

January 2021 Legal and Regulatory Update

Top stories

HKEX review: annual reports disclosure

HKEX published a **report** on its review of issuers' **annual reports for financial year ended between Jan to Dec 2019**. ([Press release](#); [full report](#))

This covers: (i) **rule compliance**, corporate conduct, and disclosure of material developments; (ii) **financial statements review**. 13 areas were covered (*full list: P.4 of report*). HKEX used artificial intelligence in this review.

A key area is the **disclosure of Covid-19 impact**, in “**business review and MD&A**”.

HKEX acknowledges that Covid was only at an incipient stage when issuers prepared 2019 annual reports. **For the next report, it recommends** appropriate disclosure on Covid's impact on **operations, financial performance and financial position**, and assess the **risks/ impact on future performance**. Issuers should **continuously evaluate** the situation and (*as appropriate*) announce material business developments. **Useful examples** are given.

(*These are in line with HKEX's previous Listed Issuer Regulation Newsletter; read our [April 20 legal update](#)*).

As regards “**annual review of continuing connected transactions**” by independent directors (“INEDs”), HKEX stresses the important role of INEDs. Issuers should have appropriate **internal controls to monitor**, and **assist INEDs** in their roles. **INEDs should review** the appropriateness of these **internal control** procedures. It also refers to **examples of good practices in last year's report**. (Read our [Jan 20 legal update](#))

Other notable compliance-related themes are summarised below. Accounting-related themes include financial statements with modified auditor opinion, material intangible assets, etc.

What you should know:

Disclosure of Covid in “Business review”/ MD&A (para 10, P.6)

- Impact on **operations; risks/uncertainties** that materially affect **future performance**
 - E.g. suspension of operations, disruption to supply chains/distribution channels, change in customers' demands, etc.
- **Quantitative** measures of the financial or operational impact
 - E.g. % of revenue or profit, operating capacity, impairments to assets, loans and receivables

- **Disclosure example** (*para 14, P.8*)
- Assessments of **liquidity** positions and **working capital sufficiency**
 - With reference to operations and capital commitments
 - Assessments of the ability to fulfill financial obligations or meet debt covenants
 - **Disclosure example** (*para 15, P.8*)
- **Measures** taken/ to be taken to **manage** the impact
 - E.g. cost control, funding and adjustment to business plans
 - **Disclosure examples** (*para 16, P.8*)

Other notable themes

- **Updates on material asset impairments and performance guarantees after acquisitions** (*para 40, P.15*)
- **Disclosure on share option and award schemes** (*para 64. P.21*)
 - Currently, rules (*Chapter 17*) only covers share options
 - Recommend issuers with **share award schemes** to follow above disclosure requirements in future annual reports

What you should do:

- Your forthcoming **annual results announcement/annual reports** — note expectations on **Covid-19 disclosure** in particular
- Your forthcoming **annual INED review of CCTs** — consider the referenced best practices in monitoring

Hot Trends

- Is your board future-ready? The expertise you will need (Nasdaq)

Essential read amidst COVID + global disruptions!

Hot topics include:

- **Corporate purpose:** how to balance with profit

- **“Diversity”**: in ways that link to strategy
- **Technology, risks, security**
- **ESG**

[Read more](#) **Hot boardroom topics!**

Published by Practising Governance Limited

February 2021