



## Common omissions in HK-listed companies' annual reports

Rossana Chu / Lynndy Jia  
29 July 2021

Since 2009, the Hong Kong stock exchange (HKEX) has been reviewing annual report disclosures of listed companies. Covid-19 has added complications to annual report disclosure. In January 2021, the exchange issued a report on the review of annual reports for the 2019 financial year.

The report highlighted common omissions and provided guidance relating to disclosure on the impact of the pandemic. A Hong Kong-listed company may use the HKEX's review report as a guide to better understand reporting requirements and identify what it may miss in its annual reports.

### Basic requirements

A company listed on the main board of the HKEX is required to issue its annual report within four months from the end of its financial year - three months for a GEM-listed company.

An annual report must comply with the requirements set out under the Listing Rules, the Companies Ordinance of Hong Kong, and the relevant financial reporting and auditing standards. However, there is still room for judgment by the directors in making specific disclosures, especially given the diverse industry segments, nature, size and history of the different listed issuers.

### Covid-19 impact

The HKEX review report has a series of reporting requirements that remind companies to make more informed assessments and disclosures in their annual reports on:

- Discussion about the effect of the pandemic on the issuer's operations, and the relevant risks or uncertainties that will materially affect its future performance, e.g. suspension of operations, disruption to supply chains;
- Quantitative measures of the financial or operational impact to allow shareholders to gauge the materiality of the impact, with reference to percentages of revenue or profit, operating capacity, and impairments to assets, loans and receivables;
- Assessments of the liquidity positions and working capital sufficiency with reference to the operations and capital commitments, as well as assessments of

the ability to fulfil financial obligations or meet debt covenants; and

- Measures such as cost control, funding and adjustment to the business plan taken or to be taken to manage the impact of the pandemic.

An issuer should discuss the impact of the pandemic in detail rather than make generic disclosures. Meanwhile, as the situation of the pandemic continues to evolve, issuers should consider making announcements instead of combining all disclosures in their annual reports.

### Share option, award schemes

Save for annual report disclosure requirements set out under chapter 17 of the Main Board Rules (or chapter 23 of the GEM Rules), the review report suggests disclosure of specific information in respect of the share option and award schemes, if any.

These include, for example, the securities available for issue under the share option schemes (expressed as number of shares and percentage), the remaining life of the schemes, the closing price of the underlying securities immediately before the option grant date, and the value of options granted during the year, or the reasons for non-disclosure.

It is recommended to disclose the identities of the non-employee grantees and rationale for such grants, in order to strengthen transparency and explain to shareholders why the grants align with the objective of the schemes.

### Common omissions

The HKEX has for the first time applied artificial intelligence (AI) technology in the

review, which identifies the following common omissions in disclosures:

- Pension schemes:
  1. Whether the forfeited contributions under the defined contribution schemes may be used by the employer to reduce the existing level of contributions; and
  2. details of the defined benefit plans, e.g.: (i) the name and qualifications of the actuary, actuary methods and assumptions; (ii) market value of the scheme assets; (iii) level of funding; and (iv) comments on any material surplus or deficiency;
- Details of subsidiaries - the principal country of operation of the subsidiaries; and the legal form of subsidiaries established in the PRC, e.g. wholly owned foreign enterprises, contractual joint ventures or co-operative joint ventures;
- Top five customers and suppliers, e.g. percentages of revenue/purchases;
- Gearing ratios;
- Remuneration of the five highest-paid individuals;
- Reserves available for distribution.

Although the Listing Rules set out the requirements and minimum level of disclosure in annual reports, the HKEX has stressed repeatedly that it may consider whether listed issuers have adopted the guidance in its yearly review reports and, where appropriate, may request any listed issuer to disclose omitted information by way of a supplemental announcement or in its subsequent financial reports.

## KEY CONTACTS



**Rossana Chu**  
Managing partner  
Rossana.Chu@eylaw.com.hk  
+852 2629 1768



**Lynndy Jia**  
Legal Manager  
Lynndy.Jia@eylaw.com.hk  
+852 2629 1731

### Contact us

#### LC Lawyers LLP

Suite 3106,  
31/F One Taikoo Place,  
979 King's Road,  
Quarry Bay, Hong Kong  
Tel: (852) 2629 3200  
Fax: (852) 2956 1980

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First published in June issue 2021 of *China Business Law Journal*.