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[online version](http://www.charltonslaw.com/hkex-publishes-consultation-paper-on-periodic-financial-reporting/)

# HKEx Publishes Consultation Paper On Periodic Financial Reporting

## Introduction

Hong Kong Exchanges and Clearing Limited (**HKEx**) released a Consultation Paper (the **Consultation Paper**) on Periodic Financial Reporting on 31 August 2007. The paper sets out HKEx's proposals to:

* shorten the half-year and annual reporting deadlines for Main Board issuers;
* introduce mandatory quarterly reporting for Main Board issuers; and
* align the GEM quarterly reporting requirements with the proposed new Main Board requirements.

20 key consultation questions on the proposals are set out in a separate questionnaire. HKEx has invited interested parties to respond to the Consultation Paper by returning the questionnaire by 5 November 2007. The key consultation questions are reproduced at Annex A to this note. HKEx is also seeking comments on draft amendments to the Main Board and GEM Listing Rules which are included at Appendices 2 to 4 of the Consultation Paper.

The purpose of the note is to summarise the new proposals. The [Consultation Paper](http://www.hkex.com.hk/eng/newsconsul/mktconsul/documents/2007831e.pdf) ([see archive](2007831e.pdf)) and [questionnaire booklet](http://www.hkex.com.hk/eng/newsconsul/mktconsul/documents/questionnaire_e.doc) ([see archive](questionnaire_e.doc)) are available on the HKEx website.

## 1. Shortening Of Reporting Deadlines

### 1.1 Half-year reporting deadlines for Main Board issuers

HKEx proposes to shorten the time allowed for the release of half-year results announcements and reports by Main Board issuers from three months to two months. The new deadlines would commence:

* For "large companies" (being (a) listed issuers with a market capitalisation[[1]](#footnote-30) of HK$10 billion or more as at 31 December 2006 and (b) issuers newly listed after 1 January 2007 with an initial market capitalisation[[2]](#footnote-31) of HK$10 billion or more on the date of listing) - starting from their half-year accounting periods ending on or after 30 June 2008; and
* For other companies - starting from their half-year accounting periods ending on or after 30 June 2010.

The proposed shortening of the deadline for half-year financial reporting to two months or 60 days after the period end would move towards bringing Hong Kong into line with other overseas stock exchanges including the New York, London, Frankfurt, Toronto, Australian, Singapore, Shanghai and Shenzhen stock exchanges.

The Exchange's review of the time taken by Main Board issuers to release their half-year results announcements in 2006 showed that approximately 60% of listed issuers with a market capitalisation above HK$10 billion released their half-year results within 60 days. In respect of listed issuers with a market capitalisation of less than $10 billion, the Exchange's review showed that 78% would be required to accelerate their reporting timetable by one to two months in order to comply with the proposed new rule. HKEx has therefore proposed a grace period of 2 years for issuers with a market capitalisation of less than 10 billion to prepare for the new reporting deadline.

### 1.2 Annual reporting deadlines for Main Board issuers

HKEx proposes to shorten the time allowed for the release of annual results announcements and reports by Main Board issuers from four months to three months. The new deadlines would commence:

* For "large companies" - starting from their annual accounting periods ending on or after 31 December 2008; and
* For other companies - starting from their annual accounting periods ending on or after 31 December 2010.

The Exchange's review of overseas stock exchanges found some diversity in terms of the annual financial reporting deadlines required. Some major overseas stock exchanges, including the New York, Toronto, Australian and Singapore stock exchanges, require the release of listed issuers' annual results no later than 90 days after the year end. However, the PRC, London and Frankfurt stock exchanges have a longer reporting deadline of 120 days after the financial year-end.

The Exchange's research showed that in 2006, approximately 68% of listed issuers with a market capitalisation above HK$10 billion released their annual results within 90 days after the financial year end. In the case of listed issuers with a market capitalisation of less than HK$10 billion, the research indicated that, based on 2006, 81% would be required to accelerate their reporting timetable by one to two months in order to comply with the proposed new rule. HKEx has therefore proposed a grace period of 2 years for issuers with a market capitalisation of less than HK$10 billion to prepare for the new deadline. Based on market capitalisation as at 31 December 2006, the Exchange has determined that 170 Main Board issuers will be categorised as "large companies" for the purposes of the new Rules. These companies are listed in Appendix 1 to the Consultation Paper.

### 1.3 Reporting deadlines for GEM issuers

There would be no change to the reporting deadlines for half-year and annual reporting for GEM issuers.

## 2. Mandatory Quarterly Reporting For Main Board Issuers

### 2.1 Background

Quarterly reporting by Main Board issuers is a recommended best practice under the Code on Corporate Governance Practices which came into effect in 2005. This means that issuers are encouraged, but not obliged, to announce and publish quarterly financial results within 45 days after the end of the relevant quarter.

The Exchange's review of the requirements of overseas exchanges found that there is a worldwide trend towards some form of mandatory quarterly reporting. It found that securities markets in the US and some markets in Asia, including the PRC, have already adopted quarterly reporting, while the UK and European capital markets have adopted similar obligations which became effective from 20 January 2007.

In order to bring Hong Kong's reporting requirements into line with international best practices and in view of the increasing number of dual "A" and "H" share listings and increased cross border capital flows with Hong Kong, HKEx considers that it is now appropriate to introduce mandatory quarterly reporting for Main Board issuers.

### 2.2 The Proposal

HKEx proposes to require Main Board issuers to publish quarterly reports within 45 days after the end of the relevant quarter. They would not be required to be audited, but would have to include certain key information. In summary, this would require the inclusion of:

1. A condensed consolidated income statement, with comparatives;
2. A condensed consolidated balance sheet, with comparatives;
3. A condensed consolidated cash flow statement, with comparatives;
4. A concise and fair business review covering:
	1. a review of significant developments of the business of the listed issuer and its subsidiaries (the **Group**) during the financial period and of the financial position of the Group at the end of the period;
	2. details of important events and transactions affecting the Group which have occurred between the end of the financial period and the date the report is released i.e. details of significant post balance sheet events; and
	3. an indication of future developments in the business of the Group, including prospects for the current financial year.

Quarterly reports would not be required to be printed and mailed in hard copy to shareholders unless shareholders make that request. Listed issuers would instead be required to publish their quarterly reports on the HKEx website and the listed issuer's own website.

The new requirements for quarterly reporting would commence:

* For "large companies" - starting from their three months quarterly accounting periods ending on or after 30 September 2008; and
* For other companies - starting from their three months quarterly accounting periods ending on or after 30 September 2010.

## 3. Changes To GEM Rules On Quarterly Reporting

HKEx proposes to amend the GEM listing rules to make the disclosure and publication requirements for quarterly reporting consistent with the proposed quarterly reporting requirements for Main Board issuers. This would mean that:

1. GEM quarterly reports will need to include:
	1. a condensed consolidated income statement;
	2. a condensed consolidated balance sheet;
	3. a condensed consolidated cash flow statement; and
	4. a business review;
2. GEM quarterly reports will no longer need to include the following:
	1. information as to the interests of certain persons (including directors) in securities (within the meaning of Part XV of the Securities and Futures Ordinance);
	2. information relating to on-going financial exposure to borrowers and other on-going matters under GEM Rules 17.22 to 17.24;
	3. particulars of any purchase, sale or redemption by the issuer or any of its subsidiaries, of its listed securities during the relevant period;
	* Such information would however still need to be included by GEM issuers in their annual and half-year reports; and
3. printing and posting of hard copies of quarterly reports to shareholders will no longer be required.

The changes would commence with GEM issuers' three months quarterly accounting periods ending on or after 30 September 2010.

The purpose of this note is to provide a summary only of the proposals set out in the Consultation Paper on Periodic Financial Reporting published by Hong Kong Exchanges and Clearing Ltd. Specific advice should be sought in relation to any particular situation.

## Annex A

Q.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? Please state reasons for your views.

Q.2: Do you agree that the new reporting deadline should be introduced in phases; specifically:

1. "large companies" being required to comply with the new Rules first; and
2. to allow a transitional period of two years for other companies to meet the new deadlines?

Please state reasons for your views.

Q.3: Do you agree that "large companies" should mean companies with a market capitalisation of HK$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 HK$10 billion or more on the date of listing? Please state reasons for your views.

Q.4: Do you agree that the commencement dates for the accelerated reporting deadlines for half-year reporting for Main Board issuers should be:

1. "large companies" – half-year accounting period ending on or after 30 June 2008;
2. other companies – half-year accounting periods ending on or after 30 June 2010?

Please state reasons for your views. Please also comment, including reasons, if you have other suggested commencement dates.

Q.5: Do you agree that the time allowed for the release of annual results announcements and reports should be shortened from fourth months to three months after the relevant financial period end? Please state reasons for your views.

Q.6: Do you consider that the new three month reporting deadline should be introduced in phases such that:

1. "large companies" would be required to comply with the new Rules first; and
2. there would be a transitional period of two years for other companies to meet the new deadline?

Please state reasons for your views.

Q.7: Do you agree that "large companies" should mean companies with a market capitalisation of HK$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 HK$10 billion or more on the date of listing? Please state reasons for your views.

Q.8: Do you agree that the commencement dates for the accelerated reporting deadlines for annual reporting for Main Board issuers should be:

1. "large companies" – annual accounting periods ending on or after 31 December 2008;
2. other companies – annual accounting periods ending on or after 31 December 2010?

Please state reasons for your views. Please also comment, including reasons, if you have other suggested commencement dates.

Q.9: Do you agree that mandatory quarterly reporting should be introduced for Main Board issuers? Please state reasons for your views.

Q.10: Do you agree that Main Board issuers should publish their quarterly reports within 45 days after the period end? 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.

Q.11: Do you agree that quarterly reports of Main Board issuers should include as a minimum all the information set out in Table 8? Please state reasons for your views Please also comment, together with reasons, on those terms which you believe may be considered to be added to Table 8.

Q.12: Do you agree that a condensed consolidated income statement in a quarterly report should contain the following information, together with prior year comparatives:

1. current quarter results; and
2. cumulative year-to-date results?

Please state reasons for your views.

Q.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:

1. the first quarter results; and
2. immediately preceding quarter results?

Please state reasons for your views.

Q.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 list issuer's own website? Please state reasons for your views.

Q.15: Do you agree that the newly quarterly reporting requirements should be introduced in phases with:

1. "large companies" being required to comply with the new Rules first; and
2. other companies allowed a transitional period of two years to meet the new deadlines?

Please state reasons for your views.

Q.16: Do you agree that the commencement dates for the new quarterly reporting requirements for Main Board issuers should be:

1. "large companies" – three months quarterly accounting periods ending on or after 30 September 2008;
2. other companies – three months quarterly accounting periods ending on or after 30 September 2010.

Please state reasons for your views. Please also comment, including reasons, if you have other suggested commencement dates.

Q.17: Do you agree that the same disclosure and publication requirements for quarterly reporting should apply to Main Board and GEM issuers? Please state reasons for your views.

Q.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? Please state reasons for your views.

Q.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? Please state reasons for your views.

Q.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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1. An issuer's market capitalisation will be the closing price at 31 December 2006 of the issuer's shares traded on the Exchange multiplied by the total number of all issued shares of the issuer at that date including unlisted shares and shares listed on other regulated markets. [↑](#footnote-ref-30)
2. An issuer's initial market capitalisation will be the IPO subscription price per share multiplied by the total number of all issued shares of the issuer at that date including unlisted shares and shares listed on other regulated markets. [↑](#footnote-ref-31)