
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 proposal would bring the HKEx into line with other major exchanges and would improve the relevance of information disclosed to the market. Importantly it is also consistent with the timeframes used by the exchanges in the PRC, which would lead to greater consistency for issuers that are listed on HKEx as well as in the PRC.

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.

The reduced reporting deadlines will be a challenge for many listed issuers (as illustrated by the statistics included in the Consultation Paper which show that the vast majority of "smaller" issuers currently do not report their half-year results within three months). Larger entities should be more accustomed to preparing periodic financial information for internal use, and so it is appropriate to require them to transition to the new deadlines first.

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.

This would appear to be an appropriate cut-off point. Many of these "large" companies are listed elsewhere and are already required to adhere to this accelerated reporting deadline.

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 anticipate that there are some "large" companies with significant overseas operations and/or complex internal reporting structures which will require more time to prepare for the accelerated reporting deadlines. We would suggest that on the finalisation of the new rules, all "large" companies should be in a position to release at least one further half-year report to prepare for the new deadlines prior to the rule becoming effective.

We agree with the proposed implementation date for other 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 proposal would bring the HKEx into line with other major exchanges and would improve the relevance of information disclosed to the market. We would note, however, that these new deadlines will be inconsistent with those of the PRC exchanges, and may pose some practical difficulties for issuers listed both on HKEx and one of the PRC exchanges.

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.

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 is no reason to create different definitions for half-year or annual reporting purposes.

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.

We anticipate that there are some "large" companies with significant overseas operations and/or complex internal reporting structures will require more time to prepare for the accelerated reporting deadlines. We would suggest that on the finalisation of the new rules, all "large" companies should be in a position to release at least one annual report to prepare for the new deadlines prior to the rule becoming effective.

We agree with the proposed implementation date for other 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.

Quarterly reporting would assist participants in the market in assessing the ongoing financial performance of issuers, and would help to reduce the information assymetry that currently exists in the market, where larger institutional investors generally have the benefit of more information about issers than do private investors.

One concern we would raise is that this development will unavoidably require additional accounting resources within most issuers, thereby increasing the strain on the pool of existing accounting resources in Hong Kong.

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.

This proposed reporting deadline is in line with most of the other major exchanges that require quarterly reporting. However, as they are currently drafted, the proposals would require information that is not significantly reduced than that required for a half-year report (even though the deadline for reporting is significantly shorter than for half-year reporting). See our response to the Questions below.

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.

In our view, quarterly information should be viewed as an opportunity for issuers to provide an "update" to the market as to their financial performance and position, and should not entail the significant level of detail set out in Table 8. There should be a significant difference in the level of information provided in a half-year report and that shown in a quarterly report. Accordingly we recommend reducing the level of detail required to those "key" line items that would provide an overall impression of the issuer's financial position and performance for the quarter in question.

Examples of this reduction in detail would be as follows:

- Condensed Income Statement: Remove the requirement to show Total Expenses; Share of Profits (Losses) of Associated Companies and Jointly Controlled Entities After Tax; Profit or Loss Before Tax; and Tax.
- Condensed Balance Sheet: Show only Total Assets; Total Liabilities; Share Capital; Reserves; Minority Interests; Total Equity
- Business Review: Allow issuers to refer to announcements made previously detailing the effect of significant transactions and events, rather than requiring a comprehensive description in the quarterly report. Remove the requirement to provide any forward-looking information in quarterly reports. The Business Review could be reduced to a short explanation of significant movements in financial position and results in the period.

We agree with the level of detail proposed in the Condensed Cash Flow Statement

From a practical perspective though it would be helpful if the quarterly reporting disclosure

requirements of the HKEx were in line with those required by the CSRC in respect of issuers on the PRC exchanges to eliminate additional quarterly reporting requirements for companies listed on HKEx and in the PRC.

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 allows the reader to make a meaningful comparison between quarters and to read the current quarter's results in context.

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.

This will result in a presentation with many columns which in our opinion is too clumsy and detailed. We would suggest not requiring the first quarter's results and perhaps replacing the immediately preceding quarter's results with the results reported for the half-year.

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.

However shareholders should have the right to require a printed copy to be sent to them on request.

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.

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.

In addition to the reasons set out in our response to Question 4, for most "large" companies with December year-ends, this would mean that their first quarterly report would be the three months period ending 31 March 2009. We note that the "stable platform" of International Financial Reporting Standards committed to by the International Accounting Standards Board will come to an end at the end of 2008, and it is anticipated that there may be a large volume of new accounting standards (internationally and in Hong Kong) that issuers will need to adopt in their financial years commencing on or after 1 January 2009. The significance of these new accounting requirements may mean that during the early part of 2009, many issuers would still be analysing the extent of the impact of the adoption of these new standards on their financial results at this stage. However, if quarterly reporting was implemented in 2009, issuers would need to report the impacts of these new accounting requirements in their first quarter's results.

In our opinion, introducing quarterly reporting in the same financial year as these new accounting standards become effective would result in a significant burden for many of these "large" companies and may result in inaccurate information being reported in these first quarterly reports. We suggest delaying the implementation of quarterly reporting for "large" companies by at least one year to allow them to properly prepare themselves for this requirement and also properly implement the new accounting requirements.

We agree with the proposed timetable for implementation of quarterly reporting for other companies.

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.

The information needs of investors in Main Board and GEM issuers are largely the same. On the basis that the level of information required in quarterly reports is reduced from the current proposals (see our response to Question 11), this would not place a significant additional burden on GEM issuers.

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.

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.

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.

We support any initiative to improve the relevance and timeliness of information reported in Hong Kong. However to improve the reliability of this periodic information we would suggest that the HKEx expand the circumstances under which such reports require a mandatory review by the issuer's auditor. Examples of where we believe the benefits would outweigh the costs of requiring such a review are where the issuer has performed a very significant transaction in the period (which would have a significant impact on the issuer's financial position) or where the issuer has changed an accounting policy in the period (which may have a significant impact on the issuer's opening reserves and financial performance).

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