



# Hong Kong Capital Markets Update

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## An overview of the Hong Kong Stock Exchange's review on listed issuers' financial reports

On 15 July 2016, the Hong Kong Stock Exchange (the "Exchange") published its latest [report](#) on listed issuers' financial reports published between March 2015 and April 2016, which includes key findings and recommendations to improve financial disclosures.

As part of its regulatory function, the Exchange operates a Financial Statements Review Programme (the "FSRP") under which it reviews, on a risk-based basis, listed issuers' published quarterly, interim and annual reports. The Exchange regularly publishes reports on its key observations and findings from the FSRP to increase listed issuers' awareness of the possible pitfalls related to the preparation of their financial reports, and to improve the quality of their own financial reports.

### Key findings and recommendations

- Listed issuers are reminded of the disclosure requirements on financial information in the annual report set out in Appendix 16 of the Main Board Listing Rules (the "MB Rule") or the equivalent GEM Listing Rules, as well as the recent amendments to the listing rules with reference to the new Companies Ordinance (Cap.622)(the "New CO").
- Listed issuers should take the initiative to resolve the identified issues in a timely manner, as stated in the auditors' report with modified opinions. Directors of the listed issuers are reminded of their primary responsibility of preparing the financial statements that give a true and fair view, and establishing effective risk management and internal control systems so that the financial statements prepared can be free from material statements, whether due to fraud or error. They are also reminded that internal controls are an integral part of risk management.



### Key areas relating to listing rules disclosures

Below are key areas related to the disclosure requirements under Appendix 16 of the MB Rule:

- Management Discussion and Analysis ("MD&A") and Business Review
- other disclosures required under the New CO
- ageing analysis of accounts receivable
- directors' emoluments
- the five highest paid individuals and senior management remuneration by band
- distributable reserves
- financial statements with modified opinions issued by auditors
- financial reports using China Accounting Standards for Business Enterprises



### New auditor reporting standards

Auditors' reports on financial statements for the period ending on or after 15 December 2016 will be subject to the new and revised Hong Kong Standards on Auditing, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") in August 2015. The form and content will be enhanced and more entity-specific.

Listed issuers are advised to discuss the new auditor's report with their audit committees and auditors either at an early stage or throughout the reporting period. Key audit matters, going concern issues and other significant events or transactions should be discussed to minimise the possibility of last minute surprises, and to avoid delays in dispatching the annual results.

- Listed issuers should provide MD&A discussions that are balanced (covering both good and bad news), customised (including the nature and impact of significant events or material balances and transactions) and prevent boilerplate disclosure that obscures useful information.



## Non-GAAP Disclosures

Recommendations on Non-GAAP Disclosures in which listed issuers:

- Should not present the Non-GAAP Disclosures with greater prominence or in a biased manner.
  - Should explain why Non-GAAP Disclosures are presented.
  - Should explain the respective calculation methods.
  - Should reconcile the Non-GAAP Disclosures to the financial statements and explain significant adjustments, if any.
  - Should not describe items as “non-recurring” or “one-off” if they occurred in the past, or are likely to occur.
  - Should present the Non-GAAP Disclosures consistently from period to period.
  - Should include an alert statement when Non-GAAP Disclosures are presented.
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- Listed issuers should implement robust asset impairment review processes on both tangible and intangible assets (including goodwill) to ensure the key assumptions involved are reasonable and not over-optimistic. Also, the quality of disclosures should be enhanced, particularly where the recoverable amount is based on management’s estimation of cash flow projections, growth rates and discount rates.
  - Listed issuers should properly evaluate whether the controls over investees exist and whether the consolidation of the investees’ financial statements is required or appropriate. The supporting facts and circumstances of the evaluation should be clearly disclosed to the investors.

The recommendations by the Exchange are based on specific information disclosed in the published reports of selected listed issuers. It should be noted that the recommendations for enhanced disclosures set forth in the Exchange’s report may not represent a complete list of the minimum disclosures required under the relevant accounting standards. Listed issuers are encouraged to consult their auditors or professional advisors to ensure proper application of the accounting and disclosure requirements.



## Business Review

Listed issuers are required to include a Business Review in their directors’ report in accordance with the amendment of listing rules relating to the New CO since the financial year ended on or after 31 December 2015. In preparing the Business Review, listed issuers are suggested to pay attention to the following points:

- Cross-referencing

Cross-referencing with the MD&A where its required disclosures are similar to those of the Business Review in the directors’ report is allowed. However, the cross-reference should be clear and state that the cross-referenced part of the annual report “forms part of the directors’ report”. Listed issuers are reminded to make sure the disclosures in the MD&A are sufficient to fulfil content requirements of the Business Review.

- Principal risks and uncertainties

It is not recommended to include all risks in the Business Review regardless of their significance to the issuers’ businesses. Only the risks and uncertainties that the listed issuers are genuinely concerned about should be included. Moreover, the listed issuers should disclose how these principal risks are being managed and mitigated.

- Listed issuers are expected to disclose the financial statements impact on the initial application of the new or amended accounting standards which are not effective for the reporting period and which have not been early adopted. If the impact is not known or cannot be reasonably estimated at the time the annual report is published, this fact should be disclosed.
- Listed issuers should ensure the disclosures of non-IFRS/HKFRS information (the “Non-GAAP Disclosures”) is neither misleading nor obscuring their financial results and financial position.

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