
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.

This improves the timeliness of information however we suggest that the deadline for published reports remains as it is i.e. 30 days after the proposed new reporting deadline.

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.

Market capitalisation does not identify which companies will have more problems or incur, relatively, more cost applying the proposed changes.

Introducing a period of different rules undermines the integrity of the Main Board.

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.

See 2 above.

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.

All issuers should adopt this proposal at the same time. Subject to an additional 30 days (see question 1) being provided for printed accounts we agree with the commencement date being that proposed for "large" companies.

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.

This improves the timeliness of information however we suggest that the deadline for published reports remains as it is i.e. 30 days after the proposed new reporting deadline.

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.

Market capitalisation does not identify which companies will have more problems or incur, relatively, more cost applying the proposed changes.

Introducing a period of different rules undermines the integrity of the Main Board.

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.

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.

All issuers should adopt this proposal at the same time. Subject to an additional 30 days (see question 5) being provided for printed accounts we agree with the commencement date being that proposed for "large" companies.

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.

Encourages short-term decision making;

Diversion of management resources;

Questionable reliability and consistency of reporting;

Inappropriate to simply follow other exchanges and assume they represent "best" practice;

Does not represent good corporate governance;

Financial accounts are very different to management accounts and so do not facilitate an understanding of business performance by external parties.

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.

Not applicable.

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.

Not applicable.

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.

Not applicable.

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.

Not applicable.

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.

Not applicable.

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.

Not applicable.

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 comments under Question 20.

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.

Why have two Boards if their reporting requirements are aligned? Reporting and disclosure standards should be based on the needs of the individual market not blindly "copied" from other markets.

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 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 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.

Cathay Pacific Airways Limited recognises its duty to its stakeholders to provide timely, accurate and useful information. As a constituent member of the Hang Seng Index we also recognise our role as an advocate, and the benefits for us directly, of strong governance practices in Hong Kong and therefore, whilst considering our own position, we have also considered the wider market in our reply to the Exchange's paper.

We recognise the need for the Exchange to monitor its reporting requirements and benchmark these against those of other exchanges around the world. However, we disagree with the conclusion that common practice, to the extent that it exists, is necessarily "best" practice for stakeholders of Hong Kong listed companies and hence automatically requires Hong Kong practices to be changed.

Having considered the arguments for the Exchange's proposals set out in the above paper we:

- (a) concur that earlier reporting of half-year and annual reports is desirable;
- (b) believe that any proposals which are adopted should be adopted by all issuers at the same time;
- (c) strongly oppose the introduction of mandatory quarterly reporting.

(1) Quarterly reporting

Our views on quarterly reporting are as follows:-

Short-termism:

Quarterly reporting focuses management's attention on short-term results at the expense of long-term earnings growth and investment to maximise shareholders wealth.

There is ample evidence from other markets that management's concern to produce 'good' quarterly results has led to both poor decisions for the long-term health of businesses and the presentation of misleading data. This is not confined to markets where frequent earnings guidance is given.

We find it difficult to follow the counter argument to short-termism which the Exchange puts forward, that companies will use quarterly reporting to discuss their long-term strategy and how this is being delivered. We fail to see how long term strategy could be meaningfully addressed within such a report. Long-term strategy does not change on a quarterly basis and is therefore best addressed in reports delivered at less frequent intervals, for instance the annual report. In any event this apparent benefit is far outweighed by the genuine threat posed by introducing a short-term culture to the Hong Kong market.

Diversion of management resources:

The resources required to be devoted to quarterly reporting, particularly management time, are significant. This is because the data management used to run the business is not the same as that required to be disclosed to shareholders. As a result, additional reports must be prepared, reviewed, discussed and presented. It is not simply a process of issuing to the public existing reports already used by management. This will cause an expensive and unnecessary diversion of management resources, which could be better employed in managing businesses for the benefit of shareholders and other stakeholders.

Quarterly reporting will not provide comparable information:

Given the different formats of quarterly reporting between jurisdictions as well as different accounting concepts and standards, international comparability will not be achieved through quarterly reporting.

Even within individual reporting jurisdictions comparability of quarterly reports will be difficult due to the inevitable inconsistency in the quality and quantum of information that will be provided from company to company.

'The current system works efficiently and effectively and already represents "best" practice':

We do not believe quarterly reporting as a matter of principle or practice would benefit our stakeholders. Indeed we believe there is a greater chance that it would be value destructive.

The Exchange has stated that quarterly reporting represents "best" practice on the basis of what some other markets adopt. However, the stated benefits of quarterly reporting are anecdotal and we question what evidence supports the Exchange's assertions in favour of their proposal. To fall "in line" with international practice is no reason to institute changes which have far reaching consequences for the manner in which companies are run.

Quarterly reporting does not necessarily represent good corporate governance:

The Exchange states that adopting quarterly reporting is good corporate governance. We disagree. Good governance does not require that information which is not being demanded by stakeholders be supplied to them. It does require that a company's resources are utilised to maximise value. Diverting senior employee time to produce reports which are not requested by stakeholders and will not add useful information is therefore value destructive and not good corporate governance.

Proposed application date:

Whilst we hope that the Exchange will conclude that quarterly reporting should not be mandated, should this not be the case we disagree with the proposed application date.

It is inferred in the consultation document that, as "issuers should already have in place efficient financial reporting systems for half-year and annual reporting", it is a simple exercise to introduce quarterly reporting. This is not the case, and considerably simplifies what must occur in practice, as external reporting requirements are very different from internal ones and add considerable time and formality to even the most efficient internal reporting systems.

Quarterly reporting will require significant additional time to be spent by directors and senior executives, significant increases in the number of financial staff and fundamental changes to corporate timetables and the personal diaries of directors, in particular non-executive directors.

To effectively plan and introduce the above changes would take longer than the proposed application date allows and consequently this would need to be deferred.

Further we believe the proposed application date will give rise to unmanageable problems in the first quarter of 2009 following the introduction of accounting standard changes applying from 1st January 2009 on completion of the IASB's review project, including convergence with US GAAP. Whilst the nature of these changes is as yet unknown, it is expected they will require significant work to change systems and restate comparative figures. As well as these practical problems, the first quarter's statement would have to include significant additional disclosures, to explain the changes, and these additional disclosures would need to be cleared with auditors. All this is quite simply not feasible in the time permitted, particularly given that companies with December year ends will have only just completed their annual audits. It would also mean that annual accounts issued by 31st March 2009 will be restated within 45 days, most likely before many companies' AGMs. This cannot be helpful to users and is likely to cause confusion.

Given the above factors we propose an application date for quarterly accounting of no earlier than 30th September 2009.

Shortening of reporting deadlines:

Earlier reporting is desirable and we agree in general with the proposals in this regard. However, it will be very difficult for companies to meet the requirement to distribute printed reports within the revised timeframe. We therefore propose that electronic reporting only is required within the shortened reporting date, with printed reports following within 30 days.

Phased introduction of proposals:

Whilst we appreciate that this is only temporary, we disagree that different Main Board members should be subject to different reporting rules. This will weaken the integrity of the Board as a whole. We therefore recommend that any proposals from the consultation paper which are adopted are implemented concurrently by all issuers.

We thank you for the opportunity to comment on the proposals and would be happy to discuss these matters further if you so wish.

Name : David Fu Title : Company Secretary
Company Name : Cathay Pacific Airways Limited
Contact Person : David Fu Tel. No. : _____
E-mail Address : _____ Fax No. : _____