

**CONSULTATION CONCLUSION
ON SHORTENING THE DEADLINES FOR
HALF-YEAR AND ANNUAL REPORTING
BY MAIN BOARD ISSUERS**

July 2008



Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

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EXECUTIVE SUMMARY

This report presents the results of a public consultation undertaken in 2007 by Hong Kong Exchanges and Clearing Limited (HKEx) on proposals to shorten the current deadlines for half-year and annual results announcements and reports for Main Board issuers.

The Consultation Paper on Periodic Financial Reporting issued in August 2007 which featured the proposals described in this document also included proposals in respect of mandatory quarterly reporting which will be the subject of separate consultation feedback.

During the consultation process, HKEx received a total of 62 sets of market comments. The comments received were diverse. In view of the diverse comments received, HKEx will implement the proposals with certain modifications as follows:-

Half-year reporting

- (a) modifying the original proposal as follows:-
 - (i) shortening the reporting deadline for half-year results announcements by one month; and
 - (ii) retaining the existing reporting deadline for half-year reports.
- (b) changing the original proposed commencement date which will now be effective for half-year accounting periods ending on or after 30 June 2010 for all Main Board issuers. The proposal for a phased introduction of the new requirements with “large companies” to comply with the new requirement first and “other companies” given an additional two years deferred implementation date will not be adopted.

Annual reporting

- (c) modifying the original proposal as follows:-
 - (i) shortening the reporting deadline for annual results announcements by one month; and
 - (ii) retaining the existing reporting deadline for annual reports.
- (d) changing the original proposed commencement date which will now be effective for annual accounting periods ending on or after 31 December 2010 for all Main Board issuers. The proposal for a phased introduction of the new requirements with “large companies” to comply with the new requirement first and “other companies” given an additional two years deferred implementation date will not be adopted.

A summary of the original proposals and revised requirements on deadlines and implementation dates are set out in the **Table** below.

Table: Proposed and revised reporting deadlines and implementation dates

Periodic report – for Main Board issuers	Reporting deadlines (months after period end)			Proposed timetable for commencement of revised requirements (changes would apply to financial reports for periods ending on or after the dates below)		
	Current	Proposed in Consultation Paper	Revised requirements	Original proposal		Revised requirements
				“Large company” issuers	Other issuers	All issuers
Annual						
- results announcements	4 months	3 months	3 months	31 December 2008	31 December 2010	31 December 2010
- reports	4 months	3 months	4 months (no change)	31 December 2008	31 December 2010	N/A
Half-yearly						
- results announcements	3 months	2 months	2 months	30 June 2008	30 June 2010	30 June 2010
- reports	3 months	2 months	3 months (no change)	30 June 2008	30 June 2010	N/A

PART A: INTRODUCTION

1. On 31 August 2007, HKEx published a Consultation Paper on Periodic Financial Reporting to invite market comments and views on the proposals to:-
 - (i) Shorten the current deadlines for half-year and annual results announcements and reports published by Main Board issuers;
 - (ii) Introduce mandatory quarterly reporting requirements for Main Board issuers; and
 - (iii) Align GEM quarterly reporting rules with the proposals for Main Board issuers.
2. This document deals with the Consultation Conclusions on the first proposal only.
3. The consultation period ended on 5 November 2007. We received 62 submissions. A list of the respondents is attached at **Appendix I**. A statistical summary of the responses is set out in **Appendix II** which is calculated based on the number of submissions we received and not the underlying members that they represent as these numbers cannot be readily verified or determined.
4. From the outset of the consultation, we were guided by the following broad principles:-
 - (i) to increase transparency and market efficiency, and bring Hong Kong reporting standards in line with international best practices;
 - (ii) to ensure the timely disclosure of information to shareholders and investors to enable them to make informed and timely investment decisions;
 - (iii) to provide investors with a continuous and structured flow of comparable information;
 - (iv) to provide for better investor protection as investors would be able to monitor the performance and financial position of a listed issuer more closely; and
 - (v) to provide listed issuers with time to prepare for and meet the new requirements.
5. Where appropriate, we have modified certain requirements originally proposed in the Consultation Paper so as to reflect respondents' views, address their concerns and/or provide further clarity.

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6. This consultation conclusions report summarizes the main points made by the respondents and provides conclusions as to how we shall proceed with the proposals. This document should be read in conjunction with the Consultation Paper.
 7. We would like to take this opportunity to thank all those who have shared with us their views and suggestions during the consultation process.

PART B: MARKET FEEDBACK AND CONCLUSIONS

THE RESPONDENTS

8. In total, 62 sets of comments were received and the respondents could be grouped into broad categories as follows:-

<u>Category</u>	<u>Numbers of respondents</u>
Main Board issuers	31
Professional and trade associations	12
Regulators	2
Market practitioners	15
Retail investors	2
	<u>62</u>

9. A list of the respondents is provided in **Appendix I**. Except for 2 respondents who requested the Exchange not to publish their submissions, the full text of all submissions are available on the HKEx website at http://www.hkex.com.hk/consul/response/periodic_fin.htm for public reference.

MARKET FEEDBACK

10. We set out below the comments received and our responses. The summary statistics in **Appendix II** gives a broad indication of respondents' views for each question in the Consultation Paper.

Comments received:

Accelerated deadline for release of half-year results announcements and reports (Question 1)

11. A cross-section of stakeholders supported the proposal and they considered that the proposal would enhance Hong Kong as an international financial centre as it would bring Hong Kong in line with international practices. More timely disclosure would increase the value of periodic financial information and assist shareholders and potential investors to make informed investment decisions.
12. Around half of the respondents disagreed with the proposal and they mainly represented Main Board issuers, i.e., the preparers. Most arguments presented highlighted practical difficulties such as:-
- (i) insufficient time for “large companies” with diverse businesses and geographically dispersed operations to collect financial information and complete consolidations;
 - (ii) a concern over shortage of auditors to complete reviews; and
 - (iii) an increased cost burden.

Phased-in approach to implementation of accelerated reporting deadlines (Questions 2, 3, 6 and 7)

13. A majority of respondents disagreed with the phased-in approach as they considered it was not fair, discriminatory and undermines the integrity of the Main Board. Some Main Board issuers considered that the proposal would create confusion. There were comments that “large companies” also need time to prepare themselves for the accelerated deadlines for half-year and annual reporting.

Commencement date for the accelerated reporting deadline for half-year reporting (Question 4)

14. For the same reasons noted in paragraph 13 above, a clear majority of respondents disagreed with the proposed commencement dates that “large companies” be required to comply with the new deadline for half-year accounting periods ending on or after 30 June 2008 and the other companies would have a transitional period of two years. A variety of alternative commencement dates ranging from half-year accounting periods ending on or after 30 June 2009 to 30 June 2011 were suggested by respondents.

Accelerated deadline for release of annual results announcements and reports (Question 5)

15. A cross-section of stakeholders supported the proposal and they considered that the proposal would enhance Hong Kong as an international financial centre as it would bring Hong Kong in line with international practices and that timely disclosure increases the value of relevant information and assists shareholders and potential investors to make better informed investment decisions.
16. However, a clear majority of respondents disagreed with the proposal and they mainly represented Main Board issuers. Their arguments were mainly on the perceived practical difficulties, such as:-
- (i) insufficient time for “large companies” with diverse businesses and geographically dispersed operations to collect financial information and complete consolidations;
 - (ii) a concern over the shortage of auditors to complete annual audits;
 - (iii) some issuers indicated that additional time is needed for Chinese translation, type-setting and printing reports;
 - (iv) an increased cost burden; and
 - (v) an increased possibility of inaccurate reports.
17. There were concerns raised on whether the proposed 3 months deadline for publishing annual results announcements and reports could be achieved as working days are lost during Chinese New Year holidays and annual reports require Chinese translation, type-setting and printing time.

Commencement date for the accelerated reporting deadline for annual reporting (Question 8)

18. For the same reasons noted in paragraph 13 above, a clear majority of respondents disagreed with the proposed commencement dates that “large companies” be required to comply with the new deadline for annual accounting periods ending on or after 31 December 2008 and that other companies would have a transitional period of two years.

HKEx’s response and conclusions:

19. We believe that listed companies should have sound and effective financial reporting systems and internal controls. Timely disclosure of information is an indicator of good corporate governance which promotes and maintains investors’ confidence in the market. Therefore, we have adopted the proposal of shortening the deadline for half-year results announcements by one month (i.e. from 3 months to 2 months) but will retain the existing reporting deadline for the release of half-year reports of 3 months.
20. We note concerns that differentiating listing obligations by categorizing companies into “large companies” and “non-large companies” may lead to some confusion and we accept that “large companies” may also need additional time to prepare themselves. We have decided not to adopt the proposal of a phased implementation with “large companies” required to comply the new accelerated reporting deadlines first. This means the new rules will be applicable to all listed issuers on the commencement date.
21. We have also decided that the original proposed commencement dates will not be adopted. Instead, the commencement date for accelerated half-yearly reporting has been modified and will be effective for half-year accounting periods ending on or after 30 June 2010 for all companies. However, this commencement date will only apply to the release of half-year results announcements and the current deadline for the release of half-year reports will remain the same.
22. In respect of annual reporting, the current deadline of 120 days after the year end is, in our view, too lax as by the time the annual results announcements and reports are released the information is likely to be substantially outdated.
23. We accept that additional time may be necessary for issuers to prepare and publish their annual reports and have therefore modified the original proposal on annual reporting to shorten the reporting deadline for annual results announcements by one month (i.e. from 4 months to 3 months) but will retain the existing reporting deadline for the release of annual reports of 4 months.
24. The original proposed commencement dates for accelerated annual reporting which differentiated between “large companies” and “non-large companies” will not be adopted. Instead, the commencement date for accelerated annual reporting has been modified to be for annual accounting periods ending on or after 31 December 2010 for all companies. This commencement date will only apply to the release of annual results announcements.

APPENDIX I: LIST OF RESPONDENTS

Main Board Issuers

- 1 Air China Limited
- 2 Cathay Pacific Airways Limited
- 3 Cheung Kong (Holdings) Limited
- 4 Cheung Kong Infrastructure Holdings Limited
- 5 China Resources Enterprises, Limited
- 6 CLP Holdings Limited
- 7 Dickson Concepts (International) Limited
- 8 Great Eagle Holdings Ltd
- 9 Hang Seng Bank Limited
- 10 Hongkong Chinese Limited
- 11 Hongkong Electric Holdings Limited
- 12 Hopewell Highway Infrastructure Limited
- 13 Hopewell Holdings Limited
- 14 HSBC Holdings plc
- 15 Hong Kong Aircraft Engineering Company Limited
- 16 Hutchison Whampoa Limited
- 17 Li & Fung Limited
- 18 Lippo China Resources Limited
- 19 Lippo Limited
- 20 Main Board issuer 1 (name not disclosed at the respondent's request)
- 21 Main Board issuer 2 (name not disclosed at the respondent's request)
- 22 Main Board issuer 3 (not posted on HKEx's website at the respondent's request)
- 23 New World Department Store China Limited
- 24 New World Development Company Limited
- 25 NWS Holdings Limited
- 26 Ping An Insurance (Group) Company of China, Limited
- 27 Sun Hung Kai Properties Limited
- 28 Swire Pacific Limited
- 29 The Hongkong and Shanghai Hotels, Limited
- 30 Towngas China Company Limited
- 31 Winsor Properties Holdings Limited

Professional and trade associations

- 1 ACCA Hong Kong
- 2 CFA Institute Centre and Hong Kong Society of Financial Analysts
- 3 Hong Kong Institute of Certified Public Accountants
- 4 Hong Kong General Chamber of Commerce
- 5 Hong Kong Investment Funds Association
- 6 The British Chamber of Commerce in Hong Kong
- 7 The Chamber of Hong Kong Listed Companies
- 8 The Chinese General Chamber of Commerce
- 9 The Hong Kong Association of Banks
- 10 The Hong Kong Institute of Chartered Secretaries
- 11 The Hong Kong Institute of Directors
- 12 The Real Estate Developers Association of Hong Kong

Regulators

- 1 Hong Kong Monetary Authority
- 2 The Financial Reporting Council

Market practitioners

- 1 A market practitioner 1 (name not disclosed at the respondent's request)
- 2 A market practitioner 2 (name not disclosed at the respondent's request)
- 3 A market practitioner 3 (name not disclosed at the respondent's request)
- 4 A market practitioner 4 (name not disclosed at the respondent's request)
- 5 A market practitioner 5 (name not disclosed at the respondent's request)
- 6 A market practitioner 6 (name not disclosed at the respondent's request)
- 7 A market practitioner 7 (not posted on HKEx's website at the respondent's request)
- 8 Charltons Solicitors on behalf of Quam Limited, Somerley Limited, Taifook Capital Limited
- 9 Deloitte Touche Tohmatsu
- 10 Ernst & Young
- 11 HSBC Investments (Hong Kong) Limited
- 12 KPMG
- 13 Paul Mok
- 14 PricewaterhouseCoopers
- 15 Tommy Tam

Retail investors

- 1 David Webb
- 2 Robert Kenrick

In summary:-

<u>Category of respondents</u>	<u>Abbreviation</u>	<u>Number of respondents</u>
Main Board issuers	M	31
Professional and trade associations	A	12
Regulators	R	2
Market practitioners	P	15
Retail investors	I	<u>2</u>
	Total:	62 =====

Remarks:

1. *The total number of submissions (including 44 questionnaires and 18 letters) received is 62.*
2. *One submission is counted as one response.*
3. *One Lawyer (Charlton Solicitors) indicated that the submission made was on behalf of three companies.*
4. *One Retail investor (David Webb) indicated that the submission made was on behalf of 477 persons.*
5. *The total number of responses is based on submissions we received not the underlying members that they represent.*

APPENDIX II: SUMMARY STATISTICS OF RESPONDENTS' VIEWS

Question no.	M	A	R	P	I	Total	Reference to Consultation Conclusions Paper (paragraph no.)
Half-year reporting							
Q1: Half-year reporting shortened from three months to two months							11-12
Agreed with the proposal	6	6	1	9	2	24	
Disagreed with the proposal	23	3	1	5	-	32	19
No comment	2	3	-	1	-	6	
Q2: Deadlines introduced in phases; (a) "large companies" first; (b) a transitional period of two years for other companies							13
Agreed with the proposal	7	2	-	7	-	16	20
Disagreed with the proposal	16	3	-	5	2	26	
No comment	8	7	2	3	-	20	
Q3: "Large companies" mean companies with market capitalization of \$10 billion or more as at 31 December 2006							13
Agreed with the proposal	6	3	-	7	1	17	20
Disagreed with the proposal	14	1	-	4	-	19	
No comment	11	8	2	4	1	26	
Q4: Commencement dates for accelerated half-year reporting: (a) "large companies" – 30 June 2008; (b) other companies – 30 June 2010							14
Agreed with the proposal	3	-	-	3	-	6	21
Disagreed with the proposal	19	5	-	8	2	34	
No comment	9	7	2	4	-	22	
Annual reporting							
Q5: Annual reporting shortened from four months to three months							15-17
Agreed with the proposal	7	4	1	7	2	21	
Disagreed with the proposal	22	5	1	7	-	35	22-23
No comment	2	3	-	1	-	6	
Q6: Deadline introduced in phases: (a) "large companies" first; (b) a transitional period of two years for other companies							13
Agreed with the proposal	4	2	-	6	-	12	20
Disagreed with the proposal	16	3	-	6	2	27	
No comment	11	7	2	3	-	23	

Question no.	M	A	R	P	I	Total	Reference to Consultation Conclusions Paper (paragraph no.)
Q7: "Large companies" same as Q3							13
Agreed with the proposal	7	3	-	7	1	18	
Disagreed with the proposal	13	1	-	4	-	18	20
No comment	11	8	2	4	1	26	
Q8: Commencement dates for accelerated annual reporting: (a) "large companies" – 31 Dec 2008; (b) other companies – 31 Dec 2010							18
Agreed with the proposal	1	-	-	3	-	4	24
Disagreed with the proposal	19	5	-	8	2	34	
No comment	11	7	2	4	-	24	

In summary:-

<u>Category of respondents</u>	<u>Abbreviation</u>	<u>Number of respondents</u>
Main Board issuers	M	31
Professional and trade associations	A	12
Regulators	R	2
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APPENDIX III: AMENDMENTS TO MAIN BOARD LISTING RULES REGARDING SHORTENING THE TIME ALLOWED FOR HALF-YEAR AND ANNUAL REPORTING BY MAIN BOARD ISSUERS

“DISCLOSURE OF FINANCIAL INFORMATION

Distribution of annual report and accounts

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Preliminary Announcements of Results – Full Financial Year

- 13.49 (1) An issuer shall publish in accordance with rule 2.07C its preliminary results in respect of each financial year as soon as possible, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of the board. The issuer must publish such results:
- (i) for annual accounting periods ending before 31 December 2010 – not later than four months after the ~~end of date upon which the~~ financial ~~period ended~~ year; and
 - (ii) for annual accounting periods ending on or after 31 December 2010 – not later than three months after the end of the financial year.
- (2) The preliminary announcement shall be based on the issuer’s financial statements for the financial year which shall have been agreed with the auditors.
- (3) (i) Where an issuer is unable to make an announcement of its preliminary results based on its financial statements in accordance with rules 13.49(1) and 13.49(2), it must make an announcement:
- (A) for annual accounting periods ending before 31 December 2010 – ~~within~~ not later than four months after the end of the financial year; and
 - (B) for annual accounting periods ending on or after 31 December 2010 – not later than three months after the end of the financial year.

The announcement must contain~~ing~~ at least the following information:—

- (a) a full explanation for its inability to make an announcement based on financial statements which have been agreed with the auditors. Where there are uncertainties arising from the lack of supporting evidence or relating to the valuation of assets or liabilities, sufficient information to allow investors to determine the significance of the assets or liabilities;
 - (b) the expected date of announcement of the financial results for the financial year which shall have been agreed with the auditors; and
 - (c) so far as the information is available, results for the financial year based on financial results which have yet to be agreed with the auditors. Where possible, those results must have been reviewed by the issuer's audit committee. In the event that the audit committee disagreed with an accounting treatment which had been adopted or the particulars published in accordance with rule 13.49(3)(i)(a), full details of such disagreement; ~~and~~.
- (ii) Where an issuer makes an announcement in accordance with rule 13.49(3)(i), then:
- (a) the issuer will be required to comply with the requirements set out in rule 13.49(2), as soon as the financial results for the financial year have been agreed with the auditors; and
 - (b) where the financial results for the financial year which have been agreed by the auditors differ materially from the financial results published by the issuer in accordance with rule 13.49(3)(i)(c), full particulars of, and reasons for, the difference must be set out in the preliminary announcement of such agreed results.
- (4) The preliminary announcement of results (made in accordance with rule 13.49(2) or 13.49(3)) must comply with the provisions set out in Appendix 16 in relation to preliminary announcements of results for the full financial year.

Note: Issuers' attention is drawn to paragraphs 45 and 45A of Appendix 16.

- (5) [Repealed 25 June 2007]

Preliminary Announcements of Results – First Half of The Financial Year

- (6) The issuer shall publish in accordance with rule 2.07C a preliminary announcement in respect of its results for the first six months of each financial year, unless that financial year is of six months or less, as soon as possible, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of the board. The issuer must publish such results:
- (a) for half-year accounting periods ending before 30 June 2010 – not later than three months after the end of that period of six months;
 - (b) for half-year accounting periods ending on or after 30 June 2010 – not later than two months after the end of that period of six months.

In circumstances where the issuer is unable to make such an announcement, the issuer must make an announcement within the required time referred to above ~~three months after the end of that period of six months.~~ The announcement must contain:—

- (i) a full explanation for its inability to make an announcement based on unaudited financial statements; and
 - (ii) the expected date of announcement of the unaudited results for the first half of the financial year.
- (7) The preliminary announcement of interim results must comply with the provisions set out in Appendix 16 in relation to preliminary announcements of interim results.

Note: Issuers' attention is drawn to paragraph 46 of Appendix 16.

- (8) [Repealed 25 June 2007]

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Practice Note 10

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INTERIM REPORTING FOR NEW ISSUERS

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2. Introduction

The Exchange wishes to clarify the obligations of newly listed issuers to prepare interim results announcements, interim reports or summary interim reports. The Exchange places considerable importance on interim reporting and wishes to ensure there is no confusion or uncertainty surrounding a newly listed issuer's obligation to prepare interim results announcements, interim reports or summary interim reports.

3. Requirement for Interim Results Announcements and Reports

Rule 13.48 requires issuers to prepare an interim report or summary interim report in respect of the first six months of the financial year. The interim report or summary interim report is to be published not later than three months after the end of that period of six months. Rule 13.49(6) requires issuers to prepare an interim results announcement in respect of the first six months of the financial year. The interim results announcement is to be published as follows:

- (a) for half-year accounting periods ending before 30 June 2010 – not later than three months after the end of that period of six months;
- (b) for half-year accounting periods ending on or after 30 June 2010 – not later than two months after the end of that period of six months.

In order to meet this requirement, newly listed issuers will be required to:-

- (a) prepare and publish interim results and reports in respect of the first six month period (irrespective of whether this period ends on a date before or after the date on which dealings in the securities of the issuer commenced) where the ~~three-month~~ deadline for publishing the results falls after the date on which dealings in the securities of the issuer commenced.
- (b) prepare and publish interim reports in respect of the first six month period where the deadline for publishing the reports falls after the date on which dealings in the securities of the issuer commenced.

In the event that the results for the interim period (containing financial information required for interim results announcements under paragraph 46(1) of Appendix 16) have been included in the prospectus for the purpose of applying for a listing on the Exchange, there will be no obligation to separately publish the results.

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