



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

By email (pfr@hkex.com.hk) and by post

Our Ref.:

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

Dear Sirs,

Re: Consultation Paper on Periodic Financial Reporting

--- Please find attached a completed questionnaire reflecting the views of the Hong Kong Institute of Certified Public Accountants on the above consultation paper.

If you have any questions on the submission, please do not hesitate to contact me at the Institute on _____ or by email at ; _____.

Yours faithfully,

Peter Tisman
Director, Specialist Practices

Encl.

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.

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 into line with international best practices.

However, some of our members have pointed out that this change will not be without its difficulties. Concern has been expressed that, for example, multinational companies having global operations, such as those in the shipping industry, 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.

There are also additional requirements that may be specific to Hong Kong, such as the need for bilingual documentation to be produced, which can impose further time constraints.

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 are not opposed to a phased introduction of the new reporting deadlines. However, we would suggest that an additional lead time of one year should be provided before implementing these changes for the first phase (see our reply to Question 4 below). If this is agreed, we would

suggest that other companies may be allowed a further transitional period to enable them to meet the new deadlines, given that significantly fewer of these companies than large companies are currently reporting within two months of the period end. However, we believe that an additional period of one year should be adequate.

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 17.5% 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.

For reasons indicated in our response to Question 1, among other considerations, we are of the view that the proposed commencement date for the shortened reporting deadline for large companies, i.e., half-year accounting periods ending on or after 30 June 2008 is too soon. Although significantly more large companies than other companies are already meeting the proposed timetable, nevertheless, 40% of large companies still released their announcements only in the third month for the relevant reporting period in 2006. We consider that sufficient time should be allowed for large companies to get their financial reporting systems accustomed to the shorter time frames, so that the proposed change can be achieved seamlessly. Hence, we recommend that implementation of the proposal be deferred until 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 other companies, given that 78% 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 be able to arrange a trial run. Assuming, therefore, a further transitional period of one year for companies, the commencement date for these companies should be the half-year accounting periods ending on or after 30 June 2010.

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.

Please see our response to Question 8 below. We are not opposed to a phased introduction, but would propose a further one year's lead time before implementing the first phase and, subsequently, an additional one year to enable other companies to comply with the shortened deadline.

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.

For reasons indicated in our response to Question 1, and given also that nearly one third of large companies released their announcements only in the fourth month for the 2006 and 2005 reporting periods, we are of the view that 31 December 2008 would be too soon. We consider that sufficient time should be allowed for large companies to get their financial reporting systems accustomed to the shorter time frames, so that the proposed change can be achieved seamlessly. Therefore, we recommend that implementation of the proposal be deferred until 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, we note that in the 2006 reporting period, 81% 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 (79%). We recommend, therefore, that it would be desirable for them to carry out a trial run to ease into the new regime and that the proposed commencement date be deferred by a year, as for large companies. Allowing for an additional one year transitional period for other companies, the commencement date for these companies should be for the annual accounting periods ending on or after 31 December 2010.

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.

We believe that a requirement for main board companies to issue quarterly results in the form and with the scope currently proposed, which emphasise financial information, albeit condensed financial information, will not necessarily achieve the objectives stated in the consultation document of increasing market efficiency and investor protection. The experience in jurisdictions where there is quarterly financial reporting seems to be mixed and, in some jurisdictions, where there is a requirement for such reporting, questions are now being asked as to its merits. It seems to have led to increased costs for business without offering commensurate benefits to shareholders and other stakeholders. It is doubtful whether it has improved the quality of financial reporting, but it has tended to encourage a focus on short-term performance rather than the long-term strategic goals and business plans of a company. For these and other reasons, we do not consider that it would be appropriate to introduce mandatory quarterly financial reporting in Hong Kong as this time and believe that, were it to be made a mandatory requirement, it would potentially make Hong Kong's market less competitive.

We note, however, that there are differences from jurisdiction to jurisdiction in the nature of information required to be provided. In this regard, we can see value in enhancing the existing disclosure regime under the listing rules in terms of more timely and regular reporting to shareholders and the market of management information relevant to the business, including notifications of major transactions and price-sensitive information.

A useful example of this type of reporting requirement overseas is the London Stock Exchange's Disclosure and Transparency Rule 4.3, referred to in Note 2 to Table 7 in the consultation paper, under which listed companies are required to issue quarterly management information covering material events and transactions that have taken place during the relevant period and a general description of the financial position and performance of the company during the period.

In Hong Kong, main board listed companies might, for example, be asked to produce a clear and concise business review relating to their activities and performance since their annual or half-year

report, as appropriate, covering qualitative disclosures, such as:

- an explanatory statement and review of the significant developments of the business, to enable investors to make an informed assessment of the trend of the activities and performance;
- information on important and material events and transactions affecting the company that have occurred since the annual or interim report, and a general assessment of their impact on the financial position of the company;
- an indication of any special factor(s) that have influenced the company's business and activities during the period of review; and
- an indication of future developments and prospects of the business and operation.

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.

If our proposals on the provision of more regular management information, rather than quarterly financial statements, are accepted (see the response to Question 9 above), then we would suggest time frames similar to those stipulated for interim information under the Disclosure and Transparency Rule 4.3 for companies listed on the London Stock Exchange (see Note 2 to Table 7 in the consultation paper), which provide for a degree of flexibility.

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.

Please see our response to Question 9 above.

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.

Please see our response to Question 9 above.

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.

Please see our response to Question 9 above.

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.

Subject to our response to Question 9 above as to the type of information to be provided. The primary concern is that any information should be made available in an accessible form on a timely basis and, therefore, listed companies should be required to issue printed copies of interim management information 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.

Please see our responses to Questions 2, 8 and 9 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.

If our proposal for mandatory interim management information is agreed (see our response to Question 9 above), we are of the view that 30 September 2008 would be too soon to introduce any new requirements. We would recommend that large companies be required to start producing such information for the quarters 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 quarterly period. The effective date for other companies may be one year later, i.e., 30 September 2010, allowing for a trial run for the period ending on or after 30 September 2009, or the subsequent quarterly period.

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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 note that a consultation on the future of the GEM is being undertaken concurrently with this consultation and, therefore, we would not propose any changes to the existing GEM requirements pending the outcome of that consultation.

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 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.

We would not regard it as necessary to have the same reporting deadline for main board and GEM issuers. Given our proposals for interim management information to be provided by main board listed companies, the timing of this between annual and half-yearly reports could be more flexible (see our response to Question 10 and also to Questions 9 and 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.

If our proposal for quarterly management information is accepted (see our response to Question 9 above), it should be disclosed whether or not any relevant financial information has been reviewed by the audit committee.

When finalising the proposals, particularly in relation to the lead times for introducing any changes, the current shortage of manpower faced by the accounting and auditing profession in Hong Kong needs to be borne in mind.

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		_____			_____
Company Name	:	Hong Kong Institute of CPAs			

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