

羅兵咸永道會計師事務所

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

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

13 November 2007

Dear Sir,

Consultation Paper on Periodic Financial Reporting issued in August 2007 (the "Consultation Paper")

We have read the Consultation Paper and welcome the Exchange's initiative to reconsider the periodic financial reporting requirements for Hong Kong listed issuers.

We would like to emphasise that we support the Exchange's aim to promote timely disclosure of financial information, better corporate governance and more transparency. However, we are not in agreement with the proposal to introduce quarterly reporting with the suggested format and content. We consider the current proposal may not help in achieving such aim and may lead to businesses being managed on a short term basis rather than focusing on sustainable corporate growth. We hope you will find our proposed alternative as set out in our response to Question 9 attached worthy of your consideration.

We set out our detailed responses to the questions included in the Consultation Paper in the attached. Unless otherwise defined, terms used in the attached shall have the same meaning as those defined in the Consultation Paper.

We hope the attached responses are helpful. If you want to discuss the matters further, please do not hesitate to contact our China and Hong Kong Assurance Leader, Ernest Ip, on

Yours faithfully,

Enclosure

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 with the proposal as it enhances timely disclosure of financial information and brings the reporting timeframe more in line with international best practice.

We note, however, that the requirement to have dual language reporting within this timeframe may be difficult for preparers.

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 consider that a single commencement date should be set for all listed issuers. We are of the view that each listed issuer should bear the same obligation and responsibility irrespective of its size.

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.

As set out in Question 2 above, we disagree to have a distinction between “large companies” and “other companies”.

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 to have a transitional period for all listed issuers to get ready for the new reporting deadline. As mentioned in Question 2 above, we consider a single commencement date should be set for all listed issuers. We propose that the commencement date for the accelerated reporting deadline for half-year reporting should be for half-year accounting periods ending on or after 30 June 2009 for all listed issuers.

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.

We consider that there is no need to shorten the reporting timeframe for annual results announcements and reports for the following reasons:

- The Exchange has very large companies listed with global operations and the time taken to collate and audit this information is substantial.

- Many Hong Kong listed issuers have a significant part of their operations conducted in Mainland China. These listed issuers adopt 31 December as their financial year end date so as to align with the year end date of their subsidiaries incorporated in Mainland China. Given the long

holidays for Chinese New Year (usually two weeks) in January or February in Mainland China, the business working days available to prepare the annual results announcements and reports for these listed issuers have in effect been significantly reduced. Therefore, there are likely to be practical difficulties for most of the listed issuers to comply with the new reporting deadline.

- As set out in the Consultation Paper, the annual reporting timeframe for other major international financial markets ranges from 45 days to 120 days. The prevailing requirement for Hong Kong listed issuers to release their annual results announcements and reports within four months after the relevant financial period is not substantially out of line with international best practice in this regard.

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.

We do not agree to accelerate the reporting deadline for annual reporting. However, if the Exchange decides to adopt this proposal, we consider that a single commencement date should be set for all listed issuers. We are of the view that each listed issuer should bear the same obligation and responsibility irrespective of its size.

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.

We do not agree to accelerate the reporting deadline for annual reporting. However, if the Exchange decides to adopt this proposal, we disagree to have a distinction between "large companies" and "other companies".

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 do not agree to accelerate the reporting deadline for annual reporting. However, if the Exchange decides to adopt this proposal, we agree to have a transitional period for all listed issuers to get ready for the accelerated reporting deadline. A single commencement date should be set for all listed issuers. We propose that the commencement date for the accelerated reporting deadline for annual reporting should be for annual accounting periods ending on or after 31 December 2009 for all listed issuers.

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 support timely disclosure of financial information, better corporate governance and more transparency. However, we are not in agreement with the proposal to introduce quarterly reporting with the suggested format and content. We consider the current proposal may not help in achieving the aforementioned aim for the following reasons:

- (a) Quarterly financial reporting does not assist with seasonal businesses.
- (b) Accounting standards now require a significant amount of estimation and judgement to be used in preparing financial information. It is difficult to see how the same rigour of year end reporting could be applied to quarterly reporting.
- (c) There is a world-wide shortage of accountants and auditors. It is unlikely that this burden can be overcome in the short to medium term, thereby frustrating the aim of providing timely and reliable information. This could also lead to resources in issuers being misdirected away from running the business in an orderly and efficient manner.
- (d) Experience in other mature markets which require quarterly reporting has demonstrated that:
 - quarterly reporting often leads to businesses being managed on a short term basis with a focus on short term share price fluctuation rather than a focus on sustainable corporate growth. Such short-termism often leads to manipulation of reporting and creates incentive to commit financial reporting fraud, both of which act against the interests of investors, potential investors and other stakeholders;
 - some issuers delay informing the market until the next quarterly reporting, thereby frustrating the aim of timely, relevant and reliable reporting; and
 - quarterly reporting has not given rise to better quality financial reporting, as demonstrated in particular with the significant number of re-statements in the United States.
- (e) This proposal would add significant costs to most issuers' financial reporting process. This is not in Hong Kong's interests given that issuers have a choice of markets to list on, and given we have seen no real benefit in other markets to justify this additional cost.

Proposed Alternative

Listed issuers in Hong Kong are currently required to meet the ad-hoc disclosure requirement of price-sensitive information. This requirement has already served to enhance the transparency of the operation of listed issuers and address concerns about the development of information asymmetry between management, insiders and the investing public. In order to enhance this process, we suggest that the Exchange considers the approach adopted in the United Kingdom. The UK approach encourages issuers to provide regular "management statements". It is our belief that institutional investors and analysts are not seeking more financial information, but more management information of the type produced in the UK market. This is referred to in a paper produced by the six CEO's of the largest accounting firms in November last year, which sought to provide the views of investors and analysts. In other words, let the market participants demand the type of information they want. Under the UK approach, listed issuers have an option to publish quarterly reporting. For those who do not opt for voluntary quarterly reporting, they are required to publish mandatory narrative "management statements" which is a more general

transparency report and satisfies the European Union transparency directive. This statement allows listed issuers to report the key performance indicators relevant to their business and an explanation of material events and transactions that have taken place during the relevant period. This flexible reporting helps to increase the frequency of reporting of price-sensitive information but avoids the concerns outlined above.

We believe the right approach for Hong Kong is to require more timely narrative reporting from management, backed up by relevant management information, rather than the other way round. Such management information is already available, as this is how they run their business.

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 suggestion as set out in Question 9 is adopted, we consider it is appropriate to adopt the following reporting timeframe:

- for narrative "management statements", we suggest to follow the reporting timeframes adopted in UK; and

- for voluntary quarterly reporting, we suggest to maintain the existing best practice (i.e. within 45 days after the period end as set out in the Code on Corporate Governance Practices).

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.

For the reasons set out in Question 9 above, we disagree with the current proposal to introduce quarterly reporting. If our proposal set out in Question 9 is adopted,

- for narrative "management statements", we suggest to adopt the requirements set out in the Disclosure and Transparency Rules of the London Stock Exchanges; and
- for voluntary quarterly reporting, we suggest to maintain the existing best practice which requires an income statement only.

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.

If our suggestion as set out in Question 9 is adopted, we agree with the proposed disclosures for those who opt for voluntary quarterly reporting.

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.

Whether quarterly reporting is mandatory or not, we consider these additional disclosures are unduly complex and burdensome to prepare and read. These may mis-focus investors on short-term out-looks and thus drive short-termism in relation to quarterly reporting in an adverse

way to the needs of an efficient market.

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.

Whether quarterly reporting is mandatory or not, we are in favour of using electronic means to disseminate the "management statements" or quarterly reports, provided a mechanism still exists for hard copies to be made available to those who request them in advance.

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.

We consider that a single commencement date should be set for all listed issuers. We are of the view that each listed issuer should bear the same obligation and responsibility irrespective of its size.

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 suggestion to have mandatory management statement is adopted, we agreed to have a transitional period for all listed issuers to get ready for the new reporting requirements. A single commencement date should be set for all listed issuers. We propose that all issuers should be required to comply with the new reporting requirements starting from their accounting periods ending on or after 30 September 2009.

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 propose to maintain the existing GEM requirements as a consultation paper on proposals for further developing the GEM is yet to be concluded.

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.

As set out in Question 17 above, we propose to maintain the existing GEM requirement.

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.

As set out in Question 17 above, we propose to maintain the existing GEM requirement.

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.

Nil

Name : Ernest Ip Title : China and Hong Kong
Assurance Leader

Company Name : PricewaterhouseCoopers

Contact Person : Ernest Ip Tel. No. :

E-mail Address : Fax No. :