CLEAR and CONCISE

A director's guide to writing the Business Review of an Annual Report

Published by 香港董事學會 The Hong Kong Institute of Directors

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Published by:

香港董事學會
The Hong Kong Institute of Directors

Sponsored by:

CG
企管基金
FOUNDATION

Published by
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First published in Hong Kong 2015

Forewords

Directors are ultimately responsible for corporate governance and communicating with shareholders and stakeholders on the company's conformance and performance. It is pertinent that the Business Review in a company's Annual Report should incorporate all relevant information required by law and regulation and at the same time be succinct, to the point and readable. This Guide is an addition to the Institute's collection of guidelines for directors, among the Institute's initiatives in the promotion of corporate governance and director professionalism. For more information on the Institute and the full series of guidelines, please visit www.hkiod.com.

Henry Lai, Chairman of Council,
The Hong Kong Institute of Directors (HKIoD)

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This guide is written for directors of Hong Kong companies but many of the points apply to companies anywhere in the world.

I have used other publications in preparing this guide and thank those who worked to prepare them. My thanks to Robert Gibson for his assistance and to my wife Helen for reviewing and commenting on each draft.

The views expressed in this guide are mine and do not necessarily represent the views of the Council of HKIoD.

The material in this guide is set out in good faith for general guidance. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the author or publisher.

Victor Hughes

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This guide can be downloaded free of charge

http://www.hkiod.com/clear-and-concise.html

Contents

1. Why read this Guide on writing the Business Review?

The purpose of a report is to inform the reader.

Company Annual Reports have existed for "more than 50 years" *(ReportWatch)*. For about the last 20 years there has been criticism that they do not help the reader understand the state of the business.

In summary the criticisms are:

- information is lost in a mass of data
- reports are difficult to navigate
- figures and comments are not related to the company's strategy or vital measures

Charles Tilley, the chief executive of Chartered Institute of Management Accountants (UK) ("CIMA"), wrote in *Financial Management* June 2013,

> "The review of more than 500 business models disclosures undertaken by CIMA, PwC and the IFAC found that although today's corporate reports have become more complex, they actually provide less insight into how value is created or destroyed … most business model reporting remains inconsistent, incomparable or incomplete."

This Guide should help companies to

- **focus the Business Review on important information**
- **reduce the size of the Annual Report**

and Boards to

- **incorporate reporting into their work schedule**

Any new requirement tends to increase the size of the Annual Report and make it more difficult to read.

This Guide concentrates on how to write a clear and concise Business Review (some call it "management discussion and analysis" or "MD&A") for an Annual Report. The principles of clear and concise writing apply equally to other sections of the Annual Report and this Guide refers to all.

The Guide deals with the "why" and "how" of reporting, not "what" to report.

I use a variety of layouts and fonts to show how different layouts and fonts can aid communication. I have used examples to illustrate issues. In all cases they are based on real Annual Reports with changes to avoid embarrassment.

Changes can be made.

A report issued in August 2014 by the Financial Reporting Lab, an initiative of the United Kingdom Financial Reporting Council, *Towards Clear and Concise Reporting*, includes guidance and suggestions on ways to streamline the Annual Report and Business Review. Two case studies are discussed: in one, Prudential reduced the size of its Annual Report by 22% over two years.

2. Why produce the Business Review?

The purpose of a report is to inform the reader.

Why do companies issue Annual Reports including Business Reviews?

Essentially because

- **The law requires it** – with some exceptions for small companies. See Attachment 1.
- **Investors want to know** what the company has done and plans to do. It is not reasonable to expect investors to have money in a company and not get a report on what has happened to it.
- **There are other people** who need to understand the company's condition. For example:
  - Staff need to know the company's strategy and tactics as a background to decision-making.
  - Customers and suppliers want to understand how reliable a business partner the company is.
  - Groups concerned about the company's impact on the environment or society.

  People who have a specific interest in understanding the company's condition are called Stakeholders. An important part of writing a good Business Review is to identify the company's key Stakeholders and what interests them so the report can focus on their information needs.

Communicating with stakeholders is an important responsibility of the board. Directors need to understand who are interested in, and can influence, the success of the company. It follows that, once identified, the directors need to communicate with them. This is discussed in Attachment 2.

The Business Review covers **important matters which do not appear in the financial accounts**. Charles Tilley recently quoted a report by Ocean Tomo LLC of 4 April 2011 that in 2011 net asset value was about 20% of stock market capitalisation, compared with 80% 30-40 years ago. **Value is not just in the balance sheet.**

These reasons apply equally to Small and Medium Sized companies ("SMEs") and to listed companies.

When thinking about the Business Review section of an Annual Report consider:

> "Skill in the art of communication is crucial to a leader's success. He can accomplish nothing unless he can communicate effectively". – Anthony Robbins
>
> "The more elaborate our means of communication, the less we communicate." – Joseph Priestley
>
> "If words of command are not clear and distinct, if orders are not understood, the General is to blame." Sun Tzu (*The Art of War*)

I've nothing to add.

3. Who is responsible for the Business Review?

The purpose of a report is to inform the reader. A good report is the result of good planning and decisions.

A company's board of directors is responsible for all of the Annual Report, other than the auditors' report.

Directors have an obligation to report under common law, statutes and, where appropriate, Listing Rules.

HKIoD's *Guidelines for Directors (4th Edition)* makes this clear. The summary of the board of directors' responsibilities includes:

> "Giving an account of the company's activities to the parties to whom an account is properly due."

In the Guide "The Functions of Directors" include:

> "Ensuring the fullest communication with shareholders and the company's recognition of their interest."

The directors decide on the content of the Annual Report.

In addition to the financial results, the Annual Report must include a Business Review, which for many readers is the most useful part.

The minimum contents for the Business Review are set out in the Companies Ordinance Cap 622's section 388 and Schedule 5 [Attachment 1]. The Hong Kong Institute of Certified Public Accountants (HKICPA) have issued guidance on the requirements in *Accounting Bulletin 5* (AB5).

The Hong Kong Exchanges and Clearing Ltd (HKEx) Listing Rules have additional requirements for listed companies.

Frequently the wording of the requirements is general because they apply equally to all companies and include comments such as, "…directors may want to…" and "…it is for directors to consider how best to present…"

Except as far as it is mandated by the Companies Ordinance, it is clear that directors should decide the detail of what to include and exclude from the Annual Report and its Business Review, and how the information is presented.

To carry out their duties, directors need key information on their company to determine what is important in the company's results and for the company's future.

Board meetings will allocate time to examine the company's results, achieved and forecast, compared to an agreed plan. The discussion covers both successes and failures.

An analysis of past results is useful, but not more important than a discussion of the likely future. "You cannot drive a car using only the rear-view mirror." The company's past is fixed; directors can only influence its future.

Directors are responsible for the content and style ("manner of writing", *Oxford Dictionary*) of the Annual Report including the Business Review. These are not matters for the Chief Executive Officer alone or Chief Financial Officer alone, or the company's Communication Department although the board may seek their advice.

I have found deciding on style difficult as many people have credible opinions. One director's view was, "Include as many pictures as possible, products, people and places."

But Peter Lynch commented in *Beating the Street*, repeated in the *Daily Telegraph* in February 2014, "All else being equal, invest in the company with the fewest colour photographs in the annual report; the extravagance of any corporate office is directly proportional to management's reluctance to reward its shareholders."

What is the answer - plenty of black and white photographs?

Other questions of style: which is best:

- a narrative across the full page or in two columns
- bullet points or tabulations or continuous text
- charts in the text with explanations or in a separate section with references
- changing the cover, layout and font every year or keeping the same format

There is no one right answer to these types of question, but the answers are important; they affect the clarity of the report and the impression given to the reader. Directors decide on style because it is part of their responsibility to clearly explain the company's business and position.

Time should be allocated in the board's rolling 12 month work plan to decide on the content, inclusions and exclusions, and style of the Annual Report and Business Review.

Directors should have time to discuss reporting to shareholders, staff and other stakeholders. Before the reports are drafted directors should agree:

- Who is responsible for co-ordinating the preparation of the report
- What matters should be included and excluded in the analysis of results
- What to include in the discussion of the future
- How the Annual Report should be distributed:
    - all shareholders must be treated equally, even those without internet access; this could become a problem where companies move towards real time reporting
    - there must also be good distribution to important stakeholders other than shareholders
- The style of the report; some options are discussed in detail in Sections 4 and 5
- A budget

Because of the current dissatisfaction with the size of reports, it would be wise to set limits on the size and only include the most important issues. It may help to have a separate document on the company's website on its position on continuing issues.

The board's work plan should allocate time later to review and agree the final draft of the Annual Report with the Business Review.

This process is not only for listed companies. SMEs should also explain their results and plans to shareholders and other stakeholders.

A report's size can be a barrier to understanding it.
To put the criticism of the size of many Annual Reports into context; to comprehend a page of text takes most people between 2 and 3 minutes[1]. This means, ignoring fatigue:

a 50-page report takes 2-2.5 hours to understand
a 250-page report takes 10-12.5 hours to understand

Yet an article by Mike Guillaume for *ReportWatch* observes "The average report reader….spends indisputably less time reading annual reports than in the past (some alarming reports talk about 5 minutes)."

This presents a significant challenge to directors. How do you report in 5 or 10 minutes? Turning the coin over, perhaps a concise user-friendly report will persuade readers to spend more time reading it.

A 250 page Annual Report will weigh more than 1kg, truly a weighty tome!

There is help in Section 5.

[1] Assumes an average adult reads and comprehends 200-250 words per minute; a page of an Annual Report has about 600 words

4. How to define the content of a Business Review?

The purpose of a report is to inform the reader. The contents must be clear and focus on what the reader needs to know.

Hong Kong law – see Attachment 1 - requires that each company's Annual Report include a Business Review.

The HKEx Listing Rules, Appendices 14, 16 and 27, also list what must be covered.

For many years directors have been encouraged to "give an account of the company's activities" to third parties, "ensuring the fullest communication with shareholders" (*Guidelines for Directors*).

What should be included in the Business Review?
The answer is simple -

> **whatever is important to understanding the company's current and future results, the risks its operation faces and its standing in society.**

It sounds simple, but is difficult in practice.

What people want to know about a company can change but tends to increase. It varies from company to company even within an industry. People often want to know more about a company that may be failing than one that is thriving.

Some articles conclude that what Annual Report readers want to see is a summary of the information directors use when they make decisions, not just data. I think this is a good steer on what to include.

In this guide my definitions are:

> "information" means "useful data"
> "data" means "facts whether useful or not"

To me the key points are that the Business Review should:

- discuss the business "through the eyes of the directors"
- not just analyse the financial statements, but explain the business reasons for the results
- explain what is important to the business of the company
- be balanced and neutral ie deal with successes and failures
- put the financial and other results into the context of the industry

Unlisted companies can also benefit from reading Appendices 16 and 27 of the HKEx Listing Rules. Directors should look at as many sources as possible.

All the guidance is expressed generally because it applies to all companies whether listed or not, large and small.

Awards for the best Annual Report can indicate the current local best practice. "Best" is a comparative not a standard. The best Annual Report may be the best of some excellent reports or the best of a poor lot.

The directors know what information they believe is important: it is presented at board meetings. The decision rests with the directors. AB5 comments, "the review should reflect the directors' view of the business and be consistent with information which the directors use in managing the reporting entity…"

It is helpful to see what others do.

AB5 comments that Hong Kong's requirement for a Business Review is partly modelled on the UK's requirements and draws on the UK Financial Reporting Council's work. A board wanting to produce a good Review can take the short-cut of looking at what UK companies have done.

The UK has more than one best Annual Report award and has awards for the Annual Report's sections.

Examples. The Investor Relations Society (IRS) has awards for different sizes of companies and for subjects eg *Strategy, Performance and KPIs*, *Sustainability.*
ICSA (Chartered Secretaries) has the ICSA Hermes *Transparency in Governance Awards.*

The judge's remarks on the "best" are also very helpful.
Examples. Extracts from recent IRS and ICSA awards:

> "The tone from the top comes out….with a less formal and discursive tone."
> "The report is informed and reader-friendly."
> "Many FTSE 100 companies can learn from those in the FTSE 250."
> "Companies should be open and honest about the 'ups and downs'……"
> "Personal style is important in reporting….."
> "Annual reports need to answer the question – why invest in us?"

This last comment is a good guide on what to include.

Directors should learn from the experience of others. Even if the reaction after looking at an award winning Business Review is, "No, this is not for us, our business is different because……." this is helpful; it is a step towards clarifying what should be reported.

Listed companies in Australia are required to include an Operating and Financial Review (OFR) in their Annual Reports. The requirements are similar to Hong Kong's Business Review, "It must set out information that shareholders or unit holders would reasonably require to assess an entity's operations, financial position, and business strategies and prospects for future financial years. This information complements and supports the financial report."

KPMG's report on how companies have responded, *Operating and Financial Reviews, Application of ASIC's Regulatory Guide April 2014,* includes helpful hints,

comments and examples of clear and concise reporting. There are comments on what has been done well and where improvements are needed.

The organisation, *ReportWatch*, monitors and comments on all Annual Reports submitted to it world-wide. *ReportWatch* ranks reports, comments on trends and produces *The Annual Report on Annual Reports*. Each Annual Report reviewed is rated between A+ and D.

The top 400 reports are rated A+ to B- and in 2013 included 7 from Hong Kong.

The joint-top ranking in *ReportWatch's* 2013 awards were:

SASOL of South Africa
STATOIL of Norway

Both were rated A+.

Hong Kong organisations are active in encouraging a high level of company reporting. The two that spring to my mind are, Hong Kong Management Association's *Best Annual Report Award* which has been held every year since 1973 and HKICPA's *Best Corporate Governance Disclosure Awards* which have been offered annually since 2000. The judges' comments on the awards are especially useful. There may be other awards I am not aware of.

There is a wealth of information available on the internet. I think it is easier to learn from others than to try and create alone.

5. How to write a good Business Review?

The Purpose of a report is to inform the reader. The contents must be easily understood.

The objective of reports is to pass information to the reader. *ReportWatch*'s comments on page 9 of this guide show that important information must be presented clearly and concisely so it can be understood quickly.

The basic points to remember are:

- Investors want to know about the key parts of the business
- The Business Review should focus on important matters only
- A company does not work in isolation; the information should be put into context
- Financial results are produced by business operations; both financial and operating information is needed, and ideally linked
- The financial position should be explained in non-technical words
- Business Review readers want "the same information directors use when they make decisions"

Some companies make it easier for different groups of readers to find the information they want by splitting their Annual Report into sections and offering some of these as separate reports. A good example is the Marks and Spencer Group which breaks its Annual Report into 33 short sections, mostly of 2 or 3 pages, eg

At a glance	Chairman's letter	Market background
How value is created	CEO Review	Progress against Plans

all within 135 pages, including the Financial Statements. The website has the full Annual Report and separate reports for Remuneration, Financial Statements, Strategic Report and Governance. All this helps a reader zero-in on what interests them. See
http://corporate.marksandspencer.com/investors/b73df1d3e4f54f429210f115ab11e2f6

For other examples of concisely reported key information see
http://examples.theiirc.org/

Techniques for good report writing

The quote "I'm sorry I have written a long letter, but I did not have time to write a short one," attributed to many people, applies to the Annual Report and Business Review. Writing well is not easy. There are methods that can help.

To maximise the chances of a reader understanding the Annual Report and Business Review easily, it needs to be:

<u>Concise</u> - dealing with the main issues

The Business Review should focus on important matters, anything else is distracting. This requires effort, but can be done. In Wikipedia someone has summarised the plot of the novel *Pride and Prejudice* in about 1,400 words.

Directors should know what the important issues are from discussions at board meetings.

<u>Clear</u> - in a form that can be easily understood

Possibly the most difficult part of writing is choosing the best words and layout to deliver the meaning to the reader. People have their own preferences.

Words

I prefer simple words and format, avoiding jargon. When I was in business I applied the principles of "Plain English" to the Financial Statements. The result was they were easier to understand and shorter.

"Plain English" is a UK-based campaign. It encourages clear and concise communication by using:

- short clear words and sentences
- eliminating jargon and misleading words.

The campaign offers free guides, also books and courses.

Using plain English improves understanding and reduces the number of words.

Example. A recent example from UK's Education Minister.

> Original: "The Policy that we are introducing is intended to drive a change in behaviours on the part of teachers with respect to the poorest and most disadvantaged children and young people." (31 words)
>
> Re-written: "The Policy will change how teachers behave towards poorer students." (10 words)

Example. From a report.

> Original: "The company has put in place effective systems, processes and formats for the identification, collection and reporting of relevant information relating to financial, operating and compliance information in a format and time-frame intended to ensure that staff perform their designated responsibilities." (41 words)
>
> Re-written: "The company has established systems and forms to report information on finance, operating and compliance promptly to the staff required to take action." (23 words)

Layout

A good layout can inform quickly. The main options are narrative, lists, tables and charts.

Example. A retail business believes it is important to detail the stores it has opened and closed. This can be done using either narrative, a list or a table.

Narrative

"We established our first store in Doha in April 2014. We added a third store in Beijing in May and have high hopes for increased sales. Also in China we opened our fifth store in Guangzhou in June, our second store in Chengdu in July, but closed our store in Shantou in the same month." (55 words)

List

"During 2014 we opened stores in –

Doha	(April)
Beijing	(May)
Guangzhou	(June)
Chengdu	(July)

and closed in

Shantou	(July)"

(19 words)

Table

" Stores

Place	Number of stores; 2014			
	January	Opened	Closed	December
Beijing	2	1	-	3
Chengdu	1	1	-	2
Doha	0	1	-	1
Guangzhou	4	1	-	5
Sha Tin	2	-	-	2
Shantou	1	-	1	0"

(17 words excluding figures)

Bullet points can make lists clearer.

Example. Original: "Note 15 Fees and Services. For the year ended 31 December 2014, service fees payable amounted to HK$14 million (2013: HK$12 million). Expenses of HK$5 million (2013: HK$6 million) were reimbursed at cost; in addition, HK$12 million (2013: HK$11 million) in respect of combined administration services was also reimbursed." (49 words)

Using bullet points this becomes:

"Note 15 Fees and Services.
For the year to 31st December 2014, we paid

- HK$14 million of service fees (2013: HK$12 million)
- HK$5 million costs (2013: HK$ 6 million)
- HK$12 million as the cost of shared services (2013: HK$11 million)"

(43 words)

Alignment right can make figures easier to understand.

Example. Details of a new capital project.

"Estimated project cost

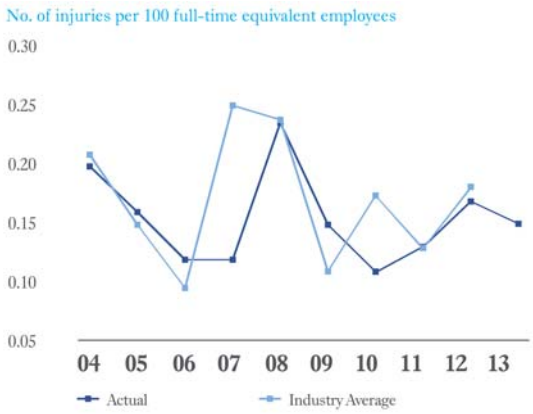
	HK$ millions
Material from suppliers	80
Material from our stocks	15
Total material	95
Engineering staff	25
Total cost	120
Contingency (10% of total material)	10
Estimated project cost	130"

Charts can show information and trends clearly with immediate impact.

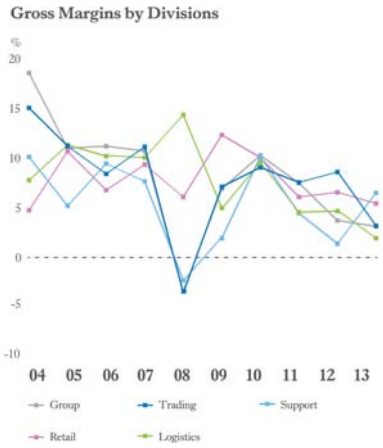
They communicate information and should be clear. It may be helpful to include comment on a chart in the text of the report.

Charts can be misleading or confusing if not well-designed. There are books on the effective use of charts.

I believe directors should decide which technique best explains a point. It is part of the style of the Business Review and Annual Report.



This chart shows information clearly. It calls for a comment in the Business Review



In my opinion this chart is confusing. I do not understand what it is meant to tell me.

<u>Complete</u> - cover all vital aspects of a company's business

Some companies operate separate business activities that support the main operation. For example, a shipping company may operate the businesses of

repairing containers	supplying fuel
supplying provisions to ships	harbour towage

as separate companies with third party customers.

If the companies operate independently and produce a result which is significant to the group's overall results, a summary of their Statements of Comprehensive Income, of Financial Position and of Cash Flows together with basic operating figures should be included. This may be done regardless of the accountant's test of "materiality". If the information is important it should be included.

Many Annual Reports include a list of "Highlights" ("detail of vivid interest", *Oxford Dictionary*) at the beginning. Assuming the figures are important, it is surprising that often there is no comment on them, or on significant changes, in the Business Review. It can give the impression that either the figures are actually not important - if so why report them? - or the directors do not know the reason.

<u>Consistent</u> - use the same method of calculating and presenting figures each year

The continuing development of financial reporting standards makes it difficult to achieve consistency for financial figures. When there is a new or modified standard the previous year's figures must be re-stated using the new approach. If the figures are part of an important trend all the historical figures need to be re-stated. This can be a burden to the company.

To the best of my knowledge, there are no reporting standards for operating figures such as the volume of cargo carried by a shipping line. There are, however, definitions in the Global Reporting Initiative for environmental and social key performance indicators. Operating information is as important as the financial figures. The same care and consistency should be used.

Being consistent does not exclude reporting on issues requiring short-time attention, eg reducing overdue debtors. Directors must decide for how long the temporary comment should be included.

<u>Correct</u> - arithmetically and factually

Ensuring the figures add up is easy, but there are dangers when rounding the results of calculations eg percentages and ratios.

Being factually correct in the narrative means avoiding the temptation to project the best image. For example, if the Business Review compares unit selling prices with competitors, the comparison should be with the competitors directors consider are its equals, not just those who show the company's figures in the best light.

Similarly, the period covered for an important cost trend or efficiency ratio should be the same as for other trends. The starting date for a set of figures should be neutral and not chosen to show a favourable result. If an item or ratio is important, it should be shown every year even if the trend is worrying.

<u>Current</u> - provide information to the reader quickly

The time taken to prepare and distribute the Annual Report and Business Review and the distribution methods should be reviewed regularly.

Readers value having up to date information, however shortening the time for issuing the report may affect its accuracy and could cost more. These factors must be balanced against the benefits. The difficulty is to assess the benefits of different aspects to the reader.

More companies distribute their Annual Reports both as a printed document and online. The options and how well they are used by readers should be assessed regularly.

<u>Co-ordinated</u> - the organisation of information is important

Directors should decide on the best presentation for information. For example for this guide we decided to have the important matters in the body of the guide and have the detail in attachments.

The way information is organised is important to the reader.
The usual approach is to use sections eg

- Highlights
- Chairman's letter
- Business Review (sections for each activity)
- Financial Review
- Corporate governance
- Sustainability
- Accounts and auditor's report
- Statistics

An alternative is to organise the Business Review information by theme eg

- Include the Highlights and comments on them in the Chairman's letter
- Present the Business Review, Financial Review and Sustainability information in themes ie

  - problems being managed
  - planned developments

<u>Comparative</u> - make comparisons

Figures come alive when they are related to the real world by putting them into a context. Comparisons can be made with:

A plan: For many years shareholders have asked that actual results be compared to the company's plan.

Few companies do this because, I suspect, they fear revealing information that may help a competitor.

Comparing actual results with a plan does not require a line by line, dollar for dollar comparison. It can be made by discussing important differences.

Example. The company's operating profit exceeded budget by more than 10%

i. primarily because of higher sales

ii. produced in part by unexpectedly favourable exchange rates

Example. The company's operating profit was lower than planned by about 10% despite increased sales because raw materials prices increased by more than 40%.

This sort of statement begs the question, "What is the company doing about it?" and directors should give the answer in advance.

Other company's or industry information:
Comparing key information with competitors and/or the industry puts the company's results and commercial and financial condition into the real world.

A competitor's performance will, hopefully, be found in their Business Reviews. Industry information may be available from industry organisations, local and international.

Companies tend to issue their reports at about the same time hence a comparison for the reported year will not be available. Companies that compare with competitors usually note the reason why the current figures are not available.

Despite the problems, in my opinion it is still helpful to make the comparison, particularly where the figures are part of a trend.

Strategy
Each company has its definition of success and a plan to achieve it.

Each part of the definition of success and the plan should be measured. These measures are vital and may include:

Finance eg Return on Assets

There are many standard financial ratios.

It is important the measures used are appropriate. For example, Return on Capital, a popular and well understood measure, may not be right for a company that does not own substantial assets and uses sub-contractors.

Commercial / Operating

Operations eg units produced per hour

Sales eg market share

Strategy

combining money and commercial eg sales cost per unit sold

Staff

assessing their attitude using surveys

Community

a difficult area is measuring the community's attitude towards the company.

The company's aims and plan must be expressed by the measures. Don't use a measure because it is popular.

I believe "what gets measured, gets managed".

Directors know what the company's important measures are because they use them to set direction and guide the company towards achieving its aims.

I imagine these measures to be the information a director would request if they could only receive one page of A4 paper to study before a board meeting.

So far I have avoided the term "Key Performance Indicators" (KPIs), but that is what these measures are. For some reason the term KPI does not seem to be popular. It may be they are seen only as operational or financial figures, but KPIs can and are used for reporting results and monitoring strategy.

Surveys mention that not all companies refer to KPIs in their Annual Reports. Readers may assume that the Annual Report's "Highlights" section lists all the company's KPIs. My experience has been that the list is incomplete.

In the Business Review every KPI used deserves a comment whether the result is better, in line or worse than planned because KPIs are by definition significant to the business and there should not be an excessive number of them.

Some KPIs are difficult to interpret. For example which change, up or down, in advertising cost per unit or training hours per staff member is good? The answer depends on the circumstances, so these must be explained.

I believe measures are important communication tools. AB5 discusses KPIs and gives many useful examples.

Some industries have generally understood measures eg sales value per square foot (of shop space). This should not prevent a company creating its own measures if they better illustrate an important point.

HKIoD's *SME Corporate Governance Toolkit* advises on developing Performance Indicators and their *Guidelines on Corporate Governance for SMEs in Hong Kong* recommends using KPI at all stages of an enterprise, including a "one man" operation.

Time
In business trends are important.

Simply comparing results with last year is unlikely to give a complete picture. A longer view is needed.

CIMA's review of the book *Only Trends Matter* (David Wilcox), based on research under the scrutiny of Bristol Business School, comments,

> "Research has found that the numeric, tabular approach of actual versus budget comparisons is flawed and insufficient. Those interviewed found columns of numbers difficult to interpret…
>
> Virtually everyone said they would find graphical presentations easier to understand

> than numeric tabulations. They wanted to see their management accounts incorporating financial trends and a vision illustrating which way their departments and business was heading."

Annual Report and Business Review readers may well agree with this. People find the trend of key information helpful.

6. How do reporting guidelines help?

The purpose of a report is to inform the reader. The contents must give the readers the information they need in a form they find easy to use.

A number of reporting frameworks and guidelines exist which can help Directors and other report writers produce focussed reports covering matters that interest their investors and stakeholders.

Attachment 3 introduces the international and Hong Kong reporting frameworks and guidelines. Of these, compliance with financial reporting standards on all material issues is required to get an unqualified audit opinion on financial statements. Other frameworks and guidelines are currently optional.

The frameworks and guidelines can help directors explain their business. They do not tell directors how to run the business. Points for directors to consider when deciding whether to use them:

1. It is easier to produce a high quality report:
    a. The guidelines list issues making it easier for directors to decide which are relevant to their company. Directors remain responsible for deciding what is "material" ("important, of great consequence", *Oxford Dictionary*) for their company, but the advice in the guidelines gives a helpful checklist.
    b. If a guideline is followed much of the work on deciding data definitions is already "done for you". Using them can save a company time and effort and help comparison with other companies.
    c. Following the guidelines provides for continuity. Any elements of collecting information and reporting which are unique to a company are vulnerable to staff changes. Using an external guideline makes it easier to recruit replacement staff or employ consultants who are familiar with the system.

2. Following guidelines and standards can enhance a company's reputation and make its reports more valuable to readers:
    a. The guidelines include processes for companies to focus on the most significant issues they face including the ones they find difficult. Following them provides readers with some comfort that this is done.
    b. Readers generally find it easier to follow a report which follows a guideline which is familiar. It is easier for them to compare information in such a report with information produced by other companies using the same guideline. An example of this is how Bloomberg LLP uses the Hong Kong Stock Exchange Environmental Social and Governance ("ESG") Reporting Guideline and GRI's G4 Guidelines to organise the ESG data it makes available on Hong Kong listed companies.

c. Many of the most respected companies follow the international guidelines. This adds to the reputation of both the guidelines and the companies which use them.

IFRS issued a Practice Statement in December 2010 giving guidance to a company's management on the presentation of a Management Commentary that relates to financial statements that have been prepared in accordance with IFRSs. http://www.ifrs.org/Current-Projects/IASB-Projects/Management-Commentary/IFRS-Practice-Statement/Pages/IFRS-Practice-Statement.aspx

IFRS and other guidance are discussed in Attachment 3.

Although big listed companies are prominent in these new developments, SMEs have found benefits. A report *Ten Key Elements to Sustainable Business Practices in SMEs* issued by CGMA comments "More than half of small and medium-size enterprises (SMEs) according to a 2013 UK survey by Lloyds Banking Group, are adopting sustainability practices to save money."

7. Why are forward-looking statements important?

The purpose of a report is to inform the reader by giving the information they need.

Shareholders and others are interested in the company's results, but more interested in its future. They invest in the company's future.

"In layman's terms, the stock price or the value of a company is the present value of its future cash flows." (Wikipedia).

Frequently companies only refer to their future in the Chairman's Statement using a standard comment eg "I believe the company is well-placed for long-term success".

Now, Hong Kong company law[2] requires that the board's current view of the company's future is in its Business Review.

The requirement is not for a forecast of profits. Directors should discuss the main trends and factors that could affect the company's future and what they plan to do. There is a description of what directors need to discuss in AB5 and in PwC's *Guide to future-looking statements.* Both make it clear that there is no requirement for a profit forecast or for the directors to reveal commercially sensitive information.

The existence of commercially sensitive information that is private to a company is acknowledged. Information such as trade secrets, deals being considered or negotiated, need not be disclosed, if revealing them would damage the company.

It is always helpful to see how other companies have dealt with this subject. Both PwC's guide and KPMG's report on *Operating and Financial Reviews* (page 11 of this guide) quote examples from company reports. Some companies include a page tabulating the company's opportunities, challenges and priorities in the Business Review.

A discussion centred around the company's KPIs and possible changes will be very useful to investors and other stakeholders.

Common-sense says there are many events which can have unforeseen consequences. Business circumstances can, and do, change significantly.

Example. Who could have predicted that in the summer of 2014 the business of Australian cheese exporters would be effected by economic sanctions introduced in a dispute in the Ukraine?

Both AB5 and PwC's guide mention the need to advise and remind those reading the Annual Report and its Business Review of the uncertainties involved and difficulties of discussing the future. Some companies include long disclaimers in their forward-looking statements. Disclaimers should not be allowed to obscure the information in the report.

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[2] Attachment 1 paragraph 1 (d)

When discussing the hazy future, I think it is easier to use words rather than attempt to project figures.

Example. "The company has a 15% market share. The XYZ trade association expects market demand to increase steadily, possibly by 10% each year, in the next 5 years. It is our plan to maintain our current market share."

The principles of good reporting apply to forward-looking statements.

Important items should be discussed clearly and concisely.

8. Can other sections of Annual Reports be clear and concise?

The purpose of a report is to inform the reader. The contents must be easily understood.

Directors should review all items in the Annual Report and decide if their inclusion is required by regulation or importance.

Surveys have concluded that long reports discourage potential readers. If a report is not read, it fails.

The length of the average Annual Report has grown significantly. In 2010 a Deloitte's commentary (*Swimming in words; surveying narrative reporting in annual reports, 2010*) noted the increasing average number of pages:

1996	2000	2005	2006	2009	2010
44	56	71	86	99	101

The principles of clear and concise reporting apply to every section of the Annual Report.

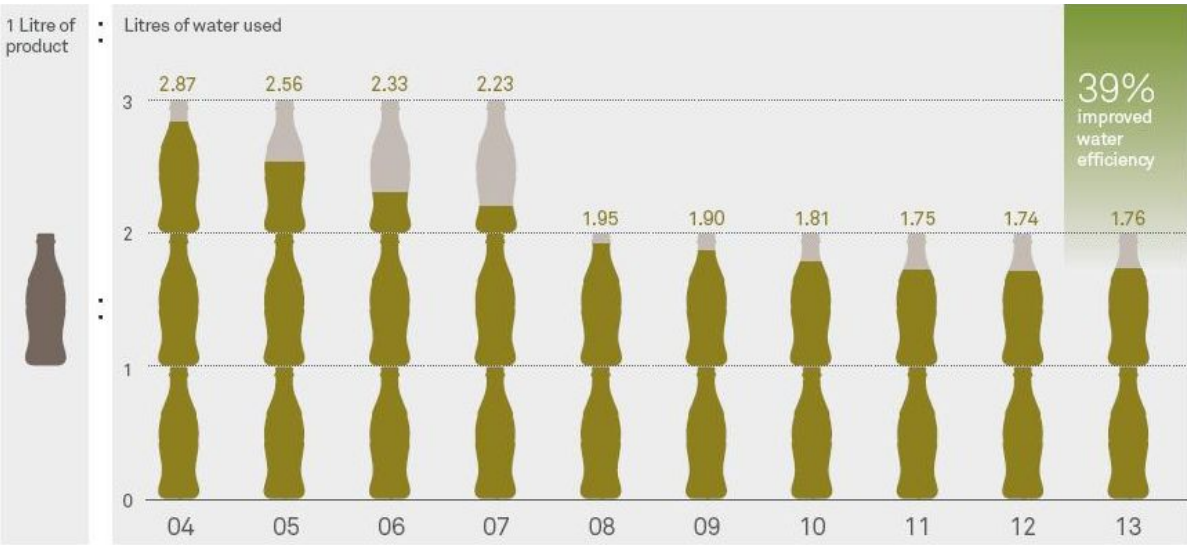
In my experience using Plain English for the "Notes to the Accounts" made them easier to understand and shorter.

Example. Original: "Stock held for disposal is stated at the lower of cost and net realisable value. Net realisable value represents estimated resale price." (22 words)

Re-written: "Stock held for sale is valued at the lower of cost or resale value." (14 words)

Sustainable Development reports often quote total usage figures for scarce resources eg water, without relating them to the company's level of operations. The reader cannot judge whether an improvement has been made. If usage increased by 5% and production by 10% that is probably an improvement; the reverse would be a concern.

Relating total figures to operations helps. For example,



The information would be even more useful if compared to other companies in the same business.

The importance, reasons for changes and the effect of key measures need to be explained. For example, should Average Staff Training Hours be compared to a company or industry standard, and/or last year and/or other companies in the same business? The amount of training can vary greatly with the job requirement so there should be a context for the figure.

Accounting standards often require that "material" information is reported. A commonly used guide for materiality is whether an item is 10% or more of assets or profits or sales.

Separately directors must decide what information is "important" to understand the business.

For example, a group has four subsidiaries which provide different services to the main company and to third parties. Each subsidiary produces a profit which is 5% of the group's profit.

The profit of each subsidiary is not material by accounting standards so the Assets, Profit and Sales need not be reported separately (*Segmental Reporting IFRS 8*).

The directors may decide to report the subsidiaries' Asset, Profit and Sales Figures because together they produce 20% of the group's profit. The subsidiaries' performance should then be discussed in the Business Review, rather than being covered by a single general comment eg "our subsidiaries continue to perform well in general."

I realise that this view means more information and commentary in the report, but if a topic is important to the business it should be reported and discussed.

Financial reporting standards should be reviewed to keep them relevant.
The standards for the financial section of Annual Reports should be reviewed based on experience.

A 2011 report *Losing the excess baggage – reducing disclosures in financial statements to what is important* concluded that the length of financial statements could be reduced significantly by amending disclosures.

> "The result for the disclosures required by the standards reviewed in this project was a 37% reduction in the length of the financial statements. Looking at the financial statements overall, and thus including disclosures required by standards not included in this review, the impact would be a 30% reduction in length.
>
> Consequently, we are confident that, if our recommendations are implemented, this will result in shorter financial statements containing meaningful information and less irrelevant detail, and thereby serving **better the needs of users of the financial statements.**"

The emphasis is mine.

Every company can help to monitor financial reporting standards by telling their local accounting body of its experience and opinion and helping to ensure "front line" views get back to the standard setting bodies.

Information included in the Business Review does not need to be repeated elsewhere in the Annual Report, but should be cross-referenced.

Reference information

Attachment 1: The Hong Kong Companies Ordinance Business Review requirement

The Hong Kong Companies Ordinance Cap 622's section 388 and Schedule 5 specify the requirements the Business Review section of company reports must meet for financial years beginning on or after 3 March 2014. This applies to most companies but there are some exemptions, eg wholly owned subsidiaries and small companies that may adopt simplified reporting.

Listed companies may be required by HKEx Listing Rules to meet additional requirements.

Schedule 5 specifies the contents of the Directors' Report: Business Review section as follows:

1. A directors' report for a financial year must contain a business review that consists of:
    a. a fair review of the company's business;
    b. a description of the principle risks and uncertainties facing the company;
    c. particulars of important events affecting the company that have occurred since the end of the financial year; and
    d. an indication of likely future development in the company's business.

2. To the extent necessary for an understanding of the development, performance or position of the company's business, a business review must include:
    a. an analysis using financial key performance indicators;
    b. a discussion on:
        i. the company's environmental policies and performance; and,
        ii. the company's compliance with the relevant laws and regulations that have a significant impact on the company; and
    c. an account of the company's key relationships with its employees, customers and suppliers and others that have a significant impact on the company and on which the company's success depends.

3. This Schedule does not require the disclosure of any information about impending developments or matters in the course of negotiation if the disclosure would, in the directors' opinion, be seriously prejudicial to the company's interests.

4. This Schedule has effect in relation to a directors' report required to be prepared under section 388(2) as if a reference to the company were a reference to:
    a. the company; and
    b. the subsidiary undertakings included in the annual consolidated financial statements for the financial year.

5. In this Schedule, key performance indicators means factors by reference to which the development, performance or position of the company's business can be measured effectively.

Attachment 2: Who reads our reports?

Many people may read an Annual Report and its Business Review.

Section 2 of this guide noted that all companies should establish who reads their Annual Report and Business Review and what they want to know. A listed company's reports can be read by anyone. An unlisted company has more control.

Directors should bear in mind that *"*… profit alone should not be a company's overriding aim. Companies have a wider responsibility to their employees, customers, other associated parties and the environment." (HKIoD's *Guidelines for Directors*).

Identifying a company's stakeholders ie "a person with an interest or concern in something, especially a business*"* (*Oxford Dictionary, online*), helps the directors to focus the contents of the company's Annual Report and Business Review.

The process of identifying stakeholders is often called "Stakeholder Mapping", defined as "the process of identifying individuals or groups likely to be affected by the company and/or who can impact the company's ability to deliver on its business plan."

Like many management topics there is more than one definition of "stakeholder" and there are several techniques for classifying them:

Influence-interest grid (Imperial College London)

Power-impact grid (Office of Government Commerce UK 2003)

Mendelow's Power-interest grid (Aubrey L. Mendelow, Kent State University, Ohio 1991)

Three-dimensional grouping of power, interest and attitude (Murray-Webster and Simon 2005)

The Stakeholder Circle (Bourne 2007)

The process can be simple for unlisted companies, but more complex for large and listed companies. Consultants can help.

Examples of stakeholders:

Government	Employees	Customers	Suppliers
Community	Trade Unions	Owners	Investors

Some stakeholders are easily identified, eg existing lenders, but there may be potential stakeholders who are just as important, eg bankers who are interested in lending to the company.

The list of stakeholders can change, eg a company's plan to re-locate its factory will interest its staff and lenders, local governments and possibly environmentalists; once the move is complete some of these may no longer be so interested.

Deciding the information stakeholders need is more difficult, eg staff are likely to have a different requirement than lenders. The guidelines referred to in Attachment 3 can help but I doubt that any guide or combination of guides will ever produce a complete list of what each company should report in all circumstances. Companies in the same industry can have different approaches to their business. They may operate in different ways in different countries.

To add to the difficulty, the expectations of "Community" can change significantly. "Risk Management" was pushed into the spotlight by the Turnbull Report in 1999 and has been there ever since. Directors' remuneration developed as an issue a few years ago and still causes difficulty.

Despite the difficulties directors have to decide on the contents of the Annual Report and Business Review.

It may be the difficulty of deciding who a company's stakeholders are and what information they need that is behind the growth in the size of the Annual Report. Directors may have concluded that the problem can't be resolved other than by including everything that is not commercially confidential, hoping each group can find what they want. "What you want is there somewhere."

I can understand this view. After all reporting is only one of a board's responsibilities, but the approach has the risk of producing an impenetrable Annual Report and Business Review, which fails to inform and frustrates stakeholders.

Attachment 3: Reporting frameworks and guidelines

Section 6 of this guide noted that a number of international and national projects have produced frameworks and guidelines to help reporters determine what they should report on and provide data definitions which aid consistent reporting.

Internationally, the bodies controlling the following major initiatives have committed to work together to produce compatible guidelines.

1. The Integrated Reporting <IR> framework, www.theiirc.org, issued by the International Integrated Reporting Council helps companies report concisely to their financial capital providers how they create value over time. It does so by explaining how a company's business model changes the value of the financial, social and natural capital which it owns or controls. It recommends the use of IFRS and GRI or equivalent (see below) rather than providing data definitions.
2. International Financial Reporting Standards ("IFRS"), www.ifrs.org, are developed by the International Accounting Standards Board for reporting financial items. Many countries have adopted these standards. However, it is recognised that considerable time will be required before the USA's accounting standards are brought onto the same basis.
3. The Global Reporting Initiative's ("GRI"), www.globalreporting.org, 'G4' guidelines cover reporting on Environment, Social and Governance issues. These guidelines provide a process for determining which issues are material for a company and the data definitions for these items. GRI specifies three levels at which companies can advise they follow its standard:
    a. In accordance with GRI's "Comprehensive" scope
    b. In accordance with GRI's "Core" scope
    c. Advising that their report *"contains Standard Disclosures from the GRI Sustainability Reporting Guidelines"* and then listing the disclosures made which follow the GRI guidelines. This option can be adopted for reports which do not meet the full 'in accordance with' standard.
4. Sustainability Accounting Standards Board ('SASB'), www.sasb.org, is developing guidance on which issues are material for each business sector.

In Hong Kong:

1. As noted in attachment 1, Section 388 of The Companies Ordinance companies specifies requirements for the Business Review section of Annual Reports. In addition, Section 380 of The Company's Ordinance requires companies to follow accounting standards which are issued or specified by the HKICPA. The HKICPA provides three options:
    a. Hong Kong Financial Reporting Standards (HKFRS)
    b. HKFRS for Private Entities
    c. The Financial Reporting Framework for SMEs

HKFRS are fully converged with IFRS. The Financial Reporting Framework for SMEs can be adopted by small companies and groups that meet criteria set out in the Companies Ordinance.

2. There is no requirement to follow the other international guidelines. However HKEx has issued its own 'ESG Reporting Guidelines', http://www.hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/appendix_27.pdf, which closely follow some elements of the GRI framework. These guidelines are currently voluntary but the Stock Exchange of Hong Kong has advised it will review their use and may upgrade some to a 'comply or explain' basis.

What approach might companies take to using these standards and guidelines?

If a company has had relatively little previous experience of reporting on environmental and social issues then implementing reporting in a series of steps makes it easier to ensure the reliability of the reporting process. One approach which Hong Kong directors can take is

1. Firstly, as is their responsibility, determine what is "material" ("important, of great consequence", *Oxford Dictionary*) to their company. In doing so they need to carefully assess the views of the companies' important stakeholders. The GRI guidelines provide helpful guidance for this.
2. Determining the material issues for their company ensures that its systems for collecting data on these issues are adequate for its internal management. The GRI data definitions have the following benefits:
    a. They have been developed through the experience of many companies and are appropriate for most companies.
    b. Using them often makes it quicker to agree systems and train staff.
    c. Data will be comparable with international norms if the company later decides to report it externally. This will enhance the company's reputation.
3. For external reporting directors can:
    a. First consider whether to comply with the Stock Exchange of Hong Kong ESG Reporting Guidelines. For most companies compliance is relatively easy.
    b. Next consider producing simple summary reports covering their financial highlights, key business developments and most significant ESG issues. These short reports would be separate from and in addition to Annual Reports. They are relatively easy to produce provided a company is clear as to its key issues.

    In some jurisdictions, such as the UK, these 'at a glance' reports have become the most read communication to shareholders. Producing them and following the GRI data definitions positions companies for moving to <IR> at a later date.

Glossary

Where definitions and descriptions are taken from websites the site is indicated. We do not take any responsibility for the accuracy of the descriptions.

		Web link
AB5	Accounting Bulletin 5. Issued by the Hong Kong Institute of Certified Public Accountants providing guidance on complying with the Companies Ordinance Business Review requirements. See attachment 1 of this guide	http://app1.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumeII/ab5.pdf
Alignment right	Where the text is aligned to the right-hand margin of the page or column.	
Chartered Global Management Accountants ("CGMA")	A joint venture between the American Institute of Certified Public Accountants (AICPA) and the Chartered Institute of Management Accountants (CIMA)	www.cgma.org
Chartered Institute of Management Accountants (UK) ("CIMA")	A professional institute of management accountants registered in the United Kingdom	www.cimaglobal.com
Directors	A group of people, collectively known as the board of directors or "the board", appointed by shareholders to govern in accordance with the HK Companies Ordinance and, if the company is listed, The Listing Rules, and control the affairs of the company,	
ESG	The term "ESG" means Environmental, Social and Governance. It encompasses the non-financial aspects of a company's performance and is a focus for stakeholders who are concerned about sustainability and the ethical impact of a company.	
Financial Reporting Council (UK) ("FRC")	The United Kingdom independent regulator responsible for promoting high quality corporate governance and reporting.	https://frc.org.uk

Global Reporting Initiative ("GRI")	The Global Reporting Initiative (GRI) develops and promotes guidelines for organisations to use sustainability reporting to become more sustainable and contribute to sustainable development. Its "GR4" Global Reporting Guideline was released in April 2013.	www.globalreporting.org/reporting/g4/Pages/default.aspx
Guide to future-looking statements	A guide published by PwC which discusses approaches companies need to take to produce forward-looking statements giving advice and examples.	http://www.pwc.com/gx/en/audit-services/corporate-reporting/assets/pdfs/860-global-forward-looking-guide.pdf
Guidelines for Directors	A reference book for directors issued by The Hong Kong Institute of Directors summarising the law and, where possible, recommending good practice in Hong Kong.	http://www.hkiod.com/guidelines-for-directors.html
Guidelines for the presentation of a business review under the Hong Kong Companies Ordinance Cap 622	See AB5.	
Guidelines on Corporate Governance for SMEs in Hong Kong	A reference book for directors issued by The Hong Kong Institute of Directors giving guidance on the development of corporate governance in all the stages of company development from a single individual operation to a listed company. It also discusses governance issues for family companies.	http://www.hkiod.com/sme-guidelines.html
Hong Kong Financial Reporting Standards	A set of principles and standards that govern the accounting practices used to record and report business transactions to be followed by all companies. Issued by the Hong Kong Institute of Certified Public Accountants.	http://hkicpa.org.hk/en/standards-and-regulations/standards

Hong Kong Companies Ordinance Cap 622[3]	The Hong Kong law governing how companies are set-up and must be run. Its section 388 specifies that Directors must produce an annual report.	http://www.legislation.gov.hk/blis_ind.nsf/WebView?OpenAgent&vwpg=CurAllEngDoc*619*100*619.1#619.1
Hong Kong Institute of Certified Public Accountants ("HKICPA")	The institute of the Hong Kong accounting profession whose responsibilities include promulgating financial reporting, auditing and ethical standards in Hong Kong	http://www.hkicpa.org.hk
The Hong Kong Institute of Directors ("HKIoD")	The Hong Kong Institute of Directors is Hong Kong's premier body representing directors to foster the long-term success of companies through advocacy and standards-setting in corporate governance and professional development for directors	www.hkiod.com
Hong Kong Stock Exchanges and Clearing ("HKEx")	A company that operates a securities market and derivatives market in Hong Kong and the clearing houses for those markets.	www.hkex.com.hk
HKEx Listing Rules	The rules set by the HKEx to govern the listing of securities on the stock exchange of Hong Kong	http://www.hkex.com.hk/eng/rulesreg/listrules/rulesandguidelines.htm
HKEx Environmental, Social and Governance Reporting Guide	Guidelines for listed companies issued by the HKEx as part of the Listing Rules.	www.hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/appendix_27.pdf
ICSA Hermes *Transparency in Governance Awards*	An award acknowledging high standards in company reporting and accounts with the aim of encouraging improvements both in disclosure and in governance performance.	https://www.icsa.org.uk/events/excellence-in-governance-awards-2014
Institute of Chartered Secretaries and Administrators	A United Kingdom institute for people working in governance, risk and compliance including Company Secretaries.	www.icsa.org.uk

[3] Hong Kong Companies Ordinance: http://www.legislation.gov.hk/blis_ind.nsf/WebView?OpenAgent&vwpg=CurAllEngDoc*619*100*619.1#619.1

ICSA	In Hong Kong there is The Hong Kong Institute of Chartered Secretaries which is an integral part of the international Institute of Chartered Secretaries & Administrators.	www.hkics.org.hk
International Financial Reporting Standards ("IFRS")	International Financial Reporting Standards are accounting standards to be used for recording and reporting business transactions so that accounts are understandable and comparable across international borders. The standards are issued by the International Financial Reporting Board, an international standard-setting board.	http://www.ifrs.org/pages/default.aspx
IFRS 8 Segmental Reporting	An accounting standard requiring certain entities (essentially those publicly quoted) to disclose information about their operating segments, products and services and the geographical areas in which they operate and their customers.	http://www.iasplus.com/en/standards/ifrs/ifrs8
Integrated Reporting ("<IR>")	The <IR> framework was issued by the International Integrated Reporting Council in December 2013. <IR> is a process where an organisation considers all aspects of its operations and produces a periodic integrated report about its value creation over time. An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, leads to the creation of value in the short, medium and long term.	www.theiirc.org
Investor Relations Society ("IRS")	The Investor Relations Society (IR Society) is a not-for-profit professional body for those involved in investor relations and the focal point for investor relations in the UK.	www.irs.org.uk
Investors	Persons who allocate capital with the expectation of a financial return (Wikipedia). In some contexts the term also includes company employees and suppliers whose future is to an extent depended on a company.	

Key Performance Indicators ("KPI")	A set of quantifiable measures that a company or industry uses to gauge or compare performance in terms of meeting their strategic and operational goals. KPIs vary between companies and industries depending on their priorities or performance criteria. Also referred to as "key success indicators (KSI)" (Investopedia).	
Listed Company	A company whose shares are quoted and traded on a stock exchange. A company that wants to be "listed" must comply with the rules of the exchange.	
Report: *Losing the excess baggage- reducing disclosures in financial statements to what is important*	A joint report by the Institute of Chartered Accountants of Scotland and New Zealand Institute of Chartered Accountants in 2011 that concluded the length of financial statements could be reduced by amending disclosures	http://icas.org.uk/excessbaggage/
Operating and Financial Review ("OFR")	A report that complements and supports the financial report containing information a shareholder would reasonably require to assess an entity's operations, financial position, business strategies and future prospects. Also called the Management Discussion and Analysis (M D & A)	
Report: *Operating and Financial Reviews, application of ASIC's regulatory guide April 2014*	A report produced by KPMG in April 2014 which examines how Australian companies have complied with the requirement to produce an Operating and Financial Review. It includes advice and examples of clear concise reporting.	http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Better-Business-Reporting/Pages/operating-and-financial-reviews-2014.aspx
Plain English Campaign	A campaign founded in the UK in 1979 which campaigns against gobbledygook, jargon and misleading public information. It promotes simple, clear writing using everyday language, offering books and courses on how to write clearly and simply.	www.plainenglish.co.uk
ReportWatch	An organisation that monitors and comments on Annual Reports	

	submitted to it. ReportWatch ranks reports, comments on trends and produces The Annual Report on Annual Reports.	http://www.reportwatch.net
Small and Medium Sized Enterprises ("SMEs")	The definition of a SME varies by country. The Trade and Industry Department of the Hong Kong government defines a SME as an enterprise that employs in Hong Kong fewer than 100 in manufacturing or fewer than in 50 in non-manufacturing activity. It has been estimate that SMEs in Hong Kong employ 48% of total employment outside the government sector.	http://www.success.tid.gov.hk/english/aboutus/sme/service_detail_6863.html
SME Corporate Governance Toolkit	A guide created and published by HKIoD as a follow-up to the HKIoD guidebook, *Guidelines on Corporate Governance for SMEs in Hong Kong*, to help SMEs in the implementation of corporate governance practices. While the Guidelines address the "what-to-do" aspects of corporate governance practices, the Toolkit covers the "how-to-do" steps of implementation.	http://www.hkiod.com/SMEtoolkit.html
Stakeholder mapping	Stakeholder mapping is a process for summarising the organisations understanding of its stakeholders. It may include information on how the stakeholders can impact a business, the issues which concern them and the member of the company's staff responsible for managing the issue/stakeholder.	
Stakeholders	A person, group or organization that has interest or concern in an organization. Stakeholders can affect or be affected by the organization's actions, objectives and policies. Some examples of key stakeholders are creditors, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, and the community from which the business draws its resources.	Quoted from: www.businessdictionary.com/definition/stakeholder.html#ixzz3EqyeMhkQ

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