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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.

We agree that standardisation of reporting practices between international exchanges will help transparency in the market. We also agree that half-year results should be announced within two months of the period end.

However, three months should be allowed for dispatching the printed English and Chinese versions of interim reports to shareholders. The Exchange has provided in the consultation paper information relating to the release of announcements both overseas and by companies listed in Hong Kong, but not statistics on the timing of release of interim (or annual) reports. Although HSBC currently dispatches its Interim Report within two months of the period end, we expect that many companies will be unable to dispatch their interim reports to shareholders with two months.

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.

A transition period will help smaller companies to prepare for the abbreviated timetable.

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.

No comment

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.

Large companies:

HSBC issues its interim results announcement at the end of July and dispatches its Interim Report by mid-August. As such, we do not have any problem with the proposed accelerated reporting deadlines, both in terms of the announcement and dispatch of interim reports.

However, please see our response to Question 1.

Cutting production times for financial statements to a minimum could become a problem if, as can happen, significant changes to accounting standards are introduced shortly before the financial statements are required to be produced. In addition, a major acquisition, particularly if the acquired entity does not use the same accounting standards, can add significant additional work and delay as the finance staff come to understand the different accounting standards.

Three months should be allowed for despatching the Interim Report.

Other companies

Agreed

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.

Similar comments apply with respect to the release of the annual results announcements and dispatch of the Annual Report as in Question 1 above.

HSBC issues its annual results announcements and dispatches its Annual Report and Accounts as soon as possible. We believe we are one of the earlier companies to report in Hong Kong. While we expect to continue to issue the results announcement within three months of the year end, we will have considerable difficulty in dispatching our Annual Report and Accounts within three months. HSBC's 2006 Annual Report and Accounts was over 450 pages long and the Annual Review (an alternative to the full Annual Report and Accounts) just under 50 pages. These documents require careful typesetting, proof reading and a process which is particularly time consuming, translation into Chinese. Annual reports are tending to get longer and more complex, and we believe that many listed companies will have great difficulty in dispatching their annual reports to shareholders within three months. Four months should be allowed for dispatch of the annual report.

As mentioned in the response to question 4, cutting production times for financial statements to a minimum could become a problem if, as can happen, significant changes to accounting standards are introduced shortly before the financial statements are required to be produced. In addition, a major acquisition, particularly if the acquired entity does not use the same accounting standards, can add significant additional work and delay as the finance staff come to understand the different accounting standards.

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.

Same answer as in Question 2 above.

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.

No comment

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.

Please see our response to Question 5. Four months should be allowed for despatching the Annual Report,

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.

In HSBC's view, quarterly reporting concentrates sell-side analyst analysis on short periods of time, encouraging the promotion of 'trading' recommendations rather than fundamental analysis. This activity obligates investors to consider how to position against such 'trading' perspectives and this tends to encourage short-termism among investors and volatility in market values. It might also encourage companies to alter their style of management to focus on perceived short term drivers of stock price performance as reflected in the current market sentiment or fashion as opposed to focussing on the long term drivers of value creation. If a company has an active shareholder communication programme with regular trading updates, we do not believe that the additional disclosure in a quarterly report significantly enhances investor knowledge. It also increases the reporting burden for companies substantially, since there is a considerable difference between producing internal management information for running the business and publishing external financial reports designed for public scrutiny, and increases the workload for investors, with a commensurate effect on their costs. The formal processes required to produce publication-standard financial documents are wide-ranging and complex, requiring close management attention to prescribed presentational issues and significant procedures to formalise documentary evidencing, many involving third parties.

Notwithstanding these considerations, we note the growing trend towards accelerating company reporting, increasing its frequency and extending its range. If HKEX does conclude that mandatory quarterly reporting is needed, then HSBC's preference is for a regime which mirrors the Interim Management Statements which are now required in the UK. This provides companies in different industries the flexibility to present meaningful information in a manner which is appropriate to the needs of their investors.

There is a well-documented shortage of skilled accounting staff around the world and particularly in Asia. The competition for scarce resources in the labour market has significantly increased the cost of providing companies with finance support across the board, and not just in banking. Systems enhancements provide a possible solution in the long term, but in the short and medium term automation cannot be delivered across a wide enough range of activities to ease the pressure significantly. A new reporting system typically takes more than 12 months to implement. We perceive there to be similar constraints affecting third parties that would be involved in the process, such as auditors.

A further issue is the reduction in materiality applied by auditors as reported performance is allocated to shorter periods where individual line numbers can be small and so 'errors' can appear significant to such line items. You will have noted the significant increase in restatements in the United States post Sarbanes Oxley. To a large extent these arise from a perceived need to make adjustments between quarters to correct 'errors' where the information content to shareholders is limited as evidenced by the limited share price reaction to most restatements. An unintended and unwelcome consequence of this is that restatements become accepted as the norm rather than rare, diminishing confidence in financial reporting and taking scrutiny away from those restatements that should cause concern. It would be an unwelcome consequence for the international reputation of Hong Kong if a move to quarterly reporting brought about an increase in restatements and so enable commentators, including competing international exchanges, to comment adversely on a perceived lack of integrity in financial reporting in Hong Kong.

We are also concerned that companies will need to place additional demands on their group and subsidiary Boards of Directors and Audit Committees, with increased meeting frequency and less flexibility of timetable. This may place additional constraints, particularly on non-executive directors who, under good governance practices, are heavily represented on Audit Committees.

HSBC estimates its additional cost of implementing the proposed quarterly reporting regime would be significant.

In this environment, therefore, if quarterly reporting is to become the norm, it is incumbent upon the authorities to adopt a sensitive approach to its introduction which takes account of the practicalities involved.

Companies must be permitted sufficient time to enhance reporting processes and, in some cases, improve their systems infrastructure before the introduction of more frequent, and accelerated, reporting. This is particularly the case where a new accounting standard is introduced or an acquisition is made and the acquired entity does not use the same accounting standards. In each case, this can add significantly to the workload and can cause delay as the finance teams identify and resolve these issues.

In our view, quarterly reports do not need to provide as much information as the half-year report. The objective of quarterly reporting, if it is to be introduced, should be to provide a high level update on the status of the company.

In our responses to the questions below, we have noted a number of instances where reference to IAS 34, 'Interim Financial Reporting' may be useful. We would not, however, support mandatory compliance with IAS 34 for the reason stated above.

Finally, we are not convinced that the prescriptive quarterly reporting requirements proposed will bring HK into line with international practices. HSBC is listed on the New York and London stock exchanges, and is not required to report quarterly under the US requirements; interim management statements may be prepared under the UK requirements.

We are concerned that introduction of prescriptive quarterly reporting requirements will make HK a less attractive place for overseas companies to seek a listing (other than those which already have to report quarterly, such as those listed on the Shanghai stock exchange).

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.

Notwithstanding our comments in response to Question 9, for many companies, there is a point beyond which their ability to generate published information becomes adversely affected by the amount of time available. For a group that includes multiple listed entities, it would have to ask its subsidiaries and associates to finalise their financial statements in much less than 45 days, so that they can be consolidated and reported within the time allowed. This would pose great challenges. We recommend that, at least initially, 60 days should be permitted.

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.

Notwithstanding our comments in response to Question 9, the proposed format and content of the condensed balance sheet and income statement are not useful for banks and similar financial institutions - some additional flexibility would need to be built into the rules to allow for meaningful reporting by different kinds of entities.

Paragraph A(4) of Table 8 (page 21) would appear to prohibit changes in accounting policy except where these are required or permitted by new standards. This seems unduly restrictive and we would suggest that this should follow the principle set out in IAS 34.28.

The periods required for the cash flow statement should be changed to 'cumulatively for the year to date, with a comparative for the comparable year-to-date period of the preceding financial year'. This would be consistent with IAS 34.

It is not clear why international companies should segregate Hong Kong taxation on profits from overseas taxation on profits at the quarters.

Providing an indication of prospects for the current financial year at the third quarter (effectively 45 days into the 4th quarter) would require companies to perform a delicate balancing act between meeting the requirement and being too specific. Investors may find it more useful for companies to give a general view of future prospects without limiting the time horizon to what is left of the final quarter. Providing quarterly guidance is increasingly discredited and has been dropped as a communication model by most US companies that historically provided such guidance.

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.

Please see our comments in response to Question 9. This mirrors the requirements of other exchanges and IAS 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.

Notwithstanding our comments in response to Question 9, the inclusion of this information unnecessarily complicates the reporting presentation and is out of line with the approach adopted by other leading exchanges. Including this requirement would result in a potentially burdensome and ultimately uninformative commentary (which could entail comparing performance with prior quarter, first quarter this year, same quarter last year and year to date) and render it unlikely that many companies would be able to produce an adequate document in the time allowed. Also, it is inconsistent with the requirements of IAS 34.

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.

Notwithstanding our comments in response to Question 9, there is no reason why shareholders should not be expected to access the reports electronically.

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.

Notwithstanding our comments in response to Question 9, we agree, but see our comments in response to Question 4.

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.

Notwithstanding our comments in response to Question 9, it would not be practicable for many companies to produce quarterly reporting at 30 September 2008 with comparative information for the equivalent period in 2007 as companies would have already had to prepare comparative information in advance of the rules being finalised. Companies will need time to ensure that the comparative information they collect is of sufficient scope and standard for external publication. In no circumstances should quarterly reporting commence before 30 September 2009 and even then, there may be doubts about the ability of many companies to produce comparative

information of sufficient robustness for publication. An overly aggressive timetable, combined with an over-prescriptive format, would increase the risk of companies unintentionally failing to meet the required detailed requirements occasioning restatement in due course and thus leading to reputational risk.

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.

Notwithstanding our comments in response to Question 9, we do not think the Exchange should expect companies in the Growth Enterprise Market (GEM), many of which are smaller companies lacking substantial support units, to produce quarterly reports on the lines proposed.

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.

See our response to Question 17.

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.

See our response to Question 17.

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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