

# Hong Kong Institute of CPAs



## COVID-19 disclosure by listed companies: A research study

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Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

The Hong Kong Institute of Certified Public Accountants is the only body authorized by law to register certified public accountants and grant practising certificates in Hong Kong. The Institute has more than 46,000 members and around 16,000 students. Members of the Institute are entitled to the description "certified public accountant" and to the designation CPA.

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## ***Message from the chair of the 2020 Best Corporate Governance Awards Judging Panel***

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Dear readers

The COVID-19 pandemic continues to test companies' corporate governance practices. The pandemic has also highlighted the need for good communication and disclosure. At the Hong Kong Institute of Certified Public Accountants, we believe that companies and public sector organizations with good corporate governance practices deeply ingrained are more resilient and are also more likely to be able to weather the storm and recover more quickly once it has passed.

This report reviews the COVID-19 disclosures of March year-end companies. At that time, early in the pandemic, the situation was still fluid and uncertain. Since then, corporate practices have adjusted to the pandemic and businesses are learning to cope.

In some recently published interim, i.e. half-yearly, reports of December year-end companies, we have started to see more disclosures of the impact of the pandemic on the business. This is a good trend and we hope it continues through to the full year reports.

To help issuers, this report also provides recommendations for companies preparing their next annual reports. We hope that readers will find these recommendations useful.

While many business are focusing primarily on getting through this difficult period, the importance of good communications should not be overlooked. Timely communications with stakeholders can provide greater assurance and confidence regarding how the company is managing the situation.

To support our members in both business and practice, the Institute has published a range of guidance on COVID-19-related matters, including on financial reporting and auditing. This is available alongside guidance from other bodies, information about government support schemes, and news on the latest developments, on the Institute's [COVID-19 – CPA Information Centre webpage](#).

**Johnson Kong**  
**2020 Institute President**  
**and chair of the 2020 Best Corporate Governance Awards Judging Panel**

## **Background**

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The outbreak of COVID-19 starting earlier this year has seriously affected the daily business and operations of companies and organizations. Stakeholders of listed companies, in particular their shareholders, need to be provided with timely information, about how the company has been dealing with the impact of COVID-19 and the implications going forward, to enable them to make informed investment decisions.

The annual report remains one of the main vehicles of communication that companies have with their shareholders on the company's performance and prospects. Therefore, companies should endeavour to provide substantive information on important events affecting them during the reporting period, and before publication of the annual report. As companies listed in Hong Kong may publish their annual reports up to four months after their financial year end, and many publish their annual reports towards the end of this period, companies with a March 2020 year end should have had sufficient time to assess the impact of COVID-19 on their business and to provide a reasonable quantitative analysis, as well as explaining any specific measures that they may have taken, or may need take in the future, to deal with the challenges posed by the pandemic. As the situation was still developing, the most up-to-date information could be included as a post-balance sheet/ post reporting period event. While not all companies have been adversely affected by the pandemic, many have been and it is important that they communicate effectively with their stakeholders.

Indeed, circumstances may require that listed companies disclose "inside information", i.e. price sensitive information, through specific circulars, under section 307B of Securities and Futures Ordinance (Cap. 571) (SFO). This is information that is not generally known to the persons who are accustomed, or would be likely, to deal in the listed securities of the corporation, but which would, if generally known to them, be likely to materially affect the price of the listed securities. While the fact that COVID-19 is affecting the overall economy of most jurisdictions is common knowledge, its specific impact on individual companies' liquidity positions, access to funds, etc. is not, as this will vary from company to company.

In April 2020, Hong Kong Exchanges and Clearing Ltd. (HKEX) issued [Listed Issuer Regulation Newsletter, Issue 2](#), which, among other things, provided guidance to listed companies on the kind of COVID-19-related disclosures that they should make in preparing their annual reports and other communications for the benefit of investors. HKEX recommended that the companies should continually assess the situation and review their liquidity position and expected financial resource needs. They should consider making disclosures that:

- are specific
- include quantitative measures of the financial impact
- provide assessment on cost measures and liquidity positions
- incorporate principal risks and uncertainties arising from the pandemic
- update investors of material developments

Against this background, we conducted a brief desk-top research on how Hong Kong listed companies, which currently number around 2,500, have been communicating the impact of COVID-19, focusing on listed companies with a financial year that ended 31 March 2020, comprising around 480 entities. These were allocated into the 89 categories identified by AASTOCKS.COM LIMITED.

## Methodology

The scope of the research focused on two categories of disclosures by the relevant listed companies, to see whether they provided timely information on the impact of COVID-19:

Section A: COVID-19 disclosures in annual reports

Section B: Additional disclosures such as circulars from the selected listed companies issued up to around mid-August 2020

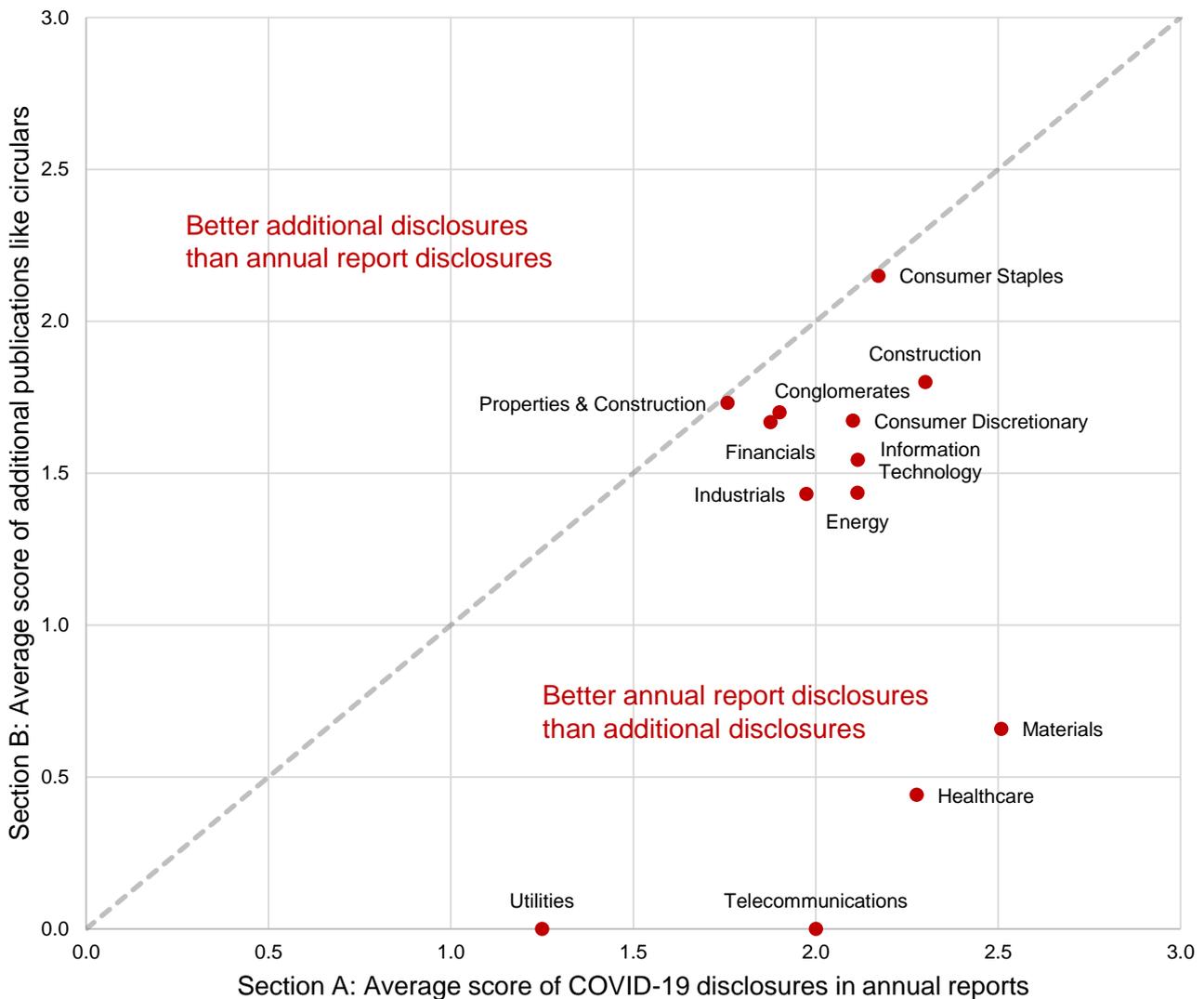
We rated their disclosures on a scale from 1 to 5 based on the criteria indicated below.

	Mark	Content
Highest	<b>5</b>	<p>The company:</p> <ul style="list-style-type: none"> <li>explained in detail how COVID-19 had impacted its different business lines, where applicable (negatively and/or positively);</li> <li>provided qualitative and quantitative analyses;</li> <li>gave an indication of measures to get the company back on track (or strategic plans to seize the business opportunities arising from COVID-19); and</li> <li>explained the company's liquidity position, and whether the company had sufficient financial resources, or access to the same, to get through the downturn in the economy triggered by COVID-19.</li> </ul>
Medium	<b>3</b>	<p>The company quantified the overall impact (negative or positive), due to COVID-19, and described some mitigating measures (or strategic plans to leverage on business opportunities arising from the situation).</p>
Lowest	<b>1</b>	<p>The company mentioned only that COVID-19 had had a significant impact (negative or positive) on its profits and loss position.</p>

## Results

	Section A: Average score of COVID-19 disclosures in annual reports	Section B: Average score of additional publications like circulars	Number of companies
Average score	2.1	1.8	459

### Graph of average scores by industry\*



\* 89 categories grouped into 13 industries, sourced from [Hang Seng Industry Classification System](#). The results by individual category are provided on the next two pages. Weighted average of categories with data.

## Results by category

Categories	Hang Seng Industry Classification	Average score of COVID-19 disclosures in annual reports	Average score of additional publications like circulars	Number of companies
1. Accessories & Leather Goods	Consumer Discretionary	2.50	2.30	5
2. Advertising	Consumer Discretionary	2.70	2.00	6
3. Agricultural, Poultry & Fish	Consumer Staples	2.60	3.00	4
4. Airline Services	Consumer Discretionary	#N/A	#N/A	0
5. Airline Support	Consumer Discretionary	#N/A	#N/A	0
6. Alcoholic Drinks & Tobacco	Consumer Staples	2.70	3.00	3
7. Alternative Energy	Utilities	1.00	#N/A	1
8. Apparel	Consumer Discretionary	2.50	2.30	17
9. Automobile Retailing, Repair	Consumer Discretionary	2.00	1.00	1
10. Automobiles & Components	Consumer Discretionary	3.00	#N/A	3
11. Banks	Financials	#N/A	#N/A	0
12. Biotechnology	Healthcare	1.00	3.00	1
13. Chemical Products	Materials	#N/A	#N/A	0
14. Coal	Energy	2.50	1.50	5
15. Commercial Vehicle	Industrials	#N/A	#N/A	0
16. Conglomerates	Conglomerates	1.90	1.70	7
17. Construction & Decoration	Properties & Construction	1.60	1.80	70
18. Construction Materials	Properties & Construction	2.00	1.50	4
19. Consumer Electronics	Consumer Discretionary	2.00	1.90	13
20. Cosmetics & Personal Care	Consumer Staples	1.70	2.20	10
21. Dairy Products	Consumer Staples	#N/A	#N/A	0
22. Department Stores & Shopping Malls	Consumer Discretionary	2.00	1.00	2
23. Diversified Food & Beverage	Consumer Staples	1.30	1.00	3
24. Diversified Tourism, Hotel & Restaurant	Consumer Discretionary	#N/A	#N/A	0
25. E-Commerce & Internet Services	Information Technology	2.00	1.00	4
26. Electric Equipment	Industrials	#N/A	#N/A	0
27. Electricity Supply	Utilities	#N/A	#N/A	0
28. Electronic Component	Industrials	2.00	2.00	2
29. Environmental Energy Material	Industrials	1.00	#N/A	2
30. Environmental Goods	Industrials	#N/A	#N/A	0
31. Fertilizers & Agricultural Chemicals	Materials	#N/A	#N/A	0
32. Food Additives & Flavouring	Consumer Staples	#N/A	#N/A	0
33. Footwear	Consumer Discretionary	1.00	1.00	1
34. Forestry & Timber	Materials	1.00	#N/A	1
35. Funeral	Consumer Discretionary	1.00	#N/A	1
36. Furniture & Household Goods	Consumer Discretionary	1.10	#N/A	9
37. Gambling	Consumer Discretionary	2.00	1.50	5
38. Gas Supply	Utilities	1.50	#N/A	2
39. Health Products	Healthcare	2.00	1.50	3
40. Hotels & Resorts	Consumer Discretionary	3.00	2.25	4
41. Household Appliances	Consumer Discretionary	3.00	2.75	3
42. Industrial Goods	Industrials	1.30	1.50	4
43. Infrastructure	Industrials	2.10	#N/A	7
44. Insurance	Financials	#N/A	#N/A	0
45. International Trade	Industrials	#N/A	#N/A	0

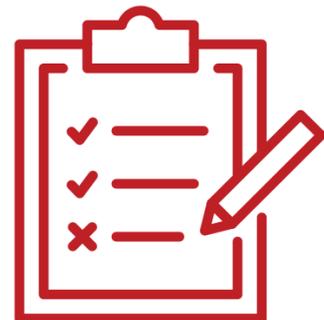
## Results by category

Categories	Hang Seng Industry Classification	Average score of COVID-19 disclosures in annual reports	Average score of additional publications like circulars	Number of companies
46. Investments & Assets Management	Financials	1.00	1.50	7
47. IT Hardware	Information Technology	2.60	2.00	10
48. Leisure & Recreation	Consumer Discretionary	2.80	#N/A	2
49. Machinery & Equipment	Industrials	2.10	2.00	8
50. Marine & Harbour Services	Industrials	3.00	2.30	3
51. Medical Equipment & Services	Healthcare	2.40	#N/A	8
52. Medicine	Healthcare	2.50	#N/A	5
53. Movies & Entertainment	Consumer Discretionary	2.70	2.00	4
54. Multi-media Enterprise	Consumer Discretionary	1.00	#N/A	1
55. Nonferrous Metal	Materials	3.30	2.00	2
56. Other Financials	Financials	2.30	2.00	19
57. Other Minerals	Materials	2.00	#N/A	1
58. Other Support Services	Industrials	2.10	1.70	18
59. Packaged Foods	Consumer Staples	2.90	1.70	6
60. Papermaking	Materials	2.50	#N/A	3
61. Petroleum & Gases	Energy	1.90	1.40	9
62. Petroleum & Gases Equipment & Services	Energy	#N/A	#N/A	0
63. Precious Metal	Materials	3.00	1.30	3
64. Printing, Publishing & Packaging	Industrials	2.10	1.30	6
65. Property Development	Construction	2.30	1.80	25
66. Property Investment	Properties & Construction	2.20	1.60	15
67. Property Management & Agency	Properties & Construction	2.50	1.00	3
68. Public Transport	Consumer Discretionary	3.00	3.00	2
69. Publishing	Consumer Discretionary	1.90	2.10	7
70. Real Estate Investment Trust	Properties & Construction	3.00	2.00	1
71. Restaurants & Fast Food Shops	Consumer Discretionary	1.90	1.70	17
72. Retailers & Trade	Consumer Discretionary	1.50	#N/A	2
73. Road and Railway	Industrials	#N/A	#N/A	1
74. Satellite & Aerospace	Telecommunications	#N/A	#N/A	0
75. Securities	Financials	1.70	1.20	11
76. Semiconductors	Information Technology	2.50	1.00	1
77. Soft Drinks	Consumer Staples	2.00	2.00	2
78. Software	Information Technology	#N/A	#N/A	0
79. Steel	Materials	2.00	#N/A	2
80. System Applications & IT Consulting	Information Technology	1.80	1.30	15
81. Telecomm. & Networking Equipment	Information Technology	2.10	2.00	4
82. Telecomm. Services	Telecommunications	2.00	#N/A	1
83. Textile & Apparels	Consumer Discretionary	2.20	1.80	9
84. Toys	Consumer Discretionary	1.50	2.00	3
85. Travel & Tourism	Consumer Discretionary	1.80	1.30	3
86. TV & Broadcasting	Consumer Discretionary	#N/A	#N/A	1
87. Warehousing & Logistic Services	Industrials	1.50	2.00	3
88. Watch & Jewellery	Consumer Discretionary	1.90	1.90	12
89. Water Supply	Utilities	1.00	#N/A	1

## Observations

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- The overall average score in Section A (disclosures in annual reports) and Section B (additional disclosures) is 2.1 and 1.8 out of five respectively. This is disappointing, reflecting that most of the March-year-end companies did not disclose in detail how they were dealing with the pandemic. While they may have quantified the overall impact, only a few of them provided a more detailed breakdown or discussed their business strategies for coping with the situation (e.g. increasing their presence on online platforms to sell their products and services).
- As HKEX issued its recommended guidance on the COVID-19 disclosures in early April this year, most March-year-end listed companies should have been able to take into account these comments before they published their reports by 31 July. However, we observe that the majority of their disclosures were high-level, without specifying concrete actions to get back on track in the aftermath of the pandemic.
- Most COVID-19 disclosures were not well organized, and in some cases they were repetitive; for example, information was repeated in the “chairman’s statement”, the management discussion and analysis, notes to the financial statements, etc.
- While some listed companies recommended measures to mitigate the impacts brought about by the pandemic, the majority of these measures were administrative or operational, e.g. offering personal protective equipment and more stringent sanitization protocols to ensure a safe working environment; or primarily reactive, e.g. taking cost mitigation action by reducing the remuneration of staff and senior management to maintain healthy cash flows. Only a handful of the companies shared insights about operating under the “new normal” or whether there was need to consider adjustments to their business model.
- We note that some companies made additional disclosures under S.307B of SFO. However, in most of these cases, they merely disclosed their expected net losses or the percentage of the decrease in revenue due to the pandemic. There was little further analysis, for example, a breakdown by location, business lines, etc. There did not seem to be any discussion as to how businesses would be put back on track.
- Even where some specific actions were discussed, e.g. reducing operational costs, updating capital spending plans and preserving cash resources, there was no further elaboration or illustration as to how these measures would be implemented.



## Recommendations

### Inclusion in annual report

These are difficult times and there has been a good deal of uncertainty. However, it would be more stakeholder-friendly for listed companies to consolidate the major COVID-19-related information in a dedicated section of their annual report. For example, in its [2019/20 annual report](#), Marks and Spencer Group plc, a company listed in the United Kingdom, incorporated a specific and systematic section to demonstrate how it had responded to the pandemic, under the general heading, “Governance in Action” and the subsection heading, “COVID-19 Response”.



### **Marks and Spencer Group plc Annual Report 2020**

The company firstly outlines timelines on how events unfolded as COVID-19 emerged and reached Europe. It then briefly explains how the board, the operating committee, the disclosure committee, the business involvement group, the crisis management team, and the government relations team reacted to the crisis. This is followed by details of how these groups dealt with the pandemic around late January, February, March and April 2020, while the number of cases was increasing. Such information would be more likely to give investors confidence in the company’s ability to respond to and withstand the impact of the pandemic.



## Recommendations

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A dedicated section in annual reports could include:

- **A qualitative and quantitative analysis of the impact of the pandemic.** Where possible, this can be analysed further by business lines, and geographical locations. There should also be a statement to demonstrate the sufficiency of working capital.
- **A reference to whether a specific team (e.g. crisis management team or teams) was formed to deal with the situation,** provide timely and reliable information to the board and the top management, and help to develop appropriate measures and initiatives. Different teams could deal with different aspects of the situation, including communications with external and internal stakeholders. The composition of the team(s) could also be indicated.
- **An assessment generally of the company's operations, liquidity and financial resources.** In this regard, the Division of Corporate Finance of the United States' Securities and Exchange Commission has issued [Disclosure Guidance](#) suggesting that companies should make transparent disclosures about how they are dealing with short- and longer-term liquidity and funding risks, due to COVID-19, particularly where these give rise to new risks or uncertainties. Companies should consider a broad range of questions when reviewing their circumstances, such as<sup>1</sup>:
  - **Operational challenges:** What are the underlying challenges facing the company and how have they been addressed? What are the relevant financial impacts?
  - **Customers:** Has the company changed any terms with customers, e.g. given concessionary payment terms? If so, will these materially impact the company's financial position?
  - **Suppliers:** Does the company rely on supplier financing arrangements to manage its cash flow? Does it face a material risk if these are terminated?
  - **Financial position:** Is any impact on the company's revenues material to sources and uses of funds? Are any decreases in cash flows having a material impact on the liquidity position and outlook? Has the company taken advantage of any payment concessions and will it face liquidity challenges once they end?
  - **Access to funds:** Has the company's ability to access traditional funding sources on similar terms to before been affected? Is any uncertainty of additional funding likely to result in liquidity decreasing and affecting current operations? Are investors being given a complete financial picture?
  - **Cost savings:** Has the company reduced capital expenditures, or employee expenditures, sold assets, or suspended dividend payments? What are financial impacts on its ability to generate revenues and meet financial obligations?
  - **Going concern:** Are there circumstances that give rise to a substantial doubt about the company's going concern status? If so, what are the plans to address these?
- **Information on whether the company needs to adjust any projected figures or policies.** Given the significant changes of the business environment; for example, some listed companies may need to suspend their share buybacks and dividend payments.
- **All the relevant reliable and timely information in order to continually assess the overall impact of the pandemic on the company.** This is particularly important, given that there could be resurgences of the pandemic until effective vaccines have been approved by the relevant authorities and made widely available to the public.

<sup>1</sup> N.B. This is a paraphrase and summary of some the questions suggested by the Securities and Exchange Commission

## ***Recommendations***

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### ***Disclosure under section 307B of SFO***

In the course of assessing the overall impact of the pandemic on the business, **the company should also consider whether it needs to make a timely disclosure under section 307B of SFO**. This would be the case where, for example, disclosure of an assessment of the impact would be likely to materially affect the company's share price.

According to [Guidelines on Disclosure of Inside Information](#), issued by the Securities and Futures Commission, whether there is "inside information" depends on the following factors:

- the information about the particular corporation must be specific;
- the information must not be generally known to that segment of the market which deals or which would likely deal in the corporation's securities; and
- the information would, if so known, be likely to have a material effect on the price of the corporation's securities.

Having assessed all these factors, even if it is concluded that there is no inside information, the company is encouraged to voluntarily disclose relevant information, for the sake of greater transparency and better management of stakeholder expectations. This can demonstrate leadership and help the company stand out from competitors in the same industry.

Instead of simply disclosing the relevant piece of information, where applicable, the strategies and measures to restore or revive the business could also be discussed, to enhance shareholders' and potential investors' confidence in the future of the business.

### ***Other recommendations***

- **Interim reporting:** Due to issues of timing and insufficient information being available, companies that are not able provide a more detailed assessment in their annual reports should aim to provide more up-to-date information and details in interim reporting.
- **Financial reporting complications:** Companies should also consider how the pandemic may affect the application of financial reporting standards. The Institute has published [the financial reporting guidance](#), which highlights some considerations that warrant specific attention for interim and annual financial statements in the present situation.
- **Website disclosures:** While stakeholders would welcome the disclosure of more information in annual and interim reports, these provide primarily historical information and may not reflect the latest picture in terms of the development of the pandemic. Websites can also provide a channel to share updated action plans and strategies with stakeholders. Some overseas listed companies (e.g. [Shell](#)) have developed COVID-19 webpages on certain aspects of their response to the pandemic, given its huge impact, from the perspectives of colleagues, customers, and communities.

Although the above recommendations focus on the effects of COVID-19, these recommendations could also be applied in relation to other future events that have a far-reaching or global impact on businesses and the community.

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