



November 2, 2007

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

Dear Sir/Madam,

The Chamber of Hong Kong Listed Companies is writing in response to the consultation on periodic financial reporting conducted by the Hong Kong Exchanges and Clearing Limited ("HKEx").

The consultation covers: 1) shortening the reporting deadlines for both half-yearly and yearly results and 2) mandatory quarterly reporting for main board issuers. The Chamber supports the rationale for these two proposed reforms and believe that the measures proposed were made to reflect international trends and would bring Hong Kong closer in line with international practices.

However, as a Chamber, it is also our duty to reflect the opinions of our members. In preparation for this submission, we have conducted a survey amongst our members. The companies who responded included Hang Seng Index Constituents and smaller companies. The views expressed by the majority of respondents are that they have reservation about both the shortening the reporting deadlines and introducing quarterly reporting.

The respondents pointed out a number of challenges they would face and issues they could anticipate in implementing the proposed measures. Many of these concerns are similar to what have been expressed in previous consultations by various market practitioners. They are summarized below again for your consideration:

#### **I. Time Pressure**

Our members feel that in both instances of shortening the reporting deadline for both half-yearly and yearly results, undue time pressure would be imposed on issuers, especially larger issuers with diverse businesses and geographical presence and complex organization structure, in particular listed groups with subsidiaries or associated companies which are also listed. And the time pressure would be even more serious for yearly reporting.

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### Case One

This problem would be aggravated, pointed out by a company with large market capitalization, for group companies with different financial period ends. By way of example, under the proposed new reporting deadlines, a listed holding company with 6-month financial period ending 31 December will be required to deliver its interim report before end of February of the following year. Assuming this holding company has subsidiaries with financial year ending 31 December, these subsidiaries will be required to announce their annual results before end of March of the following year. Since it is common practice for subsidiaries to announce before the holding company, it means that subsidiaries will have to announce their annual results by mid-February, i.e. before the end-March deadline for the holding company. This will present great practical challenge to the subsidiaries in this example, to complete their audited results within 2 months after their financial year-end.

### Case Two

Another large market capitalization company has PRC joint ventures subsidiaries and a Hong Kong listed subsidiary. The company's half-year end is at 31 December. The Chinese New Year holidays, about 8 – 10 days holiday in PRC and usually at end of January/early February, would affect the accounts closing work of the PRC subsidiaries. To make things complicated, this company adopts HKGAPP, the PRC subsidiaries adopt PRC GAAP, and its HK listed subsidiary uses IFRS. The GAPP conversion between different entities requires lengthy work process. The company cannot finalize its accounts until the HK listed subsidiary's accounts are finalized, then the auditors' would take 4 weeks to complete the review. Therefore, the company would require about 3 months to release the interim results announcement and report.

This company also pointed out that if quarterly reporting was required, the time taken would be similar to the interim report (i.e. 3 months), so a 45-day reporting deadline is not feasible. With a 30 June year end, the preparation of the annual report would clash with the time preparing for the September quarterly report. The Chinese National Day holidays (about 7 – 8 days holiday in PRC) also affect the preparation of September quarterly accounts involving PRC subsidiaries.

## II. Resources and Support

Our members are also worried that the tight resources of CPA firms nowadays would present a hindrance to complying with the shortened reporting deadlines, and for that matter, reporting four times a year. Since the flourish of the IPO market, CPA firms face huge strain on their resources to provide expedient service to their clients. Experiences from our members have shown that bottleneck often occurs at peak reporting season where the external audit teams are not readily available due to heavy workload, and the auditing process could not start as late as six weeks after the financial year-end. This would present much difficulty of meeting the 3-month deadline under the proposed arrangement for yearly reporting. As regards the half-yearly and proposed quarterly reports, although external audits are not required, companies increasingly bring in auditors for review, hence would face a similar problem.

### III. Value of Information

As regards quarterly reporting specifically, some of our members question the value of information disclosed on a three-month basis. On one end of the spectrum, we have companies with long business cycles; in which case, information disclosed may not be of much change with that of the previous quarter; on the other end are companies with cyclical business and seasonal fluctuations, in such cases, quarterly reports do not give an accurate picture of where the business is going. In either case, the information does not bring much value for shareholders to the understanding of the company's real performance, especially when considering the time, costs and efforts put into producing it.

### IV. Volatility

There is a danger quarterly reports would lead to higher volatility in share price. A case in point is the recent share price performance of some H-shares. What we have seen was the price of H-shares reacted strongly to the quarterly results of the A-shares by the same issuer. This had accelerated the already heated share price run and the quarterly results seemed to have provided another excuse for speculative trades.

On the other hand, for companies with cyclical businesses and seasonal fluctuations to report on a quarterly basis might present more peaks and troughs in their results than it would be if it were reporting every six months. This could cause over reaction by retail investors, which would accentuate the volatility of share price than is desirable.

### V. Short-Termism

Another undesirable results of quarterly reporting is short termism in corporate strategy, as expressed by our members and other market practitioners as well. Management would be tempted to produce good numbers every quarter to satisfy the market. Focusing on so short term a performance might lead the managers to lose sight of long term needs of the company. Short termism on the part of the management also feeds short term investment approach of investors, resulting in high churn rate of shares rather than strategic long term holding.

### Our Recommendation

As stated at the outset, the Chamber supports HKEx's intent in launching these proposals. But at the same time, many questions about them remain unanswered and concerns to be addressed. The market will continue to have diverse views on both the shortening of reporting deadlines and quarterly reporting, and as such making them a mandatory and blanket requirement is not appropriate at this stage.. As such, we recommend that quarterly reporting continues to be treated as recommended best practice, so will the shortening of reporting deadlines. We would like the HKEx to consider a market-driven approach where companies and shareholders can evaluate these measures together, taking into account their own business nature, available resources and costs to determine the best route for them. Shareholders of companies not adopting these measures can continue to rely on the price-sensitive information disclosure mechanism to obtain important information. With Hong Kong's sophisticated regulatory infrastructure and ample resources, investors can be assured of high compliance of disclosure.



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THE CHAMBER OF HONG KONG LISTED COMPANIES

The Chamber of Hong Kong Listed Companies supports good corporate governance, but we are also mindful that some measures might have the danger of leading to the long term interests of a company not being served. The last thing we want to see is the destruction of long-term value, which is not the spirit of corporate governance.

By reflecting our members' views to you, we hope to contribute to the continued market debate on these subjects, resulting in an optimal solution catering for the interests and needs of issuers and investors alike.

Yours sincerely,  
For and on behalf of  
The Chamber of Hong Kong Listed Companies

Patrick Sun  
Chairman  
Financial and Regulatory Affairs Committee