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6 November 2007

**BY HAND AND BY FAX**

**FAX NO.: 2524 0149**

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

Attn: Corporate Communications Department

Dear Sirs,

**Re: Consultation Paper on Periodic Financial Reporting**

Ernst & Young is pleased to respond to the Hong Kong Exchanges and Clearing Limited's (the "Stock Exchange") request for comments regarding the proposals (the "Proposals") set out in the captioned Consultation Paper to shorten reporting deadlines for half-yearly and year-end results announcements and reports, and to introduce quarterly reporting for Main Board issuers.

We support the Stock Exchange in its initiatives to promote the development of a high standard of financial disclosure that will provide timely, relevant and reliable financial information for making efficient capital allocation decisions, thereby preserving or enhancing existing investor protection.

We also acknowledge the significance of aligning the Hong Kong financial reporting requirements and practices with "international best practices" in other global capital markets, and we recognize the important role that the Stock Exchange has in establishing an appropriate and effective worldwide regulatory environment. However, in light of the significant and fundamental changes that the Proposals would introduce, we believe that the Stock Exchange should give due regard to the specific circumstances in Hong Kong. Accordingly, whilst we support a number of concepts contained in the Consultation Paper, we encourage the Stock Exchange to ascribe sufficient attention to the practical difficulties and barriers in implementing some of the initiatives set forth in the Consultation Paper.

Our responses to individual questions relating to the Proposals are set out in the enclosed questionnaire.

Our responses are based on our Partners' practical audit experiences derived from their Main Board listed company engagements. The responses also, to a certain extent, reflect various comments and concerns expressed to our Partners by some of our listed clients, although we do not represent that we are formally making submissions on behalf of such.

We would be pleased to discuss our comments with the Stock Exchange or its staff at your convenience. For this purpose, please do not hesitate to contact Mr. Paul Hebditch, Technical Partner (tel: \_\_\_\_\_), who would be pleased to assist you in this regard.

Yours faithfully,

RECEIVED - 7 NOV 2007

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## QUESTIONNAIRE ON PERIODIC FINANCIAL REPORTING

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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 the reporting deadline for the half-year results announcement should be brought in line with other international markets (but please see our reply to the proposed implementation timing in Question 4 below) but suggest that the deadline for release of half-year reports be kept at three months after the relevant financial period end.

Whilst the deadlines for sending the interim report and publishing the preliminary announcement of interim results are both the same (currently three months after the half-year financial period end under rules 13.48(1) and 13.49(6) of the Main Board Listing Rules respectively), in analysing the half-yearly reporting pattern for the purpose of the Consultation Paper, it appears that the Exchange may have only reviewed the pattern of release of interim results announcements but not that of interim reports (see page 8 of the Consultation Paper). We note from the Exchange's website that certain large companies which released their interim results announcement within two months from their half-year financial period end did not release their interim report on the Exchange's website within the two-month period. The interim report itself will require additional time to prepare before the listed company is able to send it to shareholders in light of the more detailed content requirement (as compared to the interim results announcement) and the bulk printing and physical despatch processes.

*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.

Whilst we support the staggered implementation proposal, we consider that more time should be given to the large companies to comply with the new rules (please see our replies to Questions 4, 8 and 16 below).

[Redacted]

*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.

According to the consultation paper, companies with a market capitalisation of \$10 billion or more as at 31 December 2006 accounted for approximately 17.4% of the total number of companies listed on the Main Board and approximately 94.4% of the total market capitalisation of companies listed on the Main Board. We consider that the threshold of \$10 billion is not unreasonable.

*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 agree that the accelerated reporting deadline for other companies should take effect from the half-year accounting periods ending on or after 30 June 2010. However, we suggest that the commencement date for large companies be delayed to the half-year accounting periods ending on or after 30 June 2009 (please also see our replies to Questions 8 and 16 below) in order to allow more time for all the large companies to be well prepared to implement the accelerated reporting, particularly given that should the new proposals become effective, there will only be a relatively short period of time under the above time frame until the reporting of the first interim results under the new rules. Our suggested implementation timing for large companies is based on the assumption that the Exchange will announce the consultation conclusions during the first quarter of 2008 as scheduled so that large companies will be given more than a year to get themselves ready to ensure a smooth implementation of the new requirements (if adopted).

## 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.

Whilst we agree with the concept of timelier reporting, we have also looked at the practical implications of shortening the annual reporting deadline by a month. After considering the reasons set out below, we believe that the annual reporting deadline should not be shortened.

The annual report containing audited annual financial statements is the most important financial report of all the periodic financial reports. In promoting a more timely reporting regime, we believe one must look at the practical aspects (in particular those unique to Hong Kong and mainland China companies) to ensure that the quality of annual reports will not be unduly compromised.

Given the increasing trend of *mainland companies* seeking listing in Hong Kong and the fact that a vast majority of listed companies have significant mainland operations, most listed companies adopt December as their financial year end date. Our experience is that the timing of the mainland Chinese New Year holidays (during the first quarter) and the related factory and office closures have a significant effect on the annual financial statement closing, preparation and reporting timetable.

As far as international markets are concerned, we note that Shanghai, Shenzhen, London and Frankfurt adopt a 120-day (or four-month) deadline for annual reporting whilst adopting a 60-day (or two-month) deadline for interim reporting.

Pursuant to rules 13.46(1) and 13.49(1) of the Main Board Listing Rules, the respective deadlines for sending the annual report and publishing the preliminary announcement of annual results are both the same (currently four months after the financial year end). However, in analysing the annual reporting pattern for the purpose of the Consultation Paper, it appears that the Exchange may have only reviewed the pattern of release of annual results announcements but not that of annual reports (see page 10 of the Consultation Paper). We note from the Exchange's website that certain large companies which released their annual results announcement within three months from their financial year end did not release their annual report on the Exchange's website within the three-month period. The annual report itself will require more time to prepare before the listed company is able to send it to shareholders in light of the more detailed content requirement (as compared to the annual results announcement) and the bulk printing and physical despatch processes.

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*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 reply to Question 5 above.

However, in the event that the proposal to shorten the annual reporting deadline is adopted, we consider that more time should be given to the large companies to comply with the new rules (please see our replies to Questions 4, 8 and 16).

*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.

Please see our reply to Question 3 above.

*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.

Please see our reply to Question 5 above.

However, in the event that the proposal to shorten the annual reporting deadline is adopted, we agree that the accelerated reporting deadline for other companies should take effect from the annual accounting periods ending on or after 31 December 2010. However, we suggest that the commencement date for large companies be delayed to the annual accounting periods ending on or after 31 December 2009 (please also see our replies to Questions 4 and 16) in order to allow more time for all the large companies to be well prepared to implement the accelerated reporting. There is a greater likelihood of a faster year end annual reporting cycle timetable being achieved, with greater reliability, after a reporting entity has completed its first third quarter reporting cycle obligation (please see our reply to Question 16 below) since the latter could provide the preparer and auditor the opportunity to prepare and audit financial statements using what is commonly referred to and practised elsewhere as the "hard close" approach.

### **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 agree that Hong Kong reporting standards should be brought in line with international practices in this respect.

*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 agree to the 45-day reporting deadline in principle, subject to a delayed implementation of the mandatory quarterly reporting requirement for large companies (please see our reply to Question 16 below) and a delayed implementation of the 45-day deadline (for all companies) as suggested in the following paragraphs.

Given the need to produce comparative information for the first time and that the amount of the proposed content of the quarterly reports (see our reply to Question 8 below) is not much less than that in respect of a half-year results announcement, we consider that a longer reporting timetable should be imposed on all companies during the initial period of implementation so that they will not be compromising the quality of the quarterly reports because of the need to meet the 45-day deadline and will be afforded more time to adjust their system to accelerate reporting to 45 days eventually. Furthermore, as the Code on Corporate Governance Practices requires the audit committee to review quarterly reports, we consider that audit committees should also be given more time to adjust to the added responsibilities.

Accordingly, we believe that a two-month timetable would be appropriate during the initial stage of implementation of the new rules with a transitional provision to accelerate the reporting deadline to 45 days after a specified period of say 1 or 2 years following the initial implementation.

*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 agree that Hong Kong reporting standards should be brought in line with international practices in this respect.



*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.

The proposal is consistent with the existing GEM Listing Rules and in line with most overseas markets.

*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.

As the market would already be able to access the previously published first quarter results and the half-yearly results from other sources (e.g. the company's and the Exchange's websites), in our view inclusion of the proposed information in the quarterly report for the third quarter will not add any significant value and would make the report unduly complex and burdensome to read. It is also noted that although compliance with HKAS 34 "Interim Financial Reporting" is not a requirement for quarterly reporting, the proposed form of presentation is not consistent with the requirements in that standard. Furthermore, given the proposed implementation timetable of mandatory quarterly reporting (which will commence in a third quarter), the proposed disclosures may have the effect of accelerating the implementation timetable, in that listed companies with a December year end will have to compile the results for the first two quarters (with comparatives) under this approach even if the mandatory reporting requirement will only come into effect in the third quarter.

*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.

This will create less pressure on listed companies in terms of the costs and timeliness of issuing the reports. This is also a more environmentally friendly approach.

*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.

Whilst we support the staggered implementation proposal, we do however consider that more time should be given to the large companies to comply with the new rules (please see our replies to Questions 4, 8 and 16).

*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 agree that the commencement date for mandatory quarterly reporting for other companies should take effect from the quarters ending on or after 30 September 2010. However, we suggest

that the commencement date for large companies be delayed to the quarters ending on or after 30 September 2009 (please see our replies to Questions 4 and 8 above) in order to allow more time for all the large companies to be well prepared to implement quarterly reporting, instead of having to comply with the new requirements only a few months after the expected publication date of the consultation conclusions in the first quarter of 2008 and the likely adoption date of the new rules (if adopted) in the first/second quarter of 2008.

### 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.

Differences between the Main Board and GEM Listing Rules should be kept to a minimum.

*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 above is consistent with that applicable to Main Board companies other than the large companies.

*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.

Differences between the Main Board and GEM Listing Rules should be kept to a minimum.

*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.

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