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新鴻基地產發展有限公司
Sun Hung Kai Properties Limited

31 October 2007

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

Dear Sir,

Re : <u>Consultation Paper on Periodic Financial Reporting</u>

I write in response to the Stock Exchange's consultation paper on Periodic Financial Reporting dated August 2007. I note that there are two proposals, the first to shorten the reporting deadlines for half-yearly and year-end announcement and reports for Main Board issuers (Proposal 1), and the second to introduce mandatory quarterly reporting for Main Board issuers (Proposal 2). The proposals are to some extent related, but in the interest of clarity, even if at risk of repetition, I will set out our comments on each separately. Before doing so, I would make two general points, one philosophical, the other practical.

First, Sun Hung Kai Properties regards itself as a leading advocate of good corporate governance. This determination is reflected in our reputation internationally. Philosophically, however, we do not accept that hastily prepared or overly frequent reporting represents best practice. It may be accepted practice in many places, but that does not make it best practice. Thus you should not be surprised that our detailed comments below are almost entirely negative.

Second, as a purely practical matter, we query the merits of attempting to introduce professionally labour-intensive modifications to existing practice when there is a critical shortage of accountants both here and in the mainland.

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香港港灣道三十號新鴻基中心四十五樓
電話：二八二七 八一一一 圖文傳真：二八二七 二八六二
網頁：http://www.shkp.com 電子郵件：shkp@shkp.com
45/F., SUN HUNG KAI CENTRE, 30 HARBOUR ROAD, HONG KONG.
TEL: 2827 8111 FAX: 2827 2862
WEBSITE: http://www.shkp.com E-MAIL: shkp@shkp.com
IA179/3000/P/12-05/MK

Proposal 1
Turning to our detailed comments, we object to the shortening of reporting deadlines for the following principal reasons:

1. The suggested deadlines are too tight. The existing deadlines are already tight and particularly so for large companies with diverse business portfolios and / or geographically dispersed operations. Tightening them further will create a number of practical difficulties without necessarily improving the quality of the information. For example, accuracy demands that all the rent rolls for a property portfolio are available before an accurate valuation can be conducted. Until the latter is completed the accountants cannot commence their work, never mind the auditors in the case of the annual report. It would be difficult for SHKP to achieve the proposed deadlines, and the additional cost and effort involved seem to us totally disproportionate to any perceived benefit which increasing this time pressure might bring.

2. The proposed changes are discriminatory. We find the arbitrary division of listed companies into "large" and "small" repugnant. The rules for all companies listed on the Stock Exchange should be the same. That is a matter of equity, but it is also a matter of branding and reputation. As suggested above, the difficulties faced by different companies in meeting deadlines may have more to do with the nature and geographical spread of their business than size. Whatever those difficulties are, however, investors in companies listed on the Stock Exchange deserve the same stamp of quality governance.

3. Your own figures suggest that the proposed timings are not achievable. Based on the Stock Exchange's own study of the timing of release of the reports by listed companies in 2006, the number of companies that would have fallen outside the new deadlines had they been introduced in 2006 is very high:

   - For half-year results, for companies with a market capitalisation over $10 billion ("large companies"), the figure is 40%. For companies with a market capitalisation less than $10 billion, the figure is 78%. These add up to close to 700 out of the 975 companies listed in Hong Kong in 2006;

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- For annual results, the figures are even higher. For companies with a market capitalisation over $10 billion, the figure is 32%. For companies with a market capitalisation less than $10 billion, the figure is 81%. These add up to close to 706 of the 975 companies listed in Hong Kong in 2006.

4. Tightening the time limits only worsens the picture. Your own figures clearly indicate that many companies already need the full three- and four-month periods in order to complete their half-year and annual reports. This is partly due to the characteristics of companies listed in Hong Kong, a large number of which have significant or even main operations located outside Hong Kong. Further tightening the time limit for compiling these reports is hardly likely to improve the situation. Rather it will only increase the rate of defaults, while adding significantly to the burden of time and cost on the management and auditors of companies which currently comply.

Proposal 2

We object to the introduction of mandatory quarterly reporting for the following principal reasons:

1. Philosophically, we do not believe that quarterly reporting is a "best practice". Specifically, we do not believe that it would in anyway improve on existing practice, rather we see that it risks detracting from it.

2. It risks providing investors a distorted view. For companies with seasonal business patterns or lumpy and irregular revenue streams, quarterly results are bound to show significant fluctuations. These may lead in turn to misleading comparisons and could ultimately result in unwarranted and unpredictable share price volatility.

3. It is particularly inappropriate for property companies. Development profit is only recognized from completed properties. Few, if any property companies could demonstrate a historically smooth quarterly flow of completions, and, we submit, it would be neither reasonable nor in the interest of shareholders for companies to attempt to manage such a flow simply for the purpose of smoothing quarterly results.

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4. It poses other practical difficulties for property companies. A fairly presented report by definition will require the independent valuation of the entire portfolio of properties. That is a huge undertaking even for half-yearly reports. Doubling the expenditure of time, money and effort will not commensurately improve the quality of information furnished to investors in a business with relatively long time horizons.

5. This is particularly true of property companies with investment in projects overseas, where securing timely valuations can be problematic.

6. It is not the most effective means of providing up-to-date information. Hong Kong already has extensive and mature rules on immediate and continuous disclosure, which require companies to provide focused and detailed information of all significant events. This system has been seen to work well, and has the advantages of not being static, as is the case with periodic reports, and being presented in a form that is easy for investors to understand.

7. Continuous reporting obligations provide greater market transparency. The existing system is superior to periodic disclosures in both what is disclosed and when. The proposal adds nothing to this, but detracts much.

8. The burden imposed by quarterly reporting would be disproportionate to any benefits. The extensive information required would impose an unduly heavy administrative and logistical burden on companies. In addition, although the reports do not have to be audited, most companies are likely to seek an external auditor's review as protection against potential liability. In this context we note that you propose that the business review should not be "overly brief as extreme brevity may make the analysis appear biased or misleading".

9. The 45 days allowed for announcement and despatch of quarterly results is too tight. See our earlier comments on Proposal 1.

10. Lastly, as has been demonstrated elsewhere, quarterly reporting may lead to investors and management focusing on short term rather than long term financial performance.

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Conclusion

In brief, we see nothing to commend either of the proposals and, on both philosophical and practical grounds we are opposed to them. In the case of quarterly reporting, we consider it sufficient that this remains a recommended best practice under the Code of Corporate Governance Practices. We do not regard it as such, but we recognize that others may, and are content for the market to determine whether it brings sufficient benefits to companies and investors to merit the diversion of resources involved.

More generally, we note that your proposals follow a period of considerable change in the regulatory environment in which Hong Kong listed companies operate. We submit that these have not yet been properly digested and would caution that pushing ahead with more at this stage risks damaging Hong Kong's reputation for maintaining a reasonable, stable and predictable business environment. We do not believe that the Hong Kong Stock Exchange either deserves or needs a reputation for frequent regulatory tinkering.

Yours faithfully,
For and on behalf of
Sun Hung Kai Properties Ltd.

Raymond Kw~~ok~~
Vice Chairman & Managing Director

RK/EL/fc

Contacts :

Please do not hesitate to contact the following people if you wish to discuss this response:

Name	:	Ernest Lai
Company	:	Sun Hung Kai Properties Ltd.
Title	:	Company Secretary
Tel. No.	:	
Fax No.	:	
e-mail	:	