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# HKEx Proposes Mandatory Quarterly Reporting By Main Board Listed Companies From 2011 Year-End And Other HKEx Initiatives

## Introduction

The latest Status Report on New Product and Market Development Initiatives (**Status Report**) and the latest quarterly newsletter (**Newsletter**) published by the Hong Kong Stock Exchange (**HKEx**) on 19 January 2009 outline important initiatives being taken by HKEx and report on records set by HKEx's markets in 2008. The purpose of this newsletter is to highlight some of the principal initiatives and market developments. Online versions of the [Status Report](http://www.hkex.com.hk/eng/newsconsul/hkexnews/2009/0901192news.htm) ([see archive](status_report.pdf)) and [Newsletter](http://www.hkex.com.hk/eng/newsconsul/hkexnews/2009/090119news.htm) ([see archive](newsletter.pdf)) can be viewed on the HKEx website.

## Introduction Of Mandatory Quarterly Reporting

According to the Status Report, the Listing Committee of HKEx has decided that it should follow the Mainland's example and introduce mandatory quarterly reporting requirements for Main Board listed companies, although with less onerous content requirements and a longer reporting deadline. HKEx is apparently finalising listing rules which will require quarterly financial reporting from 31 December 2011.

### Background

HKEx's proposals for mandatory quarterly reporting for Main Board issuers were set out in its August 2007 Consultation Paper on Periodic Financial Reporting (**Consultation Paper**). In July 2008, HKEx released consultation conclusions [[1]](#footnote-30) on the Consultation Paper's proposals to shorten the deadlines for annual and half-year reporting by Main Board issuers. Under the Rule amendments, the deadlines for announcement of annual and half-year results announcements by Main Board issuers will be reduced by one month to three months after the financial year-end and two months after the half-year end, respectively. The shortened deadlines will apply to results announcements for half-year accounting periods ending after 30 June 2010 and annual accounting periods ending after 31 December 2010. The existing deadlines for publication of Main Board issuers' annual reports (4 months) and half-year reports (3 months) will however be retained. The consultation conclusions did not deal with the proposals for mandatory quarterly reporting which are to be the subject of separate feedback.

### Contents of Quarterly Reports

It is not yet clear whether the content requirements of the proposed quarterly reports will follow the proposals put forward in the Consultation Paper or whether, as has been suggested in certain press reports [[2]](#footnote-32), HKEx will adopt the London Stock Exchange's (**LSE**) narrative statement approach to quarterly reporting. According to the Status Report, the content requirements for quarterly financial reports will be in line with the proposals put forward in the Consultation Paper, but with amendments to reflect comments from respondents to the consultation.

The Consultation Paper's proposals were that while quarterly reports would not be required to be audited, they would have to include certain key information including:

* A condensed consolidated income statement, with comparatives;
* A condensed consolidated balance sheet, with comparatives;
* A condensed consolidated cash flow statement, with comparatives; and
* 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;
  3. an indication of future developments in the business of the Group, including prospects for the current financial year;
  4. any supplementary information necessary for a reasonable appreciation of the results and financial position and explanations for significant changes from the previous period; and
  5. an explanatory statement as to the Group's activities and profit (or loss) in the relevant period including any significant information enabling investors to make an informed assessment of the trend of the activities and profit (or loss) and an indication of any special factor which has influenced those activities and the profit (or loss) for the period. The explanatory statement would also be required to permit a comparison with the corresponding period of the previous financial year and to refer, as far as possible, to the prospects of the Group for the current financial year.

The Consultation Paper also proposed 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.

Press reports have suggested however that HKEx may instead follow the LSE style of quarterly reporting. Companies listed on the LSE are required to produce two interim management statements between the publication of their annual and half year results. These statements are not required to include a balance sheet or an income statement, but must provide:

1. an explanation of material events and transactions that have taken place during the period and their impact on the issuer's financial position; and
2. a general description of the financial position and performance of the issuer during the period [[3]](#footnote-33).

It will therefore be interesting to see the extent to which HKEx modifies its original proposals to address the issues raised by respondents to the consultation.

## Extension Of Blackout Period For Directors' Dealing - HKEx Plans To Issue Further Statement

According to the Newsletter's "Chief Executive's Message", HKEx plans to post on its website a further statement with respect to the controversial Listing Rule amendments to extend the blackout period on directors' share dealing, the implementation of which has been deferred until 1 April 2009. That statement is planned to be made either this month or in February. This comes amid press reports that HKEx may reconsider a shortened blackout period if quarterly reporting and shortened reporting deadlines are introduced.

## Strategic Review Of Listing Rules

HKEx is reportedly reviewing the report of a consultant appointed to conduct a strategic review of the Listing Rules to identify possible means of enhancing HKEx's competitiveness as an international listing venue, while balancing the need to maintain the quality of Hong Kong's securities market.

## Review Of Chapter 18 Of The Main Board Listing Rules

External mineral consultants have been engaged by HKEx to compare the rules and practices relating to the listing requirements and continuing disclosure obligations applicable to mineral and exploration companies in other jurisdictions with those under Chapter 18. According to the Status Report, HKEx hopes to conduct market consultation on proposed amendments to Chapter 18 in the first half of 2009.

## Hong Kong's ETF Market Leads Asia Pacific In Turnover

According to the Newsletter, Hong Kong's Exchange Traded Fund (**ETF**) market became the largest in terms of turnover in the Asia Pacific region in 2008, with total market turnover reaching a record high of US$56.6 billion. This was apparently the third consecutive year of major turnover growth for Hong Kong-listed ETFs.

## Growth In Exchange Participants' Principal Trading Of Derivatives

The Newsletter also reports on the findings of HKEx's Derivatives Market Transaction Survey for 2007/2008 that the two main purposes of derivatives trading in the market were pure trading and hedging. Pure trading and hedging accounted for 40% and 39% of total market turnover respectively in 2007/2008. There was also an increase in Exchange Participants' (**EP**) principal trading (i.e. trading as market makers and EP proprietary trading) which accounted for 61% of total volume (49% from market makers and 12% from proprietary trading). The Newsletter attributes the increased share of EP principal trading to the increasing dominance of the stock options market, which accounted for 56% of the total market volume. Overseas investors contributed 19% of total market trading, lead by UK investors followed by US investors.

*The purpose of this note is to provide a summary only of information included in the Hong Kong Stock Exchange's "Status Report on New Product and Market Development Initiatives" and its January 2009 quarterly newsletter, the "Exchange". Its contents do not constitute legal advice and specific advice should be sought in relation to any particular situation.*

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1. Consultation Conclusions on Shortening Deadlines for Half Year and Annual Reporting by Main Board Issuers. [↑](#footnote-ref-30)
2. "Exchange may trade longer blackout period for quarterly reporting" South China Morning Post, 14 January 2009. [↑](#footnote-ref-32)
3. Disclosure and Transparency Rule 4.3 [↑](#footnote-ref-33)