

January 2024 Legal and Regulatory Update

Top stories

HKEX review: annual reports disclosure

HKEX published a **report** on its review of issuers' **annual reports for 2022 year-end**. ([Press release](#); [report](#))

HKEX followed a “thematic approach” as in the past, selecting a number of specific areas for review. These include **financial reporting and controls**, **material asset impairments** (*including loan impairments*), **financial statement disclosure**. The review also assessed issuers' compliance with **annual report disclosure requirements** and specific **accounting standards** in financial statements. A high level of compliance was generally noted.

Detailed coverage of findings relating to technical accounting standards is outside our scope. We summarised below those areas which might affect more issuers generally. **HKEX recommendations** are also highlighted.

What you should know:

Financial reporting and related controls

- **Internal controls and risk management: management** should establish a policy to
 - Identify **emerging risks** (*changes in external environment; material corporate actions*)
 - Develop **risk mitigating controls**
 - **Review control effectiveness on a continuous basis**
 - Under the **oversight of audit committee**
 - **Disclosure for transparency** (*corporate governance report*): review scope, significant concerns identified, remedial measures
- **Proper audit planning**
 - **Audit fees and plans** to be agreed with auditors as early as practicable
 - **Management** should establish a policy to **monitor the audit process**
 - **Escalate** audit issues identified to **audit committee**
 - **Audit committee: sufficient oversight throughout** the financial reporting process

Material lending transactions

- **(Money lenders) Enhanced disclosure** (*customer profile, concentration risks and internal controls over the lending businesses*)
- **(Non-money lenders: e.g. advances to joint ventures, customers and suppliers) disclose reasons for lending**; have appropriate **internal controls** commensurate with operation scale to govern money lending transactions
 - “**Financial assistance**” under Listing Rules
 - **Directors** should **assess commercial rationale**
 - **Directors and audit committee: risk management and internal control systems** to monitor lending transactions
 - **Detailed disclosure guidance** (*Appendix 1*)

Financial statement disclosure under accounting standards

- E.g. **material “Level 3 financial assets”** (*para 67*)
- **Directors’ fiduciary duties, duties of skill, care and diligence** (*Listing Rule 3.08*)
 - Must exercise **own judgment**
 - Assess **reasonableness of valuation techniques, underlying unobservable inputs**
 - Not overly rely on valuers
- Others: e.g. material intangible assets, revenue, credit risk disclosure on trade receivables

Annual report disclosure

- E.g. (*new requirements*) **share schemes** (*para 87*)
 - **Detailed tables** on compliance rate re: various requirements

What you should do:

- **Update the Board, Audit Committee and management**, including HKEX’s **recommended actions to be taken by them**
- Your **forthcoming annual reports/financial statement disclosure** — consider HKEX recommendations

Also in this issue

Legislation

The Privacy Commissioner for Personal Data (“PCPD”) released a report on “Privacy Concerns on Electronic Food Ordering at Restaurants” using apps/scanning QR codes. A leaflet containing tips on protecting privacy in electronic food ordering is also published. ([Press release](#), [report](#) (Chinese only), [leaflet](#))

PCPD provide useful tips on privacy protection to citizens. E.g. **understand the information to be accessed, collected or shared by the apps** before deciding whether to download and use the apps.

It also provides advice to the **food and beverage industry**. E.g. should **allow customers to place orders in the capacity of guests** (*without registration*) using the mobile apps **without collecting their personal data** or collect **minimal** amount of personal data according to needs.

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