

# Review of Issuers' Annual Reports 2024



The Exchange undertakes an on-going programme to review issuers' annual reports and publishes its findings and recommendations on an annual basis. In the programme, we assess issuers' compliance with the specific disclosure requirements under the Rules<sup>1</sup>. We also adopt a thematic approach, selecting specific areas in which we have regulatory interest for review. To enhance quality of financial disclosure, we also assess issuers' compliance with specific accounting standards in their financial statements.

We have completed our review of issuers' annual reports for the financial year ended in 2023 and are pleased that issuers continued to achieve a high rate of compliance with the annual report disclosure requirements under the Rules and specific accounting standards. We present below major findings from our review and recommendations in certain areas with room for improvement.

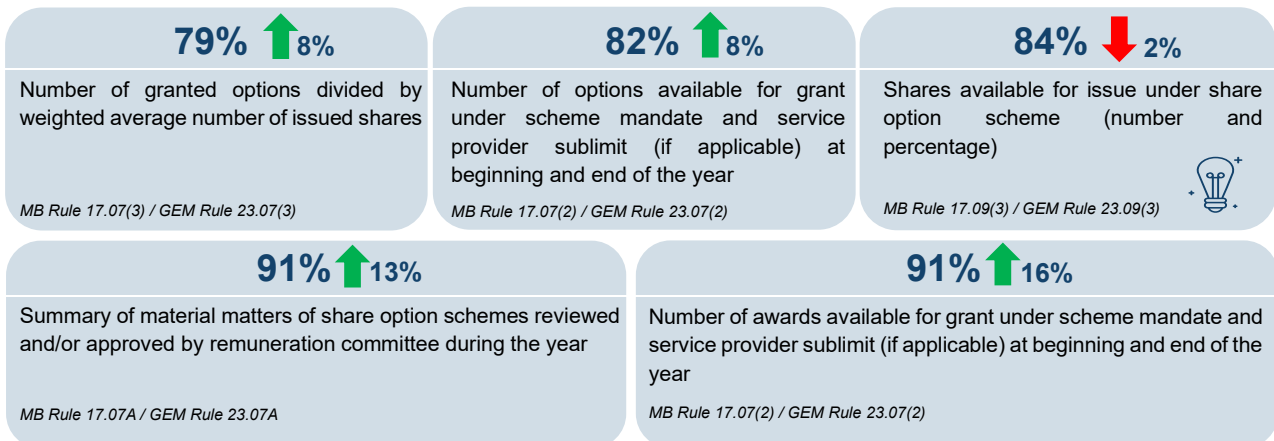
This year, we have prepared a [Guide on Preparation of Annual Report](#) (the **Guide**) which summarises all disclosure Rules for annual reports and our prevailing recommendations to facilitate issuers in preparing their upcoming annual reports. Issuers are encouraged to take note of our findings and follow our recommendations in this report and the Guide.

## REVIEW OF COMPLIANCE WITH SPECIFIC DISCLOSURE REQUIREMENTS

**98%** of issuers achieved a compliance rate of 90% or above on the specific disclosure Rules under review<sup>2</sup>

**10** disclosure Rules with the lowest compliance rate mainly relate to **share schemes** and **significant investments**

### Share schemes

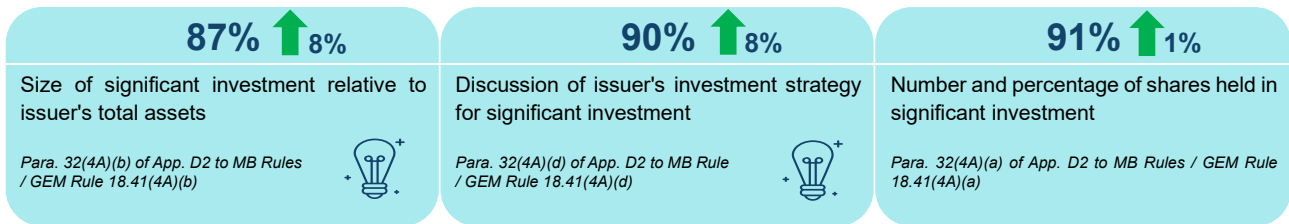


Some issuers only disclosed shares issuable under the options available for grant under the remaining scheme limit but failed to include also shares issuable under the options **already granted under the scheme but not yet exercised**.

<sup>1</sup> In this report, "Rules" refer to both Main Board (MB) Rules and GEM Rules.

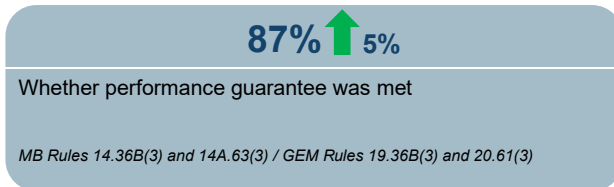
<sup>2</sup> Our review was assisted by artificial intelligence, covering around 400,000 disclosure records and over 155 disclosure Rules.

### Significant investments

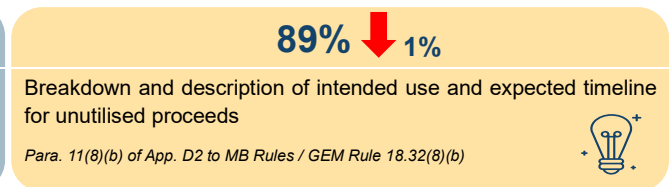


Some issuers failed to make the relevant disclosure for their investment in funds or wealth management products. Issuers should note that “significant investments” are **not confined to securities in companies**. Funds or wealth management products also fall under the ambit of the Rules and must be disclosed if the materiality threshold is exceeded.

### Performance guarantees



### Use of proceeds from fundraisings

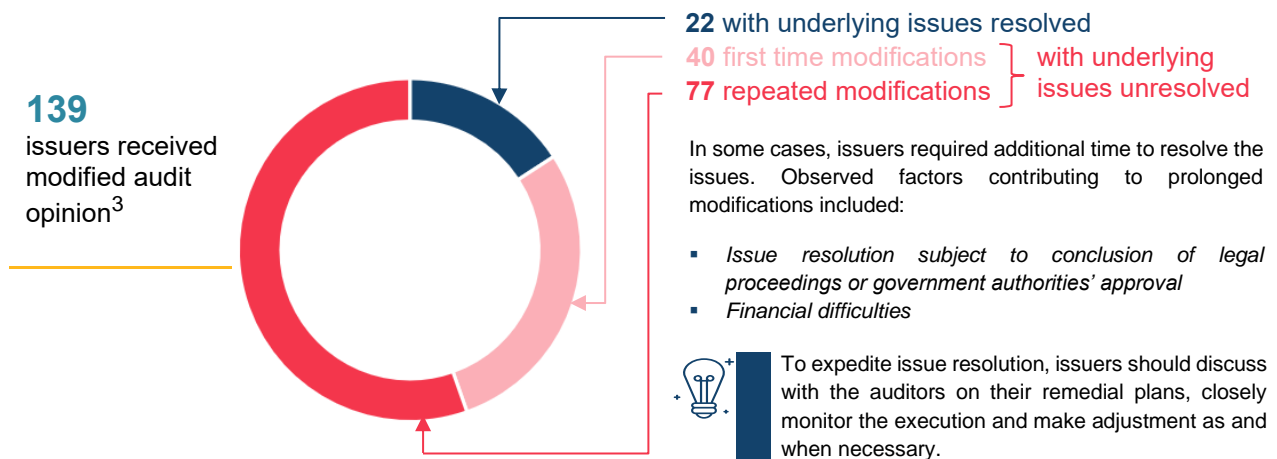


Some issuers omitted to disclose **expected timeline** for applying unutilised proceeds from fundraisings purportedly due to the absence of a definitive timetable for fund deployment. In such circumstance, issuers should indicate an approximate timing for fund usage and update investors through announcements and/or in subsequent financial reports when there is better clarity on the timeline.

## THEMATIC REVIEW

### Financial statements with auditors' modified opinions

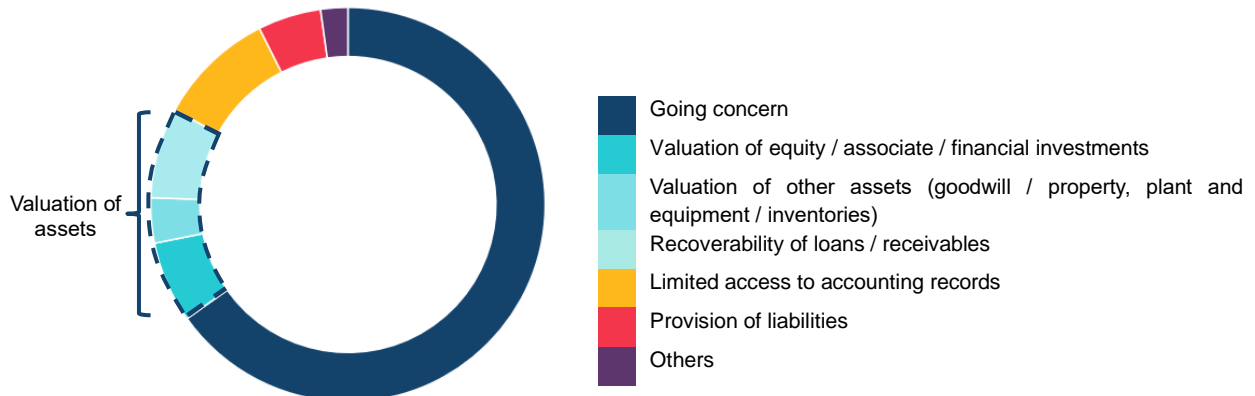
**95%** of issuers published financial statements with an unmodified audit opinion



<sup>3</sup> Excluding 21 issuers that were long suspended companies at the time they published the financial statements for 2023.



## Nature of audit modifications



Note: The above cover only “qualified opinion”, “adverse opinion” and “disclaimer of opinion”; and exclude audit modifications on opening balance / comparative figures relating to prior year’s modifications where the underlying issues have already been resolved in prior year.

**Going concern uncertainty** – being the most common modification typically due to deterioration in economic condition and/or business, and/or difficulties in obtaining financing. To date, two issuers were ordered to be wound up and suspended from trading.



To avert this adverse outcome and facilitate issuers in providing investors with financial statements that fairly present their financial performance and position, issuers are urged to **make their best endeavour to resolve going concern issue as soon as practicable.**

**Valuation of assets and limited access to accounting records** – often attributable to lack of adequate risk identification policies and mitigating measures such as:

- guidelines to maintain sufficient documentation to support the fair value change amid deteriorating operating and financial environment;
- control procedures on undertaking material corporate actions, such as performing credit risk assessment and approval before granting loan; and
- oversight of investees, including measures to ensure undenied access to financial information, in both negotiating terms of acquisitions and post-acquisition monitoring.

Similar to our previous year’s observations, such deficiencies often resulted in the issuers’ failure to supply evidence to auditors’ satisfaction to substantiate the fairness of the reported balances and in extreme cases, genuineness of the transactions.



Issuers should put in place adequate risk management and internal control systems through:

- establishment of appropriate policy to identify risks emerging from material changes in external environment, as well as internal factors (e.g. material mergers and acquisitions and major overhaul of business/operation model);
- development of risk-mitigating controls and continuous review of their effectiveness;
- proper documentation of control procedures and activities; and
- regular report to board for continuous oversight.

## Disclosure

**90%** of issuers made recommended disclosure on audit modifications in full

 <b>100%</b>	 <b>94%</b>	 <b>91%</b>	 <b>94%</b>
Details of modifications and financial impact	Management's position and basis on major judgmental areas	Audit committee's view	Action plans to address modifications

## Material lending transactions

Issuers' disclosure continued to improve. Most issuers reviewed followed all or substantially all of our disclosure recommendations.

*Room for improvement in disclosure in the following areas:*

Money lenders <sup>4</sup>		Non-money lenders <sup>5</sup>	
	<ul style="list-style-type: none"> <li>Customer profile</li> <li>Concentration risks</li> <li>Major loan terms</li> </ul>		<ul style="list-style-type: none"> <li>Rationale for lending</li> </ul>

See section 2.4 of the Guide for disclosure recommendations for money lenders and non-money lenders, respectively.

The number of identified potential non-compliances with the notifiable/connected transaction Rules and problematic lending cases continued to decline. Several isolated cases exhibiting characteristics of director misconduct and/or internal control breakdown are under our investigation.

These cases involved:

- material impairment shortly after grant of loans;
- repeated rollovers for prolonged period without apparent commercial rationale; and/or
- failure to take adequate actions to safeguard issuers' interest in the loans.

The Exchange takes director misconduct and material internal control deficiencies seriously and will not hesitate to take disciplinary actions where circumstances necessitate. Issuers should ensure their controls over material lending transactions are adequate to safeguard shareholders' funds.

<sup>4</sup> Money lenders report money lending as a principal business activity in their annual reports.





<sup>5</sup> Non-money lenders do not carry out money lending as a principal business and majority of them granted loans incidental to their business operation.

## Management discussion and analysis (MD&A)

The Rules prescribe specific areas that issuers must, as a minimum, provide commentary on in the MD&A section<sup>6</sup>. This year, we reviewed the disclosure in the MD&A section of a sample of issuers, including newly listed issuers<sup>7</sup>.

Issuers generally complied with the Rules in making disclosure or commentary in the prescribed areas.

**Room for improvement in quality of disclosure**, particularly in discussion of year-on-year performance variances; and significant events and risks, their impacts and issuers' counter measures. Examples of shortcomings:

	<p>Failed to identify and discuss specific underlying causes or business factors that drove the results. Some issuers <b>only made generic and boilerplate statements</b>, such as merely reciting figures in financial statements.</p>
	<p>Highlighted business plans (which would demand significant investment) but failed to discuss the estimated capital expenditure requirement and how the issuer intended to meet such requirement.</p>
	<p>Reported substantial borrowings in foreign currencies but only briefly mentioned foreign exchange and interest rate risks without disclosing how such risks will likely affect the issuer and how the issuer intended to mitigate them.</p>
	<p>Disclosed a major change in business model (e.g. shift of model from self-operate to franchise) but did not provide reasons for such change or its impact on financial results and position in the current year and going forward.</p>

**Newly listed issuers'** MD&A disclosure was generally watered down compared to prospectus and shared some of the aforesaid shortcomings. Some issuers also did not provide update on major matters highlighted in their prospectuses – for example, an issuer disclosed certain stringent regulatory policies and risks of heavy penalty for non-compliance in its prospectus but did not discuss in the annual report its compliance over the year, financial and operational impact of such policies and penalties, effectiveness of its disclosed mitigating measures and latest development of the relevant regime, etc.



Issuers are recommended to make reference to section 2.2 of the Guide to enhance the disclosure in the MD&A section of their future annual reports. They should strive to have their MD&A disclosure on par with the disclosure standard of a listing document.

Newly listed issuers, in particular, are reminded to provide update on significant matters highlighted in the prospectus to enable investors to evaluate whether the post-listing developments are in line with the track record, business plan and prospects outlined in the prospectus. They should make reference to their IPO prospectuses in preparing the MD&A section of their annual reports.

<sup>6</sup> See paragraphs 28(2)(d) and 32 of Appendix D2 to the MB Rules / GEM Rules 18.07A(2)(d) and 18.41.

<sup>7</sup> Issuers listed in 2022

## REVIEW OF FINANCIAL DISCLOSURE UNDER PREVAILING REQUIREMENTS (INCLUDING ACCOUNTING STANDARDS)

No significant accounting non-compliance was identified.

**Room for improvement in the qualitative disclosure**, e.g. material accounting policy information, key judgements and estimates should focus on how issuers have applied the accounting requirements according to their own facts and circumstances.



Boilerplate description that solely duplicates or summarises the accounting requirements is not enough.

**Non-GAAP measures** – some selected issuers used non-GAAP measures to discuss and analyse their financial performance as a complement to GAAP information. In a few cases, non-GAAP measures were not properly labelled; the reconciliation was omitted; and the adjusting items were not clearly explained.



### Key considerations:

- Definitions
- Reasons for presenting
- Prominence
- Reconciliation and nature of adjustments
- Comparatives

See section 3 of the Guide for guidance.



# Hong Kong Exchanges and Clearing Limited

8/F, Two Exchange Square,  
8 Connaught Place,  
Central, Hong Kong

[hkexgroup.com](http://hkexgroup.com) | [hkex.com.hk](http://hkex.com.hk)

[info@hkex.com.hk](mailto:info@hkex.com.hk)  
T +852 2522 1122  
F +852 2295 3106