



香港地產建設商會

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THE REAL ESTATE DEVELOPERS ASSOCIATION OF HONG KONG

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Room 1403, World-Wide House, 19 Des Voeux Road Central, Hong Kong.

Tel: 2826 0111 Fax: 2845 2521

5 November 2007

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

Dear Sirs

Consultation Paper on Periodic Financial Reporting

We refer to the subject Consultation Paper and would like to offer our comments on your proposals to

- i. shorten the time allowed for half-yearly and annual reporting by Main Board issuers; and
- ii. introduce mandatory quarterly reporting by Main Board issuers.

General Comments

1. We note that quarterly reporting is not universally accepted as "best practice" and London remains opposed to it.
2. We are doubtful if the accounting firms in Hong Kong and the Mainland would have sufficient resources to cope with the increased workload generated by these proposals.
3. As a matter of principle, we object to drawing any arbitrary distinction between large and small companies.

Proposal to shorten the time allowed for half-yearly and quarterly reporting

Our objections are as follows:

1. The existing deadlines are tight and particularly so for large companies with diverse business portfolios. Tightening them further will create a number of practical difficulties without improving the quality of the information.

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2. Companies are already facing significant problems in meeting existing deadlines. This is borne out by your own studies on the release of reports by listed companies in 2006. If these figures are taken in the context of the proposed changes, the number of companies that would have failed to meet the new deadlines is alarming.

Half-yearly results (See Table 4 of your Paper)

For companies with market capitalization over \$10 billion, the figure is 40%.

For companies with market capitalization 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.

Annual results (See Table 6 of your Paper)

For companies with market capitalization over \$10 billion, the figure is 32%.

For companies with market capitalization less than \$10 billion, the figure is 81%.

These add up to close to 706 out of the 975 companies listed in Hong Kong in 2006.

3. Since your own analysis suggests that many companies already need the full three- and four-month periods to complete their half-yearly and annual reports, we cannot see what is to be gained by further truncating the process. A large number of companies have significant or even main operations located outside Hong Kong and this no doubt contributes to their difficulty in meeting the deadlines.

Proposal to introduce quarterly reporting

Our objections are as follows:

1. We are not convinced that quarterly reporting represents "best practice". We note that London remains opposed to it.
2. We believe that quarterly reporting is particularly ill-suited for our members as property development profits are recognized only upon completion of projects. Property development works on long time horizons and property companies do not have smooth revenue flows. Fluctuations between quarters could lead to highly misleading comparisons thereby creating unwarranted volatility in share prices.
3. We question whether the expenditure of the time and money on independent valuation of the entire portfolio of a property company once every quarter would be worthwhile. Yet that is what is needed if a fair report is to be presented.
4. Furthermore, securing timely valuations for portfolios of companies with property investments in several different countries is very difficult.



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5. Hong Kong already has extensive and mature rules on immediate and continuous disclosure. These have been working well. They have the advantage of being more timely than the regular reports and are relatively easy for investors to understand.
6. The 45 days allowed for announcement and dispatch of quarterly results is too tight.
7. We are concerned that quarterly reporting may have the effect of inducing both the investors and management to take a short term view, leading to decisions that may not be beneficial to the company in the long run.

Conclusion

We are unable to support these two proposals. The additional effort and resources required in their implementation are disproportionate to any potential gains.

We note that quarterly reporting is a *recommended* best practice under the Code of Corporate Governance Practice and we believe it should remain just as such.

Yours sincerely

Louis Loong
Secretary General