

2004 Asia-Pacific Corporate Disclosure Survey
Executive Summary
China

The total number invited to participate in the survey was 806, with a response rate of 25.43%, or 205 respondents. The total number of respondents whose professional activities, now or in the past year, include analyzing the financial statements and other financial reports of publicly held companies was 229 (28.41%).

Respondents were asked to consider the companies they usually analyze and use a five-point rating scale (from “1”=lowest to “5”=highest) to rate sources of corporate information for its (a) **importance** to their analysis and its (b) **quality** across the publicly traded companies that they follow. The results can be found in the following tables.

Respondents rated the following sources of corporate information as most important:

Footnote Disclosures to the Financial Statements-65% ranked it “5” (most important).

Income or Profit and Loss Statement-62% ranked it a “5.”

Cash Flow Statement-62% ranked it “5.”

Balance Sheet or Statement of Financial Position-46% ranked it “5.”

Site Visits, Analyst Meetings or other Face-to-face meetings with company management-45% ranked it a “5.”

When considering all the available corporate information sources and disclosure practices that respondents were asked to rank, 2% of respondents rated the overall quality of financial or corporate information disclosed by the publicly traded companies that they follow with a letter grade of “A” (Excellent). 23% responded with Good (grade of “B”), 51% responded with Average (grade of “C”), and 22% responded with Below Average (grade of “D”). 2% rated the quality of information as poor (or failing, a grade of “F”).

70% of respondents noted that over the past three years, the overall quality of corporate information disclosed by most of the publicly traded companies that they follow had improved some. 18% said it had improved a lot while 11% thought it had remained about the same. In general, quality of corporate information still needs improvement. No source of information received a “5” in quality by more than 14% of respondents.

When asked to agree or disagree with the following statement: corporate issuance of comprehensive quarterly financial reports is a global best practice that should be emulated by public companies in Asia and the Pacific region, 54% strongly agreed, 36% somewhat agreed, 6% neither agreed nor disagreed, 3% somewhat disagreed, and 1% strongly disagreed.

52% strongly agreed (37% somewhat agreed, 6% neither agreed nor disagreed, 4% somewhat disagreed, and 1% strongly disagreed) that regulators around the world should make it mandatory for the public companies to issue comprehensive quarterly financial reports.

Respondents were then asked to what extent companies’ disclosure practices and quality of their financial statements are a factor in their investment/financial recommendations, decisions, or actions. 27% said they are an extremely important factor, 60% said they are a very important factor, 12% said they are a somewhat important factor, and 1% said they are not a very important factor. To the extent that company corporate governance practices is a factor in their investment/financial recommendations, decisions, or actions, 22% of respondents indicated it was extremely important, 58% very important, 19% somewhat important, and 1% not very important.

Selected written comments from respondents:

- The market is not well regulated... The accounting standards are not strictly followed and can be manipulated by management. The information source is limited.
- ... information release is controlled by the senior manager of the company, and corporate governance is poor, the outsiders can hardly get the true message about the running of the company.
- As market yield turns into increasing trend, bond market is changing from a sell-side market to buy-side market, i.e. investors hold more bargaining power than issuer. This forced issuers to provide more disclosure to attract more institutional investors.
- Many respondents also indicated although the disclosure quality in China has been improving, the financial market is still a fairly immature market, citing observations such as the existence of insider trading, lack of regulation and a generally opaque corporate culture. Also, because of the predominantly state-owned nature of companies, with the biggest shareholders usually being the state with trade restrictions – there is a lack of interest on stock performances.