

## 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](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.*

## 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, in principle, the time allowed for the release of half-year results announcements and reports by main board issuers should be shortened from three months to two months. We are of the view that the change would further promote a high standard of financial disclosure with announcements of results on a timely basis and bring Hong Kong reporting rules and standards in line with international best practices. We believe that generally such a move would strengthen Hong Kong's position as one of the leading global financial centres.

However, some of our member have pointed out that this change will not be without its difficulties. Concern has been expressed that, for example, multinational companies having global operations, need a "window" for their offices around the globe to capture relevant data into their computer systems after the cut-off of a reporting period. The proposed change may require these multinational companies to make estimates, which may in turn impact upon the accuracy of the reported figures. The functioning of internal control systems may also be affected if reporting deadlines are brought forward.

Given the need for companies, both large and small to adjust to this change, we suggest that a longer lead time than that being proposed would be desirable. See our response to Question 4 below.

**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.

We agree with the proposal that large companies should be required to comply with the new rules first, while allowing a transitional period of two years for other companies to meet the new deadlines. Significantly more large companies are already meeting the proposed timetable and large companies (as defined in the proposals) represented approx. 95% of total market capitalisation as at 31 December 2006. This approach will allow the other companies, a large majority of which are not currently reporting within the proposed timetable, more time to make necessary changes to their financial reporting systems

**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.

We agree that \$10 billion is a reasonable benchmark to differentiate between large companies and other companies. As at the end of 2006, large companies, as so defined, represented approx. 18% of the total number of issuers and the bulk of total market capitalisation.

**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.

We are of the view that the proposed commencement dates for large companies, i.e. half-year accounting periods ending on or after 30 June 2008 is too soon, given that 40% of large companies released their announcements only in the third month for the relevant reporting period in 2006. In addition, all professional accounting firms and auditors are already under stress from lack of sufficient staff numbers with their staff working long hours of overtime. We also consider that sufficient time should be allowed for large companies to get their financial reporting systems in tune with the shorter time frames, so that the proposed change can be achieved seamlessly. Hence, we recommend that implementation of the proposal be deferred to take effect for the half-year accounting periods ending on or after 30 June 2009. For the half-year accounting period ending on or after 30 June 2008, large companies could take the opportunity to arrange a trial run.

Similarly, for the other companies, given that over 75% of those on the main board do not currently release their half-year results within two months of the period end, it would be useful for them to have a trial run as part of the transitional period and, therefore, we recommend deferring the proposed commencement date by a year, as for large companies. Accordingly, for these other companies, the commencement date should be the half year accounting periods ending on or after 30 June 2011.

## 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.

See our response to Question 1 above.

**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.

See our response to 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.

There should be a standard definition of "large companies" for the various different reporting requirements. It could create unnecessary confusion if different criteria were set for different reporting requirements.

**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 previously discussed 31 December 2008 would be too soon given that nearly one third of large companies released their announcements only in the fourth month for the 2006 and 2005 reporting periods. We consider that sufficient time should be allowed for large companies (and professional accounting firms and auditors) to get their financial reporting systems in tune with the shorter time frames, so that the proposed change can be achieved seamlessly. Hence, we recommend that implementation of the proposal be deferred to take effect for the annual accounting periods ending on or after 31 December 2009. For annual accounting period ending on or after 31 December 2008 large companies could take the opportunity to carry out a trial run.

Similarly, for the other companies, given that in the 2006 reporting period, approx 80% of those on the main board did not produce annual results within three months of the year end, which is a slightly higher percentage than in 2005 (approx. 80%). We recommend, therefore, that it would be desirable for them to carry out a trial run to ease the transition and that the proposed commencement date be deferred by a year, as for large companies. Accordingly, for these other companies, we propose that the commencement date should be for the annual accounting periods ending on or after 31 December 2011.

#### **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 principle, we agree that mandatory quarterly reporting should be introduced for main board issuers. In coming to this view, we have considered many arguments both for and against the introduction of quarterly reporting expressed by our members. Some have expressed the concern that quarterly reporting may put greater pressure on companies to concentrate on short-term performance and, as a corollary, it may put pressure on companies to seek ways to smooth out their results and avoid undue volatility in their share price. In addition, there are concerns that without any requirement for the results to be reviewed by the auditors, the figures may be less reliable. More pressure may also be imposed on audit committees, which may be expected to review quarterly reports.

However, we believe that quarterly reporting encourages greater transparency and provides more timely financial information to shareholders and the market. UK listed companies are required to report on a quarterly basis as are mainland companies. There are an increasing number of Mainland enterprises listed in Hong Kong and the aim is apparently to encourage more Mainland listings in Hong Kong. Furthermore, the world's largest capital market and one of the main sources of investment into Hong Kong, namely the US, also has a well-established framework of quarterly reporting. Bringing the corporate reporting requirements in Hong Kong more in line with major markets that are also Hong Kong's main trading partners would be a move in the right direction.

Quarterly reporting should be mandatory to encourage consistency across the market. It is already regarded as best practice under Appendix 14 of the main board listing rules. However, while it remains voluntary, an information gap will remain between companies listed or incorporated in other jurisdictions that require quarterly reporting, of which there are a growing number listed on the market in Hong Kong, and locally-incorporated listed companies. This may cause confusion.

**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 recommend that, initially, main board issuers be required to publish summarised quarterly reports within 60 days after the financial period. While it is acknowledged that GEM-listed companies are currently required to report within 45 days of the quarter end, the scope of information proposed to be included in the new Hong Kong quarterly reports is more extensive than that now required for GEM companies. Furthermore, GEM-listed companies tend to be smaller and less complex enterprises than many main board companies and they are obliged to gear themselves up for this reporting requirement from the time of their application for listing.

The existing GEM rules basically require an issuer to provide a profit and loss account. The current proposals add to this, a balance sheet, cash flow statement and a business review of significant business developments, important subsequent events and future business developments. Under the proposals, GEM issuers will also be affected, as the main board and GEM requirements will be brought into line with one another. Therefore, the ability of GEM companies to comply with the revised requirements should also be taken into consideration.

Under the circumstances, we recommend that for an initial period of two to three years, quarterly results should be announced and published within 60 days of the quarter end. After this initial period, a review should be carried out to see if the reporting deadline can be reduced to 45 days without any major disruption or hardship.

**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 note that the Exchange is not in favour of allowing main board listed issuers to have a choice as to the form and content of quarterly reporting, as permitted in other jurisdictions and notably the UK, in this regard, the Exchange has developed a proposed list of disclosures, as set out on Table 8. While we do not disagree with this approach, we note that unlike for half-yearly reporting, no reference has been

made to Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" in relation quarterly reporting, and there is, for example, no requirement to produce a condensed statement of equity. In our view, it would, in principle, be preferable to make reference to HKAS 34, so that quarterly reporting and half-yearly reporting adopt the same format.

**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.

This is in line with the requirements of 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.

Under the current GEM Rules, a quarterly report is required to contain only information relating to the current quarter as well as the cumulative year-to-date, together with comparative figures for the previous financial year. This is in line with most overseas markets. Accordingly, we do not see the need for more information to be provided by main board companies. Furthermore, the inclusion this information within the third quarter report might be regarded as encouraging the kind of short-term outlook that some people have expressed concern about. In any case, the information in question should already be accessible for users who wish to obtain it, on the company's or the Exchange's website.

**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.

The primary concern is that information should be made available in an accessible form for example, using QBRC or some internationally recognised digital format, and on a timely basis. We recommended that the listed issuer should be required to issue printed copies of quarterly reports only to shareholders who request this.

**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.

We are of the view that 30 September 2008 is too soon as companies would need to collate quarterly comparative information as well. We would recommended that large companies be required to start to producing quarterly reports for quarterly periods ending on or after 30 September 2009. Large companies might wish to undertake a trial run for the quarterly period ending on or after 30 September 2008 or the subsequent period. Similarly, the effective date for other companies should be deferred to 30 September 2011 allowing for a trial run for the period ending an or after 30 September 2010 or the subsequent period.

#### **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 proposal in principle, although we note that a consultation on the future of the GEM market is being undertaken concurrently with this consultation and, therefore, the findings of that consultation may also need to be taken into account

**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.

The effective date should be the same as the other companies, i.e. for the quarterly periods ending on or after 30 September 2011 with a possible trial period starting from 30 September 2010, subject also to our response to Question 17 above.

**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.

Having the same reporting deadline for main board and GEM issuers would be desirable to ensure greater consistency in the market, subject also to our response to Question 17 above.

**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.

As with half-yearly reporting, a statement should be made in quarterly reports indicating whether or not the report has been reviewed by the auditors or the audit committee.

It is common knowledge that the accounting and auditing profession in Hong Kong is currently facing a shortage of manpower. The Exchange should bear this in mind when finalising any proposals, in particular in relation to the lead times for introducing any changes.

We wish Hong Kong to continue with a "principles-based" approach in its regulation of financial markets, which it has inherited under its common law background, and not to fall backward into a "rules-based" approach. This is why we would prefer companies to choose the format of their quarterly reports to reflect important matters for investors rather than being obliged to provide purely detailed accounting figures. In effect we advocate using a UK style of quarterly reporting rather than a US or SEC style for the quarterly reporting approach.

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Company Name: \_\_\_\_\_

Tel. No.: \_\_\_\_\_ Fax. No. \_\_\_\_\_

Email Address: \_\_\_\_\_