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## QUESTIONNAIRE ON PERIODIC FINANCIAL REPORTING

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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](mailto: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.*

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## 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.

In principle, we agree that the more promptly that information is made available to investors, the more useful that information will generally be. However, we have a number of concerns with introducing this proposal at this time as follows:

We note that the Exchange's analysis of the ability of listed issuers to meet the shortened deadline, as set out in table 4, was based on the date of the half-year results announcement and not on the date that the interim report was published. As the proposed shortened deadlines would apply to the release of the interim report, as well as to the results announcement, we are concerned at the assertion that this table demonstrates that 60% of listed issuers are already meeting the shortened deadlines voluntarily (as asserted in paragraph 17).

We therefore consider that the comments in paragraph 17 may under-estimate the extent of effort that would be required by listed issuers to meet the shortened deadlines, if, as proposed, they were to apply to the publishing of the half-year report, as well as to the half-year results announcement. In particular, Main Board issuers generally have more complex corporate structures and more diverse geographical operations than GEM issuers and therefore these entities may encounter considerable practical difficulties in collating the data at group level in time for the proposed earlier reporting deadline. In turn, this may result in a greater use in the interim report of less reliable estimates and/or less up to date valuations.

We would also highlight that we would expect that shortening the half-year reporting deadline may increase the number of instances where the interim report is released without having been reviewed by auditors. This may be either because there is not enough time in the interim reporting timetable set by the issuer to involve the auditors or because the issuer's auditors, even if requested by the issuer to carry out a review, may not have sufficient resources available to complete the review in time, given that the vast majority of listed issuers share the same year end.

We consider that the Exchange should take these factors carefully into account, including the possible impact on the reliability of the interim reports, before deciding whether the benefits of more timely information outweigh the disadvantages.

*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.

As discussed in our answer to Question 1, we have some concerns about whether the merits of the proposal to shorten the reporting deadline outweigh the practical difficulties that may be encountered by issuers and their auditors.

However, if the Exchange does decide to implement the proposal, we agree that the shortened deadline should not be introduced with simultaneous effect on all listed companies and that it is a reasonable approach to focus first on the large companies, on the basis of the greater public interest in these entities.

*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.

As stated in our response to Question 2, we support a phased introduction of the accelerated filing. In this respect, we agree that a market capitalisation of \$10 billion is a useful dividing line for phased implementation of the proposals, and we also agree that specifying that this is measured as of 31 December 2006 (or the date of listing, if later), is a sensible approach as it gives certainty to the borderline issuers as to whether they will be regarded as "large".

*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.

Given the substantial number of companies which do not currently report within the proposed

deadline, we consider that, if the Exchange decides to implement this proposal, additional time should be allowed for these companies to make necessary changes to their financial reporting systems and processes to comply with the proposed new rules.

We therefore strongly recommend that the commencement date for accelerated half-year reporting by "large companies" be deferred by at least one year, i.e. starting from the half-year accounting periods ending on or after 30 June 2009. This would provide these companies with an opportunity to arrange "trial runs" before the accelerated deadlines take effect.

### 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.

As discussed in our response to Question 1, in principle, we agree that the more promptly that information is made available to investors, the more useful that information will generally be. However, we also highlighted that we have a number of concerns with shortening the reporting deadlines. We consider that in the case of the annual reporting process, these concerns are currently so pervasive as to make the shortening of the reporting deadlines for publishing annual reports impracticable at this time. We therefore do not support this proposal. Further details of our concerns are as follows:

Firstly, as with the discussion of the impact of shortening the deadline for half-year reports, we note that the Exchange's analysis of the ability of listed issuers to meet the shortened deadline for annual reports, as set out in table 6, was based on the date of the annual results announcement and not on the date that the annual report was published. As the proposed shortened deadlines would apply to the release of the annual report, as well as to the results announcement, we are concerned at the assertion that this table demonstrates that 68% of listed issuers are already meeting the shortened deadlines voluntarily (as asserted in paragraph 31).

We therefore consider that the comments in paragraph 31 may under-estimate the extent of effort that would be required by listed issuers to meet the shortened deadlines, if, as proposed, they were to apply to the publishing of the annual report, as well as to the annual results announcement. As we discussed in our response to Question 1, generally Main Board issuers have more complex corporate structures and more diverse geographical operations than GEM issuers and therefore these entities may encounter considerable practical difficulties in collating the data at group level in time for the proposed earlier reporting deadline. In addition, the amount of time and effort that is required between collating data and publishing a bi-lingual annual report is considerably greater than is required in respect of the interim report, including a considerable amount of work that

needs to be done after the Board has approved the annual results announcement and a draft of the financial statements.

In addition to underestimating the difficulties that may be faced by the issuers, we are concerned that the practical difficulties faced by the auditing profession may have been under-estimated, given that the vast majority of listed companies share the same year end date. That is, narrowing the reporting deadline for all listed issuers will result in the timing of the audit involvement being almost identical for every listed issuer with the same year end date. This differs from the current situation, where the timing of the audit involvement varies from one listed company to the next, as some issuers are fast reporters and other issuers take longer to finalise their reports. Therefore, we do not believe that the fact that some companies are currently meeting a shorter deadline to be sufficient evidence that it is possible for all listed companies to meet these deadlines, given current resource constraints placed on the auditing and accounting profession.

In most mature jurisdictions, this issue could arguably be addressed within a reasonably short time-frame by the auditing and accounting profession re-allocating spare resources or recruiting and training more staff. However, given the rapid development in the Mainland of a market economy and Hong Kong's role in that development, Hong Kong's situation is currently very different from other jurisdictions around the world and the challenges faced by the auditing and accounting profession as a result should not be underestimated.

We therefore do not support the Exchange's proposal at this time to shorten the annual reporting deadline, even for the larger companies.

*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.

As per our response to Question 5 above, we do not currently support the Exchange's proposal to shorten the reporting deadline given the current resource constraints.

However, if the Exchange implements this proposal, we recommend that the accelerated annual reporting deadline be initially introduced only to "large companies", and not to "other companies" for the time being, in view of the large number of "other companies" that would be affected and the resource constraints faced by the auditing and accounting profession.

After this initial test period, a further review could be carried out to consider whether or not the accelerated deadline could be introduced to "other companies" with reference to the implementation experience of the large companies and an analysis of the practical difficulties expected to be faced by the other companies and their auditors in accelerating their work.

*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.

We believe that a uniform definition of "large companies" for annual, half-year and quarterly reporting requirements is preferable.

*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.

As discussed in our response to Question 6 above, if the Exchange decides to implement this proposal, we recommend deferring the introduction of accelerated annual reporting to "other companies" pending review of the implementation for "large companies" i.e. that at this time no

fixed deadline for the implementation should be set for these companies.

So far as the "large companies" are concerned, if the deadline for reporting is shortened as proposed, we consider that additional time should be allowed for these companies to make necessary changes to their financial reporting systems and processes to comply with the proposed new rules and for the auditing and accounting profession to take steps to increase the number of qualified staff.

We therefore strongly recommend that the commencement date for accelerated annual reporting by "large companies", if introduced, be deferred by at least one year, i.e. starting from the annual accounting periods ending on or after 31 December 2009. This would also provide these companies with an opportunity to arrange "trial runs" before the accelerated deadlines take effect.

### **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.

We are aware that in any jurisdiction there are a range of valid arguments both for and against the mandatory publication of quarterly reports and we expect that Hong Kong is no different in this respect. As with many decisions it will therefore be necessary to consider whether the benefits outweigh the costs, in this case specifically whether the additional information provided in quarterly reports will be sufficiently beneficial for the proper operation of the market so as to justify the effort required and, if so, whether this is true for all listed issuers or only for a sub-set, such as the larger, more actively traded stocks.

In our opinion, these are matters where the views of the potential users of such financial information and the listed issuers themselves should be given the greatest weight. Therefore, as auditors, we do not express a preference for or against the proposal.

*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.

We consider that the 45 day deadline is too short and recommend allowing at least a two month deadline.

Our concerns in this respect are the same as discussed in our response to Question 1, namely we have concerns about the practical issues that may be faced by issuers in preparing group level interim information in time for a short deadline and the increased likelihood that the interim information will not be subject to external review, thus potentially impacting on the reliability of the information.

*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.

We agree with the Exchange's view that the contents of quarterly reports should be kept to a minimum. This would reinforce the message that quarterly reports are short-term high level updates and do not necessarily contain as much information as half-yearly reports.

*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.

We agree with the proposals for the income statement and balance sheet and note that these are in line with the proposed periods required to be presented by Hong Kong Accounting Standard 34 (HKAS 34) "Interim financial reporting".



However, we highlight that the proposed presentation requirements in respect of condensed consolidated cash flow statement would introduce requirements in addition to those set out in HKAS 34.20(d), which only requires the presentation of a condensed cash flow statement cumulatively for the current year to date and for comparable year-to-date period of the immediately preceding financial year, but not for the current interim period. We do not see the need for the quarterly report to include more information than would be required if reporting in accordance with HKAS 34.

*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.

To keep the contents of quarterly reports to a minimum, we do not see any compelling reasons to provide additional information in respect of the first quarter and the immediately preceding quarter. Such information has been set out in previously issued quarterly reports and is readily accessible to those who need it.

*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.

We consider that publishing the information on the website is the fastest and most efficient means of making the information available to investors.

*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.

See our response to Question 2 above.

*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.

See our response to Question 4 above. We recommend deferring the proposed commencement dates by one year to 30 September 2009 for "large companies" and 30 September 2010 for "other companies" to allow additional time for these companies to adjust for the changes and in order to have sufficient time to produce comparatives. This transitional period should also be used to introduce a programme of education for investors and issuers on how to avoid the pitfalls of focusing unduly on short-term fluctuations when evaluating the performance of a company.

We also highlight that the commencement dates as are currently drafted in rule 13.48C are unclear as to Exchange's intention. Given the reference to quarterly periods ending on or after 30 September 2008/2010, the rule would appear to be referring to the 3rd quarter reports of the issuer's financial year. We would support this effective date as generally it will enable the issuer to prepare a quarterly report for the first time without having to deal simultaneously with the first time adoption of any changes in accounting policies that may impact on this annual period (as these will already have been addressed in the immediately preceding half year report). However, we are not sure whether this is the intended meaning of "three months quarterly accounting period" since literally each quarter period in a 12 month period is a "three month" period.

If the intention is that these requirements should be introduced for the first time in the third quarter of the first annual reporting period ending on or after 31 December 2008 (or 2009, if our suggestion is accepted), then we recommend that the Exchange should make this intention clearer in the wording of the proposed rule 13.48C.

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**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.

We agree with the proposals as we consider that balance sheet and cash flow information is useful information and assists in understanding the income statement and gaining a fuller picture of the entity's performance.

We would note, however, that there appears to be some duplication between the existing GEM rule 18.72 and the proposed new GEM rule 18.79(4) and recommend that this duplication be eliminated in order to avoid confusion.

*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.

We consider that this effective date should give GEM issuers sufficient time in order to make arrangements to collate the additional information.

See also our response to Question 16 above concerning the uncertainty over the intended meaning of "three months quarterly accounting period".

*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.

We would have expected that, if the GEM issuers are able to meet the current reporting deadlines, it should be possible for them to continue to meet these deadlines even if required to include additional balance sheet and cash flow statement information in the quarterly report. This is on the basis that presumably the same financial reporting systems which were used to produce the income statement information are also simultaneously producing balance sheet and cash flow statement information.

*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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