



香港會計師公會

HONG KONG SOCIETY OF ACCOUNTANTS

(Incorporated by the Professional Accountants Ordinance, Cap. 50)

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Our Ref.: C/CGP, M11244

17 May 2002

Ms. Karen Lee  
Head of Listing, Regulation & Risk Management  
Hong Kong Exchanges and Clearing Limited,  
11/F., One International Finance Centre,  
1 Harbour View Street,  
Central, Hong Kong.

Dear Ms. Lee,

**Stock Exchange Consultation Paper on Proposed Amendments  
to the Listing Rules relating to Corporate Governance Issues**

In response to the HKEx's consultation on the proposed review of the Listing Rules relating to corporate governance issues, I have pleasure in submitting the Society's comments.

In the past few years, the Society has played an active role in the promotion and development of good corporate governance in Hong Kong. We are in full support of the Exchange's initiative in the proposed review to strengthen corporate governance of listed issuers in Hong Kong and bring listed issuers' corporate governance practices in line with international best practices. Having regard to the rapid development in corporate governance issues worldwide, this is a timely exercise. We welcome this review and thank you for the opportunity to provide our comments.

--- Our detail comments on the full range of issues covered in the Consultation Paper are set out in the **Annex**.

We have extracted below for your particular attention our comments on certain key areas relating to **Corporate Reporting and Disclosure of Information** contained in Part D of the Consultation Paper. In addition we have also set out a proposal concerning the disclosure of board practices, which relates to Part C of the Consultation Paper on **Directors and Board Practices**.

**The overall reporting framework**

We agree with the Exchange's proposal that the financial reporting framework should comprise four reports annually, being quarterly reports for the first and third quarters of the financial year, a half-year report for the first half of the financial year and an annual report for the financial year end.

## **Quarterly reporting**

We believe that the requirement for quarterly reporting should be a mandatory rather than a voluntary measure in order to promote consistency of practice among listed companies.

We also support the proposal that quarterly reports should be reviewed by the audit committee, but it should be left to the audit committee to recommend whether a review by the external auditors should also be conducted. However, we would suggest that the Exchange be empowered to require a quarterly report to be reviewed by external auditors in situations where there have been material breaches of the Listing Rules. We would also propose, for consistency, that both of these measures, i.e. a requirement for a review by the audit committee and power to order a review by external auditors, should also be extended to half-year reports.

In coming to the above views, we have considered many arguments both for and against the introduction of quarterly reporting expressed by our members. Some have expressed concerns that quarterly reporting may put greater pressure on companies to concentrate on short-term performance and, as a corollary, it may put pressure on companies to seek ways to smooth out their results. In addition, there are concerns that without any requirement for the results to be reviewed by the auditors, the figures may be less reliable, depending on the competence of the preparers of quarterly reports and the members of the audit committees.

However, we believe that quarterly reporting encourages greater transparency and provides more timely financial information to shareholders and the market. In addition, we understand that the investing public is generally supportive of this initiative. The world's largest capital market and one of the main sources of investment into Hong Kong - the US - has a well-established framework of quarterly reporting. Furthermore, as from the first quarter of 2002, Mainland listed companies are required to report their results on a quarterly basis. As Hong Kong is aiming to encourage more Mainland companies to use the Hong Kong market to raise capital and there are an increasing number of China-related companies listed in Hong Kong and the US, aligning the corporate reporting requirements with the US and China markets is a move in the right direction.

## **Reporting deadlines and timetable for introducing the new framework**

While we are in support of mandatory quarterly reporting, the practical issues and problems of implementation should not be underestimated. While some companies may already have the capacity to implement quarterly reporting, others will need some time to effect the required changes to their internal reporting processes and systems. In addition, one should also bear in mind the number of changes that may affect corporate reporting in Hong Kong, such as the introduction of summary financial reporting as well as the intention of the International Accounting Standards Board to issue a number of new and revised standards in the near future. These changes will put more pressure on many companies, including the preparers of financial statements and audit committees of listed issuers, as well as their external auditors, in the next 12 to 18 months.

Accordingly, we would propose, firstly, that careful consideration needs to be given as to the most appropriate timing to introduce a requirement for quarterly reports and, secondly, that the deadline for issuing the quarterly reports should initially be two months from the quarter end, instead of 45 days as proposed. While it is acknowledged that GEM companies are already required to report within 45 days of the quarter end, the practical problems for Main Board and GEM companies are not the same. Generally GEM-listed companies tend to be smaller and less complex enterprises than many Main Board companies and they are obliged to gear themselves up for this reporting requirement from the time of their application for listing.

In relation to half-year and annual reporting, we note that the Exchange is advocating reducing the deadline for reporting from three to two months and from four to three months, respectively. For the practical reasons outlined above, we would again suggest that adequate lead time should be allowed for implementation of such changes and that the changes should be phased in after quarterly reporting has been adopted and is functioning properly, rather than having all of these new requirements and reduced deadlines being introduced at the same time. In this respect it should be noted that the new regime will result in Hong Kong having one of the most extensive sets of reporting requirements of any major financial centre in the world.

We would also suggest that it is important for the Exchange to set out publicly and very clearly the implementation timetable for phasing in the new reporting arrangements so that issuers can make all the necessary preparations early and with certainty.

### **Disclosure requirements for quarterly reports**

We agree with the pragmatic approach taken at this stage to require less comprehensive reporting for the first and third quarters than is required for the existing half-year report. We support the position that disclosure requirements for Main Board and GEM issuers should be made consistent.

We believe over time, given advancements in technology and the increasing efficiency in listed issuers' financial reporting systems, the aim should be to streamline quarterly reporting by unifying the form and contents of the quarterly and half-yearly reports.

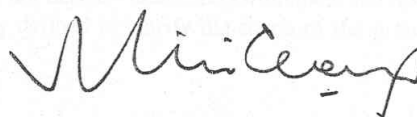
In order to strengthen disclosure regarding the level of review undertaken, we would propose that a quarterly report should be required to state on it that it has been reviewed by the audit committee. We also support the proposal that a quarterly report should be required to state whether or not it has been reviewed by external auditors and, if it has been so reviewed, that the auditors' review report should be reproduced with the quarterly report. In addition we consider that in the case of a half-yearly report, there should also be a requirement to state that the report has been reviewed by the audit committee. We note that currently under the Listing Rules, a half-year report must already disclose whether or not it has been audited and, if so, a copy of the auditors' report must be reproduced with it.

## Disclosure of board practices

Apart from our views on the various issues addressed in Part D of the Consultation Paper, in the *Annex* we have also submitted comments on a number of matters covered in Part B (**Protection of Shareholders' Rights**) and Part C (**Directors and Board Practices**) of the Consultation Paper. As a supplement to the proposals contained in Part C on disclosure, we would recommend that you consider introducing a requirement for issuers to disclose in their annual reports, not only the number of meetings held and the attendance record of members in relation to the audit committee and remuneration committee (if any), as the Consultation Paper proposes, but in addition, the number of full board meetings held during the year and the attendance record of individual board members. The Society has previously made this recommendation in our publication, "Corporate Governance Disclosure in Annual Reports" (March 2001, paragraph 4.2)

We trust that you will find our comments helpful and constructive. If you have any questions in respect of the recommendations contained in this submission or wish to discuss them further, please feel free to contact Peter Tisman, the Society's Deputy Director (Business & Practice) in the first instance.

Yours sincerely,



WINNIE CHEUNG  
SENIOR DIRECTOR  
PROFESSIONAL AND TECHNICAL DEVELOPMENT  
HONG KONG SOCIETY OF ACCOUNTANTS

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The 16th World Congress of Accountants  
will be hosted by the HKSA on 18 - 21 November 2002.

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World Congress  
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