

HKEX News Update: Review of Issuers' 2022 Annual Reports

On 26 January 2024, the Stock Exchange published its [Review of Issuers' Annual Reports 2023](#) on the findings and recommendations of its annual review of **issuers' annual reports for the 2022 financial year end**.

The Stock Exchange adopted a thematic approach in the review, which includes review on (i) financial reporting and controls; (ii) material asset impairments (including loan impairments); and (iii) issuers' compliance with the annual report disclosure requirements under the Listing Rules.

The key recommendations include:

Financial reporting and related controls

- Issuers' management should establish a **policy** to identify emerging risks, develop risk-mitigating controls, and review control effectiveness on a continuous basis to facilitate timely and accurate financial reporting;
- Issuers should **timely agree** on audit fees, audit plans and audit approach for any material changes with the auditors;
- Issuers' management and audit committees should have **sufficient** and **continuous oversight** throughout the audit process; and
- Issuers are encouraged to confirm in the **corporate governance reports** that the **management has reviewed the issuers' risk management and internal control systems** ^(Note 1), and the board considers the systems to be effective and adequate. The scope of review and details of significant areas of concern identified, including principal risks, internal control deficiencies and remedial measures implemented are also recommended to be disclosed.

Material lending transactions

- Directors should **assess** the commercial rationale, whether the use of corporate funds for lending is in line with the issuer's overall business strategy and directions and whether the terms of the lending are fair and reasonable and in shareholders' interests in conducting money lending transactions;
- Directors and audit committees should ensure that **effective risk management and internal control systems** with suitable internal control measures commensurate with the scale and complexity of their lending activities are in place to monitor lending transactions;
- Issuers (including money lenders) should be mindful of the relevant Rule requirements on lending transactions (being a form of "**financial assistance**") and ensure compliance; and
- Money lenders should enhance their **disclosure** of customer profile, concentration risks and internal controls over the lending businesses, whilst non-money lenders should disclose reasons for their lending.

Compliance with annual report disclosure requirements

- Issuers should be mindful to ensure full compliance with the (i) disclosure requirements; (ii) additional disclosure requirements to facilitate shareholders' assessment of the dilution impact of share schemes; and (iii) matters reviewed by remuneration committees under the amended Chapter 17 of the MB Rules (Chapter 23 of the GEM Rules) ^(Note 2), which governs both **share option schemes and share award schemes**;

- Issuers should ensure compliance with the notifiable transaction Rules when acquiring **investment products**, and should note that acquisitions of wealth management products are transactions under the Rules subject to announcement and/or shareholders' approval requirements ^(Note 3).

To view the full details of HKEx's news, please click [HERE](#).

Notes:

1. *Recommended Best Practices set out in Code Provision D.2.8 of Appendix C1 to MB Rules / Appendix C1 to GEM Rules.*
2. *The disclosure requirements under the amended Rules apply to annual reports published on or after 1 January 2023.*
3. *Issuers may refer to [FAQ 057-2019](#) for guidance.*