

Disclosures best practices by listed companies on the Shanghai Stock Exchange: case studies

Special thanks to the Shanghai Stock Exchange

About us

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Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 80 offices and centres and 8,400 Approved Employers worldwide, who provide high standards of employee learning and development.

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We are delighted to be working with ACCA (The Association of Chartered Certified Accountants) once again to promote enhancement of corporate disclosure among listed companies. We have always placed great emphasis on improving transparency of corporate disclosure in accordance with the principles of ‘truth, accuracy, completeness, timeliness and fairness’. Further improvement to the quality of listed companies’ disclosure is a relentless quest and continuous endeavour for us.

We firmly believe that listed companies can do better in terms of accuracy, fairness and completeness of their disclosures, in particular in the ‘Management Discussion and Analysis’ (MD&A), which represents the core of a company’s non-financial information disclosure. How to clearly and effectively present to the investors the industry developments and trends, the company’s corresponding measures, strategies and operational plans, and so on, has always been the focal point of our improvement efforts.

During the reporting period for 2011 annual reports, the Shanghai Stock Exchange (SSE) released a memorandum on the ‘Requirements for Compiling the Management’s Discussion and Analysis’ which set forth requirements and key reminders for listed companies’ preparation of the MD&A in their annual reports. Financial reports, to a large extent, focus on reflecting the past performance and historical information of a company, while the MD&A places more emphasis on the disclosure of forward looking information. Disclosure of forward looking information should adhere to the principles of completeness, effectiveness and fairness. It should also be tailored, specific, as well as proactive.

Currently, disclosures in annual reports tend to be boilerplate and generally lacking in real substance. Material information that is truly beneficial to investors’ decision-making is often concealed. In order to improve the relevance and effectiveness of information disclosure by listed companies, we encourage more tailored information. Companies have the flexibility to customise and adapt to the requirements based on their actual circumstances and the principle of materiality.

The focus of information disclosure varies with different industry. Listed companies should take into account their particular industry, their scale of operation and their market in tailoring what they disclose. In essence, this helps to achieve fairness in the disclosures.

Indeed, over-regulation in disclosure requirements results in broad and excessively specific disclosures. Management spends huge amount of time and resources compiling periodic reports, and is hence discouraged from voluntarily disclosing other information, which may in fact be more relevant. It is for this reason that we set up the Corporate Governance Forum and introduced an award for information disclosure so as to encourage listed companies to be more proactive in disclosing material information which is truly useful to investors.

In the preparation of 2011 annual reports, the SSE urges companies to drive the improvement to narrative disclosures from their MD&A. We hope that listed companies will go beyond ensuring completeness, efficacy and fairness in their disclosures, and strive to provide tailored and more specific information, which is of even greater values to the users.

It will be some time before listed companies can achieve disclosures that are truly beneficial to investors. It is also not an easy task to evolve from the existing boilerplate-type of disclosures. Listed companies need to embrace the principles of ‘truth, accuracy, completeness, timeliness and fairness’ and to truly improve the quality of corporate disclosures, and SSE will guide them through this long journey. We hope to strengthen cooperation across different sectors of the society and work together with all parties to promote further improvement in corporate disclosures of listed companies in order to fully meet the needs of investors.

Zhou Qinye
Former Vice President, Shanghai Stock Exchange



ACCA is delighted to have been given the opportunity to work with the Shanghai Stock Exchange (SSE) on this report, which celebrates excellence in corporate governance and disclosure. We greatly value our relationship with the SSE, with whom we have now worked on a number of projects dedicated to enhancing corporate reporting.

In this report, selected companies that were recognised for excellence in corporate disclosures in the SSE's 10th China Corporate Governance Forum, held in December 2011, as well as the last year's forum, have been interviewed to showcase their best practices. Chairman of the China's Securities Regulatory Commission (CSRC), Mr Guo Shuqing, has correctly observed that the quality of Chinese companies will determine the future of the Chinese economy, and that while there is no 'one size fits all' in terms of corporate governance practice, companies can nonetheless learn from best-practices.

The same can definitely be said about corporate disclosure practice, which is an integral aspect of a company's corporate governance framework. ACCA agrees that best practices should be examined, and if necessary adapted by companies to their circumstances, to the ultimate benefit of the primary stakeholders in the process, the investors. This report is intended to facilitate that learning process.

We would like to extend our appreciation to the 11 companies involved in this report, all present and past winners and nominees of the 'Award of Information Disclosure' and the member for judging panel of the Award for their time and for sharing the highlights of their journeys towards disclosure excellence. We trust that the report will be a timely and valuable addition to the recent initiatives and efforts by regulators and other market participants in enhancing the quality, relevance and usefulness of corporate disclosures in China.

In early 2012, for example, the SSE released a memorandum to require listed companies to prepare and publish a management discussion and analysis report, stressing the importance of narrative information disclosure in annual reports of listed companies. This further evidenced SSE's efforts in strengthening transparency and validity of information disclosures for listed companies – a campaign which ACCA strongly endorses.

The CSRC has also issued a consultation paper on the desired improvement to the content and format of annual reports issued by listed companies on the ChiNext Board, and is in the process of engaging a wide-ranging group of stakeholders to understand their respective views on this critical matter. This we believe will be a valuable exercise.

ACCA has a strong interest in the area of corporate governance and disclosure in our markets around the world. We have carried out various research initiatives and studies to inform the debate about the future of corporate reporting, and we are an active participant in the work of the International Integrated Reporting Council. Working through our Global Forum for Governance, Risk and Performance, we seek to highlight the benefits of enhancing governance and risk management in the interests of achieving long-term success and reward. And through our Global Forum for Corporate Reporting, we are seeking to highlight ways in which the value of reporting can be enhanced for all stakeholders, especially investors.

While we are aware of concerns that are almost perennially raised about the usefulness of annual reports, it is hard to conclude that the model is broken. It is clear that companies need to improve the way they integrate strategy, risks, governance and reporting to drive more informative disclosure and ultimately richer business. We can highlight the benefits of such approaches by working with partners such as the SSE.

Further, we strongly believe in the value of narrative reporting, whereby companies can explain fully to stakeholders their strategy and their environmental, social and governance (ESG) performance. Integrated reporting, as evidenced by our outreach, may well be the best way of re-invigorating interest in ESG disclosures from the investors' point of view.

The recent international roundtables held by ACCA, working with Grant Thornton, have shown beyond doubt that corporate governance is toward the top of investors' concerns. In some regions, corporate governance enhancement was seen as the highest priority in relation to improved confidence. Strong internal audit, well-constituted and supported audit committees and the presence of independent directors have been repeatedly cited as key to promoting trust not only in individual companies but in wider financial markets. In other words, good reporting helps to drive confidence in business and the economy.

The importance of these topics explains why we are so pleased to support the SSE in its crucial work to enhance corporate disclosures in China.

Neil Stevenson
Executive Director – Brand, ACCA

On 19 December 2011, the Shanghai Stock Exchange (SSE) presented three special awards during the 10th China Corporate Governance Forum: the '2011 Award of Board of Directors', '2011 Award of Information Disclosure' and the 'Award of Typical Merger and Acquisition Case'. The SSE has always attached a high level of importance to corporate governance, and in 2007 it launched the SSE Corporate Governance Sector to improve standards of governance among listed companies as well as to allow more extensive regulation of their corporate governance.

Interviewed companies

- Guangzhou Development Industries (Holdings) Co Ltd (GDIH) (600098)
- SAIC Motor Corporation Limited (SAIC Motor) (600104)
- China CYTS Tours Holding Co Ltd (CYTS) (600138)
- Yanzhou Coal Mining Company Limited (Yanzhoucoal) (600188)
- Zhejiang Hisun Pharmaceutical Co Ltd (HISUN) (600267)
- GD Power Development Ltd (GD Power) (600795)
- HAITONG Securities Company Limited (Haitong Securities) (600837)
- Dongfang Electric Corporation Limited (Dongfang Electric) (600875)
- Bank of Communications Co Ltd (BOCOM)(601328)
- Shanghai Electric Group Company Limited (Shanghai Electric) (601727)
- Bank of China Limited (Bank of China) (601988)

Member of the judging panel interviewed

- Lv Hongbing (lawyer)

Information disclosure is an important part of corporate governance, and the SSE hopes to commend those companies that excel in information disclosure through the 'Award of Information Disclosure', setting a good example for listed companies and promoting the best practices. Therefore, with the assistance of the SSE, ACCA interviewed 11 listed companies that had won or been nominated for the 'Award of Information Disclosure', as well as a member of the judging panel of the award. The 11 companies interviewed are all constituent stocks of the SSE Corporate Governance Sector. Through the interviews with the key personnel responsible for information disclosure, ACCA gained an in-depth understanding of the methods and experiences of the exemplary performers, which has been summarised as the best practices in this report for sharing with other aspiring enterprises.

ABSTRACT

Through the case study, we discovered that leading listed companies in China have already had a thorough understanding of information disclosure, and therefore have created a complete set of procedures and mechanism in practice. From the perspectives of these companies, the basic principles¹ of information disclosure are timeliness, accuracy, completeness, truthfulness and fairness, and these constitute the basic principles which they abide by in all the work they do. All the companies interviewed have an effective system for gathering internal information, controlling insider information, and ensuring confidentiality, which enables board secretaries to ensure their companies' compliance with regulations for corporate information disclosure.

The board secretaries interviewed believed that, in addition to compliance, understanding the needs of investors and viewing information disclosure

from the perspective of investors and the market lead to improvements in information disclosure. Only by providing investors with the information they need could they help the investors form valid judgements about the performance and growth of the company.

At the same time, an important responsibility of board secretaries is making prompt and professional judgements regarding price sensitive information, which requires them to keep a close eye on the market and media, and be able to make judgements about changes in the market.

Many leading listed companies in China have established a detailed information disclosure framework, including periodic reports, announcements, road shows, communication with investors, media strategies, as well as a mechanism for crisis management.

Periodic reports form the core of corporate information disclosure. Some companies discuss the strategic direction of company as well as forward looking issues related to the growth of the company in the 'Management's Discussion and Analysis' (MD&A) chapter. An increasing number of listed companies, however, have also begun to explore the inclusion of forward looking and narrative disclosures in periodic reports. The consensus among the board secretaries we interviewed is that there is an increasing demand among investors for the future outlook of the company. As such, improving the transparency of corporate information is becoming more important. However, many board secretaries also fear that the disclosure of forward looking information

1 Chapter 2 of the 'Rules Governing the Listing of Stocks on Shanghai Stock Exchange'

would constitute a 'commitment' on the company's future performance; and as such still remain cautious in practice.

Announcements are a major way in which enterprises take an initiative in disclosing information. When releasing price sensitive information, compliance with regulations is the base-line adopted by these enterprises. Beyond that, more and more enterprises have begun to actively disclose information, hoping to create good channels of communication with the market and investors that enable them to win the approval of the market and manage the value of the company. As an important supplement to periodic reports, many enterprises choose road shows or other platforms for regular communication with investors (including teleconference with analysts or participation in forums organised by independent parties, etc.) to introduce the company's strategies and to explain the prospects for company growth. They hope that interactive communication would satisfy investors' desire to obtain a better understanding of the company's operations.

Looking ahead, we hope that the summary from these interviews will help promote leading practices in information disclosure, in order to achieve enhancement in quality of listed companies' disclosure.

DUTIES AND FUNCTIONS OF THE BOARD SECRETARY

The board secretary is a position unique to China. Jin Xiaobin, board secretary of Haitong Securities, has a clear definition of a board secretary's responsibilities and positioning. He believes that a board secretary:

- is the official spokesperson of a company;
- is the designated contact person for regulatory bodies (CSRC and stock exchanges);
- is the intermediary between shareholders and management;
- plans and participates in the company's capital operations

Board secretary of HISUN, Zhang Wei, also shared her interpretation of the responsibilities of a board secretary. She defines a board secretary as one who plays a bridging role between investors and the management of listed companies, someone who balances the demands of investors, listed companies and regulators. As a board secretary herself, Zhang Wei believes that strong support from management, in particular the board chairman, is of paramount importance to the successful running of the system of corporate disclosure within any corporations.

From the regulatory perspective, the board secretary is a member of senior management. From the perspective of corporate governance and information disclosure, the board secretary will need to be part of the senior management in order to ensure involvement in all critical management and board meetings so as to allow them to fulfill their responsibilities.

In practice, there are two main forms of board secretaries in China: full-time board secretary and part-time board secretary.

FULL-TIME BOARD SECRETARY vs PART-TIME BOARD SECRETARY

Full-time board secretaries may enjoy the title of company executive, but in reality many of them perform their jobs as middle management. Whilst their expertise is well respected, the breadth of their responsibilities could be restricted to general affairs and compliance. Part-time board secretaries, meanwhile, are generally dual-roles assumed by a member of senior management (vice general manager and above). The advantage is, as an executive in charge of company operations, they have a deeper understanding of the business and are able to communicate with investors more effectively.

Jin Xiaobin of Haitong Securities believes that, from the perspective of information disclosure, it is more appropriate for a senior company executive to concurrently hold the position of board secretary. He is an example himself, and has been in charge of many different departments within the company. His profound understanding of the macro-economy, the securities industry, and the business and strategy of Haitong Securities means that he is able to communicate with investors more effectively. As the company executive, Jin Xiaobin attends management meetings and the board meetings and is in charge of the operations. These benefit him in his understanding of the company's condition and his communication with investors. 'It's possible that you may not be able to gain a full and extensive grasp of information if you are a full-time board secretary,' said Jin Xiaobin.

Huang Yong, securities affairs representative for Dongfang Electric, also believes that board secretaries could better understand a company's situation if they are company executives because they are in charge of the actual management of the enterprise. If they are full-time board secretaries, or if they are only members of middle management, they may find themselves in an awkward position of not having any authority in the management or operation of the company. This makes it difficult for them to communicate effectively with the capital market.

There are many different reporting requirements worldwide, especially for non-financial information, generally influenced by the local regulatory structure and corporate governance requirements. To date, there has been relatively little appetite to adopt global standards in this area, although this could change. Investors often note that, irrespective of where they are based, they invest globally and are keen to see increased consistency between companies. For instance, in the area of corporate governance, ACCA's *Towards greater convergence*, a survey of investors and CFOs in 2011 showed that 70% of participants considered that global standards or benchmarks for corporate governance would encourage longer-term thinking by companies.

A strong common theme arising from research in different countries is that clear, tailored information that relates directly to the business is much more highly valued than standard, sterile 'boilerplate' text. This can be summarised as 'telling the story', perhaps using a model such as IASB's IFRS Practice Statement on management commentary, which sets out the framework for provision of decision-useful information to existing and potential providers of all capital: What does the company do? How does it generate value? What is the market share? Can market share grow and, if so, how? What are the drivers of performance? What are the risks and how are they managed? What is the current position of the company?

These may not be straightforward questions to answer, and, if a balanced (and therefore truly useful) picture is to be provided, may involve providing information that a company may prefer not to disclose. But investors in general do not like surprises, hence increasingly, demand for more disclosure of the risks inherent in the business and how they are managed. Providing balanced information can help to demonstrate that even in a highly volatile business, management has plans in place to deal with the range of possible outcomes and therefore a potential crisis can be avoided.

A common theme also on global good practice is who actually writes the non-financial section of the annual report. If it is to truly tell the story, it needs input from those with in-depth knowledge. It can be too easy to view narrative reporting as outside the mainstream report, and therefore delegate the drafting to a marketing or PR team. Alternatively, if the narrative reporting is considered part of the financial reporting,

then it can fall within the remit of the finance team. Clearly both these groups can provide valuable input in creating robust reports that communicate effectively. However, the most highly rated reports are generally led by those responsible for the entity and its governance – often the chair of the board and the chair of the audit committee.

A challenge, especially for complex or multinational businesses, is describing the key information in a way that can be easily understood. Feedback from the US Center for Audit Quality, and ACCA's own roundtables held in many countries, is that reports are too complex. Simple, non-technical language is critical to providing an understanding, and a clear, focussed report often more effective than a long, detailed one.

The entity needs a mechanism to make sure that the relevant matters are captured for disclosure. This may be more difficult in an environment with extensive detailed requirements, where it will be important to tailor the company's internal reporting structure to reflect these requirements. But if the focus is on the high level, business-critical issues, such tailoring should be minimal – these really should be the matters that are highlighted through the company's existing risk management and performance reporting structure.

A typical tension in the area of corporate reporting is the desire by investors for more forward looking information. However, in the listed company market this can be particularly challenging, given the various restrictions on providing information that could be considered as some form of profit forecast, or which is in some way price-sensitive. General information may be able to be provided regarding risks and future plans in annual or interim reports, in particular those

that could affect the resources, liquidity and performance of the company going forward, but specific details, such as approval of a major acquisition, may not be able to be reported until a deal has been agreed – and will then need to be reported immediately to meet the market need for transparency of price-sensitive information. The company needs to be alert to these events and make sure that there is clear responsibility internally for making any necessary reports to the market. The rigor of such disclosure can and must be enhanced by clear explanation of the assumptions underlying the 'future' as envisaged by the company and regular retrospective reviews and transparent accounts for any significant variance between actual performances of the company and the forward looking information released in the prior periods.

A future challenge is how non-financial reporting will fit within the integrated reporting framework that may transform reporting in the future in many countries. Currently integrated reporting is at an early stage, with limited experience in South Africa and a pilot project underway involving organisations in many other countries – including ACCA. There is no doubt that companies will need to review their internal structures and information flows to successfully support the production of an integrated report. However, the concept of integrated reporting fits well with the concept of 'telling the story', so it is likely that the organisations that currently provide meaningful, understandable information will be well placed to meet the next challenge.

Sue Almond
Director – Technical, ACCA

Chapter 1 – Driving forces behind information disclosure

CHAPTER 1 - DRIVING FORCES BEHIND INFORMATION DISCLOSURE

For most listed companies, the fundamental driving force behind information disclosure is compliance. There has been continual enhancement of domestic regulatory requirements for listed companies in recent years, and the CSRC and stock exchanges have continually released detailed rules and guidelines regarding information disclosure. This has strengthened the awareness of information disclosure among listed companies in China. In addition, an overseas listing provides an important learning opportunity for dual-listed companies. In overseas capital markets such as the USA and Hong Kong, there are strict disclosure requirements and severe penalties relating to non-compliance, as well as a strong emphasis on transparency of company operations – all of these have a profound influence on the dual-listed companies.

At the same time, more and more domestic listed companies and transnational companies are carrying out mergers and acquisitions, joint-ventures, and partnerships, which provide them with direct experience of the different regulations in foreign countries, which help strengthen their own awareness of compliance.

'BEING FAITHFUL TO THE TRUTH IS THE ABSOLUTE ESSENCE OF INFORMATION DISCLOSURE, AS WELL AS A CHALLENGE.'

CHEN JINGDONG

HISUN completed two refinancing exercises via a public offering and a private placement. Zhang Wei, the board secretary believes that good communication with investors allows the company to grow bigger and stronger by making better use of capital markets. A sincere attitude during communication matters, and making up stories or lying is absolutely forbidden. Even when the company is not performing well, investors should be informed of the reasons for this poor performance, how the company intends to deal with the current difficulties, and what measures will be taken to achieve improvements, etc. The only way to gain recognition of capital markets is through effective communication with investors.

THE LEADING LISTED COMPANIES IN CHINA HAVE LONG RECOGNISED THE IMPORTANCE OF DISCLOSURES. NO LONGER SATISFIED WITH MERE COMPLIANCE, THEY LEVERAGE ON REGULAR AND PROACTIVE DISCLOSURES TO ENHANCE THEIR BRAND VALUE, SHAPE THEIR CORPORATE CULTURE, AND ESTABLISH CLOSE RELATIONSHIPS WITH CAPITAL MARKETS TO FACILITATE FUTURE FINANCING OPPORTUNITIES.

Grasping every opportunity in the capital market has also become another way for some companies to drive themselves forward. Huang Yong, Dongfang Electric's securities affair representative, says that taking good care of investor relations, information disclosure and internal control allows companies to make better use of capital markets to help them develop. Liu Guangming, CYTS's board secretary, also completely agrees that capital markets can promote the development of an enterprise, and says that the management of CYTS places a strong emphasis on communication with the market. The need of disclosure and the best way to go about disclosing are always taken into account during major decision-making, and the board secretary will play an extensive role in the decision-making process. Integration with the capital market is emphasised for both financial management and business development.

In addition, an increasing number of listed companies have recognised that information disclosure is an important part of a company's market value

management. Huang Yong, Dongfang Electric's securities affairs representative suggests that market's expectation of the company's value should be managed. The evaluation of investors should align with the actual circumstances of the company, which basically means that the truth is not concealed (this was referred to reports released by analysts). Information needs to be disclosed as and when necessary. Zhang Wei of HISUN says that one of the purposes of managing expectation is to avoid large fluctuations in stock price, helping the market to establish healthy expectations instead of overreactions towards the company's future performance.

Fu Rong, board secretary of Shanghai Electric, also suggests that if the stock price does not reflect what senior management believes to be the true worth of the company, the company should proactively communicate to investors through multi-channels a clear picture of the company's current position and future potential.

HISUN – RATIONAL MANAGEMENT OF EXPECTATIONS TOWARDS THE FUTURE

Zhang Wei believes that one of the purposes of market value management is to avoid large fluctuations in stock price, helping the market to establish healthy expectations towards the company's future performance, rather than overreactions. Several years ago, one of HISUN's preparations was granted an EU certification, leading to a sharp rise in the stock price of the company. Obtaining an EU certification is a milestone for a Chinese pharmaceutical company. Yet they did not want any overreaction in the market because the certification was unable to provide immediate benefits to the performance of the company. As such, they fully communicated with investors to avoid an abnormal fluctuation in the stock price. During the communication, Zhang Wei emphasised overseas sales model of its preparation, in which HISUN develops, registers, and shares expenses with a European company, and profits are split on a 50/50 basis. Developing the market and promoting this preparation would likely be a long-term process, and hence would have limited impact on the short-term gains. At the same time, however, Zhang Wei also emphasised that, in terms of long-term corporate strategy, once this preparation was internationalised, the company would enjoy better growth over the next few years.

To conclude, Zhang Wei believes that, to the extent that no disclosure requirement is being violated, the industry development, the company's business model, and future strategy should be fully communicated to investors. For example, what percentage of market share HISUN hopes to achieve for a certain preparation if the current European sales are USD600–700 million per annum, what efforts the company needs to make in order to achieve this goal, what measures the company will adopt to enter the market, and what kind of potential risks are involved. In addition, the company will continuously communicate with analysts about new developments regarding this issue. Only honesty can win the trust of the market.

Chapter 2 – Understanding information disclosure

SHANGHAI ELECTRIC – HANDLING THE ABNORMAL FLUCTUATION OF STOCK PRICE

Following the 2012 Spring Festival, Shanghai Electric's H shares plummeted by 6%, whilst neither other stocks in the same sector nor the Hong Kong Hang Seng Index itself showed any significant fluctuations. Fu Rong, the board secretary, felt that the fluctuation was abnormal. She immediately sought clarification from the capital market, in the hope of finding out the reason behind this sharp decline.

After communicating with the market, the company discovered that the drop in stock price was the result of a report released by an Indian analyst stating that a large order of an Indian power generation equipment supplier had been canceled. The market immediately assumed that Shanghai Electric was affected as it had signed a material order with a relatively large Indian company named Reliance. This would also affect the Shanghai Electric's potential in developing the Indian market.

Fu Rong considered it necessary to clarify the misunderstanding caused by the report. She, on one hand, communicated internally to confirm the company's situation regarding overseas orders, and on the other decided to host a teleconference before the market opened the following day, to which she invited more than 30 Hong Kong analysts. The teleconference aimed at actively communicating the orders that Shanghai Electric had in hand, and it was emphasised that the orders with Reliance were not canceled. Furthermore, the overseas market of Shanghai Electric was not limited to India; the company had a large number of tracking programs in Southeast Asia, Africa and the Middle East. This eliminated misgivings in the market to a certain extent, and the stock price of Shanghai Electric also returned to normal.

CHAPTER 2 – UNDERSTANDING INFORMATION DISCLOSURE

I The five principles for disclosure

As mentioned by Guo Shuqing, Chairman of the CSRC, information disclosure must follow five principles², namely: 'timeliness, accuracy, completeness, truth, and fairness'. Of course, different enterprises attach varying importance to these five principles and also have their own interpretation of how to put them into practice.

In reality, disclosing information in accordance with the five principles of truth, accuracy, completeness, timeliness and fairness is not an easy task, and requires comprehensive improvements in the standard of corporate governance. According to Jin Xiaobin, board secretary of Haitong Securities, among the five principles, board secretaries can only ensure 'timeliness' and 'fairness', while the remaining principles can only be secured through close coordination between different departments as well as a high standard of corporate governance across the whole company. Monthly, quarterly, interim and annual reports involve dozens of departments within a company, and board secretaries may have no basis to provide any assurance for the information disclosed.

There is always a significant divergence of opinion among board secretaries

with regard to fairness. There are also substantial differences between what individual investors and institutional investors consider to be important information. In order to promote value investment and implement market value management, some board secretaries are more inclined to communicate with institutional investors to the extent that the compliance requirements are not violated. This undoubtedly raises the concern of whether individual investors are genuinely treated equally in terms of information disclosure.

According to Lv Hongbing, a lawyer and member of the judging panel for the 2011 Award of Information Disclosure, there are indeed cases where enterprises prefer to communicate with institutional investors. Although Lv Hongbing considers it understandable for enterprises to have normal, in-depth communication with institutional investors, he also stresses that with respect to communication with

official announcement.

Liu Guangming, board secretary of CYTS, considers regulators' requirements for information disclosure as the minimum requirements. Apart from compliance, listed companies should be more proactive in disclosing information, including narrative and analytical disclosure in periodic reports, and in understanding investors' needs.

Zhang Baocai, board secretary of Yanzhoucoal says, 'disclosure is vital to the survival of the company.' Transparent and open information disclosure is very important to providing an accurate portrayal of the company's development, and timely and effective information disclosure is a way to demonstrate the vitality of a listed company. Companies must conscientiously communicate with domestic and overseas investors in various ways in order to establish a system of good faith. Yanzhoucoal is also willing to proactively disclose all information necessary to provide investors with a comprehensive understanding of the company.

'DISCLOSURE IS VITAL TO THE SURVIVAL OF THE COMPANY.'

ZHANG BAOCAI

investors, companies shall abide by the principle of fairness and should not reveal any price sensitive information to institutional investors prior to any

2 Speech of Guo Shuqing, Chairman of CSRC in the 10th Corporate Governance forum on 19 December 2011

GD POWER'S UNDERSTANDING OF THE FIVE PRINCIPLES OF INFORMATION DISCLOSURE

Chen Jingdong, board secretary of GD Power, has an incisive analysis into how to embody the five principles of information disclosure – 'truth, accuracy, completeness, timeliness and fairness' – in practice.

'Being faithful to the truth is the absolute essence of information disclosure, as well as a challenge,' said Chen Jingdong. The challenge faced by GD Power lies in constant changes to information. Information is highly volatile due to changes in the business environment, national policies and the price of key elements in the market. Hence, the personnel responsible for information disclosure need to be responsible, and have an extensive, professional knowledge of the capital market, as well as a strong grasp of the company situation. At the same time, enterprises must have sufficient human resources to ensure the veracity of information disclosure.

'Generally speaking, listed companies need to have a high degree of respect towards investors,' stressed Chen Jingdong. 'On the same note, enterprises must disclose positive information as well as negative information, the difficulties they face and the existing problems.' This means that electric companies must faithfully disclose low earning levels in the current market, difficulties in industry development and confusion regarding the failure to implement mechanisms for coal-electricity price linkage.

Chen Jingdong believes that accuracy is achieved through the use of data and precise language. Financial information is released strictly in accordance with compliance standards, and narrative disclosures needs precise language so as to avoid any possible misinterpretation by investors and any errors in the content.

GD Power has decided before to disclose the addition of a new installation of 300,000kW despite the fact that its total capacity is 32,000,000kW. According to Chen Jingdong, completeness in disclosure means following a principle-based approach and disclosing all important information that may be price-sensitive, including information that may seem immaterial if seen purely from a monetary value perspective. 'However, there do exist differences in the interpretation of what constitutes important information among enterprises in different industries and of different sizes,' added Chen Jingdong. What GD Power does, therefore, is to formulate relevant internal guidelines for disclosure, requiring detailed disclosures for all matters that may have an impact on investment decisions.

Understanding of materiality is also important in disclosure of the company's overall strategic development. GD Power is currently in the process of transforming itself from a pure electric company into a comprehensive energy company covering thermal power, hydroelectric power, wind power and solar energy. It will also be entering non-electric power businesses including the upstream coal mining industry and coal chemical industry, as well as the financial sectors such as banking and life insurance businesses. GD Power attaches great importance to providing comprehensive information to help investors accurately grasp the development trends of the company, particularly the company's philosophy about its strategic transformation.

With respect to fairness, Chen Jingdong believes that as a state-owned enterprise, GD Power must treat all stakeholders equally, rather than just investors. State-owned enterprises are special in a sense that group companies have to report its operation to the parent company on a monthly basis, as well as to the statistics departments in the place where the company is registered. Creditors and banks also need regular updates on the operating conditions of the companies. GD Power discloses all information required by various parties after such information is reported to, and approved by, regulators.

Chen Jingdong has another way of understanding fairness. He believes that it is necessary to uphold a fair attitude towards the media and investors. He stresses confidentiality during media interviews so as to avoid disclosure of any price sensitive information. At the same time, institutional investors and non-institutional investors must be treated equally. Information should only be disclosed to all investors through legitimate channels.

II An effective mechanism for information disclosure

• Establishing an authorisation system and a spokesperson mechanism for releasing information

With the increasingly developed media and rapid dissemination of information, the confidentiality of price sensitive information is of utmost importance.

SAIC Motor explicitly stipulates that only the chairman, the chief executive and the board secretary are authorised to release information. Other senior executives must obtain explicit authorisation before they can release information. During periods of sensitivity, SAIC Motor is disciplined about maintaining strict confidentiality. The board secretary will ensure that the speeches to be delivered by senior executives in any public occasions, including internal meetings, do not reveal any price sensitive information.

Other enterprises also establish a similar authorisation system. For instance, Yanzhoucoal clearly stipulates that the CFO and the board secretary are spokespersons for media interviews, and that both the chairman and chief executive must maintain strict confidentiality during periods of sensitivity (for example, when major events such as a merger and acquisition are to be disclosed).

• Establishing a mechanism for the participation of board secretaries in business decision-making to ensure that the board secretary is fully-informed about important corporate decisions

Some companies employ a full-time board secretary. Given that a lot of significant information in domestic companies rests with senior management, there must be a system which ensures that the board secretary is fully informed through a top-down channel for information dissemination. As a full-time board secretary of SAIC Motor, Wang Jianzhang attends important management and board meetings, and provides professional judgement on whether and how price sensitive information should be disclosed.

An effective mechanism for information disclosure must include:

- An authorisation system and a spokesperson mechanism for releasing information
- A mechanism for the participation of board secretaries in business decision making
- An internal system for reporting material information
- A mechanism for external feedback
- Regular training for those involved in information disclosure
- A mechanism for crisis management

In other companies an executive concurrently holds the position of board secretary. This ensures their participation in decision-making for the company. Zhang Xueqiu, board secretary of GDIH, also serves as the deputy executive president of the investment division. In addition to organising board meetings and general meetings for shareholders, he attends executive meetings, and takes part in important decision making. At the same time, he also attends regular monthly operational and management meetings with the general manager of the investor relation department in which they review major developments of the company.

- **Establishing an internal system for reporting material information arising from day-to-day operation**

Corporations with numerous branches and complicated structure in particular needs to establish a rigorous bottom-up internal information collection and communication mechanism, to clarify responsibilities for internal reporting, and to establish an accountability mechanism for branches.

SAIC Motor has developed an internal reporting system for material information that allows the board secretary office to collect and summarise information which may need to be disclosed on a timely basis. At the same time, SAIC Motor organises monthly internal meetings to help the collection of information, and standardise the way information is communicated externally as well as to understand major concerns of different stakeholders. Departments participating in the meeting include the board office (to provide information at the board meeting and meeting of supervisors), finance department (financial information), operations department (operational information), chief executive's office (relevant information on governmental relationship), capital operations department (investors-related information) and public relations department (media information).

BOCOM, on the other hand, has established a liaison system at its branches to communicate routine

DONGFANG ELECTRIC – CRISIS MANAGEMENT

Following the Wenchuan Earthquake in 2008, Dongfang Electric in Sichuan immediately suspended trading and published a series of public announcements to disclose information about the factories in the earthquake-stricken areas and revealed the company's judgement on the impact of the disaster. Similarly, subsequent to the earthquake and tsunami in Japan on 11 March 2011, with rumors about the change of nuclear policy in China, Dongfang Electric immediately released a series of public announcements and convened a number of teleconferences to address the public's concern. There was also further communication with investors at the performance meeting after publication of the interim report.

At that time, it was rumored that all domestic nuclear power projects would be suspended. Dongfang Electric gave a detailed report of its understanding of the changes to China's nuclear power policies at the meeting, voluntarily disclosing its existing orders, the number of projects to be executed, as well as the number of projects to be suspended in nuclear power sector. It also disclosed in detail orders that were already approved and orders pending approval. This proactive disclosure of business information gave a more in-depth interpretation of the operating conditions of the company, eliminating the doubts and misgivings of many investors.

information that requires disclosure. The board secretary office in BOCOM will send out an alert during the price-sensitive period to serve as a personal risk reminder for directors, supervisors and senior executives of subsidiaries. Similarly, GD Power has also set up a board secretary system at each of its wholly-owned and other controlled entities.

According to Zhang Xueqiu, board secretary of GDIH, information disclosure is an important part of the internal control system of an enterprise. It is necessary to make clear who is held responsible, to understand the key risks of information disclosure, and to establish feasible, simple and effective procedures. In terms of building a system, Zhang Xueqiu makes a clear list of all contents that need to be disclosed in the report for board meetings and shareholders' meetings, and distributes this list to personnel in charge of various business segments and subsidiaries, requiring them to report information based on the list as early as possible. The list gives an extensive coverage of information required to be reported, such as investments up to a certain amount, changes in the business environment such as adjustments to the price of electricity, as well as serious safety incidents. The list gives a clear indicator for disclosures required and explicitly stipulates that the top management of business segments

and branches assume primary responsibility for the disclosure, and thus it also establishes a contact point for information disclosure. This system aims to allow the investor relation department and the board secretary to be alerted to any material information on a timely and comprehensive basis. The investor relation department and the board secretary then exercise professional judgements on whether the information flagged out needs to be disclosed. The system also helps managers of business segments/branches do a better job in terms of compliance.

Jin Xiaobin, board secretary of Haitong Securities, stresses the reinforcement of systematic supervision and an audit trial of the procedures be maintained. With the help of the company's office automation system, the regulation of disclosures is enhanced by maintaining records of any operations and standardising disclosures. At the same time, Haitong Securities has established an effective system that maintains confidentiality of insider information, including a register of all parties in receipt of the insider news, and has also strengthened professional ethics within the company and reinforced the accountability system.

- **Enterprises need an effective mechanism for external feedback**

Obtaining external feedback and ensuring that the enterprise keeps abreast of external information contribute to improving the quality of information disclosure. The capital operation department of SAIC Motor summarises typical issues collected from individual investors through a dedicated line every two weeks. These issues are forwarded to senior executives in the form of an internal journal to help them stay informed about hot topics concerning investors. At the same time, the capital operations department prepares the investor relations Q&As for internal dissemination on a monthly or quarterly basis to help senior executives understand how to deliver messages externally, thus ensuring the overall consistency of information releases. The investor relations department summarises its communication with analysts and suggestions (such as suggestions on website information disclosure) on a yearly basis.

- **Enterprises must organise regular training for personnel involved in information disclosure**

The large amount of regulations and laws, and the frequency of their changes mean that great importance must be attached to the training of personnel involved in information disclosure. GD Power organises training at least once a year for the board secretaries of its subsidiaries, which keeps them up to date on changes in regulations and policies. In addition, the board secretary office is also dedicated to educating the leaders of all enterprises within the group about the rules of listed companies and responsibilities of public companies, so as to increase their awareness of the fact that they are subsidiaries of a public company. The board secretary office of Bank of China frequently collects typical non-compliance cases of information disclosure in the market for distribution to leaders and relevant departments as negative examples. Of course, board

secretaries themselves must also pay attention to the market, keep track of hot topics, and develop professional judgement of information disclosure.

- **Enterprises must establish a mechanism for crisis management**

Enterprises must establish a mechanism for crisis management to deal with rumors in the market. Bank of China has established such a mechanism based on the information disclosure liaison networks of domestic and overseas branches. The system also includes an efficient internal information verification mechanism, and procedures for reporting to the board of directors in order to obtain the directors' sign off within a short timeframe. This ensures material events be clarified through a public announcement on a timely basis. According to Zhang Bingxun, the board secretary of Bank of China, the quality of information disclosure depends on the timeliness of the disclosure or clarification. This requires the team to establish good internal procedures and contingency plans. 'The internal verification process is very important, and the challenge lies in establishing the correctness of the information and that the event to be disclosed really did happen,' said Zhang Bingxun.

CHAPTER 3 – DIFFERENT FORMS OF CORPORATE DISCLOSURE

I Periodic reports

- **Financial statements**

Annual report is arguably the most important mode of corporate disclosure.

Financial statements are an important part of the reports of listed companies. They comprehensively reflect the operating conditions of enterprises during the reporting period, and include data to which investors pay much attention to. Given that it is rare for the CFO/chief accountant of listed companies in China to also hold the post of board secretary, close communication between the board secretary and the CFO are exceptionally important in the preparation of periodic reports.

Fang Weixing, assistant to the board of director's office of BOCOM, points out three important areas when preparing an annual report: regulators' compliance requirements, the disclosure needs of listed companies, and the main concerns of investors.

As summarised by Zhang Wei, board secretary of HISUN, the finance department maintains the most frequent communication with the board secretary, with a designated person in charge of information disclosure, and a two-way communication conducted on a monthly basis. The board secretary primarily focuses on cash flow, construction in progress and investments, as well as liabilities and significant movements in bank loans. The board secretary also communicates on a timely basis with the finance department regarding any financial issues raised by investors. In preparing periodic reports, apart from improving internal communication with the finance department, and continuous communication with auditors also needs to be enhanced.

Despite the importance of information disclosed in the financial statement, in general, many enterprises disclose data by business segments but not necessarily have detailed disclosures of the business data for specific business segments. As a result, classification method adopted to show enterprise business is very important.

When HISUN transformed and upgraded its industry model from one that focused on API to one that focused on preparation, Zhang Wei, the board secretary, took the initiative to separately disclose the preparation business from its main business in the periodic report. Due to different valuations of drugs and preparation in the market, adjusting the manner of disclosure contributed to a clearer demonstration of the company's achievements in the new business segment following the strategic transformation, and helped investors provide a more reasonable valuation of the company. According to Zhang Wei, periodic reports constitute a basis for communication with

investors, and adjusting financial information disclosure according to changes in investors' demand helps the board secretaries do a better job in investor relations.

Shanghai Electric also adjusted its business segment disclosure in 2010. Its business segments are classified by new energy (nuclear power and wind power), high-efficiency clean energy, industry equipment, modern service industry and other sectors, a change from its previous classification by product. According to Fu Rong, adjustment to business segments contributes to a better and clearer demonstration of the company's development strategies and market value.

BOCOM places a strong emphasis on market feedback in the periodic reports. For example, BOCOM reports its cooperation with its strategic investor HSBC on a regular basis, and highlights their strategic cooperation as a focal point of disclosure in periodic reports, with detailed disclosures of their communication mechanism, collaboration projects, achievement and how the business results in a win-win situation. More recently, in response to market interests in bad debt issue regarding government financing or proportion of real estate loans in total bank credit, BOCOM has made corresponding analysis and disclosures. In addition, when much attention is paid to the macro policy, especially the bank's senior management's interpretations of these macro policies as well as their judgements on the impacts of such macro policies on the economic trend and on the bank operation in the coming year, the board secretary office substantially expanded and enriched chapters and sections concerning macro economy in the annual report.

- **Management Discussion and Analysis (MD&A)**

'Management Discussion and Analysis (MD&A)' in the periodic report represents another focal point of corporate disclosure apart from financial information. BOCOM drew ideas from the experience of its

SOME BOARD SECRETARIES CLEARLY EXPRESS THEIR CONCERNS ABOUT RELEASING FORWARD LOOKING INFORMATION, CITING FEARS THAT SUCH INFORMATION COULD CONSTITUTE 'COMMITMENTS' TO FUTURE PERFORMANCE.

strategic partner HSBC and decided to greatly expand on the messages from the chairman and the president. Instead of boilerplate messages, BOCOM analysed its performances in the past year in detail, included strategic ideas from senior executives, gave clear analysis and judgement on the future development strategies of the bank, and expounded on specific thoughts around the bank's plan in the year to come.

GD Power provided an in-depth discussion and analysis on its non-financial information. According to Chen Jingdong, board secretary of GD Power, it is very important to give investors an accurate understanding of the development trends of the company and its industry, particularly with regard to the company's reasoning behind its strategic transformation. As a result, he added descriptions on the development trends of the company and industry, ideas and analysis from senior executives in the MD&A section.

Many board secretaries also place an emphasis on highlighting the key concerns of investors. In the MD&A section in the directors' report, Dongfang Electric provided an in-depth analysis of each type of its main products, disclosed complete financial indicators, provided other relevant business data indicators such as order quantity, new orders and structure of existing orders, and provided selective analysis on key business data to better satisfy investors' understanding of the company's business and judgement of the company's operating status.

- **Forward looking and narrative disclosure**

More and more listed companies have begun to explore the inclusion of forward looking and narrative information in their periodic reports. All the board secretaries interviewed in this case study have a rather

consistent view regarding future trend, which is that there is an increasing demand among investors for forward looking information, information about the future of the enterprises. As a result, increasing the transparency of enterprise information has become a trend. However, some board secretaries clearly express their concerns about releasing forward looking information, citing fears that such information could constitute 'commitments' to future performance.

Chen Jingdong, board secretary of GD Power, suggests that no quantitative analysis should be provided in the discussions of the company's future prospects so as to avoid investors misinterpreting the analysis as a commitment to future performance by the company. Wang Jianzhang, board secretary of SAIC Motor, is also considering including some discussions on the company's future development, however, she will clarify that the discussion only represents a greater possibility rather than a promise of future performance.

The periodic reports of Shanghai Electric contain very few forward looking disclosures. Fu Rong, the board secretary, indicates that, starting from 2011, Shanghai Electric has started disclosing more information about the industry prospects, the business development trends, measures adopted by the management etc, so as to better meet the demands of investors.

The fact is that the perspective and depth of investors' seeking forward looking information, and their ability to understand and use such information, are widely different. A clear mainstream has yet to emerge. Therefore, there is a need to establish an agreed basis to reduce misinterpretation of such information. In the mean time, on the ground of prudence, disclosure

should still be focused on historical events. According to Cai Yingcong, securities affairs manager of SAIC Motor, an enterprise's willingness to disclose information should not be driven purely by investors' interest, but also by what the enterprise considers useful to investors.

In the opinion of Liu Guangming, board secretary of CYTS, narrative disclosures should still be voluntary. The aim of forward looking and narrative disclosure is to help investors make better judgements on the value of a company, and the company is required to uphold a responsible attitude towards investors. Misrepresentation to investors or misleading investors should be absolutely forbidden. Thus, CYTS insists on a measured disclosure of the development of the enterprise, describing future trends by extrapolating from the historical data, helping investors get a better understanding of the enterprise, and demonstrating the confidence of the management in its development at the same time.

Liu Guangming also believes that, while voluntary narrative disclosure does not constitute a commitment on the part of the company, it forms an informal constraint on the management, compelling them to be meticulous about their planning for the company's future strategy and objectives.

Liu Guangming emphasises that the focus of narrative disclosures for enterprises at different stages of development is different. For enterprises experiencing continuous and stable growth, their past performance can be used to project future development. However, for high-growth enterprises and enterprises that are undergoing significant changes in their strategies, their past performance cannot serve as the basis for projecting future trends. In this case, disclosures of the strategies and changes becomes very important.

Some other board secretaries believe that the disclosure should provide a complete picture of the prospects of a company. However, management

should not be forming any judgement on behalf of the investors. Zhang Bingxun of Bank of China points out that the messages from the chairman and the president in annual reports already encompass the outlook of the company, which however could be subject to adjustments in view of the variables. Even the internal plans of a company may need to undergo significant changes if there are significant changes in policies and market factors. Therefore, if the disclosure of the outlook of a company is too detailed and specific, the company may end up needing to issue announcements in response to any changes in the external environment, which may cause confusion to investors. In the opinion of Zhang Bingxun, professional analysts could play a bigger role in this respect.

II Proactive disclosure

Besides periodic reports, there are many other forms of proactive disclosures, such as announcements, road shows, performance explanation sessions, investors' meetings, teleconferences with analysts, investor's visits and others. Amongst these, announcements which disclose to investors information not required to be disclosed under the listing rules requirements, are the most commonly used.

Two undesirable attitudes have been seen in practice. Some enterprises are very reluctant to disclose any information beyond what is required under regulations. For them, proactive disclosure is treated as a difficult task. Fu Rong, board secretary of Shanghai Electric, says that the standards of proactive disclosure must be consistently applied to both positive and negative news, and the transparency of corporate information can only be increased by sticking to the principle of consistency.

Other enterprises do not use announcements appropriately, simply using them as advertisement and indiscriminately publishing all information about performance and progress of every order, thus making it difficult for investors to judge the true value of the enterprise, or confusing them due to the overwhelming number of notices issued. 'Transparency is very important, but prudence is equally

important,' said Huang Yong, securities affairs representative of Dongfang Electric, who chooses to only disclose large orders that will have a material impact on the operations of the company.

Lawyer Lv Hongbing, as a member of the judging panel, believes that under many circumstances, the significant fluctuations of share prices among listed companies in China are due to the fact that announcements have not been published in time, or fail to clarify market rumors. 'Due to the rapid development of media and emergence of new media – especially blogs – everyone is able to express their opinion. It is increasingly difficult to distinguish what information is true and what is false, which puts the pressure on the listed companies to clarify rumors in a timely manner,' said Lv Hongbing. 'There is a lot of room for improvement in information disclosure with regards to how a listed company copes with market rumours and utilises announcements to protect small and medium investors.'

In the opinion of Lv Hongbing, listed companies should emphasise responsive, accurate and thorough responses, as well as continuous follow-up on the issue. In practice, many listed companies try to cover up market rumours, or send spokespeople that just walk away, insisting on 'no comment' or 'no further information'. There are also cases where the market rumors were allowed to simply fade away. Therefore, Lv Hongbing attaches a lot of importance to the timeliness and continuity of announcements.

It is the aim of many listed companies when proactively disclosing information to help investors make the right judgements about the operations of the companies. The principle upheld by Shanghai Electric is that significant changes, major projects, and possibilities of future development should be made known to the market, and significant contracts and investments of milestone significance will be disclosed to the market through announcements. SAIC Motor also advocates and has taken initiatives within the industry to disclose monthly production and sales data for the company, which is published in the 'production and sales express' within 10 working days in each month in order to help investors understand its business operations.

YANZHOU COAL – PROACTIVE DISCLOSURE

Yanzhoucoal's disclosure of its acquisition of a Canada potash fertilizer project is a classic example of good practice in disclosure. At that time, the company immediately disclosed the thoughts and strategies of management regarding future business development in the face of a significant change to the future business of the company.

According to the provisions in the company's Articles of Association, the acquisition at that time can be authorised by the general manager and need not be subject to board resolution. According to Wu Yuxiang, financial director of Yanzhoucoal, based on relevant regulatory provisions then, there was no need for immediate disclosure of the acquisition. However, the company was aware that acquiring the Canadian company at that time could lead to misgivings among the public. As such, it was necessary to clarify the management's future plan as well as the relationship between potash fertilizer and the primary business of the company, namely, the coal business. Therefore, the company chose to disclose information proactively immediately after the acquisition was completed.

Wu Yuxiang, financial director of Yanzhoucoal, disclosed the logic underlying the acquisition: from an international perspective, there were only a few international enterprises that focused solely on coal business, and many enterprises had taken action to diversify their operations. There was a very high demand for potash fertilizers in China, while the reserves owned by Yanzhoucoal were very low, so it made sense to acquire potash reserves. In entering the Canadian market, the company was able to draw upon its experience previously gained in Australia; the acquisition established a stronghold for future expansion, and is therefore strategically significant to the company.

Another key aspect of announcements is that the board secretary needs to make professional judgements regarding 'price sensitive information'. In practice, Bank of China attaches special importance to direct response to market concerns and proactive disclosure, so as to help investors better judge the situations of enterprises. For example, when the European debt crisis erupted in 2011, investors paid a lot of attention to the European debt portfolio held by Bank of China as well as the ratings of the debts. Bank of China not only disclosed its portfolio of European debts, but also emphasised its ability to control and manage risks in the disclosure. This was also what BOCOM did, paying keen attention to the market concerns. When the market focused on the bad debt issues of government financing and the proportion of real estate loans in the total credit granted by the bank, BOCOM did not fail to include the corresponding disclosure.

It is very important that an enterprise make sufficient proactive disclosure of its asset operations. In the first half of 2010, when GD Power attempted to acquire power generation assets in Xinjiang and Jiangsu by means of private placement to majority shareholders, it disclosed the operation situations of the relevant assets, profits and the likely difficulties on a timely basis, thus promoting investors'

understanding of the acquisition and helping realising the acquisition. Meanwhile, GD Power also provided timely communication in response to false coverage by the media and provided clarifications when necessary.

In addition to announcements, some companies find their own way of communicating with investors by issuing other reports. GDIH focuses on the demands of investors, and actively explore how to disclose the information to investors in a truthful, complete and timely manner. In the opinion of Zhang Xueqiu, board secretary of GDIH, it is not sufficient to just provide information in annual reports. 'For non-institutional investors, the amount of information they can glean about the company from annual reports, including strategies and business information, is not sufficient' said Zhang Xueqiu. 'Institutional investors will do a lot of research, while individual investors do not have that advantage.'

In order to ensure that all investors can gain a deep understanding of the company, GDIH began to issue sustainability reports from 2008. The sustainability report covers the sustainable development from the company's economical, environmental and social responsibilities. According to Zhang Xueqiu, this report is a helpful supplement to annual reports. 'It is not adequate to introduce the

development of the company using financial reports alone. What's also necessary is introducing the company from several aspects, including the governance structure, development strategy, major investments, progress of projects. The sustainability report is of great significance to investors in their understanding of the foundation and changes to the company,' said Zhang Xueqiu.

During the process of communication, gathering feedback on what investors are interested in is very helpful to the company. Therefore, some enterprises attach great importance to performance explanation sessions following the release of periodic reports. Shanghai Electric, Dongfang Electric and Yanzhoucoal all place a strong emphasis on the presentation materials at performance explanation sessions which provide detailed analyses of the business development by focusing on the demands of institutional investors.

According to Fu Rong of Shanghai Electric, the materials published at their performance explanation sessions focus on the demands of institutional investors and give a more in-depth analysis of the business development, such as changes in gross profit margin of the main products, market developments of the industry, and so on. It was gathered from several road shows that institutional investors are very concerned with the gross profit margins and their trends, which led the company to incorporate gross profit margin as one of key performance indicators.

When communicating with analysts, Zhang Wei, board secretary of HISUN, believes that it is acceptable to provide an overview of the company's situation, but not specific quantitative data. In terms of content, general industry status and trends, the international market, the development trends of the company, and so on can be highlighted. BOCOM also attaches great importance to analysts' evaluation of the banking industry, opinions on share valuation and on the operation and management of the bank. It will also carry out regular surveys of the analysts. According to Zhang Xueqiu from GDIH, disclosure should basically focus on objective information and historical information; it may be difficult to include analyses and judgements

of some senior executives as well as forward looking information in the disclosure, but they can be raised during communication with investors.

Reception of visiting investors is also an important part of communicating with investors. When hosting visiting investors, BOCOM not only introduces the business operations of the bank, but also provides information about the China economy, bank credit, housing prices and other pertinent information. Huang Yong of Dongfang Electric also emphasises the importance of being honest with visiting investors, and timely communication of the market changes (product market), for example changes in the fields of thermal power and wind power covered by the company.

III Media strategies

Local media is becoming increasingly active, especially with the emerging finance and economics print media that present critical reports and are always in keen pursuit of 'hot' news. This means listed companies need to do a good job of information disclosure and need an effective media strategy.

Chen Jingdong, board secretary of GD Power summarises media strategies into the following points:

- Enterprises should build a good interactive relationship with media to help journalists accurately understand the corporate operations.
- It is also necessary for enterprises to closely monitor media reports, and communicate with media in case of false or incomplete reports on a timely basis in order to clarify any inaccuracy.
- Certain media deliberately scrutinise companies' disclosure or operations for problems to highlight. Enterprises should avoid getting defensive and should proactively communicate with these media and improve information disclosure in good faith

It is very important to build a good relationship with the media. According to Zhang Xueqiu, board secretary of GDIH, media are helpful supplements to announcements of companies. At the listing of GDIH, it clearly presented to investors the implication of listing as analysed by the management through media interviews (mainly the three major

specific securities dailies for corporate disclosures). In Zhang Xueqiu's opinion, in terms of this significant disclosure, the content in public disclosure is limited, but further media coverage can help investors understand the company's strategy more clearly, and can at the same time avoid too much management representation in announcements that may be mistaken as commitment to future performance.

Some board secretaries will also pay attention to the emerging online media, and suggest that attention should be paid to discussions on certain websites that has a concentration of investors like eastmoney.com and tieba.baidu.com, so as to be able to step in on a timely basis to clear up incorrect information. Attention should also be paid to shareholders forums in order to collate concerns raised by small and medium investors and to provide proper responses to these questions in periodic reports.

Conclusion

Listed companies in China attach great importance to corporate disclosure. Apart from compliance, some enterprises have begun to explore more effective ways to satisfy the investors' needs for information that will allow them to more accurately gauge the performance and development trends of the company. At the same time, by actively communicating with investors and carrying out market value management, companies are able to capture refinancing opportunities in the capital market and utilise the capital market as a mean to drive the growth for the company.

Looking ahead, the board secretaries interviewed were generous in providing suggestions on how quality of disclosure can be gradually improved while ensuring full compliance with regulations, as well as suggestions on how market driven disclosure regime may be eventually achieved.

Many of the board secretaries interviewed are of the view that disclosures that are too detailed risk masking important messages with

an overwhelming mass of complex information, which will leave investors confused and unable to accurately evaluate the company's worth.

In view of this challenge, they suggest that regulators introduce specific practical guidelines, identify investors' information needs as the primary driver of corporate disclosures, and encourage listed companies to adopt the same approach and start providing key information that investors really

need. Some board secretaries also suggest that involving more financial intermediaries in the disclosure value chain, which will help take care of the legal aspects of disclosures, and at the same time promote the improvement in disclosure in a business friendly manner.

We believe that further in-depth studies could be conducted to explore these suggestions in order to better enhance the disclosure efforts of listed companies in China.

