.

Where there is insufficient space provided for your comments, please attach additional pages as necessary.

Half-year reporting

Question 1: Do you agree that the time allowed for the release of half-year results announcements and reports should be shortened from three months to two months after the relevant financial period end?

Yes

No

Please state reasons for your views.

As an investor, I need reasonably up to date information in order to assess a company's response to external events. From my experience as a preparer and auditor, I do not think that two months is an unreasonable timeframe for the preparation and publication of unaudited results.

My only concern with this proposal comes from experience of the 60 day rule in Australia. This has led to a bunching of results right at the end of the 60 day period, which overwhelms both analysts and investors. As a result the results of smaller companies do not get sufficient attention and what they do get is produced a long time after publication of their results. To avoid this bunching effect, I would suggest a permanent extension of 15 days for small companies.

Question 2: Do you agree that the new reporting deadlines should be introduced in phases; specifically:

(a) "large companies" (as defined pursuant to Question 3 below) being required to comply with the new Rules first; and

(b) to allow a transitional period of two years for other companies to meet the new deadlines?

Yes

No

Please state reasons for your views.

I do not see the logic of a longer transitional period for small companies. It is large companies with extensive overseas operations to consolidate that need more time.

However, to avoid the bunching of results announcements at the end of the allowed period, with the adverse consequences described above, I would suggest a permanent extension of 15 days for smaller companies.

Question 3: Do you agree that "large companies" should mean companies with a market capitalisation of \$10 billion or more as at 31 December 2006 and, in the case of issuers that are

newly listed after 1 January 2007, those with an initial market capitalisation of \$10 billion or more on the date of listing? (For more detail, please see paragraph 21 of the Consultation Paper.)

Yes

No

Please state reasons for your views.

From the list given, the criterion seems to produce a reasonable result. If my proposal for a permanent deferral for smaller companies were adopted, a criterion based on publically held equity rather than market capitalisation would be preferable.

Question 4: Do you agree that the commencement dates for the accelerated reporting deadlines for half-year reporting for Main Board issuers should be:

- (a) "large companies" – half-year accounting periods ending on or after 30 June 2008;
- (b) other companies – half-year accounting periods ending on or after 30 June 2010?

Yes

No

Please state reasons for your views. Please also comment, including reasons, if you have other suggested commencement dates.

As stated above, I believe that there should be a permanent 15 day deferral for smaller companies to avoid bunching.

Annual reporting

Question 5: Do you agree that the time allowed for the release of annual results announcements and reports should be shortened from four months to three months after the relevant financial period end?

Yes

No

Please state reasons for your views.

Four months' delay results in the results announcement being out of date as soon as it is announced. If the exchange's proposals for quarterly reporting were adopted, the first quarter results would be announced within 15 days of the final announcement.

Question 6: Do you consider that the new three month reporting deadline should be introduced in phases such that:

- (a) “large companies” (as defined pursuant to Question 7 below) would be required to comply with the new Rules first; and
- (b) there would be a transitional period of two years for other companies to meet the new deadline?
 - Yes
 - No

Please state reasons for your views.

It should be easier for small companies to comply than for large companies with overseas operations. If smaller companies are going to have to comply eventually, there seems no reason to delay the requirement.

Question 7: Do you agree that, for these purposes, “large companies” should have the same meaning set out in Question 3 above (and paragraph 21 of the Consultation Paper)?

- Yes
- No

Please state reasons for your views.

The resulting list appears reasonable.

Question 8: Do you agree that the commencement dates for the accelerated reporting deadlines for annual reporting for Main Board issuers should be:

- (a) “large companies” – annual accounting periods ending on or after 31 December 2008;
- (b) other companies – annual accounting periods ending on or after 31 December 2010?
- Yes
- No

Please state reasons for your views. Please also comment, including reasons, if you have other suggested commencement dates.

I see no reason why all companies should not be able to comply by the December 2008 year end.

Mandatory quarterly reporting for Main Board issuers

Question 9: Do you agree that mandatory quarterly reporting should be introduced for Main Board issuers?

- Yes
- No

Please state reasons for your views.

I do not agree that quarterly reporting is best practice. In addition to encouraging short termism, it also encourages manipulation of figures by the use of unwarranted provisions (reserves). Once accepted for quarterly results, the practice tends to become acceptable for interim and even full year accounts.

The proposal presents particular difficulties for companies for which the results depend critically on management estimates, eg loan losses for banks and contract work in progress for construction companies. These estimates are made on an ongoing basis throughout the year with special reviews for the year end and interim statements. I cannot conceive of this being done for quarterly statements within three months of the previous review, but if it is not done then the quarterly announcements will be of little value to investors. The same might also apply to property investment companies, or would such companies be required to have full three monthly revaluations?

I accept that Australian style continuous reporting is so foreign to current practice in Hong Kong and on the Mainland that it might be difficult to introduce, although as an investor in Hong Kong, Australia, UK, USA and Europe it is the style that I prefer. A compromise might be British style compulsory quarterly trading statements. My personal belief is that US quarterly reports are in fact quarterly trading statements masquerading as full financials.

Question 10: Do you agree that Main Board issuers should publish their quarterly reports within 45 days after the period end?

Yes

No

If you believe that a reporting deadline for quarterly reporting other than 45 days is more appropriate, please state your preference. Please also state reasons for your views.

In my view, quarterly statements are of so little value to the investor that it doesn't matter when they are published.

Question 11: Do you agree that quarterly reports of Main Board issuers should include as a minimum all the information set out in Table 8 of the Consultation Paper?

Yes

No

Please state reasons for your views. Please also comment, together with reasons, on those items which you believe may be considered to be added to Table 8.

To avoid giving quarterly statements an air of unwarranted accuracy, they should be limited to revenue and gross profit before provisions. This could possibly be accompanied by a compulsory trading statement (see Q 9 above.)

Question 12: Do you agree that a condensed consolidated income statement in a quarterly report should contain the following information, together with prior year comparatives:

(a) current quarter results; and

(b) cumulative year-to-date results?

Yes

No

Please state reasons for your views.

It would be more sensible to give only cumulative year-to-date results for the third quarter. Otherwise the interim and final results should logically be accompanied by the second and fourth quarters' results (as is done in some jurisdictions but I find of little value.)

Question 13: Do you believe that the following information, together with prior year comparatives, should also be provided in the condensed consolidated income statement in the quarterly report for a third quarter (see paragraphs 60 and 61 of the Consultation Paper):

- (a) the first quarter results; and
(b) immediately preceding quarter results?

Yes

No

Please state reasons for your views.

As an investor I am only interested in the third quarter's results as a predictor of the full year's results. A single quarter is far too small a time frame in which to judge the health of a company.

Question 14: Do you agree that printing and mailing of hard copies of quarterly reports to all shareholders and holders of the company's other securities should not be required but listed issuers should be required to publish their quarterly reports on the HKEx website and the listed issuer's own website?

Yes

No

Please state reasons for your views.

Particularly in Hong Kong most private investors hold their shares through their brokers and have to go to companies' websites for financial information in any case.

Question 15: Do you agree that the new quarterly reporting requirements should be introduced in phases with:

- (a) "large companies" (as defined pursuant to Question 3 above) being required to comply with the new Rules first; and
- (b) other companies allowed a transitional period of two years to meet the new deadlines?
- Yes
- No

Please state reasons for your views.

I do not agree that quarterly reporting should be introduced at all. However if the SEHK insists on introducing a time consuming process which is of little value to investors I cannot see any reason why the requirements should not be applied to all listed companies.

Question 16: Do you agree that the commencement dates for the new quarterly reporting requirements for Main Board issuers should be:

- (a) "large companies" – three months quarterly accounting periods ending on or after 30 September 2008; and
- (b) other companies – three months quarterly accounting periods ending on or after 30 September 2010?
- Yes
- No

Please state reasons for your views. Please also comment, including reasons, if you have other suggested commencement dates.

If quarterly reporting is introduced at all, it should be done after the speeded up annual and interim requirements are introduced.

Alignment of GEM Rules to proposed Main Board Rules on quarterly reporting

Question 17: Do you agree that the same disclosure and publication requirements for quarterly reporting should apply to Main Board and GEM issuers?

- Yes
- No

Please state reasons for your views.

There doesn't seem to be a lot of point in having a GEM if the reporting rules are the same as for the Main Board. As I understand it, the GEM reporting rules are designed to compensate for the lack of a track record in GEM companies.

Question 18: Do you agree that GEM issuers should be required to comply with the new disclosure requirements starting from their three months quarterly accounting periods ending on or after 30 September 2010?

- Yes
 No

Please state reasons for your views.

As Q.17 above.

Question 19: Do you agree that the reporting deadline for the new GEM quarterly reports should be the same as the reporting deadline for Main Board quarterly reports even if that means extending the reporting deadline for GEM quarterly reports?

- Yes
 No

Please state reasons for your views.

As Q. 17 above.

Question 20: Do you have any other comments in respect of the issues discussed in the Consultation Paper? If so, please set out your additional comments.

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