

# The Status and Analysis of Integrated Reports Published by Electric Power Enterprises in China --- Taking CLP Holdings as an Example

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## ABSTRACT

Under the current social background, China's economic development pays more attention to sustainability and social&environmental protection responsibilities undertaken by enterprises in economic development. This article starts from the concept of integrated reports, compares the differences between financial reports and integrated reports, combining the case of CLP(China Light & Power), explaining the advantages of integrated report, and analyzing the necessary reasons why China's power companies should issue integrated reports.

**Keywords:** *Integrated, non-financial information, power company, CLP Holdings*

## 1. THE CONCEPT OF INTEGRATED REPORTS

Integrated report, according to the definition given by the International Integrated Reporting Council (IIRC), "Integrated report integrates important information such as organizational strategy, governance, performance and prospects to reflect the business, society and environment in which the organization operates.

Integrated report is a report system that provides enterprise information in a more clear and user-oriented manner. It displays important information such as corporate strategy, governance, performance and prospects. Compared with traditional financial reports that only disclose financial information, integrated reports cover a wider range of financial-related and non-financial information. The integrated report integrates most of the important information currently scattered in different report formats into a unified whole. It demonstrates the connectivity between these messages and explains how they affect the organization's ability to create and maintain value in the short, medium or long term.

## 2. THE DIFFERENCE BETWEEN THE INTEGRATED REPORT AND THE GENERAL FINANCIAL REPORT

The integrated report will integrate financial information with non-financial information, emphasizing the connectivity of corporate information and how to create value. This is also the inadequacy of China's current reports- the lengthy and complicated fragmented information caused by the coexistence of financial and non-financial reports. The corporate integrated report is a

response to the current corporate reporting deficiencies.

Financial reports include balance sheets, profit statements, cash flow statements, changes in owner 's equity and notes to financial statements, etc., which are documents that reflect the company's financial status and operating results. The purpose of preparing financial reports is to provide stakeholders with information about the company's financial status and operating results, so that they can make correct decisions.

Integrated report refers to the company's overall report on a certain stage. Its contents include work progress, experience and lessons, opinions on future work and so on. It has the characteristics of comprehensiveness, generalization and refinement. The integrated report reflects the overall work situation of a region and a department in a certain period of time; when expressing the content, it reflects the principle of importance, writes less redundant work processes, and should be expressed in accurate and harsh language.

### 2.1. Differences Between the Integrated Report and The Financial Report

#### 2.1.1. The integrated report adopts a holistic and systematic thinking method and has a strong information correlation

The integrated reporting framework treats the enterprise as a complete and open system in the external environment to determine the business model process.[1] Its starting point and ending point are interdependent and interactive. The correlation of these information includes: the correlation between the constituent elements; the correlation of past, present and future prospect information in time; the

correlation of different types of capital changes; the correlation of financial information and non-financial information; Correlation between information, board information and external report information; quantitative and qualitative credibility and interest correlation.

[1]The purpose of the integrated report is to provide stakeholders with information that can evaluate the ability of the company to create long-term value. It is based on traditional company reports and does not calculate the value of the enterprise or the value of various capitals, but provides concise information.

Enterprises are encouraged to ensure transparency in all aspects related to value creation. [1] It shows the overall picture of corporate value creation, promotes contact with major stakeholders, enables investors to truly understand the company they invest in, enhances trust in the enterprise, and optimizes the decision-making process. As far as financial reporting is concerned, the information disclosed is relatively narrow, serving the needs of shareholders, and has nothing to do with disclosing information about strategies ,business models and broad value creation.

The integrated report focuses on creating short-term, medium-term and long-term value, not just past financial performance. Interacting with strategy and looking forward to the future development of the organization, in order to meet the needs of key stakeholders. Traditional financial reports focus on the needs of investors who provide financial funds, report whether companies have effectively used resources in the past, and focus on reflecting business performance and evaluation during the reporting period.

General financial reports reflect the financial status and operating results of the enterprise for a certain period of time, and cannot be a transparent company that comprehensively, structurally and accurately discloses all departments and production links of the enterprise from all angles like the integrated report. It's sort of a structural aspect of the integrated report. Under certain circumstances, the financial report cannot fully reflect the overall situation of the company and cannot link various factors to form the corresponding experience or lesson at this stage and opinions on future work.

### **3. APPLICATION OF INTEGRATED REPORTING AND CASE ANALYSIS**

At present, there is only one company in China that adopts the integrated reporting as the form of corporate annual report, namely China Power Holdings Co., Ltd. We use this as an example for case analysis.

#### ***3.1. Introduction of CLP Holdings***

China Power Holdings Limited (hereinafter referred to as "China Power Holdings") is the holding company of China Power Group.[2] It is listed on the Hong Kong Stock Exchange and is one of the largest private power

companies in the Asia-Pacific region.[3] In 2011, CLP released its corporate report for the first time in the form of an integrated reporting, and established a sustainable development framework for economy, talent, environment, and community based on the integrated reporting. Since then, China Power Group has continued the integrated reporting model and released the online version of the Sustainability Report in 2012, describing the company and social value created by the company.

#### ***3.2. The Practical Status of The Integrated Reporting Of CLP Holdings***

CLP Holdings has published annual reports in the form of integrated reporting for nine consecutive years since 2011. The integrated reporting method refers to the use of different standards, including the International Integrated Reporting Council prepared by the International Taxation Institute, the Environmental, Social and Governance Reporting Standards of The Stock Exchange of Hong Kong Limited, the corporate governance disclosure method adopted by the Hong Kong Institute of Certified Public Accountants, and the Global Reporting Initiative 's Guidelines for Sustainability Reporting by the Group of Four.

The CLP Group's report has two major characteristics: First, it closely follows the international integrated reporting preparation standards, for example, it is based on the six guiding principles of the International Integrated Reporting Council, that is, strategic priorities and future orientation, information connectivity, and stakeholder competence, importance and simplicity, reliability and integrity, along with consistency and comparability. At the same time, the concept of capital in the international integrated reporting framework is adopted, including finance, nature, human resources, community capital, and intellectual capital, etc., which more fully demonstrates the various resources that the company has put into operation and production. Second, it has done a good job in communication with stakeholders, such as providing multiple channels for shareholders and investors to give information, focusing on listening to the constructive opinions of CLP Holdings and promising to respond as soon as possible, providing effective ways for shareholders to express opinions and investors to observe the development of new markets, etc.

#### ***3.3. The Practical Effect of the Integrated Reporting Of CLP Holdings***

The preparation of the integrated reporting also makes the CLP team's thinking on corporate strategy more structured and forward-looking. Reporting constraints on economic, social and environmental performance have enabled China Power Group to conduct a more accurate assessment of the fit and relevance between business elements, which not only improves the disclosure level of China Power

Group's historical performance, but also changes its outlook on the future, and thereby improves the disclosure level and management and decision-making ability of China Power Group's historical performance.

Although the integrated reporting of CLP Holdings also has some shortcomings, these problems can help the company to learn from the experience of advanced enterprises and continuously summarize and improve itself. As the only Chinese company in the world to carry out integrated reporting practices, CLP Holdings' integrated reporting practices are not only beneficial to the company's own sustainable development, but will also lead the new trend of Chinese companies' external reporting.

#### **4. ADVANTAGES OF INTEGRATED REPORTING FOR POWER COMPANIES**

The financial report mainly reflects "statement of assets and liabilities, statement of income, statement of changes in owner's equity, statement of cash flow, notes to the financial statements", while the content of the comprehensive report includes work progress, achievements or problems, experience or lessons, and opinions on future work. It has the characteristics of comprehensiveness, summary and refinement. It is an innovation of traditional financial reporting thinking. The following are benefits power companies can achieve using the integrated report

##### ***4.1. Make the Report Form A Complete Framework***

The integrated reporting framework views the organization as a complete and open system in the external environment, and also determines the process of the entire business model. The integrated report contains more non-financial information than the financial report. It forms a framework that covers the financial content and non-financial content of the power enterprise, making the content and structure of the report clear and logical. The public can find the information they need more easily and comprehensively when viewing the company's annual report.

##### ***4.2. The Integrated Report Emphasizes the Correlation of Information between Different Parts***

[3] The integrated report emphasizes the correlation of information between different parts and emphasizes the corporate social responsibility. In addition, the integrated report also improves the transparency of information disclosure, promotes contact with major stakeholders, enables investors to truly understand the companies they invest in, enhances trust in companies, and optimizes the decision-making process. Integrated reporting also focuses

on creating short-term, medium-term, and long-term value rather than just past financial performance. It is more complete and truly reflects the overall situation of the company. This is exactly what the stakeholders urgently need, and it is also the future development trend of enterprise reporting.

After using the comprehensive report, readers can see many correlations: such as the correlation of past, present and future prospect information in time, the correlation of financial information and non-financial information (whether it is profitable and pollutes the environment at the same time); the correlation among management information, board information and external report information, etc.

##### ***4.3. Help Readers Understand the Information More Comprehensively***

Compared with the financial report, the integrated report contains one more disclosure of non-financial information, which integrates the financial information and non-financial information. [3] With the development of social economy in the new era, stakeholders are not only satisfied with the financial information released by enterprises, but also pay more attention to the release of non-financial information such as environmental responsibility and social responsibility. At present, most of the annual reports of China's electric power enterprises adopt the way of publishing financial reports, and only a few enterprises adopt integrated reports to publish annual reports. The integrated report is in the initial stage of development in China, and the enterprises that publish the integrated report are all in the electric power industry, and the electric power industry has been a leader in the release of comprehensive report. If the power industry has adopted the integrated report as the annual report, it will undoubtedly have an impact on other industries and promote the development of the report form of modern enterprises.

##### ***4.4. More Conducive To Respond To Demands***

With the development of science and technology, enterprises have taken on a new look and are gradually changing with the introduction of new policies. For investors, they are more willing to clearly understand the development objectives of the enterprise, the internal structure of the management and the risk information of all aspects of the enterprise. And the emergence of the comprehensive report just meets the needs of investors. The electric power resource is needed by people's livelihood, so the citizens urgently need the strict supervision of the electric power industry. Electricity use concerns everyone. The society wants to know clearly about the formulation of electricity price, the internal structure layer of the enterprise, whether the waste of power generation is polluted to the surrounding

environment, whether the pollution is serious and so on. The integrated report happens to be a good form of public demand for more responses from businesses.

#### ***4.5. Strengthen the Sense of Social Responsibility Of Power Enterprises***

Social responsibility is not inherent in enterprises. Even though some enterprises have a sense of social responsibility, they cannot ensure that other enterprises are tempted by economic interests and driven by human weakness to take risks and gain benefits at the expense of the environment. Instead of focusing too much on short-term performance, the integrated report focuses on the long-term value created by the information companies send, that is, from focusing only on financial capital to focusing on various forms of capital and the relationship between changes in capital and interdependence. If the power enterprises use the integrated report as an annual report, it will have a constraint on itself. China is implementing a policy of ultra-low emissions. Ultra-low emission is a policy implemented in 2014 and aimed at the use of thermal power plants. Most power plants in China are still thermal power plants, and only a small percentage of power plants generate electricity with clean energy. Therefore, this policy is a favorable constraint for power enterprises to limit pollution emissions. Although the practice of electric power enterprises cannot directly affect the release of integrated reports, it is a trend to reduce pollution emissions and use clean energy for power generation, which indirectly promotes the release of integrated reports by enterprises. The preparation of the integrated report requires the enterprise to make a detailed and specific explanation of the strategic goal of its own development. When the integrated report is issued, the enterprise builds a good image for itself and can attract more investment. In addition, enterprises with a sense of social responsibility and enterprises that pay attention to the long-term development of corporate culture pay attention to this information. Enterprises that use integrated reports to release annual reports have a much larger image in the eyes of the public than those that only release financial reports. The public knows more about the corporate culture of these enterprises, their strategic objectives and their feedback on emissions and pollution. Integrated report can better establish the corporate image, the power industry also needs such a form.

#### ***4.6. Improve the Transparency Of Information Disclosure***

The business model and content elements covered in the integrated report provide a comprehensive picture of the value creation of the organization, facilitate communication with key stakeholders, and enable investors to truly understand the companies in which they invest. When looking at an electric power enterprise,

investors not only need to see its operating conditions, but also its other aspects. Issuing annual reports with integrated reports can help investors enhance their trust in the enterprise and optimize the decision-making process. In terms of financial reporting, the information disclosed is relatively narrow and serves the needs of shareholders, independent of the disclosure of information on strategies and business models and broad value creation. Power companies are in need of a integrated report to show investors more enterprise content.

#### ***4.7. The Integrated Report Also Focuses On the Future, Not Just The Past***

Integrated report focuses on short, medium and long term value rather than just past financial performance. The integrated report focuses on meeting the needs of key stakeholders. In the integrated report, the enterprise strategy will be elaborated in detail, which will constantly remind the managers to maintain a good image of the enterprise without crossing the moral bottom line, which is conducive to the long-term sustainable development of the power enterprise.

### **5. CURRENT PROBLEMS AND PROSPECTS IN THE INTEGRATED REPORT**

#### ***5.1. Problems:***

##### ***5.1.1. Universality of integrated reports***

It is difficult to reach a unified standard due to the different rules for formulating comprehensive reports in different countries, so the universality of integrated reports needs to be studied. As the giants of the energy power industry, electric power enterprises have great influence on the environment and social responsibility. Therefore, non-financial information in the production and operation of electric power enterprises is particularly important to the society. But how to use a unified standard to measure the various non-financial information is still a big challenge.

##### ***5.1.2. The risk of enterprise disclosure***

The release of integrated reports will increase the risk of enterprise disclosure. Some of the future planning and development of electric power enterprises may affect the confidentiality due to the release of integrated reports, thus increasing the development risk of enterprises.

### *5.1.3. The cost of preparing integrated reports*

The cost of preparing integrated reports will be higher than that of traditional financial reports. As integrated reports involve financial information and non-financial information, the collection, sorting and release of information in integrated reports are more complex and tedious than traditional financial reports, and require the close cooperation of personnel from various departments and positions. Most of the power enterprises are large enterprises with numerous subsidiaries, which are even distributed in various regions, making it more difficult to collect information and requiring higher cooperation from the staff.

### *5.1.4. The adaptability of the integrated report to the existing criteria needs to be improved.*

The adaptability of the integrated report to the existing criteria needs to be improved. In the international community, Japan, South Africa and other countries have begun to generally use the IIRC guidelines, while China has not formulated clear guidelines, which may cause friction and conflict with other guidelines in the development process of the comprehensive report.

## **5.2. Outlook:**

### *5.2.1. To provide incentives through preferential policies such as taxes and loans.*

For enterprises that publish comprehensive reports, the government shall give them appropriate preferential tax policies and loan policies.

### *5.2.2. Formulate and improve laws and regulations on comprehensive reports to promote standardized development.*

The formulation of laws and regulations requires the cooperation and participation of the financial department, the environmental protection department, the social security department and other departments.

### *5.2.3. Stepping up publicity efforts.*

The current comprehensive report is still in the preliminary stage of research and is not well known. The government should strengthen the publicity of the integrated report, so that the society and enterprises can realize the significance of the integrated report and improve its recognition and influence in China. Among the domestic power enterprises, only CLP power holdings have issued

integrated reports, which show that their influence and importance are not high. Conducting pilot programs in China in accordance with local conditions can not only serve as a publicity and promotion function for the integrated report, but also increase the experience in the process of pilot programs.

### *5.2.4. Keep abreast of international developments and IIRC standards, and do a good job in related standards.*

## **6. SUMMARY**

Integrated reports provide users with a clear reporting system for corporate information. Compared with the financial report, it not only reflects the financial status and operating results of the enterprise, but adopts a holistic system of thinking methods, focuses on creating short-term, long-term value. The integrated report on the application of electric power enterprises has formed a clear framework covering the financial content and non-financial content of electric power enterprises, showing more content of electric power. In addition, the integrated report can also make the company undertake social responsibilities and establish an honest image of the power company. We believe that in the development path of power companies, through their own Improvement and assistance from all walks of life will create an environment suitable for the use of integrated reports and benefiting from comprehensive reports.

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