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5 November 2007

Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Natalia Seng
President

Dear Sirs,

Re: Consultation Paper on Periodic Financial Reporting

We refer to the above Consultation Paper and enclose herewith our submission in response thereto for your consideration.

Thank you for your kind attention.

Yours faithfully,

Natalia Seng
President

Encl.

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The Hong Kong Institute of Chartered Secretaries 香港特許秘書公會
(Incorporated with limited liability) (以有限責任形式成立)
The Institute of Chartered Secretaries and Administrators 特許秘書及行政人員公會
3/F, Hong Kong Diamond Exchange Building, 8 Duddell Street, Central, Hong Kong
香港中環都爹利街8號香港鑽石會大廈3樓 Tel 電話: (852) 2881 6177 Fax 圖文傳真: (852) 2881 5050
Website: http://www.hkics.org.hk E-Mail: ask@hkics.org.hk

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SUBMISSION BY
THE HONG KONG INSTITUTE OF CHARTERED SECRETARIES

PERIODIC FINANCIAL REPORTING

This submission is made in response to the Consultation Paper on Periodic Financial Reporting ("Consultation Paper") published by the Hong Kong Exchanges and Clearing Limited ("HKEx") in August 2007.

We set out below our views on the two major proposals contained in the Consultation Paper namely (i) the shortening of reporting deadlines for half-year and annual financial reporting for main board issuers; and (ii) quarterly reporting for main board issuers.

A. Shortening of half-year and annual reporting deadlines

In principle, we have no objection to the proposal of shortening the reporting deadlines from 4 to 3 months (in the case of annual results announcements) and from 3 to 2 months (for half-year results announcements) ("New Requirements"). We trust that all issuers, with reasonable efforts, should be able to meet the New Requirements.

However, it is our understanding that while most of the issuers have no serious concerns about the shortening of reporting deadlines for release of annual results announcements, many of them are rather concerned about the proposed requirement to dispatch the annual reports within the same period i.e. 3 months. The annual report, being considered as a major communication channel between an issuer and its shareholders, is usually a comprehensive document demanding considerable time for its preparation and verification of the information contained therein. Though presently some of the issuers are able to release their annual results as well as annual reports within 3 months, they indicate that it is indeed a real struggle for them and there is no guarantee that they can always manage to do so. It is therefore our proposal that the release of annual results and annual reports should be given different deadlines with the latter to be given a slightly longer period for compliance.

It is proposed in the Consultation Paper that the new reporting deadlines should be introduced in phases such that the issuers with market capitalization of HK$10 billion or more ("Large Companies") would be required to comply with the New Requirements first and there would be a transitional period of two years for other companies to meet the New Requirements ("Phased Implementation"). We do have reservation about this proposal.

This proposal is purportedly based on the findings of a review of the reporting pattern of main board issuers for the years 2005 and 2006 with respect to how quickly they have released their half-year and annual results announcements. As shown in the findings, the majority of the Large Companies were able to release their half-year and annual results within 2 and 3 months respectively in 2006. On the contrary, only a small percentage of the other companies i.e. those with market capitalization of less than HK$10 billion were able to meet the New Requirements in 2006 and that means a vast majority of this group of issuers will have to accelerate their reporting timetable in order to comply with the New Requirements upon their implementation.

We have difficulty in accepting this rationale on which the Phased Implementation proposed is based. It is, in our opinion, a form of discrimination or even punishment for those companies which have exceeded the expectation of the regulators and the existing requirement under the Listing Rules. Besides, according to the review findings, there are still approximately 40% (as regards the half-year results) and 32% (as regards the annual results) of the Large Companies, which have not yet voluntarily met the New Requirements. Thus, the above argument advanced for early implementation of the New Requirements is not applicable to this minority group of issuers.

In short, we do not find the Phased Implementation an equitable proposal as it is based on an arbitrary categorization of the issuers and an argument which is not in

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line with the concept of fairness. We take the view that it is inappropriate to categorize the issuers according to their market capitalization for the purpose of the New Requirements. The commencement date of the New Requirements should be the same for all the main board issuers after they are given a reasonable transitional period.

B. Mandatory quarterly reporting

In the consultation paper entitled "Proposed Amendments to the Listing Rules Relating to Corporate Governance Issues" published by the HKEx in January 2002, quarterly reporting was one of the proposals seeking comments of the public. The HKEx has decided that it would not be introduced after consideration of responses from different sectors. We indicated in our previous submission in 2002 that we were against quarterly reporting. Our stance on this issue remains the same. We take the view that any change of circumstances in the past few years does not warrant the re-introduction of this requirement.

We do not dispute that many countries have adopted quarterly reporting. However, being in line with the international practice should not be the major consideration in this issue and neither should Hong Kong feel pressurized to follow suit. Hong Kong should carefully weigh the pros and cons of quarterly reporting before it makes a decision on this matter.

We are against quarterly reporting for the following reasons:-

1. Focus on short term performance

Quarterly reporting creates a short term view which is not relevant to the investors who are concerned about the medium to long term performance and sustained shareholder value of issuers. To a large extent, it panders to the speculators who trade in and out of the shares which in turn increases the volatility of the share prices.

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As it is proposed that the issuers will be required to state, among other things, the future developments in the business of the group, including prospects for the current financial year, many of them may feel pressured and obliged to come up with something new to say about their business plans and strategies. This may very likely have an adverse impact on the decision making of the management.

For businesses which are subject to seasonal fluctuations, quarterly reporting is unfavorable to them in that it may convey misleading information about the financial position of the company.

2. Costs v benefits

Increase in the transparency and the strengthening of investor protection have always been the given reasons in support of quarterly reporting. In theory, it may be right to say that the more information the issuer releases, the more transparent it will be and the investors can more closely monitor the performance of the issuer. However, it is in practice always a matter of whether the benefits which a new requirement brings can balance or even outweigh the costs to be incurred. If such a balance cannot be maintained, it may very well be an over-regulation.

We take the view that the release of interim and annual results announcements and reports coupled with the disclosure requirements under the Listing Rules applicable to the notifiable transactions, connected transactions and price sensitive information are sufficient to ensure timely disclosure of important information and comparable financial information to the investors. With all this information, investors should be able to appraise the financial position of the issuers. The Consultation Paper states that one of the shortcomings of ad-hoc disclosure is that "investors would not know when and what information they could expect because ad-hoc disclosure neither provides an accurate overview of the results and financial position of an issuer nor a continuous and structured flow of

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information about the company's activities in the course of the financial year".

With respect, we believe that the above argument is misconceived in that it essentially implies that the investing public has to be fed with financial data compiled by the issuers and they are not well equipped to translate the information obtained from the ad-hoc disclosure to accurate assessment of the financial position of the issuers. We must say that this is a gross under-estimate of the maturity and ability of the investors in Hong Kong. In the absence of evidence indicating serious loopholes in or excessive breaches of the disclosure requirements, it seems that the ad-hoc disclosure regime in Hong Kong has been functioning well throughout the years. Taking into account the proposed statutory backing of the major listing rules which include the aforesaid disclosure requirements, we believe that the transparency and timeliness of the disclosure will be further enhanced.

While it has yet to be proved that quarterly reporting will bring significant benefits to the investors, it is beyond doubt that issuers will have to incur additional costs, time and be put under tremendous pressure in terms of manpower and other resources. The additional costs and pressure may not be proportionate to the potential benefits. Though there will no requirement for mandatory audit or review of the proposed quarterly reports nor will printing and mailing of such reports to the shareholders be necessary (unless they require), it actually makes little difference in terms of the workload, management time and diligence to be expected of the issuers. In fact, we anticipate that many of them will still require the external auditors to review the quarterly reports for them in order to ensure the accuracies of the financial data contained therein. This will exacerbate the problem of acute shortage of accountants which Hong Kong is now facing.

To summarise, we take the view that one should avoid equating quarterly reporting with good corporate governance practice as it is only one of the many

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facets of corporate governance. As mentioned above, we believe that the costs of quarterly reports far outweigh the potential benefits. It is therefore our view that there is no real need for Hong Kong to adopt quarterly reporting at this stage.

Finally, we wish to reiterate our comment that implementation in phases according to the issuers' market capitalization is discriminatory in nature. Taking into account that quarterly reporting is new to all main board issuers, we take the view that the implementation of which (assuming the HKEx resolves to proceed) shall commence simultaneously for all main board issuers after a reasonable transitional period.