

# Reviewing the annual report of hutchison whampoa limited

[Business](#)



Introduction A Conceptual framework is important to financial reporting. Financial reports provide information that is useful for present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. Hutchison-Whampoa Limited (HWL) is a global business company with long history. It is important for HWL to prepare the annual report as a basis of linking the conceptual framework in order to provide most useful information to satisfy the users all over the world. The need for a conceptual framework for financial reporting Conceptual framework is a coherent and consistent foundation with specific objectives which underpins the development of accounting standards.

It provides guidance on identifying the boundaries of financial reporting. A conceptual framework form a theoretical basis for determining which events should be accounted for recognized, how transactions should be measured and how they should be communicated or presented to users. Accounting standards are written by a group of people. They may have slightly different prospective of view on accounting standards. Conflict and controversial issues may exist between accounting standard. A conceptual framework is used to be a guideline in setting of accounting standards.

It can reduce conflict between accounting standards and political interference in the standard setting process. In addition, future accounting practice problems can be solved by reference to the conceptual framework. It makes sure the consistency with underlines objectives, qualitative characteristics, recognition criteria, measurement, presentation and disclosure. The purpose of financial reporting is to provide most reliable and useful information for users in decision making. As financial statements

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prepared in compliance with accounting guidelines and requirement, a conceptual framework can increase financial statement users' understanding of and confidence in financial reporting. It also enhances comparability of financial statements among different companies and credibility to the profession and accounting statements.

Reviewing the 2010 annual report of Hutchison Whampoa Limited Financial reports provide information about entity's past and present performance, strategies, future development, business risk and the stewardship of management to shareholders in decision making. Financial reporting should be relevant, faithful representative, comparable and understandable.

Shareholders rely on information provided in financial report to decide when to buy and sell, how much to invest and how long to hold an equity investment of an entity. Fundamental qualitative characteristics: Relevance  
Relevant financial information is capable of making a difference in the decisions made by shareholders. Relevant information helps shareholders make predictions about the ultimate outcome of past, present, and future events (predictive value) or confirm or correct prior evaluations (confirmatory value). Different users may use different types of information.

Shareholders are always concerned about returns on their investments. Dividend per share is often viewed as a sign that a company is doing well or not. Shareholders believe if dividends per share go up, it represents the company is performing well financially. In the financial highlights of 2010 annual report, 11% increase of dividend per share from \$1. 73 to \$1. 92 compare with year 2009.

In looking back at the past nine years, dividends per share are the same at \$1.73. Shareholders may take account of the earnings per share in their decision making as well. Corporate governance is also important to shareholders for determining whether the company should be invested. Shareholders' value can be maximized in effective corporate governance. Shareholders want to know whether the management operates the company effectively, whether they use resources properly and how they manage business risk.

HWL adopted sound corporate governance principles to maintain the highest standards of corporate governance. Shareholders often use information about the past to develop their own prediction about the future. Information may affect their decisions. The overall business activities of 2010 are disclosed in business highlights of HWL annual report. Shareholders base on information to predict the future performance. In addition, Shareholders can also confirm past expectations based on previous evaluations.

Fundamental qualitative characteristics: Faithful representation Information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral and free from material error. In Annual reports of HWL, pages 126 to 222 are examined by independent professional. In auditors' opinion, the consolidated accounts give a true and fair view of the state of affairs of HWL and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards

(HKFRS) and have been properly prepared in accordance with the Hong Kong Companies Ordinance. Consolidated accounts are free from material misstatement.

In addition, audit was conducted by PricewaterhouseCoopers, a global professional firm and one of the “ Big Four” accountancy firms that can strengthen shareholders’ confidence in financial reporting. Investment properties in the statement of financial position are carried at their fair value as determined by professional valuation. Changes in fair values of investment properties are recorded in income statement. DTZ Debenham Tie Leung Limited, professional valuers provide a reliable estimate of the fair value. Faithful representation is attained as fair value are properly recorded in financial statements in accordance with accounting policies and fair value measurements are properly disclosed in notes to the account. The carrying amounts of telecommunications licenses in the statement of financial position as at 31 December 2010 and 31 December 2009 are tested for impairment.

The estimates, assumptions and judgements of impairment tests and preparations of the financial accounts are in compliance with accounting policies on asset impairment. Representation is faithful that an appropriate process of the estimate are properly applied, the estimate are properly described and uncertainties significantly affected the estimate are properly explained in notes to the accounts. Enhancing Qualitative Characteristics: Comparability Comparable information enables users to identify similarities in and differences between two sets of economic phenomena. The

usefulness of financial information is enhanced if it can be compared with similar information from period to period within an entity or in a single period across entities. It is crucial that the accounting policies adopted are consistent from period to period within a company. HWL adopted new and revised accounting policies in 2010 in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

For examples, a lease of land is classified as fixed assets in the statement of financial position under the amended Hong Kong Accounting Standard (HKAS) 17 "Leases". The comparatives are restated to reflect the effect of adoption. The information in the statement of financial position can be comparable in the year-end 2008, 2009 and 2010. Besides, the group adopted Husky Energy's new IFRS accounting policy for oil and gas properties. The reason and the effect in change of accounting policies mentioned above are disclosed in notes to the accounts. Financial information is comparable as accounting policies are consistent from period to period in compliance with accounting standards, and the change of accounting policies and the impact of change are properly disclosed.

Enhancing Qualitative Characteristics: Understandability Different shareholders have different level of understanding. If information presented in financial report is complex or difficult, shareholders might not able to understand. They would rather seek professional advices than read the financial report. Understandability can be enhanced when information is classified, characterized, presented clearly and concisely. Most shareholders

have no business, economic and accounting knowledge to study the financial information.

Shareholders might not be sensitive to a large amount of figures. Bar chart, pie chart, or diagram can assist to read and easier to understand. In fact, most shareholders are mainly concerned about the revenue and dividend per share. In financial highlights of HWL, bar chart is used to show earnings and dividends per share between years 2006 to 2010, the incremental of earnings and dividends per share clearly displayed comparing with year 2009. Good presentation may help understanding as well. The annual report of HWL is divided into different segment with specific headings.

Shareholders can simply use bookmarks to find their interested information promptly. Annual report written in clear, concise and plain language can be readily understandable by shareholders. HWL provide two versions of annual report in both Chinese and English language to meet the needs of shareholders. The two languages are most commonly used in the world. Shareholders depend on their needs to choose the applicable language. The most important of four qualitative characteristics - relevance, faithful representation, comparability and understandability In my opinion, relevance is the most important qualitative characteristics compare with others.

Shareholders are based on relevant and useful information provided in annual report in judging the entity performance. They depend on performance to assess whether the entity should be invested. If the annual report has no relevant information to shareholders, it is unlikely for their decision making. As the financial report are examined and verified by

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independent auditor, shareholders believe the financial information is correct and reliable. Faithful representation is not the major concern to most of the shareholders. Some shareholders such as company investors, they usually make large investment in a company.

They might seek professionals to analyse the financial reporting thoroughly. Generally, most individual shareholders invest diversely. They might not take much time in studying the annual report. Besides, they have less or no sufficient knowledge to understand the annual report completely. It is quite difficult for them to compare the financial information by using ratio analysis. Most shareholders are not really concerned about understandability and comparability of financial reporting.

Actually, shareholders are mostly interested in the company profitability and dividends per share. Although shareholders might find difficulties in studying annual report, earnings per share and dividends per share are easy to understand. Therefore, the relevance of information is the most important to shareholders. Conclusion The conceptual framework is necessary for financial reporting that establishes the concepts underlie financial reporting. The objective of general purpose financial reporting is to provide the most useful financial information about the reporting entity to users in making economic decision. Qualitative characteristics are applied in obtaining useful financial reporting information.

The four primary qualitative characteristics are relevance, faithful representation, comparability and understandability that affect the usefulness of information. Useful financial information can enhance users



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