



From compliance to communication: Enhancing the quality of annual reports

Financial Reporting Webinar Series



With you today

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Be clear during uncertain times

To tell your clear story, explain ...

- How the company is impacted
- How you plan to address the challenges
- What assumptions, judgements and estimates you have made at the reporting date
- What the key areas of uncertainty are (see *illustrative examples on reporting uncertainties in financial statements issued by the IASB in November 2025*)

Impact on the company

Determine if there is:

- A direct impact – e.g. will your production costs increase or revenues decrease?
- An indirect impact – e.g. how do market uncertainty and volatility impact you?

Company's strategy

Consider your plans to address the impact:

- Will there be potential changes to your operating, financing or investing activities?
- Have the plans been prepared, approved and communicated?

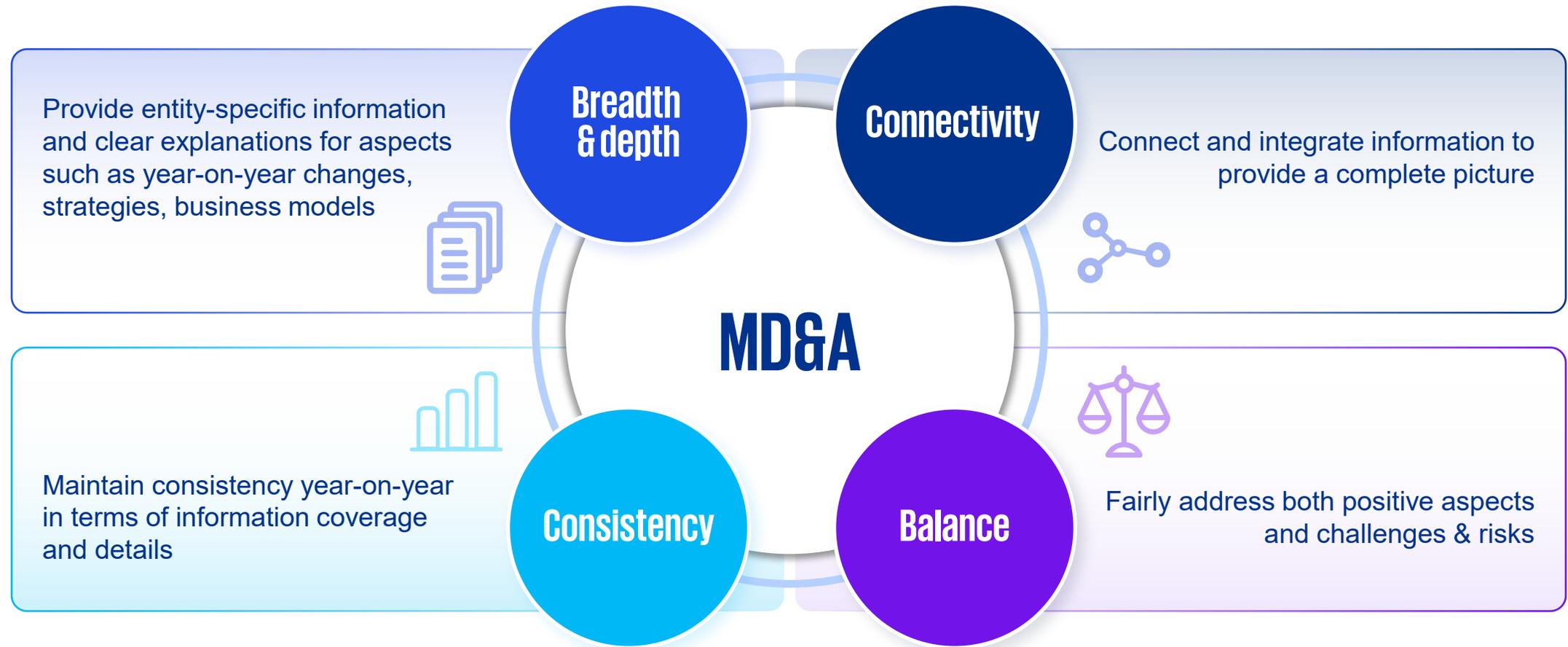


Financial reporting

For each area affected, consider:

- Which accounting standard applies?
- Do you need to reflect:
 - forward-looking information?
 - the market participant's or company's perspective?
 - the market price at the reporting date?
- Do you consider a single or multiple scenarios in projecting future cash flows?

Management discussion and analysis (MD&A)



IFRS 18 readiness

“Issuers are now moving closer to the effective date. They should timely and progressively provide more entity-specific information and avoid generic disclosure (such as “currently assessing the possible impacts”) in their annual reports.”

— *Annual Review of Issuers’ Reports 2025*

Subtotals and categories in the income statement

2 new defined subtotals

- operating profit
- profit before financing and income taxes

3 new categories for classifying income and expenses

- operating
- investing
- financing

Additional requirements for classification of income and expenses by **companies with specified main business activities**

Management-defined performance measures (“MPMs”)

MPMs are defined: some but not all 'non-GAAP' measures are captured

Disclosure of information about MPMs in the notes to financial statements

Aggregation and disaggregation of information

Consider **roles of primary financial statements and notes** when deciding where to provide information

Enhanced principles of aggregation vs disaggregation based on **shared vs non-shared characteristics**

Some companies will be required to disclose **specified expenses by nature** in the notes

Labelling items as 'other'

Keep abreast of latest developments



Polling question

Which of the following amendments to IFRS 9 and IFRS 7 will affect your company?

-  A. Classification of financial assets: SPPI assessment
-  B. Disclosures for FVOCI equity investments
-  C. Recognition and derecognition
-  D. Nature-dependent electricity contracts
-  E. I don't expect material impact from any of them
-  F. I don't know yet

Amendments to IFRS 9 and IFRS 7 are now effective



HKEX's New Climate Requirements

Three checkpoints as your entity prepares the ESG report and financial statements:

01 Connected Information

Is information about sustainability-related risks and opportunities (e.g. GHG emissions reduction target and plans, sustainability-linked financing, etc.) consistent across the ESG report, financial statements and MD&A?

01

02

Implementation Reliefs

Are the implementation reliefs being applied correctly — only after considering all **reasonable and supportable information** available at the reporting date **without undue cost or effort**, and after assessing the **available skills, capabilities and resources** (in-house and outsourced)?

03 Data Quality and Processes

Are data quality and processes robust enough to meet upcoming regulatory changes — specifically the adoption of HKFRS Sustainability Disclosure Standards and mandatory assurance requirements?

03

Examples: connectivity to the financial statements

| Topics | Climate-related disclosures in the ESG report | Disclosures in the financial statements |
|--|---|---|
|  Governance | Whether and how sustainability-linked performance metrics are included in remuneration policies | Share-based payment arrangement measurement and disclosures, including relevant terms and conditions |
|  Strategy | Anticipated effects of climate-related risks or opportunities on the company's financial position, financial performance and cash flows | Approach and assumptions used for future cash flow projections in asset impairment analysis |
|  Risk management | Process(es) to identify climate-related risks | Descriptions of how risks arising from financial instruments (e.g. credit risk) are managed |
|  Metrics and targets | The sources and nature of estimation uncertainty about the amount of carbon emissions emitted | For a cap and trade emissions scheme, an indication of the measurement uncertainties of a provision in relation to carbon emissions emitted |

Polling question

What do you think would be the biggest challenge(s) companies face in preparing for full adoption of the HKFRS Sustainability Disclosure Standards and upcoming mandatory assurance?

-  A. Cross-function collaboration on areas such as data collection and reporting cadence
-  B. ESG data quality management with robust processes and controls
-  C. Building internal capabilities and resources needed for the increasing requirements
-  D. Risks of non-compliance and reputational damage
-  E. Demonstrating ESG as a driver of value

Key considerations when applying proportionality



Prioritise material information

Key principle:

Align disclosure depth with significance

The more critical risk or opportunity is to your business model and strategy, the more robust the disclosure should be.



Leverage reasonable and supportable information

Key consideration:

Benchmark and validate

What methodologies and data sources are peers utilising? Ensure internal data used for risk management and strategy is captured.



Calibrate disclosures to capabilities

Strategy:

Balance feasibility with utility

Use qualitative narratives or alternative methods where quantitative data is currently unavailable without undue cost or effort.



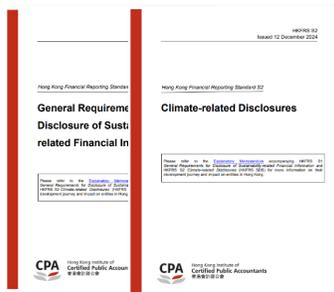
Commit to increasing sophistication

Key principle:

Dynamic assessment

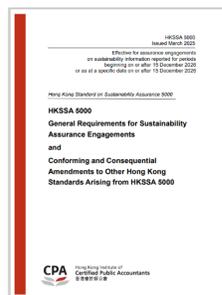
What constitutes “undue cost or effort” changes over time. As your systems, skills and resources mature, the sophistication of your reporting must advance accordingly.

Key regulatory development milestones 2024-2026 and outlook



Dec 2024

- HKICPA issued **HKFRS Sustainability Disclosure Standards (HKFRS SDS)** (effective on 1 Aug 2025)



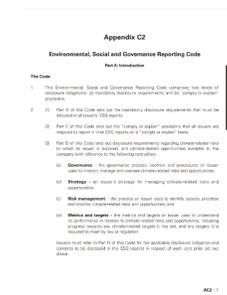
Mar 2025

- HKICPA published **Hong Kong Standard on Sustainability Assurance (HKSSA) 5000** (effective from 2027)



Dec 2025

- AFRC released local **regulatory framework for sustainability assurance** for public consultation



2026

- **Large Cap Issuers** to report against **HKEX ESG Reporting Code** on a mandatory basis



2027

- HKEX to launch market consultation on **mandating sustainability reporting for listed publicly accountable entities** in accordance with HKFRS SDS

HK SAR's Roadmap on Sustainability Disclosure in Hong Kong: Ambition-Assurance-Enablement

2028

- Aim for **full adoption of HKFRS SDS** for "first tier listed companies" (e.g. large cap issuers) and non-listed publicly accountable entities

AFRC consultation on sustainability assurance



Key proposals

- **First tier listed companies** (mainly large cap HKEX listed companies) that are proposed to be subject to mandatory sustainability reporting under HKFRS SDS must obtain independence assurance

Phase approach:

Assuming mandatory reporting under HKFRS SDS begins on 1 January 2028:

| | | |
|---------|---|-------------------------------------|
| Phase 1 | 1 January 2030 (3 rd year of mandatory HKFRS SDS reporting) | Scope 1 and Scope 2 GHG emissions |
| Phase 2 | 1 January 2032 (5 th year of mandatory HKFRS SDS reporting) | All mandatory HKFRS SDS disclosures |

- Assurance service providers can be **local CPA and non-CPA** firms or individuals that meet the same registration criteria
- Assurance must be carried out in compliance with the **Hong Kong Standard on Sustainability Assurance (HKSSA) 5000**
- All assurance service providers are to be supervised by a **single regulator**
- Consultation ends on **30 March 2026**

Compliance with specific disclosure requirements under the listing rules

99%

of companies complied with at least 90% of the specific disclosure rules

10 disclosure rules with lowest compliance rate

Share schemes

Vesting period of options granted under the scheme

MB Rule 17.09(6)

Shares available for issue under share award scheme (number and percentage) as at the date of annual report

MB Rule 17.09(3)

Shares available for issue under share option scheme (number and percentage) as at the date of annual report

MB Rule 17.09(3)

Number of awards available for grant under scheme mandate and service provider sublimit (if applicable) at beginning and end of the year

MB Rule 17.07(2)

Number of options available for grant under scheme mandate and service provider sublimit (if applicable) at beginning and end of the year

MB Rule 17.07(2)

Directors' confirmation

Confirmation of newly appointed directors' understanding on their obligations and the date of receiving relevant legal advice

MB Rule note 2 to 3.09D

Treasury shares

Intended use of treasury shares

Para. 10(4) of App. D2 to MB Rules

Use of proceeds from equity fundraisings

Breakdown of actual use of proceeds brought forward from previous years

Para. 11A of App. D2 to MB Rules

Performance guarantee

Whether performance guarantee was met

MB Rules 14.36B(3) and 14A.63(3)

Significant investments

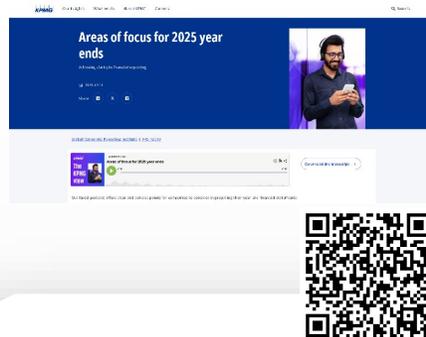
Number and percentage of shares held in significant investment

Para. 32(4A)(a) of App. D2 to MB Rules

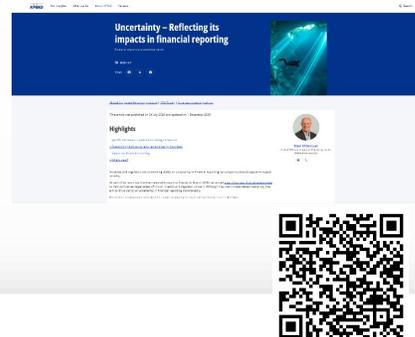
Q&A

Resources

Areas of focus for 2025 year ends



Uncertainty – Reflecting its impacts in financial reporting



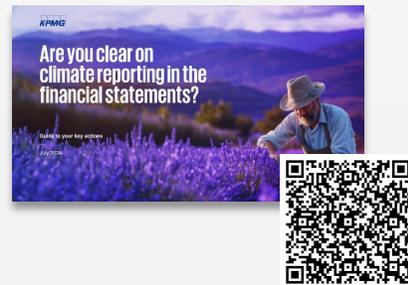
IFRIC Agenda Decisions – Updated as at 16 December 2025



HKICPA HKFRS Sustainability Disclosure Standards Guidance Part 1 and Part 2



Are you clear on climate reporting in the financial statements?



Climate change and impairment



Illustrative disclosures Guide to sustainability reporting under IFRS® Sustainability Disclosure Standards



Guide to sustainability reporting – Disclosure checklist



The implications of the FSTB Sustainability Reporting Roadmap for Hong Kong Companies



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