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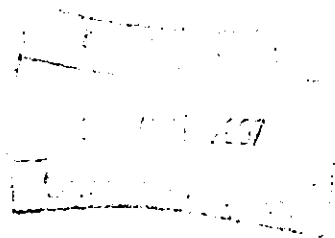


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 12<sup>th</sup> Floor, One International Finance Centre  
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 Hong Kong



Dear Sirs

**Consultation Paper on Periodic Financial Reporting – August 2007**

We write to give our comments on the proposals discussed in the above consultation paper for the consideration of the Exchange.

**Consultation proposals – Shortening the time allowed for half-year and annual reporting by main board issuers (paragraphs 19 and 33)**

We consider that the current reporting deadline of 120 days should be kept for annual (audited) result announcements and reports while a shorter deadline of 60 days can be considered for interim (unaudited) result announcements and reports on the basis that:

1. It is inconclusive from table 3 on page 6 of the consultation paper that countries are all adopting shorter deadlines for publication of financial reports.
2. Under the EU Transparency Obligations Directive, which came into force on 20 January 2007, listed companies are required to produce their annual reports in 4 calendar months and their half-yearly reports in two months.
3. A high quality of audited reports is a cornerstone of investor confidence and credit / risk management for lenders. The full convergence of Hong Kong standards on financial reporting and auditing with international standards will further improve the quality and comparability of financial statements published by Hong Kong companies across jurisdictions.
4. There has been growing complexity in reporting requirements in accordance with the ever evolving accounting and auditing standards as well as sector-specific regulations (e.g. for the banking sector from the beginning of this year, additional disclosures are required to be made by authorised institutions in their annual reports on their compliance with the new capital adequacy framework under Basel II). It

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will be prudent to allow sufficient lead time for companies to prepare their accounts and their auditors to audit the accounts to ensure the quality of reporting.

Consultation proposals – Introduction of mandatory quarterly reporting for main board issuers (paragraphs 65 and 66)

To ensure the leading position of Hong Kong as an international financial centre, it is important for Hong Kong to provide an operating environment that is supportive to the development of business at a reasonable cost while promoting good governance focusing on enhancement in quality rather than frequency of reporting. In line with this strategic direction, we consider that the existing half-yearly reporting timescale, coupled with a robust regime of disclosure of significant events intervening between the interim and annual reports, to be adequate and appropriate.

We have reservations about the introduction of mandatory quarterly reporting as proposed in the consultation paper having due regard to the following considerations:

1. Paragraph 45 of the consultation paper states that there is a worldwide trend towards some form of mandatory quarterly reporting. Our desk-top research shows that there is diversity in terms of the history and scope of quarterly reporting in various jurisdictions listed in table 3. Some highlights include:

- Since 1946, the U.S. Securities and Exchange Commission's rules have required U.S. companies to provide quarterly financial information but not foreign private issuers (which are required to publish financial information no less than on a semi-annual basis).
- The Australian Securities Exchange introduced mandatory quarterly financing reporting for exploration companies in the 1970's but the scope of the requirements has not been extended to other sectors.
- Singapore requires listed companies with a market capitalisation above SGD75 million to publish quarterly financial information since 2003. Literature<sup>1</sup> on the review of this regime suggests that Singapore appreciates the model adopted by Hong Kong where it is the smaller companies being required to issue quarterly reports in recognition that less public information about the operation of smaller companies is generally available.
- From 2007, quarterly reports must be provided by U.K. listed companies. These reports need not include an income statement or balance sheet. Instead the following information should be provided:
  - (i) an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the issuer; and

<sup>1</sup> Source: Business Times Singapore, 12 November 2005.



- (ii) a general description of the issuer and performance of the issuer during the relevant periods.
2. Paragraph 46 of the consultation paper states that mandatory quarterly financial reporting will increase investor protection, transparency and market efficiency. We believe that it may be debatable and perhaps too early to conclude whether the merits of quarterly reporting outweigh the challenges it presents (such as its higher one-time and ongoing costs, the tradeoff between timeliness and reliability, the overlapping and duplication of information and over emphasis on short term versus long term performance among others).
  3. The disclosure requirements for interim and annual reports have increased significantly in recent years (see also our points 3 and 4 on page 1). It is acknowledged that the current disclosure requirements coupled with semi and full year financial information have generally provided shareholders, the public and banks with adequate and appropriate information about individual listed companies on a timely basis.
  4. The Hong Kong Listing Rules provide for issuers to disclose significant events intervening between the interim and annual reports.

Information which is expected to also be price-sensitive should also be announced promptly. This includes where an issuer becomes aware that its results may be significantly worse than generally accepted market expectation, the issuer should publish an announcement 'warning' investors of the likely impact. These requirements have helped to reinforce the quality of data provided to the relevant stakeholders and users of information.

We hope that the Exchange will find the above comments helpful in developing its consultation conclusions. Should more information be required, please feel free to contact me or our Senior Manager Grace Law.

Yours faithfully

~~Florence~~ Hui  
Secretary

c.c. Hong Kong Monetary Authority (Head, Banking Policy Division)