THE ROLE OF COMPANY ANNUAL REPORTS FOR INVESTMENT ANALYSIS IN A DEVELOPING COUNTRY: THE CASE OF MALAYSIA.

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by

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DEDICATION

TO:

MY DEAREST WIFE AND CHILDREN

AND IN MEMORY OF MY BELOVED MOTHER,

SHARIFAH AMINAH BT SYED ALI ALGADRIE

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ABSTRACT

The main objectives of this study are: (1) to examine the role of the company annual reports in investment analysis in Malaysia; and (2) to evaluate the importance of the annual reports as a source of information for analysts to make investment decisions.

In order to achieve these research objectives, the study begins with a review of the uses and users of financial statements and it is pointed out that one of the important groups of users of the financial statements are the 'sophisticated' investors. Prior studies, using tests of the Efficient Market Hypothesis and investors survey, are presented and discussed. The review of prior studies concludes that the area of research into the importance of annual reports for investment decisions are important and that no similar studies involving developing countries had been carried out.

The accounting environment in Malaysia was presented to illustrate the regulations and statutes governing the preparation and presentation of

information in company annual reports. In the discussions regarding the investment situation in Malaysia, the major characteristics of the Kuala Lumpur Stock Exchange were introduced.

A two stage research methodology was adopted in the current research. The first stage involves a survey and analysis of a sample of annual reports of companies listed on the Kuala Lumpur Stock Exchange. This survey revealed instances of companies not complying with the International Accounting Standards adopted by the accounting profession in Malaysia.

The second stage consists of a postal questionnaire survey of investment analysts working in institutional investing firms, merchant banks and stockbrokers regarding their perceptions of the importance of the annual reports for investment analysis.

The results of the above surveys are presented together with recommendations to reduce the weaknesses of the annual reports of Malaysian companies. Finally, related areas for further research are suggested at the end of the thesis.

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CHAPTER I

INTRODUCTION

1.1 Statement of the Problem

The Financial Accounting Standards Board (FASB), in its Statement of Financial Accounting Concepts (SFAC)1 (1978) stated that the main objective of financial statements is to "provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions"(p.8). This broad view of the objectives of financial statements is shared among professional accounting bodies in other countries such as the United Kingdom's Accounting Standards Committee [see for example, the Corporate Report (1975)].

It cannot be denied that there are many other existing and potential users or groups of users of financial statements. The Corporate Report, for example, identified seven separate group of users "as having a reasonable right to information and whose needs should be recognised" (paragraph 1.9), and briefly, they are:

a. equity investor group: existing and potential shareholders, including holders of convertible securities, options or warrants.

b. loan creditor group: existing and potential holders of debentures and loan stocks; and providers of short term loans.

c. the employee group: existing, potential and past employees;

d. the advisor group: analysts and journalists;

e. the business contact group: customers, trade creditors and suppliers;

f. the government: tax authorities and departments concerned with the regulation of business; and

g. the public: tax payers, consumers and other community interest groups.

However, among the largest and most important group of users are the investors, either current or potential investors of the company. In the literature review (Chapter 2), it is suggested that within the group of investors, the annual reports should be aimed at the professional investment analysts.

This is because these "sophisticated" investors should have the necessary knowledge and expertise to read the increasingly complex financial statements of companies. In a country like Malaysia, the role of these analysts is particularly important in the financial analysis function. This is due to the comparatively low level of investment knowledge of its population (Neoh, 1985).

In the developed countries, especially those countries with large and established stock exchanges, the preparation and presentation of these annual reports are supervised by the regulatory and professional accounting bodies. For example, the professional accounting bodies in most developed countries not only formulated and recommended the accounting standards to be used in the preparation of these reports but also enforced them.

Therefore, it is expected that the annual reports of companies in these countries, although not satisfying every needs of the investor relating to the amount of information contained in these statements, are to a certain extent, still able to meet most of the information needs of the investors.

Many research studies (these will be discussed in Chapter 2) carried out in the developed countries, have shown that the financial statements are an important, if not the most important, source of accounting and other information to investors and potential investors in the developed countries.

In the developing countries, the situation is different from that of the developed countries. According to Enthoven (1977), private enterprise accounting in developing countries lacks relevance in both its current practices and theory. He also suggests that reporting practices in these countries tend to be stewardship orientated and thus of limited use to financial statement users. Enthoven concluded that, generally, the amount of useful information contained in the financial statements of companies in developing countries is not useful for investment decision making.

In many developing countries, including Malaysia, there is also evidence to suggest that the professional accounting bodies do not seem to enforce either the accounting standards formulated locally nor the international standards which are adopted. An examination of the financial statements of a sample of companies listed on the Kuala Lumpur Stock Exchange (Chapter 5) showed instances of companies not complying with the standards adopted by the Malaysian Association of Certified Public Accountants.

In common with other developing countries, the investment environment in Malaysia is also different from that of the developed countries. Information sources for investment decisions, other than the financial statements of companies, are difficult to obtain. In addition, the Kuala Lumpur Stock Exchange (KLSE) is also very small in relation to the stock exchanges in the developed countries (for example it is about 3% the size of the Tokyo Stock Exchange in terms of market value of quoted securities) and the KLSE is also subjected to wide fluctuations in trading volumes and values (see Chapter 5).

1.2 Objectives of the Study.

As will be demonstrated in Chapter 2, there are many studies that have been conducted into the usefulness of financial statements or corporate annual reports in developed countries. Similar research in the developing countries, specifically Malaysia, has not been carried out. Research into the role of company annual reports for investment analysts, as "sophisticated" users, in Malaysia will be a contribution to this important area of accounting.

The primary objectives of the study are to provide answers to the following questions:

I. What is the role of corporate annual reports in investment analysis in Malaysia?

II. How useful are the company annual reports to the investment analysts in Malaysia?

In addition to the primary objectives, the following secondary objectives are set out in the questions below:

1. What is the current state of research into the usefulness of company annual reports for investment analysis (including studies into stock market efficiency)?

2. What are the corporate accounting and disclosure requirements in Malaysia (including the requirements under the accounting standards formulated and adopted by the accounting profession and the statutory requirements in the Malaysian Companies Act)?

3. What are the current accounting and disclosure practices of companies in Malaysia,as reflected by the information disclosed in the company annual reports?

4. What are the major characteristics of the Kuala Lumpur Stock Exchange and what evidence is available relating to the efficiency of the the KLSE?

5. To what extent do companies listed on the KLSE comply with the International Accounting Standards adopted by the professional accounting bodies in Malaysia?

6. What are the major sources of information for investment decisions (other than corporate annual reports) in Malaysia?

7. To what extent do investment analysts in Malaysia adjust the figures appearing in the financial statements?

8. What are the major similarities and differences in the results of this current study compared with previous studies that were carried out in the other countries?

9. To what extent are investment analysts in Malaysia influenced by background characteristics (such as knowledge in accounting, knowledge in accounting, level of involvement in investment decisions and experience) in their perceptions of the importance of companies annual reports as a source of information for investment analysis?

10. As a result of this study, what recommendations are necessary to improve the accounting and disclosure practices in Malaysia?

11. What other areas of research into accounting and disclosure practices in Malaysia are suggested following the results and findings of this study?

1.3 Research Methodology.

In order to accomplish the objectives and sub-objectives of this study, a two-stage research methodology was adopted: firstly, an examination of the accounting and disclosure practices of a sample of companies listed on the Kuala Lumpur Stock Exchange and secondly, a questionnaire survey among the investment analysts working in the institutional investing firms, merchant banks and stockbrokers.

The first part of the study is concerned with evaluating the current state of accounting and disclosure practices in Malaysia. In this evaluation, a sample of the annual reports of companies listed on the Kuala Lumpur Stock exchange was analysed in detail. An analysis was undertaken to determine to what extent Malaysian companies complied with the accounting and reporting requirements of the International Accounting Standards adopted by the Malaysian Association of Certified Public Accountants.

The second part of the study involved the use of a questionnaire to survey the opinions of investment analysts regarding the importance and usefulness of corporate annual reports as a source of information for investment analysis. In addition to the corporate annual reports, other sources of information were also examined.

Investment analysts were chosen because they are the "sophisticated investors" and the organisations that they worked for, that is the institutional investors, (unit trusts companies, provident and pension funds and insurance companies), merchant banks and stockbrokers are an important and influential constituent of the investment sector in Malaysia (for details of these organisations please refer to Chapter 6).

1.4 Scope and Limitations of the Study

The scope of this study are as follows:

(a) the study concentrates on the importance of one source of information only, the company annual reports of companies listed on the Kuala Lumpur Stock exchange; other information sources are not examined in detail;

(b) the extent of adjustment to ten individual items appearing in the annual reports of Malaysian companies are examined in this study (Chapter 8); these items were chosen as a result of the analysis of the annual reports of companies listed on the KLSE, (see Chapter 5); other items are not examined;

(c) the findings into the accounting and disclosure practices of Malaysian companies are limited to the examination of the latest annual reports of 44 companies listed on the KLSE (that is, those companies which complied with requests for copies of their annual reports); there is a possibility that this sample may not be representative of the companies on the KLSE;

(d) this study reflects the views of the Malaysian investment analysts only; that is those analysts who are employed by the institutional investors, merchant banks and stockbrokers; investment analysts working in other areas are excluded from this study;

(e) in the questionnaire survey, the questionnaires were distributed to all the major institutional investors, merchant banks and stockbrokers; there is a possibility that certain types of organisations may be over represented in the sample (although tests had been performed to determine the level of non-response bias);

(f) although the investment analysts were instructed to give their personal views regarding the matters raised in the questionnaire, there is the possibility that the corporate views may be given rather than that of the individual analyst;

(g) the findings of this study is limited only to one developing country, Malaysia and is therefore not capable of being extended to other developing countries because of differences that may exist in the accounting and investment environment; and

(h) the limitations inherent to research involving the use of questionnaire methodology.

1.5 Organisation of the Study

This study is divided into nine chapters. These are as follows:

Chapter 1,"Introduction", presents the statement of the problem, the objectives of the study, the research methodology, the scope and limitations of the study and the plan of the study.

Chapter II, "External Reporting and its Usefulness in Investment Analysis", reviews the current literature on the importance of the annual reports for investment analysis. The emphasis is on studies that analysed the views of professional analysts. This chapter discusses the development of financial reporting and the main group of users of financial statements, the investment analysts. Prior studies that either used survey of investors or testing the Efficient Market Hypothesis, together with the findings and conclusions, are also examined and discussed.

Chapter III , "Malaysian Accounting and Regulatory Framework" provides background information on the institutional and regulatory conditions affecting accounting practices in Malaysia. The major professional accounting associations and their role in the development of the accounting profession and financial reporting in Malaysia are examined. The statutory requirement for financial reporting are also discussed in the section on the Malaysian Companies Act.

Chapter IV, "Survey and Analysis of Company Annual Reports." Following the discussions on the accounting environment in Malaysia, this chapter then concentrates on the first stage of the study, to establish the current practice in Malaysia. In order to accomplish this objective, the annual reports of a sample of companies listed on the KLSE are examined. The methodology adopted in carrying out this examination is discussed, together with the limitations of this approach. The annual reports are evaluated on the basis of the presentation of information, statutory requirements and compliance with International Accounting Standards 1 to 17 adopted by the Malaysian Association of Certified Public Accountants. The examination reveals the current state of information disclosed in the annual reports of companies listed on the KLSE and attempts to detail the weaknesses not only of the company annual reports but also in the enforcement of accounting standards.

Chapter V, "Investment Environment in Malaysia", focuses on the Kuala Lumpur Stock Exchange and the availability of information for investment decisions. The characteristics of the KLSE are described, including the size and volume of trading. In addition, published research into the efficiency of the KLSE, which suggests that it is not efficient in the semi-strong form, are briefly examined. The chapter provides background information for the survey carried out among investment analysts in Malaysia.

Chapter VI, "Questionnaire Methodology", discusses the possible methods to be adopted in the second stage of the study, that is, the investment analysts survey. Two alternative methods are considered: interview and postal questionnaires. It was decided that the postal questionnaire survey would be more suitable for the current study. The questionnaire design and development, the sample and the methods used in analysing and processing the data are also explained and discussed.

Chapter VII. "Survey Response and Profile of Respondents" discusses the initial findings of the study. The response rates to the postal questionnaire is analysed, and tests on the data for non-response bias are performed and the results explained. Finally, the profile of the respondents is developed from the returned questionnaires, to give an indication of the quality of the information received.

Chapter VIII, "Investment Analysts Survey - Results and Findings", discusses in detail the results and findings of the questionnaire survey of the investment analysts, together with the comparison of studies that had been carries out in the developed countries. Several hypotheses regarding the background characteristics of the respondents and their answers to the questionnaires are formulated and tested in the chapter.

Chapter IX, "Conclusions", summarises the research study and the findings and results of the survey. The conclusions regarding the study are presented, and recommendations as a result of the survey are detailed. Finally, areas for additional research are suggested.

CHAPTER II

EXTERNAL REPORTING AND ITS USEFULNESS IN INVESTMENT ANALYSIS

2.1 Introduction

This research project is concerned with the role of company annual reports in investment analysis in a developing country, Malaysia. The role of company annual reports in investment analysis to a large extent depends on the amount and type of disclosure in the financial statement. Therefore, the first part of this literature review, examines the development of financial reporting and the uses and users of the financial statements, especially the contention that present day financial statements are aimed at the sophisticated investors. The structure of financial statements in developing countries will also be considered and discussed.

In the second part of this chapter, studies that had been carried out into the importance of financial statements for investment decisions are discussed. The two primary approaches adopted are the use of shareholder surveys and tests of the Efficient Market Hypothesis (EMH) in the semi-strong form. Implications of the findings of the two methods concerning the usefulness of company annual reports are also discussed in the chapter.

2.2 The Development of Financial Reporting and the Users of Financial Statements.

In society, accounting performs a service function. It must respond to the ever-changing needs of society and must reflect the social, political, legal and economic environments within which it operates.

Early accounting records were mainly kept for the use of owner-managers of the business. Pacioli, one of the first to write about double entry bookkeeping, stated that its purpose was to "give the trader without delay information as to his assets and liabilities" (quoted in Hendriksen, 1977, p.36). Thus, in its early beginning, the use of accounting as a tool for communicating financial information about the business had already been stressed. Even today, the use of accounting in providing information for use in the direct management of business operations is still an important function of accounting.

The development of modern financial reporting was the result of economic developments which were unknown in Pacioli's time, specifically:

(a) the growth of the corporate form of business organisation,

(b) the separation of company ownership from company management; and

(c) the growth of the number of interested parties in the operations of the business; viz; government, unions, creditors, investors and shareholders.

One of the major functions of financial statements, which together with the development of the corporate form of business entity, is the stewardship function. The management of the company ("the stewards") who are being entrusted with the firm's assets and the operations of the business, have a responsibility to act in the best interest of the owners of the company: the shareholders. The financial statements were therefore initially used as a basis for the shareholders to ascertain that the stewards properly account for the assets and liabilities of the business. An extension of the stewardship function of the financial statements was its use as a basis for evaluating the performance of the stewards.

Although the stewardship function is still important, there is a gradual shift away from this traditional role of financial statements. The traditional perspective of stewardship and past events orientation of financial reporting has changed to that of providing information for decision making (Anton, 1976, p.42).

In particular, the modern era has seen the "dawn of the age of the user in financial reporting" (Lee (1981) p.1); that is reports and statements are now being conceived and aimed specifically in terms of uses and user needs.

The American Accounting Association (1977,p.1) stated that:

> "...at a very general level, accounting writers appear to agree that the central purpose of financial accounting is the systematic provision of economic data about reporting entities..."
>
> (AAA, 1977 p.1)

This was highlighted even earlier by the American Institute of Certified Public Accountants (AICPA) when it had defined accounting as a service activity, thus

> "Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions - in making reasoned choices among alternative courses of action."
>
> (Accounting Principles Board, Statement No 4: Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises, 1970)

The report of the AICPA study group on the Objectives of Financial Statements (the Trueblood Report) published in 1973 reaffirmed the above function when it stated that:

> "..the provision of information useful for the making of economic decisions is the basic objective of financial statements..."
>
> (p. 13)

The Trueblood report also emphasized the importance of the external users of financial statements:

> "An objective of financial statements is to serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's economic activities".
>
> (p. 17)

This view was also supported by the Financial Accounting Standards Board (FASB), in its Statement of Financial Accounting Concepts (SFAC)1 when it specifically declared that the main objective of financial statements is to:

> "..provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions..."
>
> (1978, p.8).

The above opinions were also shared among other professional accounting bodies in other countries. For example, the importance of the financial statements as a source of information to interested parties of the companies (such as shareholders and investors) had long been recognised by British company legislation and professional recommendations on accounting and reporting standards. The British Companies Act (1985), for example, which requires audited financial statements to be sent to all shareholders, also sets out the minimum disclosure guidelines (Schedule 4) and requires the financial statements to give a "true" and "fair" view of the financial position of the company (Section 228).

The British professional accounting bodies have also shown their concern for the establishment and maintenance of financial reporting standards by issuing Statements of Standard Accounting Practices to deal with specific problem areas in financial reporting.

It should be noted that in the above quotation by the FASB's Statement of Financial Accounting Concepts 1, the investors were identified as one of the most important users of financial statements.

Day (1986) stated that "it is generally agreed that investors form one of the largest and most important groups of potential users" of financial statements. The two major groups of investors are the individual investors and the institutional investors. Included in the later group are the investment analysts who are investors in their own right and also act as advisors to individual and institutional investors [Day (1986) and Arnold and Moizer (1984)].

But what types of investors should the financial statements be aimed at: Is is the "average" investor or the professional or "sophisticated" investor?

The Trueblood report (1973) seemed to emphasise that the objective of financial statements is to serve primarily the average or "naive" investors i.e. "those who have limited authority, ability or resources to obtain information" (p. 17).

However, other writers and pronouncements by the FASB (SFAC 1, 1978) and other professional accounting bodies do not seem to agree with the views of the

Trueblood report. Even as early as 1940, Paton and Littleton had foreseen the importance of the role played by professional analysts in analysing the financial statements:

> "...the day is past when accounting statements must be prepared for the man on the street who reads as he runs the last figures at the bottom of the income statements and no more. It is now necessary to produce statements which lend themselves to study by investment analysts; many more persons depend upon the analysts judgements, directly or indirectly, than follow their own untrained interpretations of corporations reports.
>
> (p. 101)

In addition, writers such as Mautz and Sharaf (1961), Rappaport (1964) and Beaver (1978), among others, have supported the idea that financial statements should be aimed at the "sophisticated" investors.

Beaver (1978) in relation to the disclosure of information in financial statements stated that:

> "Future disclosure policies will likely give greater recognition to the professional (analysts) as the prime target for mandated disclosures..."
> (p. 46)

Buzby (1974) was more specific when he proposed that the professional analysts be identified as the primary user group of financial statements. He supported the opinion of Mautz and Sharaf, by stating that:

> "...most accounting information is not comprehensible to the average investor and cannot be made so without forgoing the important elements of the accounting message. The best service that accounting can render the average investor is to provide more and better information to the professional analysts."
>
> (p. 46)

Baker and Haslam (1973) in supporting the idea that the financial statements should be aimed at the sophisticated investors, stated that the content of the annual reports should not be brought down to the level of the lowest common denominator because:

> "The modern corporation is too complex for this, and to do so would constitute a disservice to the information needs of certain classes of relatively sophisticated investors."
>
> (p. 68)

The American Accounting Association Subcommittee on Establishing Materiality Criteria agreed with this viewpoint when they wrote that:

> "..decisions made by many investors are probably derived from decisions and advice of sophisticated (professional) investors. Hence, concentration on the needs of professional investors indirectly helps meet the needs of the so-called average investors.
>
> (p. 246)

Thus, the views of the above authors seemed to support the suggestion that financial statements were prepared primarily for use by the sophisticated investors or professional investment analysts. There is no denying the fact that the majority of the information presented in current financial statements are complex and contain a significant amount of technical material that an average investor may find difficulty in understanding.

Financial statements of companies in industrialised countries, though far from ideal, are able to meet most of the information needs of the investors. This may be due to the existence of company legislations and regulatory bodies, including professional accounting organisations, which not only impose regulations and accounting standards in the preparation of these financial statements but also enforce these regulations.

However, the same cannot be said about financial statements of companies in the developing nations. According to A. J. H. Enthoven (1977), enterprise accounting in developing countries "lacks relevance in both its current practice and theory and that the reporting practices tend to be stewardship oriented and thus of limited use to financial statement users". Enthoven concluded that the amount of useful information generated by the private enterprise accounting system for analysis and decision making were often scanty, unreliable and untimely. Consequently, the financial statements "are not relied upon by investors, bankers, national statistical institutes, government and even management" (p. 304).

Other writers, such as Scott (1974), Choi and Mueller (1984) and Qureshi (1976), share similar opinions about the weaknesses of external reporting in such countries. A summary of their views on the factors contributing to these weaknesses is as follows:

(1) The negative attitudes of management towards outsiders, resulting in most companies not disclosing information unless specifically required by law.

(2) The reliability of the financial statements is doubted by the financial statement users.

(3) The financial statements are frequently published too late to be of much use to the users.

(4) The lack of a strong professional accounting body causes problems in enforcing standards and guidelines not specifically required by law.

(5) The variability of treatment of various items of information make comparability of financial statements a major problem; thus severely limiting the use of such statements for investment decisions.

As can be seen from the above discussions, these writers observed the limitations and weaknesses of financial statements of companies in developing countries. However, it must be emphasised that the above opinions refer to developing countries in general and not all of these conditions exist in any one country.

In summary , this section has traced the development of financial reporting and shown that financial reporting has shifted emphasis from its stewardship role to that of providing information to interested parties. Among the most important group of interested parties is the investor.

It has been suggested in the above paragraphs that the information contained in the financial statements is, or should be, aimed at the "sophisticated investor" rather than the "average" or "naive" investors.

This section also discussed the views of several authors on financial statements in developing countries. These authors were of the opinion that the financial statements in the developing countries suffer from a number of problems and weaknesses.

This thesis examines these issues in the context of one particular developing country - Malaysia. It evaluates financial accounting and reporting practices in Malaysia, in the light of practices in the developed countries and international standards.

As the above discussions show, professional analysts are an important group acting as information intermediaries for the average investor. In Malaysia, the role of the professional analysts is as important, if not more important than in the developed countries because the typical investor in Malaysia:

> "has very little knowledge of accounting and economics ... and does not know how to get information on any company.
> (Neoh, 1985 p.55)

As a result, this study concentrates on the views of the professional investment analysts in Malaysia concerning the importance of the financial statements for investment analysis. Also, this research attempts to assess the use and usefulness of accounting information contained in the financial statements to investment analysts in Malaysia.

The next two section present discussions of the studies that have been conducted concerning the importance of financial statements to one principal group of users of concern to this study - the investors.

2.3 Efficient Market Hypothesis and the Implications for the Usefulness of Company Annual Reports.

Before discussing the existing literature on market efficiency and the implications for the usefulness of company annual reports, it is useful to explain briefly the concept of the efficient market hypothesis (EMH).

The word 'efficiency' is generally used in relation to the concept of efficiency of capital allocation. A capital market which makes use of all available information is one which would allocate the available capital most efficiently. This is not however, the meaning ascribed to the term in the expression 'Efficient Market Hypothesis'. The term is used instead to denote 'information efficiency'.

Fama (1970), in his seminal work on stock market behaviour, defined an efficient stock market as follows:

> "The primary role of the capital market is the allocation of the ownership of the economy's capital stock. In general terms, the ideal is a market in which prices provide accurate signals for resource allocation: that is, a market in which firms can make production/investment decisions, and investors can choose among the securities that represent ownership of the firms' activities under the assumption that security prices at any time "fully reflect" all the available information. A market in which prices always "fully reflect" available information is efficient."

Fama developed and refined the work of earlier researchers such as Bachalier (1900), Kendall (1953), Osborne (1959) and Moore (1964), into the information based stock market model generally known as the Efficient Market Hypothesis (EMH).

Fama explained that in an efficient market, the price of a security would adjust instantly to the arrival of new information regarding the value of the security and the price of that security would then instantly reflect the content of that piece of information. Consequently, it would not be possible for an investor to make a profit higher than the return which is given by the whole market after allowing for the risk of the investment.

Fama then defined three main levels of stock market efficiency with respect to three types of information

(a) Weak form of the EMH: share prices fully reflect the information content of all past prices;

(b) Semi-strong form of EMH: share prices fully reflect all publicly available information; which includes, for instance, company financial statements, brokers reports and recommendations; and

(c) Strong-form of EMH: share prices fully reflect all information i.e. publicly available information plus information that is not available to the public.

The semi-strong form of the EMH states that publicly available information (including those provided in company annual reports) is impounded unbiasedly in the price of a security. In other words the price of the shares "fully" reflect the information.

Fama (1965) expressed the above in the following formula:

$$f(P_{t+1}/O_t) = f_m(P_{t+1}/O_t^m)$$

where

$f(.)$ = the 'true' conditional probability distribution of security prices in period $t + 1$,

O_t = the information set available at period t,

$f_m(.)$ = the market assessed conditional probability distribution based on on O_t^m, and

O_t^m = the information set used by the market at period t.

An implication of the above formula is that since all publicly available information is used by the market in assessing expected future returns and prices,

> "an investor cannot use publicly available information as the basis of a trading system with expected returns in excess of equilibrium expected returns"
>
> Hines (1982) p.296

In other words, a major implication of the EMH in its semi-strong form, is that, annual reports cannot be used by the shareholders to make abnormal profits.

In order to discuss the implications of the EMH in greater detail, the methodology used in testing the semi-strong form of EMH are briefly discussed below. Research into the semi-strong form of market efficiency involves analysing share price movements. Generally, the research approach has been to select a "particular event (eg. publication of annual reports and stock dividend announcements) and to measure the effect of the announcement on share prices, and the speed of adjustment of share prices to the announced events.

By applying regression analysis on share prices across time, the reseacher determines which part of the movement of prices is due to changes affecting the market as a whole and which part to that particular event. A regression equation is estimated, with data from periods other than those in which the event occur (eg the publication of annual reports). This is done by using the formula below:

$$R_{jt} = B_0 + B_1 R_{mt} + u_{jt}$$

where

R_{jt} = relative price changes of share j in period t

R_{mt} = relative price changes for the market as a whole

u_{jt} = a residual, which should be equal to zero in periods other than in which new information was published.

Using the estimated coefficients B_0 and B_1 the residual price changes are calculated for periods in which the financial statements were published. If the information affected investors behaviours (that is if the market reacts to the new information), the value u_{jt} would be other than zero (Chang and Most (1985 p.3). If the market does not react, then this will imply that the information in the event has been compounded in the prices of the shares.

In the last 18 years since Fama's 1970 article appeared, extensive testing of the EMH has produced results which are "generally consistent with the hypothesis" (Hines (1984) p.296)) and, according to Chang and Most (1985) and Beaver (1981), the evidence in general tends to support the existence of the weak and semi-strong form of market efficiency. Research in the US by for example Kraus and Stoll(1972) and Hagerman and Richmond (1973)(among others)had found that the US stock market is efficient in the semi-strong form. Similar research carried out by Brealey (1970) and Firth (1979) for the UK stock market and Praetz (1969) for the Australian Stock market had shown that the stock markets in these two countries are also efficient in the semi-strong form.

The situation regarding the efficiency of the stock exchanges in the less developed countries however,is different. According to Barnes (1986,p.609) studies have shown that these exchanges are found not to be efficient although the "findings are varied and not clear cut" (Research into the efficiency of the Kuala Lumpur Stock Exchange is discussed in Chapter 5).

Thus based on the above studies and others (*), it is generally accepted that the major stock exchanges in the developed countries are efficient in the weak and semi-strong forms.

Many research have been conducted specifically on accounting information and the EMH. Among the best known is the research conducted by Sunder (1973 and 1975). He investigated the effects of stock prices of firms switching the methods of inventory valuation, from FIFO to LIFO, during periods of inflation. Such a change would result in lower reported earnings per share. Sunder hypothesised that if investors value cash flow and not earnings per share (which are affected by methods used to value the inventory), stock prices of these firms will rise when

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(*)For detailed discussions of EMH research; please refer to the following books:

(a)Dyckman, T.R., Downes, D.H. and Magee, R.P., Efficient Capital Markets and Accounting: a Critical Analysis, Prentice-Hall, Englewood Cliffs, N.J., (1975)
(b)Firth, M.A., The Valuation of Shares and the Efficient Markets Hypothesis, Macmillan, London, (1977).
(c)Foster, G., Financial Statement Analysis, Prentice-Hall,Englewood Cliffs, N.J., (1978).

the firms made such announcements. His results, which showed that there was an increase in the cumulative average residuals, were consistent with the fact that shareholders value cash flow instead of earnings per share. These results implied that accounting methods used in calculating inventory valuations were not important to the investors.

The studies by Kaplan and Roll (1972), concerning the use of alternative tax and depreciation methods gave similar results. Even though the use of alternative methods would result in differences in reported earnings, without affecting the real economic position, these changes did not fool the investors. Hong, Kaplan and Mandelker (1976) tested the effect of pooling and purchase techniques on stock prices of acquiring firms. The results showed that the investors were indifferent as to which accounting techniques were used by the firms. That is, "investors are not fooled by the accounting conventions" (Copeland and Weston, 1983, p.323).

The research carried out by Ball and Brown (1968) showed that stock prices adjust in an unbiased and continuous manner to new information. This finding provides evidence about the speed of adjustment of efficient markets to new information. There are two important implications of this research to company annual reports; firstly, most of the information contained in the annual reports is accurately anticipated by the market before the annual report is released, thus, implying that new information should be made publicly known by the company, instead of waiting for the publication and release of the annual reports. Secondly, it does not make any difference whether cash flow effects are reported in the Balance Sheet, the Income Statement, or footnotes as the market can evaluate the information as long as it is publicly available, "whatever form it may take" (Copeland and Weston, 1983, p.325).

In other words, the EMH asserts that annual report information will be impounded rapidly in the price of the shares and that an investor cannot make abnormal or excess returns in the markets on the basis of this information. Therefore, advocates of the EMH argue that the information contained in company annual reports is not useful in making investment decisions.

According to Hines (1982 p. 302), the use of the company annual reports for investment analysis is "double condemned" because; firstly, annual report content is publicly available information, and as such, it is impounded immediately in market prices of the shares, thus eliminating the possibility of a purchase or sale of shares based upon such information at a price which would yield abnormal return; secondly, the content has already been conveyed to the market by earlier reports, for example by preliminary reports issued by the company.

Thus, the EMH in the semi-strong form has a very serious implication for the "sophisticated" investors. If analysts accept the main conclusions of the EMH, any form of investment analysis based on publicly available information (which includes company annual reports) would be totally futile since the price of every share on the stock market already reflects all that is known about it.

In the next section research using interviews and postal surveys among the main users of the company annual reports, i.e. investors, are discussed. The main conclusion reached in these studies, especially those involving the professional analysts, is that the corporate annual reports are essential in providing information for investment analysis. There is therefore an apparent contradiction between the findings of the researchers using the survey method and the implication of the findings of EMH researchers.

However, the implication of the EMH studies that the annual reports are not useful may be a bit extreme. Beaver (1978) gave a warning of this erroneous interpretation by saying that:

> "It may well be that the publishing of financial statements data is precisely what makes the market as efficient as it is."
>
> (p. 171)

A major problem with the EMH is that the hypothesis is in itself a contradiction. If efficiency in the market were to exist, then the investment analysts must in the first place not believe the existence and implication of the EMH. Stamp (1979) stated this more precisely:

> "...the truth of the hypothesis is dependent upon a general disbelief in its truth. In other words, if stockbrokers, financial analysts, investment bankers, fund managers in insurance companies and pension funds, and all manner of other sophisticated investors did not do their best "to beat the market" by seeking out and analysing all the information they can find, it would in fact be possible to beat the market and the efficient markets hypothesis would not have been confirmed by empirical evidence."
>
> (p. 51)

Dyckman, et al (1975) thus stated that :

> "The EMH is difficult, if not impossible to test directly. Hence, empirical studies are based on the implication of the hypothesis and the condition necessary for it to be true."
>
> (p. 80)

Hines (1982), tried to explain the difference between the results of those reseachers who used the surveys of analysts which found that annual reports are useful and those who used the EMH approach. He gave the following explanations for the anomaly (p. 203 - 204):

(a) one explanation may be that shareholders believe that publicly available information may be used when in fact it cannot (ie a disbelief in the implications of the EMH).

(b) another explanation for the anomaly might be that share markets are not perfectly efficient and abnormal returns can in fact be earned by investors.

Other authors such as Chambers (1974), Anderson and Myers (1975), Findley (1977) and Stamp (1979) criticized the EMH research by saying that:

(a) neither stock markets nor financial information are homogeneous; the efficient market research examines only aggregate effects and ignores differences;

(c) existing research concentrates exclusively on the impact of accounting information on share prices and ignores other types of information; Beaver (1978) suggested that the informal information network (rather than solely accounting information) between analysts may be the mechanism which permits security prices to promptly reflect a broad information set;

(c) the EMH has little to say about the quality of information; if for example, the information contained in the financial statements are poor then the market has been impounding poor information in determining share prices;

(d) there is no clearly defined and universally agreed upon set of conditions for market efficiency and the doubtful existence of all of these conditions in all the stock markets of the world;

(e) the EMH does not offer any explanation or conceptual framework as to what is happening in the relationship between prices and information: why security prices settle at the level that they do, and what is likely to happen in the future; in other words the EMH has no predictive ability.

The following comment by Dyckman et. al (1975) is an appropriate conclusion to this section:

> "The point is the efficiency in the securities market has nothing to say about the quantity or the quality of accounting information. The issue of what accounting information remains whether the market is efficient or not. The question here is rather one of the efficiency of the information production process."
>
> (p. 91)

2.3.1 Summary

In the above section, the Efficient Market Hypothesis was explained together with the methodology used in testing the EMH in its semi-strong form. The EMH research in the developed countries has produced results which are generally consistent with the hypothesis and the implication is that annual reports are not useful in investment analysis in these efficient markets.

The implication of these results is an anomaly because (as will be seen in the next section) studies using survey of analysts and other professional investors found that annual reports information are extremely useful in making investment decisions.

2.4 Company Annual Reports and Investors Survey

2.4.1 Introduction

In this section prior studies that have been carried out on the importance of corporate annual reports using interviews, postal questionnaire surveys and "laboratory experiments" are reviewed and discussed.

As it is not possible to go into detailed discussions of each and every aspect of these studies, only selected features of these studies including the country in which the study was carried out, the type of investors (that is, "average" or "sophisticated"), methodology and the main conclusions reached are discussed in this section.

The review of the studies is divided into two parts. The first part consists of surveys carried out among the "sophisticated investors", ie analysts, into the importance of company annual reports for investment decisions and the second part reports the surveys carried out among the average or individual private shareholders.

2.4.2 Prior Studies Involving Investment Analysts

There are many studies in the developed countries relating to financial analysts and the use and usefulness of financial information appearing in the annual reports of companies. Empirical research in this area of annual reports can be traced back to the 1960's. One of the earliest and comprehensive studies was that conducted by Cerf (1961). Cerf hypothesised that the differences in information disclosed in financial statements between firms could be shown to be related to certain characteristics of the firms. The characteristics of the firms which he chose were method of trading of shares, size and profitability.

In order to quantifiably test the association between these characteristics and disclosure in financial statements, Cerf pioneered the use of an "index of disclosure". The disclosure index was developed by asking members of the National Association of Financial Analysts, in a questionnaire survey, to weigh the importance of several items of information contained in the corporate annual reports.

From their answers, a weight was attached to these items of information and applied to the financial statements of 527 companies. When an item appeared in the annual reports, the weighted points were given. The sum of the points received divided by the total possible points became the firm's index of disclosure. Cerf concluded that firms with a high index of disclosure had more stockholders, were larger in total assets, more profitable and more likely to be listed on a stock exchange.

An important aspect of Cerf's study was that, in developing the disclosure index, he had surveyed the professional analysts regarding the importance of the information contained in the financial statements and used the results of the survey to quantitatively "measure" the "quality" of the financial statements produced by companies.

Another important aspect of Cerf's study was that it provided the methodology (the use of a disclosure index) for other studies carried out concerning the evaluation of disclosures in financial statements. Among the many authors who used this methodology and the countries in which the study were conducted in, are: Singhvi and Desai (1971, US), Singhvi (1968, India), Chandra (1974, U.S.), Buzby (1974 & 1975, US), Barrett (1976, US, UK, Japan, France, West Germany and Sweden), Firth (1979, UK), Grey (1978, Europe) and McNally et al (1982, New Zealand).

Although these studies did not address directly the usefulness of information contained in the annual reports (except for the study by Chandra, which will be discussed later), these studies gave an indication of the "quality of information" contained in the annual reports from the point of view of the professional analysts and provided a useful methodology for comparing the quality of disclosures in financial statements of different countries.

The main criticism of these studies arises from the methodology in developing the index of disclosure; for example, the scoring of disclosure items - should it weighted or given equal weights for all items disclosed, the validity of the index in evaluating non- financial disclosures, and problems of companies not disclosing items because it was not applicable to that company (Bavishi 1984, p.119).

One of the earliest studies concerning the usefulness of the annual reports for investment decisions was carried out by Bradish (1965). In this US study, he interviewed financial analysts working in security brokers, trust and loan departments of commercial banks, and insurance companies to determine the types of information they deemed inadequately disclosed and to elicit their views on the usefulness of a number of troublesome items, such as long-term leases and funds flow statements. He also attempted to elicit proposed solutions from the analysts which could correct these problems. His analysis showed that there is a lack of communication between the users of the financial statements and the preparers of financial statements.

Mautz (1968) conducted a survey among financial analysts. In this study, the analysts were asked to rate the importance of the annual reports as a source of information for analysing the operating results of segments of diversified companies. These financial analysts gave financial statements a rating of 67 percentage points (the highest among the other sources of information) for their relative importance as a source of information in analysing segment performance of diversified companies. Although the analysts gave a high rating to the financial statements, 87.6 percent of these analysts felt that the annual reports did not provide adequate segment information. Mautz recommended that the diversified companies should meet additional disclosure requirements and that managements of these companies should use their discretion in determining the segments for reporting purposes.(*)

In contrast to the interview and postal questionnaire methodologies used by the other studies in the United States, Pankoff and Virgil (1970), used a "laboratory experiment", in their study. Thirty two analysts were asked to make investment decisions by using hypothetical net worth price ratio information. The authors concluded that they had not found much empirical support for the belief that accounting information was highly useful for decision making, although the analysts wanted certain kinds of accounting information badly enough to pay for them.

The Financial Analysts Federation Study (1972), interviewed senior members on several topics such as the objective of accounting statements, accounting principles, the quality of accounting and accounting in the investment process. On the question of the sources

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(*) IAS 14 - Segment Reporting introduced later requires companies to report in greater detail segment information. (See Chapter 4) of information for their investment decisions or recommendation, most of the financial analysts commented that accounting information was vital for their analyses of different companies.

Chandra (1974) made a study of the differences in perceived usefulness of information contained in financial statements between financial analysts and certified public accountants in the United States (using Cerf's methodology of index of disclosure). A total of one thousand questionnaires were sent to the target groups requesting them to rate the importance of fifty eight items of information for equity investment decisions. After analysing the returns, he concluded that accountants generally did not value information for equity investment decisions in the same manner as financial analysts.

Briggs (1975) conducted an exploratory study in the United Kingdom concerning the information needs of an important group of institutional investor - the Unit Trust. He interviewed 25 stockbrokers and officials of unit trusts and trust departments of merchant banks

Briggs found that there was almost unanimous agreement that accounting reports were essential,though the analysts did modify items in the report. Chang and Most (1985) criticised this study by saying that it:

> "must be seen as a subjective review of opinions expressed during interviews. In addition, the opinions of trust managers were not distinguished from those of financial analysts.
>
> (p.25).

Mason (1971) made a study of 24 investing institutions and 18 stock brokers in the United Kingdom. Mason found that the most important source of information for the investing institutions was that received from the stockbrokers. Annual reports were ranked a lowly fifth, after statistical cards, the press and personal contacts. Stockbrokers, on the other hand,rated company annual reports as the most important source of information for investment decisions.

In the United Kingdom, a comprehensive study of the importance of the information contained in the financial statements by institutional (sophisticated) investors was carried out by Lee and Tweedie (1981). In this study a total of 231 persons from insurance companies, pension funds, investment and unit trusts, banks and other financial institution and stockholding firms were interviewed. The findings of the study confirmed that annual reports were perceived to be the most important source of information for investment decisions by institutional investors. The financial experts surveyed in the study, made considerable use of corporate annual reports and nearly 80% of the respondents also confirmed their confidence in using the information provided in the financial statements for investment decisions. The findings by Lee and Tweedie were different from that obtained by Mason (1970), discussed in the preceding paragraph.

In their study, Lee and Tweedie also investigated the analysts' understanding of the information contained in the annual reports. They found that, even though nearly all the respondents believed they understood reported accounting information, the actual overall levels of understanding of the financial analysts:

> "were not as high as might have been expected from financial experts. Accounting terminology and financial ratios were particularly disapointing in this respect. Respondents' answers, despite prompting by the interviewers, were characterised by vagueness, with a sizeable number of respondents obviously having a poor or no understanding of the topics."
>
> (p.135).

Lee and Tweedie also found that the understanding of financial statements is best among those with accounting qualifications.

Arnold and Moizer (1984) criticised the Lee and Tweedie study on the grounds that the population from which the sample were drawn were based on organisations rather than individuals, resulting in the sample containing a relatively smaller number of analysts from large firms.The study also achieved an overall response rate of 29% and, "in consequence, the effects of non response bias could be significant (p.205)".

Arnold and Moizer (1984) undertook a study on the methods used by investment analysts to appraise investments in ordinary shares. They interviewed financial analysts from six financial institutions and sent postal questionnaires to 465 individual financial analysts. They found that the primary analytical method used by investment analysts was fundamental analysis. Technical and beta analysis came a poor second and third in their survey. Their studies also seem to confirm the results of the study by Lee and Tweedie in that the analysts perceived the company financial statements to be the most important source of information for investment analysis.

Arnold and Moizer admitted the methodological limitations of their study (the sample and the use of a postal questionnaire), but defended their use on the basis that the study was only a survey of the techniques and methods used by the financial analysts. They suggested that future research would benefit from:

> "appropriate research methods including direct observations, interviews and laboratory experiments, possibly with questionnaires being used to clarify and substantiate certain aspects of the decision making process."
>
> (p. 207)

An Australian study similar to the above was carried out by Anderson (1981). He investigated the usefulness of accounting and other information disclosed in company annual reports to Australian institutional investors. A postal survey was conducted based on a sample of 300 Australian institutional investors. Anderson found that institutional investors ranked financial statements as their most important source of information for investment decisions. He concluded that if annual reports were to retain their importance to the institutional investors, the information contained should be tailored to meet the specific information requirements of institutional investors.

Day (1986) wrote an interesting article on the use of annual reports by United Kingdom investment analysts. In this article, she set out to assess the usefulness of all information contained in annual reports and accounts to investment analysts and the views of the latter on possible improvements to the content of, and disclosure in published accounts. The method used by Day was to interview fifteen financial analysts. They were asked to look at a selected set of accounts and a tape recording was made to record their comments when analysing the accounts.

In order to avoid the problems inherent in analysing interviews, such as interviewer bias and the possibility of omitting potentially important areas or aspects of the interview, Day decided to use 'protocol analysis', a technique normally associated with linguistic research.

Day found out that even though a majority of the financial analysts agree that the financial statements of companies are an important source of information, other sources are also important for their purposes, such as company visits. She also found that the analysts are especially interested in additional or improved disclosures in segment information, detailed half yearly and quarterly reports and the Chairman's Statement to be made more detailed including such data as management's intentions.

The interesting aspect about Day's research is not the results obtained (which to a large extent agree with the results arrived at by other researchers such as Arnold and Moizer (1984)) but the research methodology used in the study. Whereas other researchers used "traditional methods" such as interviews or postal questionnaires, Day used methods normally associated with research in sociology and linguistics. However, the problems associated with using these methods in accounting research were also emphasised:

> "The research methods used here have not been widely used in the area of accounting so this is in the nature of a pilot study or survey....The problem with the approach used in this study are two-fold:first, an articulate group of users has to be found and, second, the research must be conducted in such a way as to satisfy the need for a reasonable level of objectivity and lack of bias".
>
> (p. 306)

2.4.3 <u>Prior Studies Involving Individual Investors</u>

In the Baker and Haslem (1973) study, 1623 individual common stockholders from the customer list of five stockbroking firms in Washington DC, were sent survey questionnaires asking them to indicate the most important sources of information that they used in evaluating common shares. The results showed that 46.8

percent of the respondents rated stockbrokers as their most important source of information, while only about 8 percent considered the annual reports as their most important source of company information. An important observation of this research was that the sample chosen was obviously biased because the individual investors were clients of stockbroking firms. It was therefore not surprising that they rated stock brokers advice as their most important source of information.

A study by Epstein (1975) in the United States, however, seemed to confirm the findings by Baker and Haslem. In the study he set out to determine the usefulness of annual financial statements among investors. Epstein found that only 15% of the respondents in the survey relied on annual reports as their primary basis for investment decisions while 49% relied on stockbrokers advice. Based on this, Epstein concluded that corporate annual reports were not useful to stockholders for investment decisions.

However, the Securities and Exchange Commission study (1976-1977) arrived at a different finding. A questionnaire was used to survey the views of 11,000 individual investors as part of the investigations of the Advisory Committee on Corporate Disclosure. These investors each owned fewer than 1000 shares of stock in fifteen different companies. Half of the respondents rated financial statements as extremely useful, 36 percent moderately useful and 3 per cent rated the financial statements as "not at all useful". The findings of this SEC study are consistent with the findings of researchers in other countries

Wilton and Tabb (1978) investigated private shareholder usage of financial statements in New Zealand using 300 individual investors from two New Zealand companies. The study found that the most thoroughly read section of the annual reports was the Chairman's reports followed by the Profit and Loss account and Balance Sheet. However, the importance of the sections of the financial statements for investment decisions, the Profit and Loss account and the Balance Sheet were ranked ahead of the Chairman's reports.

An earlier (1977) study by Lee and Tweedie also examined the usefulness of information contained in company annual reports by the private investors. The researchers sent questionnaires to 1594 individual shareholders of a London based engineering firm. The results of the survey showed that shareholders rated financial press reports as the most important source of company information. The responses indicated that most respondents also regarded annual financial reports as an important source of information for investment decisions.

A different aspect of the latter study, as compared with the study by Wilton and Tabb (above), was that Lee and Tweedie looked at the individual shareholders' understanding of financial statements. Of the 68% of the respondents who said that they understood the information contained in annual reports reports, 40 % stated that they found annual reports relevant to their investment decisions while 28% found the annual reports irrelevant.

With regards to the importance of the sections of the annual reports; these shareholders ranked, in order of importance: Chairman's reports, Profit and Loss account, Directors Reports, Balance Sheet, Notes to the accounts, Statistical Data and Auditor's Reports. As can be seen from this ranking, accounting information was ranked lower than the non-accounting information. This is in contrast with the findings in the Wilton and Tabb Study.

Day (1986) commented that Lee and Tweedie's study indicated that individual shareholders:

> "seem to make little use of published accounting information, possibly because they appear not to fully understand it."
>
> (p. 295).

Chenhall and Juchau (1977) carried out a shareholder survey consisting of 1025 shareholders from two groups in Australia. In the survey, these shareholders rated company financial statements as the most important source of information for investment decisions. The second most important source of information was the stockbrokers report and advice.

Winfield (1978) surveyed 850 individual shareholders of a Western Australian company regarding their opinions relating to published financial statements. He found that the annual reports were the most importance source of information for these investors in their investment decisions; followed by the financial press and stockbrokers advise.

There were also several international comparative studies of the usefulness of financial statements to investors. Belkaoui, Kahl and Peyrard (1978) used a questionnaire to ascertain the value which U.S., Canadian and European analysts attached to twenty nine items of information contained in financial statements. The authors concluded that there were a significant number of differences between North American and European analysts concerning the perceived value of different information sources.

A similar study was conducted by Arnold, Moizer and Noreen (1985) who made a comparative study of the investment appraisal methods of United States and United Kingdom financial analysts. They found several interesting differences in the methods used by the analysts of the two countries. U.S. analysts made more use of fundamental analysis and regard it as being more useful than do U.K. analysts. The U.S. group regarded a company's Income Statement and Balance Sheet as more influential than did their U.K. counterpart. In addition, U. S. analysts placed a greater emphasis on forecasts of future performance than did U.K. analysts. However, they found that the financial analysts in both countries agreed that the financial statements tended to dominate all other sources of information as a source of information for investment decisions.

Chang and Most (1985) carried out a comprehensive comparative study involving three countries: the United States, United Kingdom and New Zealand concerning the perceived usefulness of accounting and other information contained in annual reports to three groups of investors viz. the individual shareholders, institutional shareholders and financial analysts.They sent a postal questionnaire to the different groups of investors in the three countries. They concluded that the three investor groups value corporate annual reports as an important source of information useful for investment decisions.

However, within the group of investors, they found slight differences. They observed that financial analysts as a whole placed greater importance on corporate annual reports than did institutional investors; institutional investors, in turn, placed greater importance on such reports than did individual investors. This results was not unexpected as the investment analysts are the primary or direct users of the corporate annual reports, whereas the institutional and individual investors can be considered as the

(1) In studies involving the sophisticated investors, which includes the professional investment and financial analysts, institutional investors and stockbrokers, the results of the different studies were more consistent than the studies of the private shareholders. The results of the studies [for example by , the Financial Analysts Federation (1972), Briggs (1975), Chang and Most (1985) Mason, Lee and Tweedie (1981), Arnold and Moizer (1984), Anderson (1981) and Day (1986)] indicated that sophisticated investors rated annual reports as the most important source of information for investment decisions and recommendations. Although in certain of the studies for example, by Mautz (1968) and, Pankoff and Virgil (1970)], the analysts stated that additional information should be disclosed by the companies, they still regarded the financial statements as the major source of information.

(2) In the case of the average investors, the results were mixed. The studies by the SEC (1976-1977), Chenhall and Juchau (1977) and Winfield (1978) found that the individual or private shareholders regarded the annual reports (or financial statements) as an important source of information for investment decisions. The individual shareholder studies by Baker and Haslem (1973), and Lee and Tweedie (1977), found

that these shareholders rated stockbrokers' advice as more important than the annual reports for investment decisions. The private investors in the studies by Epstein (1975) concluded that annual reports are not useful to the individual shareholders.

In subsequent chapters, studies into the usefulness of accounting information by investment analysts in Malaysia are presented and compared with the studies described in the current chapter. A conclusion to this chapter is that the area of the usefulness of annual reports for investment decisions is still an important area for further research.

CHAPTER III

THE MALAYSIAN ACCOUNTING AND REGULATORY FRAMEWORK

3.1 Introduction

In Chapter 2, a comprehensive literature review was carried out on studies into the role of company annual reports for investment analysis. Most of the studies cited were those relating to the advanced and developed countries, viz; the United States, United Kingdom, Australia and New Zealand.

As the thesis is concerned with the company annual reports in a developing country, and its role in investment analysis, this chapter serves as an introduction to the accounting environment and the regulations affecting accounting practices in Malaysia. This chapter is divided into two parts:

(a) Part I - concentrates on the professional accounting organisations in Malaysia, that is the Malaysian Institute of Accountants (MIA) and the Malaysian Association of Certified Public Accountants (MACPA), their role in regulating the accounting profession in Malaysia. Included in the discussions are the International Accounting Standards that have been adopted by the MACPA.

(b) Part II - focuses on the regulations affecting the preparation of financial statements by companies in Malaysia, i.e the Companies Act.

PART I

3.2 The Professional Accounting Bodies

There are two prominent professional accounting bodies in Malaysia. The first was established by an Act of Parliament, the Accountants Act of 1967. This Act established the Malaysian Institute of Accountants (MIA). The second, and perhaps more influential body, (as will be explained later) is a privately run organisation called the Malaysian Association of Certified Public Accountants (MACPA).

The total membership of both organisations is given in Table 3.1:

Table 3.1

Membership of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

	Membership
MACPA (1 January, 1987)	1500
MIA (30 June, 1987)	3868

Source: The Malaysian Accountant, July 1987.

3.2.1 The Malaysian Institute Of Accountants

The Accountants Act of 1967 (revised in 1972 and later amended in 1986) was passed by Parliament to regulate the accounting profession in Malaysia. One of the main provisions of the Accountants Act is the establishment of the Malaysian Institute of Accountants (MIA) whose main objectives are:

Table 3.2
Objective of the Malaysian Institute of Accountants.

a) to determine the qualifications of persons for admission as members of the institute;
b) to provide for the training, education and examination for persons practising or intending to practice the profession of accountancy;
c) to regulate the practice of the accounting profession in Malaysia; and
d) to promote the interests of the accounting profession in Malaysia.

(Accountants Act, 1967, para.6)

Membership of the MIA is open to persons who have suitable practical experience and who have passed the final examinations recognised by the MIA (which included degrees in accounting from the Malaysian institutions of higher learning), or accountants who are members of other professional accounting bodies recognised by this Act. These bodies are listed in the First Schedule of the Act [Table 3.3].

As can be seen from Table (3.3), recognition is given to accountants from many different Commonwealth countries. This reflected the diverse countries from which accountants in Malaysia receive their training.

Under the Accountants Act, the MIA is given the necessary powers to supervise the accounting profession in Malaysia. The Act makes it indisputably clear that the MIA's major duty is to ensure that the accounting profession maintained the "highest level of expertise and professional competence" through its members. Unfortunately, the MIA is not active in promoting and regulating the accounting profession since its inception. It has not conducted any examinations or

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Table 3.3

Accounting organisations recognised by the Malaysian Institute Of Accountants.

---

i) Malaysian Association of Certified Public Accountants;
ii) Institute of Chartered Accountants of Scotland;
iii) Institute of Chartered Accountants of England and Wales;
iv) Institute of Chartered Accountants of Ireland;
v) Association of Certified Accountants (England);
vi) Institute of Chartered Accountants in Australia;
vii) Australian Society of Accountants;
viii) New Zealand Society of Accountants;
ix) Canadian Institute of Accountants;
x) Institute of Chartered Accountants of India; and
xi) Institute of Cost and Management Accountant (United Kingdom)).

Source: Accountants Act, 1967; First Schedule. Part 2 (a-k)

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research in accounting and, up till 1987, has not issued any accounting or auditing standards. There has not been any cases of the MIA taking disciplinary action on any of its members for professional misconduct.

As an example of its dormancy, it has not conducted any annual general meeting with its members for the past twenty years (since its inception), and the first meeting was only held in early 1988. The functions of the MIA under the Accountants Act were only "reactivated" in 1987 (Samad, M. 1988).

Thus, because of its inactivity, the role of the MIA, according to Enthoven (1977 p. 325), has been reduced to only that of a "licensing body". The MIA, over the past twenty years, had delegated its major functions; i.e. training and education of accountants, and promoting the accounting profession; to the other major accounting body in Malaysia, the MACPA.

3.2.2 The Malaysian Association of Certified Public Accountants

The Malaysian Association of Certified Public Accountants (MACPA) was founded in 1958. Unlike the MIA, the MACPA is a private sector organisation. At its inception, the members consisted wholly of accountants who were trained in overseas countries; mainly from the United Kingdom, Australia and New Zealand. One of the main objectives of the MACPA at the time of its formation was to provide accounting training and education since these were virtually non-existent in Malaysia. The formation of the MACPA was the first attempt to provide educational and training opportunities in accounting locally for Malaysians. The other objectives of the MACPA are given in Table 3.4.

Table 3.4

Objectives of the Malaysian Association of Certified Public Accountants.

a) to provide an association for accountants whereby their interests could be represented;

b) to support and advance the status and interests of the accountancy profession to protect the character of the profession;

c) to exercise professional supervision over the members of the association; and

d) to frame and establish rules for observances in matters pertaining to professional conduct.

Source: Enthoven, A.J.H., Accountancy Systems in Third World Countries, North-Holland Publishing, 1981, p.324

Briefly, membership is restricted to these articled students who have passed the examinations set by the MACPA. Similar to the MIA, the membership is also given to accountants who are members of overseas professional accounting bodies recognised by the MACPA These organisations are similar to the ones listed in the Accountants Act [Table 3.3].

3.2.3 The MACPA and Accounting and Disclosure Practices in Malaysia

Malaysia has no indigenous accounting principles and practices. Rather, the current accounting practices in Malaysia owe their origin to practices in other countries principally the United Kingdom. It is British foreign investment that has been largely responsible for bringing accounting thought to Malaysia. This is because, as a British colony, companies were floated in the United Kingdom to mobilise financial resources to invest in the tin mining and rubber industries in Malaysia. Also, many companies that were established in Malaysia at that time were either branches or subsidiaries of British companies. Accounts prepared during that period were primarily based on British accounting principles and practices as they were intended mainly for investors in in the United Kingdom.

Therefore, in the absence of local accounting practices, it was only "logical for accountants to apply the British accounting principles with which they (the accountants) were familiar and which were acceptable to British readers." (Enthoven, 1977).

Another reason for the adoption of British accounting principles and practices was due to the lack of expertise and resources available to the MACPA to carry out research into accounting practices. The

MACPA did not carry out any research on accounting and auditing standards in its early years. Mitchell commented in Enthoven (1981) that:

> "Accounting research and development in Malaysia is virtually non-existent. This is caused by the presence of apathy on the part of the accounting profession, university and the government and by the high demand for the limited resources and talents of qualified and interested accountants. At this time the limited resources should be allocated to transmitting the present knowledge rather than creating new knowledge. It is doubtful if substantial changes from this priority can be made for several years."
>
> (p.239)

As a result, all the recommendations of the Institute of Chartered Accountants in England and Wales were adopted by the MACPA and in due course, the accounting principles applied in the United Kingdom came to be accepted almost in its entirety in Malaysia. Thus before the formation of the International Accounting Standards Committee, the accounting standards were wholly derived from the standards and guidelines issued by the Accounting Standards Committee of the Institutes of Chartered Accountants of the United Kingdom.

As a result of the above factors, it was therefore not surprising that accounting classification studies by Nair and Frank (1980) Nobes and Parker (1981); and Gray, Campbell and Shaw (1984) found that the Malaysian financial reporting practices are influenced to a very large degree by practices in the United Kingdom.

With the advent of standards issued by the International Accounting Standards Committee (IASC) the MACPA had change its strategy, from developing its own accounting standards to adopting the ready made international standards because:

> "It would seem that time and resources are better used in activities other than re-inventing the wheel.."
>
> ("Technical Section", Malaysian Accountant, October 1986, p.19).

More formally, in June 1986, the Council of the MACPA had issued a statements on "Approved Accounting Standards" which stated that Malaysian accounting standards comprised of:

> " a) Malaysian Accounting Standards (MAS) issued by the MACPA; and
>
> b) International Accounting Standards (IAS) approved for operation by the MACPA."
>
> (Supplement No.28, Members' Handbook, issued June 12, 1986, MACPA)

The MACPA has approved for operation in Malaysia seventeen International Accounting Standards (IAS) plus two Exposure Drafts Outstanding as of July 1986 (Technical Section, Malaysian Accountant, July 1986, p.11; see also Table 3.5).

According to the Technical Director of the MACPA, the International Accounting Standards are:

> ".....expected to continue as the backbone of standard-setting in Malaysia even though the first of a series of local Malaysian Accounting Standards and a number of Technical Bulletins have been issued and a significant number more are in the pipeline.....the International Accounting Standards have become an accepted part of accounting and financial reporting in Malaysia even among non-members of the MACPA.
> (The Malaysian Accountant, July 1986).

There are many factors responsible for the rapid adoption of these International Accounting and Auditing standards by the MACPA:

(a) the absence of any institutional or legal constraints in the way of adopting these international standards. The statements in the preceding paragraphs clearly show that the MACPA supports the standards issued by the International Accounting Standards Committee and the International Federation of Accountants. There are also no legal barriers in the way of adopting the International Accounting Standards since the standards do not seem to contravene any sections of the Companies Act. There are also many similarities between certain sections of the International Accounting Standards (primarily those sections which deal with disclosure requirements) and the specific sections of the Companies Act (see

Table 3.5

International Accounting Standards approved for operations in Malaysia AS OF JULY, 1986.

Definitive Standards Approved

- IAS 1 - Disclosure of Accounting Policies.
- IAS 2 - Valuation and Presentation of Inventories in the Context of the Historical Cost System.
- IAS 3 - Consolidated Financial Statements.
- IAS 4 - Depreciation Accounting.
- IAS 5 - Information to be Disclosed in Financial Statements.
- IAS 6 - (Superceded by IAS 15)
- IAS 7 - Statement of Changes in Financial Position
- IAS 8 - Unusual and Prior Period Items and Changes in Accounting Policies.
- IAS 9 - Accounting for Research and Development Activities.
- IAS 10 - Contingencies and Events Occurring After the Balance Sheet Date.
- IAS 11 - Accounting for Construction Contracts.
- IAS 12 - Accounting for Taxes on Income.
- IAS 13 - Presentation of Current Assets and Liabilities
- IAS 14 - Reporting Financial Statements by Segment
- IAS 15 - Information Reflecting the Effects of Changing Prices.
- IAS 16 - Accounting for Property, Plant and Equipment
- IAS 17 - Accounting for Leases

Appendix 1 for a table showing the comparison of the Ninth Schedule of the Companies Act and IAS 5 - Information to be Disclosed in the Financial Statements).

(b) The Malaysian government and regulatory agencies have given indirect support for the adoption of the International Accounting Standards by the MACPA. As evidence of such support, the MACPA quoted the following cases:

(i) Bank Negara Malaysia (the Malaysian Central Bank) "clearly gives the IAS implicit recognition in its review and approval of financial statements of banks and finance companies" .

(ii) the Ministry of Finance has also given tacit approval to the IAS by requiring that statutory bodies and corporations under its control should apply MACPA standards or recognised standards of other established bodies such as the IASC.

(iii) the Capital Issues Committee, an agency of the Ministry of Finance and which is effectively the Malaysian equivalent of the US Securities and Exchange Commission, has also given endorsement of the MACPA and IAS standards. In its recently issued guidelines (paragraph 17), the Committee requires the accounting entries of any scheme of arrangements or reconstruction which involves the transfer of assets or undertaking of a foreign incorporated company to comply with the Company's Act and the accounting standards of the MACPA or any other recognised accounting body.

(iv) perhaps the strongest endorsement of the MACPA's attempts at standard setting comes from the Kuala Lumpur Stock Exchange. In its Listing Manual, the KLSE requires that companies' annual audited accounts be prepared in accordance with the accounting standards and pronouncements of the MACPA and the Companies Act. The support of the KLSE can be seen here as it refers to not only the accounting standards approved by the MACPA but also to other pronouncements such as technical bulletins and Statements issued by the MACPA. According to the MACPA, this support is "encouraging to the profession and should reinforce the policing activities of the MACPA"

(Source:Malaysian Accountant, July 1986, p.11).

(c) the influence of the large number of multinational companies, mostly British and Americans, has also been indirectly responsible for the adoption of the International Accounting and Auditing Standards. According to Nobes and Parker (1981), the IAS follow closely a compromise of the United States and United Kingdom standards (this is not surprising in view of the dominant position and the advanced stage of the accounting profession in these two countries). Thus, with the adoption of international standards, it would be easier for the multinational corporations to prepare statutory accounts. These problems were described by Cook (1983) when he wrote of the difficulties of preparing financial statements of multinational corporations caused mainly by diverging accounting standards and practices of different countries. Mason (1977) also stated that if the international standards were to be adopted, fewer sets of financial statements would have to be prepared by the multinational corporations.

(d) another important factor leading to the adoption of the International Accounting Standards is the presence of many international accounting firms in Malaysia. It is a common practice of many Malaysian accounting firms to have partnerships with established accounting firms from the more developed countries including the United States, the United Kingdom and Japan (due to the presence of multinational companies from these countries in Malaysia). The adoption of internationally acceptable standards by the MACPA would enable the accounting firms to provide a comparable quality of service to these corporations regardless of the fact that the accounting firms are located in Malaysia.

In conclusion to this section, the MACPA has relied on International Accounting Standards to provide the basis for accounting practices in Malaysia. By adopting these ready made standards, the MACPA, with its limited resources, is saving considerable time and effort and also gaining the benefits of valuable experience and expertise in areas that had already been researched by other international and national accounting bodies.

3.2.4 Summary

There are two prominent professional accounting associations in Malaysia; the Malaysian Institute of Accountants and the Malaysian Association of Certified Public Accountants. The MIA is potentially the more powerful body as it is invested with the necessary legal powers to enforce its rulings. However, because of its inactivity, many of its functions (except the licensing of accountants and auditors), it was supposed to have carried out under the Accountants Act, were instead being carried out by the MACPA.

The MACPA, on the other hand, is active in the education and training of accountants and in promoting the profession. It had adopted, almost without change, International Accounting Standards 1 to 17. The discussions on the adoption of the IAS has shown that the rapid adoption of the IAS is possible because there are no legal or institutional barriers against the adoption of these standards and also because of the implicit support from the regulatory agencies in Malaysia.

Although, the adoption of the IAS by the MACPA has been without major problems, there is the question of whether these standards are being complied with by companies in Malaysia. Even with the implicit support of the Malaysian Government and the regulatory agencies to the MACPA for adopting international standards, the

MACPA, being a private cannot legally enforce the IAS. According to Neoh (1985)

> "If a listed company refuses (as many do on occasions) the most that the MACPA can do is ask the auditors to concerned to qualify the offending company's annual reports. In Malaysia where the standard of journalistic reporting and the general level of investment literacy is so low, qualifications of an annual report would pass almost totally unnoticed.
>
> (p. 59)

In the next section, the disclosure requirements under the Malaysian Companies Act, 1965 are described. Unlike the requirements of the professional accounting associations, which are not compulsory, the requirements of the Act are mandatory for all listed and non-listed companies in Malaysia.

3.3 The Malaysian Companies Act 1965 and Disclosure of Information.

An important source of accounting principles and disclosure practices in Malaysia is the Companies Act, 1965. As with the discussions concerning the origins of accounting principles and practices in Malaysia, the Companies Act is also derived largely from legislations in the United Kingdom and other Commonwealth countries. Pillai (1984) and J.H. Goh (1982) claimed that the Malaysian Companies Act was modelled after those in Australia rather than those in the United Kingdom. Walton (1986), although agreeing with the claims of the above author, also stated that "clearly the British 1948 Act was also considered" when the Malaysian Companies Act was drafted.

The relevant parts of this Act which deals with the accounts and audits of companies are Part VI (Sections 167 - 175) and the Ninth Schedule. The Ninth Schedule of this Act specifies the items to be disclosed in the financial statements. These statutory disclosure requirements must be followed in their entirety in the preparation and publication of financial statements for all companies in Malaysia (both listed and unlisted companies).

Sections 167 to 175 of the Act refer to the requirement of companies to keep a proper set of accounting records and to have these accounts audited. Specifically, S 167 requires that every company should keep "such accounting and other records as will sufficiently explain the transactions and financial position of the company and enable true and fair profit and loss accounts and balance sheets ..." and that these records to be kept so as to "enable them to be conveniently and properly audited". This section specifically recognised the "true and fair view" concept that is common to countries which have adopted the UK system of accounting.

Section 169 details the information to be disclosed in the Profit and Loss Account, Balance Sheet and Directors Reports. This section is supplemented and expanded by the Ninth Schedule of the

Act which identified the specific items to be disclosed in the financial statements of Malaysian companies.

Following the recent amendments to the Companies Act, it is mandatory for all companies to include a Statement of Changes in Financial Position (Ninth Schedule (4)). The Ninth Schedule also requires companies to disclose the basis for foreign currency translations and the treatment of foreign currency gains or losses. This Schedule also requires companies to include a Statement of Accounting Policies to accompany every Profit and Loss Account and Balance sheet produced by companies.

The Companies Act also requires holding companies to prepare consolidated accounts for every subsidiary within with it has a controlling interest. However, non-consolidation of subsidiaries is allowed, provided the approval of the Registrar of Companies is obtained and that it is accepted that either the production of consolidated results would be harmful or that there is a difference between the business of the holding company and that of the subsidiary. The reasons for presenting non-consolidated accounts must also be disclosed.

Tables are presented in Appendix 1 comparing the requirements of the Companies Act with that of IAS 5 - Information to be Disclosed in Financial Statements.

In conclusion, the Companies Act, 1965 requires companies to disclose information that will give a"true and fair" view of the financial position of the company. The Ninth Schedule of the Act specifies the items to be disclosed in the financial statements, but these represent only the minimum disclosure requirements. According to Neoh (1985):

> "...the amount of information that has to be disclosed under the Act was "minimal". It centred around unimportant issues such as the allocation of the profit into various classes of reserves which is of no consequence from a financial viewpoint.
>
> (p. 58).

3.4 Summary

In this chapter, the accounting and regulatory environment in Malaysia has been described. There are two important accounting bodies in Malaysia, the Malaysian Institute of Accountants and the Malaysian Association of Certified Public Accountants.

The Malaysian Institute of Accountants, an organisation set up under an Act of Parliament has not been active in regulating and promoting the accounting profession in Malaysia. This role, instead, has been fulfilled by the private sector organisation, the Malaysian Institute of Certified Public Accountants. It was also shown that the accounting profession in Malaysia has been heavily influenced by the accounting bodies of the Commonwealth countries.

The accounting standards that were promulgated by the International Accounting Standards Committee found ready acceptance with the accounting association in Malaysia. This was evidenced by the rapid adoption of IAS 1 to IAS 17 by the MACPA.

As with the accounting practices and profession, the Malaysian Companies Act, 1965, has been influenced by the company legislations of Commonwealth countries. The main section of the Act which specifies the information to be disclosed in the accounts is the Ninth Schedule.

In the following chapter, findings of the accounting and disclosure practices as a result of the analysis of annual reports of a sample of companies are presented.

CHAPTER IV

SURVEY AND ANALYSIS OF COMPANY ANNUAL REPORTS

4.1 Introduction

In the preceding chapter, the accounting and regulatory framework in Malaysia were described: viz; the accounting bodies, the Companies Act (1965) and the various rules, regulations and standards that have been established for the preparation of the financial statements in annual reports of companies.

The current chapter presents the findings of a survey of the annual reports of a sample of companies listed on the Kuala Lumpur Stock Exchange. The purpose of the survey is to examine, in detail,what information is being disclosed and how the information is being presented in the annual reports of the sample companies. This examination will give an indication of the general disclosure and accounting practices in Malaysia.

A secondary objective of the analysis is to determine the extent to which Malaysian companies comply with the International Accounting Standards. Although the Malaysian Association of Certified Public Accountants had adopted a majority of the International Accounting Standards (IAS), [see Chapter 3 and Table 3.5], these standards could not be legally enforceable by the MACPA because this body does not have the statutory powers to do so. Thus, analysis of the extent of compliance or non-compliance with the IAS is important as it provides an indication of the "quality" or the "looseness" of accounting practices and standards in the annual reports of companies listed on the Kuala Lumpur Stock Exchange.

The final objective of the analysis is to use the findings to develop the questionnaire to be used in the survey of the investment analysts (see Chapter 6).

4.2 Sample Companies

In February 1987, a letter was sent to a random sample of 180 companies listed on the Kuala Lumpur Stock Exchange requesting them to send a copy of their latest financial statements. A total of 44 companies (24%) complied with the request by sending their annual reports for 1985/86.

The names of the individual companies whose annual reports were used in the analysis are given in Appendix 2. These companies were then categorised on the basis of the KLSE industry classification as described in Table 4.1.

Table 4.1 shows, the proportion of companies in the various sectors of the sample are similar to the composition of companies listed in the sectors on the the KLSE.

Table 4.1
Comparison of composition of the sample with the total companies listed on the KLSE

	SAMPLE		KLSE(*)	
	n	%	N	%
I. INDUSTRIAL CO.	29	66	169	59
II. BANKS AND OTHER FINANCIAL CO.	3	7	24	8
III. HOTELS AND PROPERTY CO.	5	11	31	11
IV. TIN AND OTHER MINING CO.	3	7	22	8
V. OIL PALM AND RUBBER CO.	4	9	41	14
TOTAL	44	100	287	100

*Source: The Kuala Lumpur Stock Exchange: Annual Companies Handbook Vol. XII - 1986.

4.3 Method of analysis

The financial statements of the sample of companies were examined to ascertain the general accounting and disclosure practices followed by the companies in Malaysia. Although the Companies Act, 1965 dictates the information to be disclosed by companies, these only represents the minimum required by law. In addition, the Malaysian Association of Certified Public Accountants has adopted International Accounting Standards so as to supplement the information required to be disclosed by companies. Since the MACPA does not have the statutory powers to enforce these standards, the additional information disclosed could be termed as 'discretionary'.

The financial statements therefore, were examined in detail to determine the degree of compliance with the requirements of the International Accounting Standards.

4.4 Limitations of the Analysis.

The results of this analysis of company annual reports should be considered with the following limitations in mind;

(1) The annual reports of only 44 out of 280 companies listed on the KLSE were used in the analysis. Although the analysis of the composition of companies in the sample showed that it was similar to the composition of the total companies listed on the KLSE, the sample companies might not be representative of the total population of companies.

(2) The survey of the current reporting practices was confined only to the annual reports. Other sources of information concerning the companies financial position were not referred to in the analysis.

(3) The analysis of these annual reports was based primarily on compliance with IAS 1 to 17, that is those standards which were adopted by the MACPA as of June 1986. Other IAS that may have been adopted by the MACPA after the date, are not taken into account in the analysis

(4) The survey was limited to only the latest annual reports of the 44 companies (for 1985/1986) in the sample. Therefore, this survey does not reveal, for example, the consistency of adherence to particular accounting practices over a number of years.

(5) The degree of compliance with particular accounting standards dealing with for example, contingent liabilities, could not be determined, unless the companies chose to disclosed such information. If a company did not disclose the information, the extent of any non-compliance could not be determined: that is either the company did not comply with the International Accounting Standard or the company did not actually have such items.

(6) In deciding whether or not a company complies with the IAS, the main disclosure requirements of the IAS were used as the guideline. If a company disclosed this information, then the company is deemed to have complied with that particular IAS.

Due to the limitations of the analysis mentioned above, the names of companies deemed to be not complying with the IAS were disguised. The names of these companies were lodged with the supervisor of the thesis.

4.5 Overview of the Profit and Loss Account and Balance Sheet of the Sample Companies.

The Malaysian Companies Act, 1965, does not specify the formats to be used by Malaysian companies in the presentation of their statutory accounts. This is in contrast to the United Kingdom Companies Act 1985, which prescribes the formats to be used in the presentation of the Profit and Loss Account and the Balance Sheet of all UK companies (Schedule 4, para.8 of the UK Companies Act, 1985). Although the Ninth Schedule of the Malaysian Companies Act contains detailed disclosure requirements, the form of presentation of information in the financial statements is not specified.

In order to rectify this omission, the MACPA issued its Malaysian Accounting Standard 4 which recommended the formats to be used by Malaysian companies. In this standard, the statutory accounts of a fictitious company were drafted with reference to the disclosure requirements of the Ninth Schedule of the Companies Act. Details of the recommended format are given in Appendix 3.

The examination of the Profit and Loss Accounts and Balance Sheets of the sample companies indicated that only a few companies had followed the recommended format. The reasons for the majority of the companies not following the recommended presentation is probably due to the fact that the format is too complicated to use (see Appendix 3) and contains too many details.

It should be emphasized that the companies in the sample did not seem to break the statutory disclosure requirements of the Malaysian Companies Act, as compliance with the statutory requirements is achieved by disclosure irrespective of where and how this information is disclosed. For example, companies may disclose the information by way of notes to the accounts (see the discussions on the research by Brown and Ball (1968) in Chapter 2).

4.6 IAS 1 - Disclosure of Accounting Policies

IAS 1 requires companies to provide "clear and concise" disclosure of all significant accounting policies which have been used in the preparation of the financial statements (IAS 1, p.8).

In the sample of companies, all of the companies stated that their financial statements were prepared under the historical cost convention. If companies revalued their fixed assets (mainly freehold or long leasehold land), then the historical cost convention was modified to take into account this revaluation. A detailed analysis of the accounting policies disclosed in the financial statements by the individual companies is given in Appendix 4A.

Even though the accounting policies on certain items were not immediately disclosed, they may be disclosed elsewhere in the notes to the accounts or in various other sections of the financial statements. For example, UMW Corporation Berhad, did not mention its accounting policies regarding treatment of extraordinary items under the "Significant Accounting Policies" section of the financial statements but in a specific note to the accounts dealing exclusively with exraordinary items.

Table 4.2 summarises the accounting policies most frequently disclosed by the companies in the sample:

Table 4.2
Accounting policies disclosed

Accounting Policy	Number of Companies
Basis of Accounting	44
Fixed Assets/Depreciation	44
Stocks	43
Taxation and Deferred Taxation	43
Currency Conversions and Translations	43
Basis of Consolidation	36
Pension Contributions	26
Associated Companies	24
Income Recognition	22
Investments	16
Expenditure carried forward	15
Bad and Doubtful Debts/Debtors	12
Turnover	12
Leasing	6
Extraordinary Items	6
Research and Development	3

4.7 IAS 2 - Valuation and Presentation of Inventories in the Context of the Historical Cost System.

The main provision of IAS 2 states that "inventories should be valued at the lower of historical cost and net realizable value (IAS 2, para. 20). The standard also contains details concerning the determination and ascertainment of what constitute "historical costs", "net realizable value" and presentation of inventories in the financial statements.

IAS 2 defines "inventories" as tangible property:

> " (a) held for sale in the ordinary course of business,
> (b) in the process of production for such sale, or
> (c) to be consumed in the production of goods or services for sale."
> (IAS 2 para.4)

In ascertaining the "historical costs" of inventories, IAS 2 states that it should include for example, a proportion of overhead costs, allocated on a systematic basis.

"Net realizable value" should be based on the "most reliable evidence" as to what the inventories are expected to realize. Also, this standard states that if there is any writing down of the inventory to net realizable value, it should be done by item or group of individual items and that the method used should be consistently applied (IAS 2 - paras. 28-31).

In the financial statements, inventories should be sub-classified either in the financial statements itself or in notes attached to the financial statements and the amounts held in each of the main categories should be indicated. Common sub-classifications suggested by this IAS include materials, work in progress, finished goods, merchandise and production supplies. Also, the accounting policies adopted for the purpose of valuation of inventories, including the cost formula used, should be disclosed (IAS 2, paras 32-35).

In the sample of company accounts, it was found that inventories accounting policies and valuation methods were disclosed either in the section on significant accounting policies or as a separate item in the notes to the accounts. All of the companies in the sample stated that the stock or inventories were valued at the lower of cost and net realizable value.

It was also found that a majority of the companies (40) in the sample had complied with the provisions in IAS 2 as they disclosed in the accounts that stock was valued at the lower of cost and net realizable value and also disclosed the methods used in valuing the stocks at cost. However, the method used to determine cost varied from company to company. A majority of the companies used more than one method to value stock at cost to take into account the different categories of stock held by them.

Table 4.3 provides a breakdown of the methods of valuing stock. A detailed company by company analysis of the methods of valuing stock at cost is also given in Appendix 4B.

As can be seen from Table 4.3, the most popular method of valuing stock is the average/weighted average method, closely followed by the first in first out (FIFO) method. A majority of the companies in the sample (28), which manufactured their own stock, stated that the cost of their finished goods included

Table 4.3

An analysis of the disclosures relating to valuing stock at cost of the sample companies

Methods of valuing stock	No. of Companies(*)
1. Average/weighted average	17
2. First in first out (FIFO)	16
3. Provisions made for slow moving/obsolete stock	10
4. Inclusion of transport costs	10
5. Specific Identification	3
6. Costs consists of direct materials, labour and production overheads	28
7. No method disclosed	4

[(*) The total exceeded the number of companies in the sample as some companies used more than one method].

Note: Financial institutions excluded from the analysis.

the costs of raw materials, direct labour and a proportion of the manufacturing overheads.

Only four companies (three manufacturing and one plantation) in the sample did not disclose the methods used at valuing stocks at cost and were therefore deemed to be not complying with para. 34 of IAS 2. No reasons were stated anywhere in the financial statements for this non-compliance.

4.8 IAS 3 - Consolidated Financial Statements

The main requirements of IAS 3 are : (i) that companies with subsidiaries should issue consolidated financial statements and (ii) that investments in associated companies should be included in the consolidated financial statements under the equity method of accounting.

Exemptions from consolidation are allowed under certain conditions: if the control is to be temporary; if the parent company has difficulties in controlling the subsidiary's assets and operations due to restrictions on the transfer of funds; if the activities of the subsidiaries are so dissimilar from those of the other companies in the group that it is preferable to provide the information by presenting separate financial statements (IAS 3, paras. 8-10).

In the financial statements, the following matters should be disclosed:

(a) minority interest
(b) basis of consolidation
(c) names of subsidiary and associated companies; additional details required of significant subsidiaries and associated companies; and
(d) reasons for not consolidating a subsidiary company, if any, (IAS 3, paras 43, 46-49.)

Of the 44 companies in the sample, 38 had disclosed the names of their subsidiary companies. In addition, 24 also disclosed their associated companies. Base on the annual reports, it is presumed that the remaining six companies do not have associated or subsidiary companies. This is because, the preparation of consolidated accounts are required under the Companies Act.

The majority of the companies which have subsidiaries disclosed the basis of consolidation and used the methods of consolidation recommended by IAS 3.

Non-compliance with IAS 3 was identified in the following cases:

1. An industrial company dealing with packaging, did not include their foreign subsidiary in their consolidated financial statements "due to their immateriality" (both companies had ceased trading). This circumstance for the non-consolidation of subsidiaries is acceptable under IAS 3. The company should, however, have written off the cost of this investment.

2. A tin mining company - The associated companies are "not equity accounted on the basis that group accounts are not presented by

the company." The reason given does not fall within those explained by IAS 3. Therefore, this company is deemed as not complying with the requirements of the IAS.

3. A financial institution - The associated companies were not accounted for using the equity method recommended by the standard. The reason given for not using the recommended method was that the non-compliance would not have any material effect on the results of the company.

4. A sugar plantation company - The associated companies were included in the account only "to the extent of dividends received". No reason was given for the exclusion of the results of the associated companies. This departure from IAS 3 was disclosed in the accounts.

In summary to this section, with the exception of the four companies above, all of the companies with subsidiary and associated companies had prepared consolidated financial statements and disclosed the accounting policies used in preparing such statements. In addition, the companies had disclosed fully the names, activities and percentage holdings of all their subsidiary and associated companies.

4.9 <u>IAS 4 - Depreciation Accounting</u>

This standard is applicable to all depreciable assets except for forests and other regenerative natural resources, exploration and extraction of minerals, oil, gas and other non-regenerative resources, expenditure on research and development and goodwill (IAS 4; para. 1).

The main requirements of IAS 4 are that "[T]he depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset" and that "the depreciation method used should be applied consistently from period to period" (IAS 4; paras. 13-14).

IAS 4 also requires companies to disclose:

(a) the depreciation methods used;

(b) the useful lives or depreciation rates;

(c) the total depreciation for the period;

(d) the gross amount of depreciable assets; and

(e) the related accumulated depreciation.

IAS 4 supports the view that depreciation is an allocation of cost and not a form of valuation when it states that "depreciation should be charged in each accounting period on the basis of the depreciable amount irrespective of an increase in the value of the asset"(para. 4). This statement clearly forbids the practice of not providing for depreciation of assets which have increased in value during the relevant accounting period.

Most of the sample companies examined in this analysis appear to have complied with the requirements of IAS 4. [Appendix 4C analyses the depreciation methods and rates of depreciation on a company by company basis.] Table 4.4 shows the methods of depreciation used by the companies in the sample.

Table 4.4
Methods of depreciation used by companies in the sample

Depreciation methods	No. of companies
1. Straight line/equal instalment	42
2. Declining/reducing balance	2
3. Production/output	2
Total(*)	46

(*)Total will exceed the number of companies in the sample as 4 of the companies used more than one method of depreciation

As can be noticed from the preceding table, an overwhelming number of companies (42) used the equal instalment or straight line method of depreciation. Only two companies used the declining or reducing balance methods.

Two of the three companies in the mining sector used the production or output method in which the amount of depreciation is calculated based on the output for the year and the estimated reserves of the minerals in the mine (specifically excluded from IAS 4).

In addition to the disclosure of the methods used in depreciating the fixed assets, all of the sample companies also disclosed the gross amounts of the fixed assets (original cost or revaluation), the rates used and the amount of accumulated depreciation on its major classes of assets together with the amount of depreciation charges for the year. These disclosures complied with the requirements of IAS 4.

The compliance with the disclosure requirements of IAS 4 is not surprising as the Ninth Schedule para. 1(f), of the Malaysian Companies Act,requires companies to disclose information regarding the amount and basis of depreciation. Although the Act does not specifically dictate the methods of depreciation to be used, it does require detailed disclosure on the depreciation policies of the companies.

Not all of the companies, however, complied with every requirements of IAS 4, for example:

1) A company dealing with properties did not provide depreciation on leasehold land. Despite the fact that the amount of leasehold land and building was quite substantial (although no separate value for land is given - only the total for land and building was given). No explanation was given for the lack of depreciation. The fact of non-compliance with IAS 4 was, however, disclosed in the financial statements.

2) A large trading company did not provide depreciation on leasehold land having an unexpired lease period of more than fifty years. The reason given was that the non-amortisation of such leases had no material effect on the accounts (although no figures were disclosed). This departure from the requirements of IAS 4 was disclosed in the financial statements.

3) An induatrial company did not provide depreciation on long leasehold land. It did not even define what is meant by "long leasehold" and no explanation for the departure was given. Also the non-compliance with IAS 4 was not disclosed in the financial statements.

4) Another industrial company did not provide for depreciation on buildings on freehold land, a clear departure from the recommendation of IAS 4. The reason given for not complying with this standard was that "it is not practicable to segregate the cost of the buildings from the total costs [i.e. total costs of land and buildings]. Another reason given was that the directors of the company "do not consider that this departure will have a material impact on the results of the Group". The non-compliance with IAS 4 was however, disclosed in the financial statements.

5) A company dealing with agricultural machinery did not provide depreciation on leasehold land with a lease period in excess of fifty years. No reason was given and the departure from the requirement of IAS 4 was not disclosed in the financial statements.

6) A heavy machinery company - Leasehold land with unexpired lease terms over 99 years were not depreciated. No explanation was given and this non-compliance with IAS 4 was not stated in the accounts. Unlike the above companies, leasehold land with unexpired leases between 50 and 98 years was amortised over the life of the lease.

7) A company dealing with real estate did not amortise leases which have an unexpired term in excess of of fifty years. The reason stated was that it did not have a material effect on the accounts. The non-compliance with IAS 4 was, however, disclosed in the accounts.

8) A property development company did not provide depreciation on the "shophouse, apartment and residential house" nor was there any explanation given although the non-compliance with IAS 4 was disclosed in the accounts.

The examples above show that some companies do not comply with all the requirements of IAS 4.

The majority of the cases of non-compliance relate to leasehold land with unexpired leases of over 50 years and the main reason given for non-compliance was that the amount involved was immaterial and would not affect the accounts of the companies concerned.

As a summary to this section, the majority of the companies in the sample appear to have complied with the major requirements of IAS 4. The companies gave detailed cost figures relating to the fixed assets such as the original cost (or valuation), the amount of accumulated depreciation, the current depreciation charges, the methods of depreciation used and the rates of depreciation for the major classes of assets owned. However, there was evidence of non-compliance with IAS 4 in relation to the amortisation of leasehold properties. There was some evidence of non-amortisation of leasehold property and also of non-disclosure of the departure from the requirements of IAS 4.

4.10 IAS 5 - Information to be Disclosed in Financial Statements

This standard deals with "information to be disclosed in financial statements which include a balance sheet, an income statement, notes, and other statements and explanatory material which are identified as part of the financial statements" (IAS 5; para. 1).

The standard states that in order for users to make informed judgement, the information to be disclosed, will often extend beyond the minimum necessary to meet the requirements of local statutory regulations. In other words, the statement implied that the statutory disclosure requirements, e.g. those required under the Companies Act, are not sufficient for the needs of the users.

Briefly, IAS 5 requires " all material information to be disclosed that is necessary to make the financial statements clear and understandable" (IAS 5; para. 6). The remainder of the standard deals with details of the types of information to be disclosed in the Balance Sheet and Profit and Loss Account contained in the annual reports of companies. The requirements of IAS 5 are similar to that of the Ninth Schedule of the 1965 Companies Act (see Appendix 1). Since the requirements of this IAS is general in nature, the detailed findings are discussed in the relevent preceding and following sections.

4.11 <u>IAS 7 - Statement of Changes in Financial Position</u>

IAS 7 requires that a Statement of Changes in Financial Position be "included as an integral part of the financial statements" and that this statement "should be presented for each period for which the income statement is presented" (IAS 7, para.22).

IAS 7 also stresses that the Statement of Changes in Financial Position is useful in improving understanding of the operations and activities of an enterprise for the reporting period (IAS 7, para. 2).

The standard also specifies that funds provided from, or used in the operations of an enterprise be shown seperately in the Statement of Changes in Financial Position separately from other sources or uses of funds. Unusual items which are not part of the ordinary activities of the enterprise should be separately disclosed in the statement. The above separation "improves the usefulness of the financial statements" (IAS 7, para.6).

The 'lowest common denominator' approach of the International Accounting Standard Committee can be seen in the recommendation concerning the treatment of acquisition or disposal of subsidiaries in the Statement of Changes in Financial Position. The standard states that the acquisition or disposal of subsidiaries may be presented in the statement either as a single amount, or the amounts of the individual assets and liabilities acquired or disposed of may be included with the separate sources and uses of funds of each asset and liability dealt with in the statement (IAS 7, para. 16).

Since Para (4) of the Ninth Schedule of the Companies Act also lays down the requirement that companies should prepare a Statement of Changes in Financial Position, it was found that all of the companies in the sample provided the statement.

4.12 IAS 8 - Unusual and Prior Period Items and Changes in Accounting Policies.

IAS 8 explains and specifies the accounting treatment for unusual items, prior period items and changes in accounting policies and estimates. The statement provides the following definitions:

(a) Unusual items are gains or losses that derive from events or transactions that are distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly

(b) Prior period items are charges or credits that arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

(IAS 8, para.3)

The standard recommends that " unusual items be included in net income; the nature and amount of each such item should be separately disclosed (IAS, para. 18). IAS 8 allows two alternative methods for the treatment in the accounts of prior period items and the amount of adjustments resulting from changes in accounting policies. Methods to be used are either to:

(a) adjust the opening retained earnings in the financial statements for the current period and adjust the comparative information in respect of prior years, or

(b) separately disclose in the current income statement as part of net income.

The use of either method must be accompanied by comprehensive disclosure relating to the relevant items (IAS 8, para. 19).

IAS 8 explains the limited circumstances under which a change in an accounting policy should be made:

> The adoption of a different accounting policy is
> (a) required by statute, or
> (b) by an accounting standard setting body, or
> (c) if the change would result in a better presentation of the financial statements of an enterprise.
>
> (IAS 8, para. 20).

All of the companies that disclosed extraordinary items had charged these items to the Profit and Loss Account after the 'profit after taxation' figure. Additional information on the extraordinary items were then disclosed in the notes accompanying the accounts. Because this analysis was based only only on the latest annual reports supplied by the companies, it is not possible to discover whether there were undisclosed extraordinary items.

Twenty one out of the 44 companies in the sample revealed some items as extraordinary. The distribution of extraordinary items disclosed is shown in Table 4.5.

Out of the 44 companies in the sample, eight reported prior period adjustments, all of which were related to changes in accounting policies, as shown in Table 4.6.

Table 4.5

Extraordinary items disclosed in the sample of companies

Extraordinary items	No. of companies
(a) Provision for diminution in value of investment	11
(b) Profit/loss on sale of land/properties	11
(c) Gain on sale of investment	6
(d) Profit/loss on sale/disposal of branches, associated and subsidiary companies	6
(e) Closure and retrenchment costs	5
(f) Gain/loss on compulsory acquisition of land by the government	3
(h) Amortisation/writing off goodwill	3
(i) Unauthorised payment	1
(j) Abortive acquisition expenses	1
(k) Associated company loss arising on voluntary acquisition	1
(l) Refund of real property tax	1
(m) Takeover defence expenses	1

The companies that revealed prior period adjustments in the sample had all adjusted their current and prior years reported profits as recommended by IAS 8. The alternative treatment of charging these items to the current year's profit only was not used by any of the companies affected.

Table 4.6
Analysis of prior period items
in the sample companies

Prior period items	No. of companies
Changes in accounting policy relating to:	
(i) Taxation (Deferred)	4
(ii) Stock valuation	2
(iii) Foreign currency conversion	1
(iv) Recognition of rental income	1

In summary, the companies in the sample that disclosed extraordinary items and prior periods adjustments, followed the reporting and disclosure practices as recommended by IAS 8.

4.13 IAS 9 - Accounting for Research and Development Activities

IAS 9 sets out the accounting policy for research and development expenses. The statement recommends that research and development costs should be charged as an expense of the period in which they are incurred.

However, if all the following conditions are met, these costs may be deferred and allocated on a systematic basis to future accounting periodss:

(a) the product or process is clearly defined and the costs can be separately identified;

(b) the technical feasibility of the product or process has been demonstrated;

(c) the management has indicated its intention to produce and market or use the product or process;

(d) there is a clear indication of a future market for the product or process or its usefulness to the enterprise can be demonstrated; and

(e) adequate resources are available to complete the project and market the product or process.

(IAS 9, para. 17)

Under the disclosure requirements of IAS 9, the total of research and development expenditure, including amortisation of deferred development costs charged as expense should be disclosed (IAS 9 para.23).

Only four out of 44 companies in the sample disclosed expenditure on research and development. These companies have adopted a variety of approaches in accounting for research and development, as follows:

(a) An engineering and construction firm:- Research and development expenditure are capitalised as and when incurred and amortised over a minimum period from which benefits can be foreseen. The company however did not disclose the length of the minimum period nor did it disclose the basis of amortisation. Although the treatment was clearly not in accordance with the recommendations of IAS 8, the departure was not disclosed in the accounts.

(b) Another engineering company- The only information provided in the financial statements relating to research and development expenditure appeared as an asset in the Balance Sheet. The company policy for expensing the costs of research and development was not disclosed in the financial statements,nor was the amount of amortisation,if any, reported or disclosed in the Profit and Loss Account or in the notes to the accounts. No other information concerning this item was available in the accounts.

(c) A heavy machinery company - The company had adhered to the requirements of IAS 9. All research and development expenditure was charged to the Profit and Loss Account in the year in which it was incurred.

(d) A plantations company - This company had complied with the recommendations of IAS 9. Its research and development expenditure was charged to the Profit and Loss Account in the year in which the expenditure was incurred.

As can be seen from the above examples, the treatment of research and expenditure was not uniform. Two companies departed entirely from the recommendations of IAS 9, while the remaining two faithfully followed the recommendations and disclosure requirements of this standard.

4.14 IAS 10 - Contingencies and Events Occurring After the Balance Sheet Date.

IAS 10 deals with the accounting treatment of contingent losses and gains and events occurring after the Balance Sheet date. IAS 10 defines a contingency as a "condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or the non-occurrence, of one or more uncertain future events" (IAS 10, para. 3).

Contingent liabilities such as guarantees, obligations arising from discounted bills of exchange and similar obligations are recommended to be disclosed by way of a note in the financial statements. IAS 10 also recommends that any contingent losses that will be confirmed in the future, or that a reasonable estimate of the amount of the resulting loss can be made should be charged to the Profit and Loss Account. By contrast, contingent gains should not be recognised in the accounts but should be disclosed by way of a note to the accounts (IAS 10, paras.34&35).

Events after the Balance Sheet date are defined as "those events, both favourable and unfavourable, that occur between the Balance Sheet date and the date on which the financial statements are authorised for issue" ; (IAS 10, paras. 3 & 30).

Furthermore, IAS 10 requires the following information to be disclosed:

(a) the nature of the contingency or post Balance Sheet event;

(b) uncertain factors that may affect the future outcome; and

(c) an estimate of the financial effect, or a statement that such an estimate cannot be made.

(IAS 10,paras. 33 & 34)

A detailed analysis of the contingencies and post Balance Sheet events is given in Appendix 4D. Of the 44 companies in the sample, 31 companies disclosed items of contingencies. An analysis of these items is given in Table 4.7.

The majority of contingent liabilities disclosed were those relating to guarantees given to third parties or to its subsidiaries and associated companies for overdrafts, loans and other financial facilities from banks and financial institutions.

Table 4.7
Contingencies disclosed in the financial statements of the sample companies.

Contingency items	No. of companies
1. Guarantees to banks	29
2. Bills discounted	3
3. Claims against companies	7
4. Claims by employees	2
5. Tax	4

Ten of the companies in the sample disclosed post Balance Sheet events as shown in Table 4.8 (see also Appendix 4D).

The most frequently disclosed post Balance Sheet events (Table 4.8) were those relating to offers made to acquire a new subsidiary company or increasing the amount of investment in existing subsidiary or associated companies. Other post Balance Sheet events disclosed included the company's restructuring plans and the charging of assets to obtain loans from banks and other financial institutions.

Table 4.8
Post Balance Sheet events disclosed by companies in the sample.

Post Balance Sheet event	No. of companies
1. Offer to acquire a company	8
2. Company restructuring	3
3. Redemption of preference shares	1
4. Bonus issue	2
5. Charge on an asset to secure a loan	3

4.15 IAS 11 - Accounting for Construction Contracts

IAS 11 deals with accounting for construction contracts in the financial statements of contractors. The statement explains that the feature which characterises a construction contract for the purpose of the standard is that the date at which the contract activity is entered into and the date when the contract activity is completed fall into different accounting periods (IAS 11, para. 3). Examples of such contracts are the construction of bridges, dams, ships, buildings and complex pieces of equipment.

The principal problem relating to accounting for construction contracts is, therefore, the allocation of revenues and related costs to a number of accounting periods over the duration of the contract.

Construction contracts are formulated in a variety of ways, but generally fall into two basic types:

(a) fixed price contracts - the contractor agrees to a fixed contract price, or rate, in some cases subject to cost escalation clauses.

(b) cost plus contracts - the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

(IAS 11, para. 6)

Two methods of accounting for construction contracts are explained in IAS 11: the "percentage of completion" and the "completed contract" methods (IAS 11, paras. 8 & 9).

Table 4.9

Accounting for construction contracts.

Methods used	No. of companies
Percentage of completion	9
Completed Contract	3

Ten companies disclosed the amount of construction work in progress and the cash received and receivable as progress payments. Only two companies did not include such information relating to the contract.

4.16 IAS 12 - Accounting for Taxes on Income.

IAS 12 deals with accounting for the tax expense of the period. The statement recommends that the tax expense for the period should be determined on the basis of "tax effect accounting", which is defined as the methods under which "taxes on income are considered to be an expense incurred by the enterprise in earning income and are accrued in the same periods as the revenue and expenses to which they relate. The resulting tax effects of timing differences are included in the tax expense in the income statement and in the deferred tax balances" (IAS 12, para. 12).

Under the "tax effect accounting methods", the most commonly used methods are described as the deferral and the liability methods. Under the deferral method, "the tax effects of current timing differences are deferred and allocated to future periods when the timing differences reverse...... [U]nder this method, tax expense for a period comprises:

(a) the provision for taxes payable, and

(b) the tax effects of timing differences deferred to or from other periods."

(IAS 12, paras 13 & 14)

Under the liability method, "the expected tax effects of current timing differences are determined and reported either as liabilities for taxes payable in the future or as assets representing advance payment of future taxes........the tax expense for the period comprises:

(a) the provision for taxes payable;

(b) the amount of taxes expected to be payable or considered to be prepaid in respect of timing differences originating or reversing in the current period; and

(c) the adjustments to deferred tax balances in the Balance Sheet necessary to reflect either a change in the tax rate or the imposition of new taxes."

(IAS 12, paras. 16 & 17)

IAS 12 requires that the method used should be disclosed in the account.

The most common reporting method used by companies in the sample is the liability method for taxation. Table 4.10 provides a breakdown of tax methods used by companies in the sample. Detailed company by company analysis is given in Appendix 4E.

Four of the companies in the sample had recently changed their accounting policy relating to accounting for taxes - these companies had began to adopt the deferral method of taxation, as recommended by IAS 12. This change in accounting policy was duly noted in the accounts of the individual companies and the effects of the change in accounting policies were reflected by the companies as a prior years adjustment.

Table 4.10
Methods used in accounting for taxes on income by companies in the sample.

Tax methods used	No. of companies
1. Liability method	36
2. Deferral method	8
Total	44

4.17 IAS 13 - Presentation of Current Assets and Current Liabilities

IAS 13 deals with the meaning and presentation of current assets and current liabilities in financial statements. The standard requires an enterprise to determine whether or not to present current assets and current liabilities as separate classifications in its financial statements. When such distinction is made, then the provisions of IAS 13 are applicable (IAS 13, para.19).

In explaining the purpose of the standard, IAS 13 explains that there are two views concerning the classification of assets and liabilities into "current" and "non-current":

> (a) as being intended to give an approximate measure of an enterprise's liquidity; and
>
> (b) as providing an identification of those resources and obligations of the enterprise that are continuously circulating[50].
>
> (IAS 12, para.4)

Although these two views are to a certain extent incompatible (IAS 13, para. 5), the standard is intended "only to harmonise practices followed by enterprises that choose to identify current assets and liabilities in their financial statements" (IAS 13, para. 18).

IAS 13 thus contains lists of items to be included in the current assets and current liabilities section of the Balance Sheet (IAS 13, paras. 21 & 22).

The details in the lists are similar to those of <u>IAS 5 Information to be Disclosed in the Financial Statements</u> and the requirements of the Ninth Schedule of the Malaysian Companies Act.

Given the many similarities between IAS 13 and the statutory requirements of the Companies Act, it was not surprising that all of the companies in the sample appeared to have complied with this standard.

Under the percentage of completion method, revenue is recognised as the contract activity progresses. The costs incurred in reaching the stage of completion are then matched with the revenue received, resulting in the reporting of results which can be attributed to the proportion of work completed.

Under the completed contract method, revenue is recognised only when the contract is completed or to a large extent completed. Costs and progress payments received are accumulated during the course of the contract but revenue is not recognised until the contract is completed.

Companies are also required to disclose the following information in the financial statements:

> (a) the amount of construction work in progress,
> (b) cash received and receivable as progress payments, advances and retentions, and
> (c) the amount receivable under cost plus contracts not included in construction work in progress
>
> (IAS 11, para. 43)

Of the 44 companies in the sample, 12 companies indicated in the financial statements that they were involved with some form of construction contracts. The analysis of the financial statements of these companies showed that the majority (9 out of 12 companies) used the "percentage of completion" method of accounting for construction contracts (see Table 4.9).

4.18 IAS 14 - Reporting Financial Information by Segment

IAS 14 deals with the reporting of financial information by segments of an enterprise, i.e. the different industries and the different geographical areas in which the enterprise operates. The standard applies to enterprises "whose securities are publicly traded and to other economically significant entities" i.e, those enterprises whose "levels of revenues, profits, assets and employment are significant in the countries in which their major operations are conducted" (IAS 14, paras. 1 & 2).

For each of the industry and geographical segments reported, the following financial information should be disclosed:

(a) sales or other operating revenues, distinguishing between transactions within the enterprise and external customers;

(b) segment result,

(c) segment assets employed; expressed in money amounts or as percentages of the consolidated totals; and

(d) the basis of inter-segment pricing.

(IAS 14, para. 22)

One problem with the interpretation of IAS 14 is with identifying "the economically significant entities". Based on the annual reports, only 8 out of the 44 companies in the sample disclosed segmental information. There may be more companies in the sample which could be described as "economically significant entities but they did not disclose any segmental information. Three companies disclosed in the accounts their non-compliance with IAS 14 (see Table 4.11). A company by company analysis is given in Appendix 4F.

Table 4.11
Segment information disclosure by companies in the sample.

	No. of companies
Segment information disclosed	8
Non-compliance disclosed	3
No information given	36
Total	44

Seven of the eight companies which disclosed segmental information complied with the requirements of IAS 14; i.e. they disclosed segmental sales, segment results and segment assets employed. One company, New Straits Times Berhad, disclosed only its segmental operations, but did not disclose other segmental information as required under IAS 14.

4.19 IAS 15 - Information Reflecting the Effects of Changing Prices

IAS 15 deals with information reflecting the effects of changing prices on the measurements used in the determination of an enterprise's results (IAS 15, para. 1).

Even though the Malaysian Association of Certified Public Accountants (MACPA) adopted the standard, implementation had been deferred "until the continuing uncertainties and arguments over the proper approach to inflation have been resolved internationally" (Phenix,1986).

As a result, none of the financial statements of the sample companies that were examined contained information relating to the effects of changing prices.

4.20 IAS 16 - Accounting for Property, Plant and Equipment

IAS 16 is similar to IAS 13 in that it supplements and expands the requirements of IAS 5 - Information to be Disclosed in Financial Statements. However, IAS 16 deals specifically with the accounting and disclosure treatment for land and buildings, machinery, equipment, fixtures and fittings and vehicles. IAS 16 excludes assets such as forests, mining land, expenditure on real estate development and leasehold assets (IAS 16, paras. 1, 3 & 5)

IAS 16 requires that the gross carrying amount of an asset included in property, plant and equipment should be shown either at historical cost or at a revaluation (IAS 16, paras. 36).

Gains or losses on the disposal of the assets which are carried at cost should be reflected in the Profit and Loss Account. In the case of revalued assets the difference between the net disposal proceeds and the net carrying amount should be charged or credited to the income statement (IAS 16, para.49).

In addition to the above, IAS 15 requires the following items to be disclosed:

(a) the bases use for determining the gross carrying amount of property, plant and equipment;and

(b) in cases where the above assets are stated at revalued amount, the method adopted and frequency of revaluations, the nature of any indices used in the revaluation, the year of appraisal and whether an external valuer was involved.

(IAS 16, para. 50)

Out of the 44 companies in the sample, a large majority (39) accounted for their property, plant and equipment on a combination of cost and valuation bases. Only five companies valued these assets solely on a cost basis.

Of the 39 companies which showed the amount of property, plant and equipment at cost and valuation, only 17 companies disclosed the methods of valuation used in revaluing the assets. The majority of the 39 companies indicated in the accounts that the assets that were revalued consisted of freehold land and buildings or leasehold land and buildings. Only two companies indicated that the revaluation involved assets other than land or buildings.

The majority of the 39 companies also disclosed the year the valuation took place and indicated in the accounts the use of external valuers in arriving at the valuation of these assets in compliance with the disclosure requirements of IAS 16 (see Table 4.12).

Table 4.12

Valuation disclosures by companies in the sample.

	No. of Companies Disclosing	No. of Companies not disclosing
1. Methods of valuation	17	22
2. Year of valuation	37	2
3. Use of external valuer	32	7

The most common disclosure method used by 9 companies, was the 'existing use' method followed by followed by the 'open market' method of valuation (see Table 4.13 below).

Table 4.13

Valuation methods used by companies in the sample.

Valuation Methods	No. of Companies(*)
1. Existing use method	9
2. Open market method	8
3. Cost method method	2
4. Contractors method	2
5. Sales comparison method	2
Total	23

[(*)The total will exceed the number of companies disclosing the methods of valuation used, as 5 of the companies used more than one method.]

A detailed analysis of the valuation disclosures of companies in the sample is given in Appendix 4G.

The majority of the companies in the sample used the cost and valuation bases in determining the carrying amounts of property, plant and equipment in the balance sheet. However, only about a third of the sample companies disclosed the methods of valuation as required under the disclosure requirements of IAS 16.

4.21 IAS 17 - Accounting for Leases

IAS 17 deals with the accounting treatment of leasing from the point of view of both the lessees and lessors. The standard classifies leases according to the extent to which risks and rewards of ownership of a leased asset lie with the lessee or lessor. IAS 17 also brings to bear the principle of 'substance over form' in the classification of leases as it states that "[W]hether a lease is a finance lease or not depends on the substance of the transaction rather than the form of the contract......A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership.....A lease is classified as an operating lease if substantially all the risks and rewards incident to ownership are not transferred" (IAS 17, para. 5).

Under the disclosure requirement of the lessee, IAS 17 recommends that the amount of assets that are subjected to "finance lease" be shown separately. Liabilities relating to these leased assets should also be shown separately from other liabilities, differentiating between the current and long term portions of the liability. Commitments for minimum lease payments, financing restrictions, renewal or purchase options, contingent rental and other contingencies should also be disclosed in the financial statements (IAS 17, paras. 57-59).

Lessors are required to disclose at each balance sheet date the gross investment in leases reported as finance lease and the related unearned finance income and residual values of the leased assets. Disclosure should also be made of the basis used for allocating income. For lessors with operating leases, the amounts of each major class of assets and the related accumulated depreciation should be disclosed (IAS 17, paras. 60-62).

It was difficult to determine whether all the sample companies had complied with the requirements of IAS 17 unless the accounting policy relating to leased assets were also disclosed in the financial statements. Out of the forty four companies in the sample, 15 companies indicated that they were involved in some sort of leasing activities. For a detailed analysis please see Appendix 4H.

The amount of information disclosed by these fifteen companies regarding their leasing activities varied from company to company. Four of the companies provided comprehensive information such as the accounting policy relating to leased assets, the amount of leased assets capitalised or the amount of leased rental receivable and the amount of lease obligations payable. The four companies also differentiated the lease obligations into current and long term portions of liabilities. Based on the amount of information disclosed, these four companies had complied with the requirements of IAS 17.

For the remaining eleven companies, the amount of information disclosed regarding their leasing activities was very scanty. This information was found in various parts of the financial statements such as the profit and loss accounts and under different headings in the notes to the accounts sections No further information was disclosed such as whether these were operating or finance leases, whether these assets had been capitalised and the accounting policy regarding the leased assets was disclosed.

4.22 Other Information Disclosed

Even though the MACPA had adopted IAS 1 -17 as of July, 1986, it is clear from the examination of the financial statements of companies in the sample that many of them had also included and disclosed information additional to that discussed in the preceding sections.

Table 4.14 shows a summary of the types of information disclosed and the number of companies disclosing them (detailed analysis is given in Appendix 4I).

International Accounting Standards already exist to cover items 1 (IAS 21), 5 (IAS 19) and 7 (IAS 24) but these IASs had not yet been formally adopted by the MACPA.

Table 4.14
Other information disclosed by companies in the sample

Information	No. of Companies
1. Foreign currency translation	38
2. Earnings (loss) per share	37
3. Capital Commitments	35
4. List of twenty largest shareholders	32
5. Employees' retirement benefits	26
6. Five or more years financial summary	23
7. Related parties disclosures	16

4.23 Summary and Conclusions

The financial statements in the annual reports of the sample of 44 companies were analysed based on the requirements of the International Accounting Standards that were adopted by the MACPA, that is IAS 1 to IAS 17. Bearing in mind the limitations of this examination (see section 4.4), the main conclusions are as follows:

(1) It was found that because of the absence of any statutory formats, the Balance Sheet and Profit and Loss Accounts of the companies in the sample showed a great deal of diversity in the presentation of financial information. The attempts by the MACPA to introduce a standard format does not appear to be successful as few companies in the sample appeared to follow it.

(2) It was also found that compliance with the International Accounting Standards that were adopted by the MACPA varied greatly; from company to company and from standard to standard:

(a) Those standard that were seen to be complied with, almost in their entirety, were those standards that co-incided with the regulations and requirements of the 1965 Malaysian Companies Act.

(b) For International Accounting Standards other than the above, compliance with the requirements was mixed, since complying with these requirements is not compulsory.

(c) It was also observed in the course of the examination, that prominent companies and companies with international links tended to comply to a greater degree with the IAS than the smaller companies listed on the stock exchange.

(3) The analysis of the annual reports also revealed that many companies in the sample had started adopting IAS that had not yet been formally adopted by the professional accounting bodies in Malaysia. This indicated that the professional accounting bodies in Malaysia have been slow in assessing and formally adopting the new IASs.

(4) Finally,the variability in complying with the IASs by companies in the sample clearly indicated that the Malaysian accounting profession had problems in enforcing these International Accounting Standards.

The variability in complying with the IASs by companies in the sample is quite unexpected. This is because these standards could be considered as 'loose' in that the International Accounting Standards Committee (IASC) allows the use of alternative, and sometimes, conflicting methods in dealing with topics covered by the IAS. The flexibility in the standards is as a result of the 'least common denominator' approach, i.e. the standards are based on existing practices in the developed countries.

Also, given the flexibility of the IAS, the cost of complying with these standards should have been comparatively low, in comparison with, for example, the more detailed SSAPs of the United Kingdom and Ireland.

Based on the above analysis and observations of current accounting and disclosure practices of the companies in the sample, the following matters were raised in the questionnaire used in the survey of the investment analysts:

(a) Ten specific figures appearing in the financial statements were chosen based on:

(i) those showing the greatest divergence from compliance with the relevant IAS;

(ii) the requirements of the IAS which allow alternative treatments; and

(iii) the potential of the items to affect reported profits in the financial statements as a result of different accounting treatments.

Investment analysts were asked to indicated the the extent of adjustments which they performed on the ten items (see the questionnaire in Appendix 5, Part 1, Question 4):

(1) Annual depreciation
(2) Asset valuations
(3) Extraordinary items
(4) Inventory valuations
(5) Taxation
(6) Intangible assets such as goodwill
(7) Earnings per share
(8) Leased assets
(9) Exchange rates changes
(10) Investments

(b) Analysts were also asked to express their opinions regarding the following matters (part 1, questions 7(a) and 9) :

(1) greater enforcement of IAS and Malaysian Accounting Standards by the professional accounting bodies; and,
(2) mandatory compliance with IAS and MAS by making these standards legally binding;

In subsequent chapters, the results of the analysis, which were used in framing part of the questionnaire, were again analysed and discussed in the context of the role of the company annual reports in investment analysis in Malaysia.

CHAPTER V

INVESTMENT ENVIRONMENT IN MALAYSIA

5.1 Introduction

In this chapter, the investment environment in Malaysia is introduced as a prelude to the questionnaire survey carried out on the investment analysts. As was stated in Chapter I, there is an active but small stock market in Malaysia: the Kuala Lumpur Stock Exchange. Compared to stock exchanges in the developed countries, the KLSE is very small. However,the stock exchange is important to the economic development of Malaysia as it is the major channel for private sector funds to the companies listed on the stock exchange. In the current chapter,the development and activities of the KLSE are described. An examination is also made of research into the efficiency of the KLSE. Finally, sources of investment information in Malaysia are also described.

5.2 The Kuala Lumpur Stock Exchange.

Stock and share brokers have operated in Malaysia since the late 19th century, providing facilities for the trading of corporate shares of businesses operating in the region (Bank Negara Malaysia (1985). The public trading of stocks and shares, however, was not undertaken until the middle of

1960, when four stockbrokers undertook limited stock exchange activities with the encouragement of the Central Bank.

This small group formed the nucleus of a stock exchange and in the same year, the brokers association was organised to become the national Malayan Stock Exchange. The Malayan Stock Exchange was subsequently reorganised and re-named the Stock Exchange of Malaysia in 1963 and the Stock Exchange of Malaysia and Singapore in 1965. In 1973, the Stock Exchange of Malaysia and Singapore was split into two separate institutions, the Singapore Stock Exchange and the Kuala Lumpur Stock Exchange (KLSE) with each exchange retaining listing of all companies originally listed on the joint exchange (Rowley, 1987, p.162).

Common to the experience of many young and small stock exchanges throughout the world, the early years of the KLSE were marked by widespread interest and excessive speculation in share prices. Although some element of speculation was necessary in the development of a viable stock market, the Central Bank was primarily concerned with the predominance of widespread and excessive speculative activity. In order to protect the investing public, stricter rules regarding delivery of scrips, the formation of a regulatory body to supervise the activities of the Exchange, the enactment of the Securities Industries Act and the strict compliance with the rules for share trading were introduced (Bank Negara Malaysia, 1984 pp.357-359)

In August 1965, the Companies Act was enacted to provide a more comprehensive legal framework to supervise the operations of companies in Malaysia. The Act compelled companies to disclose significantly more information than before the implementation of the Companies Act (see Appendix 1 , in which the Ninth Schedule of this Act is compared with the requirements of IAS 5). These requirements were imposed on companies in order to protect the investing public and promote the growth of a private body of investors.

In 1973, another important legislation was passed relating to the regulating of the KLSE, the Securities Industries Act. This Act, provides legal authority for the Government to curb excessive speculation, insider trading (also prohibited under the 1986 revision of the Companies Act) share rigging and other forms of market manipulation. This Act was superceded by a new Securities Industries Act of 1983. This new act provided for tighter enforcement of the rules regulating the operations of the dealers in order to prevent false trading and market rigging transactions.

From its modest beginnings as a group comprising of only four stockbrokers in 1960, all of whom were centred in Kuala Lumpur, the KLSE had by

January, 1987, 50 member firms based in the major towns in Malaysia. The number of companies listed in the exchange had also increased from 138 companies with a paid up capital of M$708 million (Bank Negara Malaysia, (1984) p.359) to 286 companies with a total paid up capital in excess of M$110 billion (US$43 billion) by early 1987 (Investors Digest, KLSE, February, 1987, and Tables 5.1 & 5.2 below).

Table 5.1
Comparison of the size of the Kuala Lumpur Stock Market with other Stock Markets in Asia

Country	Market Capitalisation (US$ Billion) 31st August, 1987
Japan	2,067.00
Hong Kong	78.69
Singapore	49.26
Malaysia	43.08
Thailand	4.95
Phillippines	3.67

Source: Far Eastern Economic Review, 24 September, 1987, pp 84

As can be seen from Table 5.1, the KLSE is indeed small, both in terms of the number of companies listed and market capitalisation when compared to those in the developed countries (the market capitalisation of the companies in the KLSE is about 2% of the Japanese stock Market).

Even though the KLSE is small, it still has a crucial role in the economic development of Malaysia, especially in its role of marshalling and allocating funds for new investment in Malaysia. Being a small stock market, it is susceptible to problems not encountered in the larger stock exchanges. For example, the collapse of one,albeit large,company (Pan-Electric) in late 1986, has lead to the closure of the KLSE for several days.

A characteristic of the Malaysian companies is that the number of shares issued is large(183 of the Malaysian companies listed in the KLSE issued a total of 20 billion shares) (Rowley (19870 p.163). This large number of shares is due to the low par value.

Table 5. 2 shows wide fluctuations in the number and value of shares traded from year to year on the KLSE, even after taking into account the differences in the number of listed companies. Although such fluctuations in trading volume are not unknown in the developed stock exchanges, the swings in the trading volume of the KLSE is far greater. For example, Table 5.2 shows considerable fluctuations in the value of shares traded from 1985 to the first half of 1987.

In terms of volume and value, turnover on the KLSE was dominated by trading in industrials, which accounted for between 70-80 per cent of total turnover, trading in the shares of rubber, tin and palm oil

Table 5.2

Total number of companies listed and turnover on the KLSE 1982-1986

Year	No. of Companies	Turnover Volume (million)	Turnover Value (M$million)
1974	264	391	723
1975	268	617	1,306
1976	264	432	1,011
1977	256	598	1,048
1978	253	1,107	2,539
1979	253	638	1,641
1980	250	1,482	5,600
1981	253	1,636	8,059
1982	261	1,066	3,253
1983	271	2,276	7,934
1984	281	1,852	5,714
1985	284	2,869	6,174
1986	287	2,289	3,369(*)
Jan/Aug 1987	290	3,904	7,523(*)

Sources: (i) Vickers da Costa, Investing in Malaysia and Singapore, (1986).

(ii) (*) compiled from: KLSE, Investors Digest, companies accounted for about 10-12 percent of total turnover, hotels and properties accounted for about 10-15 percent and and the balance is accounted for by trading in the shares of financial institutions.

Rowley (1987)stated that traditionally, private shareholders in Malaysia had accounted for as much as 60 to 65% of total holdings. Earlier estimates had suggested that only 20% were in the hands of investment companies such as the state-run National Equity Corporation and pension funds such as the Employees Provident Fund. The merchant banks and insurance companies were estimated to hold a further 10-15% and foreign investors around 5%. However, Rowley revealed that by the beginning of 1985, institutional holdings of Malaysian shares had reached under a half (47.8%) of total holdings, while individual holdings represented about 25% and the balance of another 25% by nominee holdings (Rowley (1987) p.190).

Therefore, because of the growing importance of the institutional investors to the investment sectors, investment analysts working in these organisations were to be examined in a questionnaire survey (Chapter 6).

The preceding paragraphs have shown that the Malaysian government and its regulatory agencies together with KLSE , had introduced a whole set of regulations to ensure the proper running of the exchange, as well as to protect the interest of the investing public.

Table 5.3

Ownership of a representative sample of 128 Malaysian companies as at 31st December, 1984.

	Industrial	Finance	Hotels	Property	Rubber	Oil Palm	Tin	Total
No. of Companies	79	8	6	8	13	8	5	128
(1) Individual Shareholding % Of Total Market Shares	15.47	4.18	0.25	1.59	1.67	1.18	0.10	24.44
(2) Institutional Shareholdings % Of Total Market Shares	24.78	6.50	1.38	4.12	4.08	6.65	0.30	47.79
(3) Nominee Shareholdings % Of Total Market Shares	14.73	5.00	0.95	1.82	1.50	2.03	0.04	26.07

Source:Rowley, A; Asian Stock Markets - The Inside Story, Dow Jones-Irwin, 1987 (p.191)

However, these regulations are only effective if they are strictly enforced. In subsequent chapters, it will be shown that enforcement of those rules and regulations relating to the information to be disclosed in company annual reports is an important issue as perceived by investment analysts.

In order for the KLSE to play an effective role in the economic development of Malaysia, it is crucial for the KLSE to be "efficient". In the next section, a survey is provided of published studies on the efficiency of the Kuala Lumpur Stock Exchange.

5.2.1 Research into the Market Efficiency of the KLSE.

In Chapter 2, the concept of market efficiency and the Efficient Market Hypothesis (EMH) were explained. It was also stated that many studies on testing the EMH had revealed that the major stock exchanges in the developed countries are efficient in the weak and semi-strong forms of market efficiency.

The situation regarding the efficiency of the stock exchanges in the less developed countries, is, however, different. According to Barnes (1986 p.609) studies have shown that exchanges in less developed countries are found not to be efficient although the "findings are varied and not clear cut".

The following authors had carried out studies into the weak and semi strong form of market efficiency of the KLSE : Dawson (1981 & 1987), Lanjong (1981), Neoh (1985) and Barnes (1986).

In his 1981 study, Dawson tested the KLSE for the semi-strong form of market efficiency using published stock recommendations. He found that the KLSE is not efficient in the semi-strong form. His results implies that if an investor were to base investment decisions on published stock recommendation, then it was possible to earn abnormal returns from these stocks. In other words, the stock market has not impounded this information (the stock recommendations) in the price of the stock.

The inefficiency of the KLSE was again confirmed by Dawson (although with certain reservations) in his 1987 study of secondary stock market performance of initial public offerings in the stock exchanges of Hong Kong, Singapore, and Malaysia. He noted that, in contrast to the two other Asian stock markets, the KLSE did not price new issues efficiently. The twenty one new issues in the Malaysian market produced a very large return on the first day, 167 per cent, compared to 14 per cent and 40 per cent for the Hong Kong and Singapore Stock Exchanges respectively, but what is interesting is that over the following year, the upward trend continued but at a reduced rate.

Based on the statistical tests performed, he arrived at a tentative conclusion that the KLSE is inefficient in the secondary market of initial price offerings. He however, stated that "several points must be kept in mind" in viewing his conclusion. Firstly, there was no market index for the KLSE which was representative of the entire market. Consequently, Dawson used the KLSE Industrial Index to obtain market changes, although it was acknowledged that this index may not adequately represent the total market. The second point was that the initial price rise of 167 per cent dwarfs the subsequent secondary market price trend and thus the secondary market changes are remarkably small given the initial underpricing.

Lanjong (1981) tested the KLSE for the weak form of stock market efficiency using serial autocorrelation and runs tests for randomness on the monthly returns of stock prices of 104 companies listed on the KLSE. Based on these tests, he found that the return patterns for the shares of 104 companies are randomly distributed: the previous prices of the shares could not be used to determine their current prices. He therefore concluded that the KLSE was efficient in the weak form.

Barnes (1986) also conducted a study of market efficiency for the KLSE. His study was concerned with market efficiency in stock markets with thin (low volume) trading and he examined the KLSE to see whether this market was efficient in the weak form of market efficiency. A series of weak-form tests were performed on the KLSE (specifically the serial correlation coefficient test, runs test and spectral analysis). Barnes concluded that "it is surprising that for a fairly thin stock exchange, the KLSE exhibited a high degree of efficiency in the weak form" (p.613). He further went on to speculate that the KLSE's role as a major resource allocator was an important contributor to the high rate of economic growth in the Malaysian economy of seven to eight percent during the analysis period (1975-1980)

Neoh (1985) in his comprehensive study, tested the KLSE for both weak form and semi-strong form of market efficiency. He used transaction information (price periodicity, price moving average and relative strength) as the basis of testing the market efficiency, employing the serial correlation and runs tests. He found that the KLSE "appears to be less efficient than the US market overall..(but).. while signs of inefficiency exists, they generally exists for short durations and for individual stocks only..."

In the case of efficiency in the semi-strong form, Neoh tested four types of accounting information: (i) dividend yield; (b) dividend growth; (3) stock splits and (4)earnings forecast error. He found that in the case of stock splits, dividend growth and earnings forecast error, the KLSE shows a greater degree of inefficiency. He therefore concluded that the Malaysian market is less efficient with regard to accounting information being impounded in the share prices. In other words, the KLSE is not efficient in the semi-strong form of market efficiency.

The studies described in this section had therefore shown that the KLSE is efficient in the weak form of market efficiency. Both Neoh and Dawson had found that the KLSE is not efficient in the semi-strong form of market efficiency. An important implication of these studies, especially those relating to the semi-strong form of market efficiency, is that it is possible for a knowledgeable investor to earn excess profits by analysing the publicly available information, including corporate annual reports.

5.2.2 Summary

In this section, the development and characteristics of the KLSE were described. An important feature of the KLSE is that about 50% of the shares are owned by the institutional investors.

The research studies that have been carried out on the efficiency of the KLSE have shown that the KLSE is efficient in the weak form but that it is not efficient in the semi-strong form. An implication of this result is that it is possible for an investor to analyst all publicly available information to earn earn excess returns.

5.3 Availability of Information for Investment Decisions in Malaysia.

In countries such as the United States and United Kingdom, which have long established and developed stock markets, there are many sources of information available for investment decisions. In addition to the highly respected daily publications such as the Financial Times and the Wall Street Journal, there are also specialised investment journals like Barron's or

The Institutional Investor. There also many companies which provide company financial information and examples of such companies are Extel, Standard and Poor and Dun and Bradstreet. There are also companies which provide on-line database services which allow for easy access to company information by computers; for example DataStream in the UK.

There are also research departments in many of the stockbroking firms in the developed countries which carry out research and provide investment advisory services to their clients. Therefore, an investor in these countries should not have any major problem in obtaining information on most of the listed companies in which he is interested in.

In Malaysia, the situation is very different. According to Neoh (1985) "it would be very difficult for a Westerner to conceptualise the degree of unsophistication of the Malaysian stock market in terms of availability and quality of information on investment" (p. 55). The following is a brief review of the sources of investment information (<u>other than company annual reports</u>) in Malaysia:

(a) <u>General Investment Publications</u>

A major source of company information in Malaysia are the business columns of the major daily newspapers, and the one newspaper devoted to business news, The Business Times (structured after publications like the Financial Times). There is also a monthly general business magazine that contain company information namely, "Malaysian Business".

These publications do not have the same degree of prestige and authority as do similar publications in the west. This is probably because investment and business reporting is relatively new in Malaysia. Also, since many of the newspapers and magazines in Malaysia are produced by companies connected with the major political parties in Malaysia, these is a tendency for readers to perceived that these publications may be politically biased.

(b) Publications of the KLSE.

The KLSE produces a monthly magazine, The Investors Digest which contains information such as company reports and announcements. It also provides concise but comprehensive information about the activities of the KLSE such as trading volumes, share prices of the listed companies, yearly and half yearly company reports, basic financial ratios of companies, a record of bonus and rights issues as well as capital changes and details of changes in the Board of Directors of listed companies.

In addition to the Investors Digest, the KLSE also produced a handbook containing financial and other information of all the companies listed in the KLSE. This handbook is a very useful manual of company information. The KLSE library contains a good collection of company information, freely available to members of the KLSE only (non-members have to pay a fee a fee for admission).

(c) Other Sources of Information

Unlike the stockbroking firms in the developed countries very few firms in Malaysia have research and advisory departments (*) and their publications are accessible only to their major clients.

The Malaysian Registrar of Companies is not as efficiently run as that in the UK. It is difficult to obtain company information from this source.

There are also no computerised company databases although Datastream does provide information on a limited number of Malaysian companies. As an

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(*) During the collection of data for this study, it was found that only four stockbroking firms have research departments. Following the implementation of the government's policy of allowing banks to be involved in the stockbroking business (which resulted in the banks purchasing a 4 stockbroking firms), it is expected that a few more stockbroking firms will contain research departments.

example of the difficulty in obtaining share price information, both Lanjong (1981) and Neoh (1985) had to manually develop their databases concerning share prices of Malaysian companies). The public libraries in Malaysia also do not maintain comprehensive company information.

Neoh (1985 p.59) stated that "public companies in Malaysia/Singapore do not normally welcome requests for current or back issues of their annual reports". This difficulty in getting copies of annual reports was experienced during the current study when only 44 companies out of 180 companies complied with the request for their current annual reports (Chapter 5). However, it is reasonable to assume that investment analysts would not face such problems in obtaining company annual reports.

As a summary to this section, the availability of company information for investment decisions in Malaysia is not as extensive as that in the developed countries. There is only one specialised publication for investment information ("Investors Digest"). There are no facilities for obtaining comprehensive company information. Thus, for the investment analysts in Malaysia, the major source of information for investment decisions is the company annual reports.

5.4 Summary

In the current chapter, the investment environment in Malaysia was discussed. The development and features of the KLSE were presented. The KLSE is small in comparison with the established stock exchanges of economically developed countries. At the end of August 1987, only 289 companies were listed in this stock exchange. An important characteristic of the KLSE is that the institutional investors in Malaysia control a large proportion of shares of the companies listed on the exchange. Another characteristic is that the number of shares issued by the listed companies is large because because of small par values.

The sources and availability of information for investment decisions in Malaysia were also described. Sources of information are very limited when compared with the amount of information available in the more advanced countries.

Studies that have been conducted into the KLSE have shown that the stock exchange is efficient in the weak form of the EMH. However, the two studies that had been conducted into the semi-strong form of market efficiency had found that the KLSE was not efficient. According to Solnik (1973) and MacDonald (1973), one of the reasons stock markets in continental Europe are not as efficient as the stock market in the US and UK is because of the looseness of the accounting practices and standards. This conclusion may equally well be applied to Malaysia.

The fact that the stock market in Malaysia is found to be inefficient in the semi-strong form of market efficiemcy has serious implications; one of which is that the annual reports of companies have an important role in investment analysis in Malaysia. The usefulness and importance of the annual reports from the survey of investment analysts are discussed in Chapter 8 of the thesis.

CHAPTER VI

QUESTIONNAIRE METHODOLOGY

6.1 Introduction

The preceding chapters described the rules and regulations under which the annual reports of Malaysian companies were prepared. It was ascertained that the reports were prepared under a combination of rules: the statutory requirements of the Companies Act and the International Accounting Standards adopted by the Malaysian Association of Certified Public Accountants.

In Chapter 4, the analysis of the reports of a sample of companies revealed instances of companies not complying fully with those International Standards adopted by the Malaysian Association of Certified Public Accountants. A review of empirical studies also demonstrated that the KLSE appeared not to be efficient in the semi-strong form of the EMH.

Since the main objective of this research is to examine the role of company annual reports in investment analysis, a survey was carried out among the "sophisticated investors", that is the professional investment analysts in Malaysia.

This chapter concentrates on discussing the methods adopted in carrying out the survey and the processing and analysing of data obtained.

The major sections of this chapter are:

(1) discussion of the research methods considered;

(2) the development, design and pretesting of the questionnaire used in the survey;

(3) sample selection;

(4) statistical methods used in analysing the data;

(5) questionnaire distribution

6.2 Research Methodology

It was stated in the previous chapters that the major objective of the current study is to examine and evaluate the financial statements from the point of view of the "sophisticated" users of these statements i.e. the investment analysts. This section describes the alternative research methods that were considered when planning the survey and the final choice of method chosen to carry out the survey.

In the literature review chapter, the various methodologies used in similar research involving usefulness of information contained in financial statements were described. The two methods that were commonly used in previous studies are interviews and postal surveys.

6.2.1 Interview Method

A number of earlier research projects on the usefulness of information in financial statements have used the interview method, e.g. Lee and Tweedie(1981), Briggs (1975) and Arnold and Moizer (1984).

Howard and Sharp (1985) stated that a major advantage of the interview method is that a "higher quality" of information is obtained. Many questions that could not be included in postal questionnaires, either because of the difficulty of answering them or because the answers could not properly be recorded in the questionnaires, could be included in the interviews. Thus, an interview could be seen as a means of getting a lengthy and complex questionnaire filled in. Interviews are also especially suitable if the number of respondents required is smaller than that in postal surveys.

The interview method allows for greater flexibility and control in the process of questioning and in the context which questions are asked and answers given [Gorden (1969) pp. 52-54 and Hoinville, et al (1978) p. 100]. By using this method, the researcher may be able to expand upon the questions asked in cases where the respondents may be puzzled by a particular aspect of the questionnaire. In other words, the researcher will be able to organise the discussions to fit the needs and understanding of the respondents.

According to Black and Champion (1976 p. 371), other forms of data collection may share certain advantages with the interview but none, offers such a "unique combination of advantages as the interview permits".

There are, of course, several disadvantages associated with using the interview method. One of the major disadvantages, is that, open ended interviews may not be capable of being analysed statistically and thus the analyses of these interviews may be descriptive and narrative in nature. Howard and Sharp (1985) warned that:

> "Thought also needs to be devoted as to how they are to be analysed in the final research report, otherwise the researcher runs the risk of having a wealth of data from a set of individually valuable interviews that collectively are difficult to generalise from and which he cannot afford to repeat.
>
> (page 140)

Thus, a researcher using this technique may end up with a set of opinions of the respondents which it may not be possible to analyse. If the interviews were not properly conducted and analysed, the end result could be seen as only a subjective review of opinions expressed during the interviews.

A potential disadvantage associated with the interview method is the problem of getting the subjects to agree to be interviewed. Since the interview will take a longer time than filling out a questionnaire, the subjects may be reluctant to agree to the interview, especially if they feel that the subject is of no interest to them or if they are apprehensive that the interviewer may not respect a confidentiality pledge.

In the Malaysian context, the above was a major problem experienced by this researcher during the preliminary data gathering stage. Unlike the managers in the United Kingdom (see for example the Lee and Tweedie study on Institutional Investors in which a large majority of the persons they contacted agreed to take part in the interview), the Malaysian managers' attitudes towards research tend to be unsupportive or at worse, negative. As far as the current research was concerned, the willingness of the respondents to be interviewed was of prime importance in deciding upon the research technique to be adopted.

Another major problem associated with the interview relates to the question of biased answers. The subject may be inclined to give answers that he thinks the interviewer wants. According to Black and Champion (1976, p.371), the validity of verbal response during the interview is dubious and a "serious question confronts investigators whether verbal responses can be relied on with any great degree of validity". Related to this is the problem that the interviewer may find it difficult to control the interview, resulting in the interview being directed away from its intended direction. Therefore, the interviewer must possess the necessary skill and, more importantly, the necessary experience before interviews can be conducted.

Interviews also pose the problem of how to record the information being obtained from the respondents (Black and Champion (1976) p.100). There are difficulties with each of the methods used to record the interview. For example, jotting and recording down notes during the interview may distract the respondents. If the notes were written up after the interview, there is a possibility that these notes may contain mistakes, especially after a series of interviews were undertaken. The interviewee may also object to the use of tape recorders.

Other basic problems with the interview technique are : (1) respondents' answers can be distorted by the personal characteristics of the interviewer, or by the way he conducts the interview; (2) interviews usually take more time to complete; (3) an interview takes more time in total because the respondents may be spread over many locations (Hoinville, et al (1978) p. 100) and Black and Champion (1976) pp.371-374).

A major advantage of this method is that, depending on the questionnaire design and sample selection, the data obtained are suitable for analysis using statistical methods. This is especially true of questionnaires using fixed-response questions. The fixed response items are relatively easy to score and code, thus facilitating the use of computers in processing and analysing the data.

The postal questionnaire technique also has the advantage of giving a greater assurance of anonymity [Bailey, (1978) p.135; and Moser and Kalton (1979) p.258]. This is important within the Malaysian context in which the majority of the respondents requested complete anonymity when answering the questionnaire. Since there is no interviewer present who can identify the respondents, they may answer certain questions more willingly and accurately.

The postal questionnaires method also avoids the inherent problems associated with the interview technique; that is interviewer error and bias (Moser and Kalton (1979) p.258). According to these authors, the use of the postal questionnaire method will result in the elimination of several sources of interviewer errors, "which may seriously undermine the reliability and validity of survey results".

There are, of course, several disadvantages in employing this method. According to Howard and Sharp

(1985):

> "The biggest problem with the postal questionnaire is that it is only somewhat tenuously a primary data gathering method. The investigator may have no direct contact with his respondents who may interpret his questions very differently from his intention."
>
> (page 138)

Since there is no direct contact between the researcher and respondents in the postal questionnaire method, there is no opportunity for the researcher to "probe beyond the given answer, to clarify an ambiguous one, to overcome unwillingness to answer a particular question or to appraise the validity of what a respondent said in the light of how he said it" (Moser and Kalton, p.260). In other words, the postal questionnaire is essentially an inflexible method.

Another major problem with the postal questionnaire method is the limitations of asking only simple and straightforward questions. A complex questionnaire format will probably be too confusing for the average respondents. As a result, the questions to be asked in the postal method inevitably have to be short and therefore the quality of the data gathered is potentially more superficial than that which can be collected during an interview (Moser and Kalton, p.137).

Another major criticism of the questionnaire method is the low response rates. The response rates will vary depending on factors such as the length of the questionnaire used, the difficulty in completing the questionnaire and the sample used and other factors. Thus, the researcher must take steps to ensure that response rates be not too low; as "too low a response rate always raises questions of bias" (Howard and Sharp, 1985).

As can be seen from the discussions above, all of the research methods discussed have advantages and disadvantages and therefore no single method is completely satisfactory. Both methods could, conceivably, be used with equal effectiveness in carrying out the survey.

6.2.3. Research Method Used in the Survey.

The choice of which method is the most suitable depends on several factors such as the purpose of the study, the environment and the conditions under which the research project is conducted will dictate the technique to be used. This study was conducted for the following purposes and under the following environment and conditions:

(a) The survey was conducted in Malaysia; as such the attitudes and opinions of the financial community are different from that of the developed countries; in general the financial community do not have as positive and favourable an attitude towards researchers or research projects as their counterparts in the more advanced countries (see for example the response rates for the Lee and Tweedie studies (1977 and 1981) and the difficulties faced by Hamzah (1983) on his disclosure studies in Malaysia.

In order to secure their cooperation in the survey, the method that was considered to be the least disruptive had to be chosen to have any reasonable chance of success. In this researcher's opinion, the postal questionnaire method was the more suitable method to carry out the survey.

(b) The major purpose of the research was to reveal the views of the investment analysts employed by the institutional investors and stockbrokers regarding the importance of annual companies report for investment analysis. It was considered that the organisations would be reluctant to allow access to their employees, especially if the interview method was used as it would take up a lot of the valuable time of these investment analysts.

(c) It was this researcher's experience, during a preliminary interview study, that the paramount requirements for obtaining cooperation of individuals in the Malaysian business community are confidentiality and anonymity; in terms of these two qualities, the postal questionnaire technique was considered superior to that of the interview.

(d) The purpose of this study is to obtain the views of as many investment analysts as possible. It was therefore considered that the use of the interview method would not be practical as it would be too time-consuming.

(e) Though the problem of non-response is considerable when using the postal questionnaire technique (and could not be eliminated completely), there are methods and techniques to reduce the non-response rate; for example by properly designing the questionnaires and using control procedures. These will be discussed in detail in the following sections.

In view of the above factors, it was decided to use the postal questionnaire method to collect data for this study. The interview method was however used as an aid in the preliminary stages of pretesting and conducting of the pilot survey (as described in Section 6.4).

6.3 Questionnaire Design and Development

6.3.1 Questionnaire Design

The above discussions sections concluded that the most appropriate method of data gathering, given the conditions under which the research was undertaken, is the postal questionnaire technique. One of the main problems with the postal questionnaire method is the response rate.

Bailey (1978 9.138) listed ten variables that could affect the number of questionnaires returned:

1. Sponsorship of the questionnaire.
2. Attractiveness of the questionnaire format.
3. Length of the questionnaire.
4. Nature of the accompanying letter requesting cooperation.
5. Ease of filling out the questionnaire and posting it back.
6. Inducements offered to reply.
7. Characteristics of the people to whom the questionnaire is sent.
8. Type of mailing.
9. Time of the week, month, or year when the questionnaire is posted.
10. Nature of follow-up.

The above factors have to be taken into account when designing the questionnaire, in order to secure a high response rate to the postal survey. Black and Champion (1976 p.396) considered that out of the above factors, three are most important: questionnaire length, questionnaire content and anonymity.

According to Black and Champion (1978 p.396), a common belief is that shorter questionnaires will be returned or completed more often than longer ones. Even though many studies have been carried out to investigate the effects of questionnaire length on response rate, there is no conclusive evidence to support this belief (op cit p.396; and Moser and Kalton (1979) p.263). Even though the studies do not support the belief, these authors "assumed" and said that it is "obvious" that persons eventually get tired of answering questions or responding to statements in questionnaires as the length increases. However, there is no specific guideline as to what constitutes a "short" or "lengthy" questionnaire.

The questionnaire used in this research consisted of five pages (Appendix 5) with questions printed on one side of the page only. The top part of the first page of the questionnaire was used to state briefly the objective of the questionnaire together with a pledge of confidentiality of information provided and anonymity of respondents. Instructions regarding the completion of the questionnaire was also given in this part. Although this questionnaire is "long" when compared, for example, with the "short" one used by Chang and Most (1985) which consisted of only two pages, it was considered to be the minimum length necessary to accomplish the objectives of the study.

Another factor that had to be taken into account was the questionnaire content. There are certain questions that the investment analysts would not be willing to answer or may be prevented from answering. For example, questions regarding their clients or the size of their holdings may be considered as confidential. In Malaysia, there are statutes that prohibit the disclosure of information by officers in the banking and public services. For example the Banking Act, 1976 prohibits bank officers from disclosing details concerning their clients. Since the merchant banks are an important group in the survey, care had to be taken not to infringe the Act.

Another statute relating to confidentiality of information is the Officials Secrets Act (1986), which affects those officers working in government and semi-government bodies. The Act is all-embracing and the interpretation of what is an "official secret" is at the discretion of the Government. Several of the Institutional investors are either government bodies or semi-government bodies (for example the Armed Forces Trust Fund and the Employees Provident Fund). Thus, in order to elicit greater responses, the emphasis of the questionnaire was on the personal views regarding the research topics and, as far as possible, questions requiring the respondents to reveal specific disclosure were avoided.

As was discussed in the preceding section, anonymity of the respondents was of prime importance in carrying out the survey in Malaysia. Thus, the respondents were not asked to directly identify themselves or the organisations they worked for in the questionnaire. However, as an inducement for those respondents who may be interested in the survey, a choice is given if they would like a copy of the survey results. If the respondents were to take up the offer, then they were required to supply their names as well as the address to which the results should be sent.

6.3.2 Questionnaire Development

The questionnaire used in the study was developed from several sources, namely:

(a) previous studies that had been conducted in the developed countries;

(b) as a result of a pilot study conducted by this researcher in January and February, 1987 in Malaysia; and

(c) examination of the published financial statements of various companies listed in the Kuala Lumpur Stock Exchange (see Chapter 5)

The studies referred to in (a) abover were those conducted by Lee and Tweedie (1981), Chang and Most (1985) and Anderson (1985). In most cases, the original questions were adjusted to take into account the specific objectives of the current research and the financial reporting and investment environment in Malaysia. The questions used in this study were also designed to be self explanatory, easily read and more importantly, easily answered. A copy of the questionnaire is included in Appendix 5.

The purpose of the questionnaire was basically to determine the investment analysts views of, and the importance they attached to the corporate annual reports of companies in Malaysia in their investment decisions or recommendations. The questionnaire was divided into two parts (see Table Part one consisted of questions regarding the respondents views on five main areas

(1) The importance of the various sources of information for investment decisions.

(2) The usefulness of the financial statements in various areas of investment decisions.

(3) The importance of the various sections of the company annual reports for investment decisions.

(4) The adjustments, if any, on ten specific figures appearing in the financial statements.

(5) The attitudes of the analysts towards the financial statements and the accounting profession in Malaysia.

In addition, the respondents perception of their understanding of and confidence in using the annual financial statements were also solicited. Finally, the respondents degree of involvement in investment decisions was identified.

Table 6.1

Summary of the Contents of the Questionnaire

Purpose of Questions	Page	Question No.
Part I		
1. Importance of the various sources of information	1	1(a)-(b)
2. Uses of corporate annual reports in investment decisions	2	2
3. Importance of the various sections of the corporate annual reports	2	3
4. Adjustments made to the various items contained in financial statements	2	4
5. Respondents perceived understanding, relevance and confidence of corporate annual reports	3	5,6&7(a)
6. Factors affecting confidence in using annual reports		7(b)
7. Respondents involvement in investment decisions	4	8
8. Respondents attitude towards (1) use of the financial statements; and (ii) accounting profession	4	9
9. Additional disclosure	4	10
Part II		
10. Respondent's background Type of organisation Age and Sex Details of qualifications Experience Management hierarchy	5	1 - 7

All but one of the questions were closed-ended. In all but two of these close-ended questions, the answers were based on a five point scale:1 ("Very Important" or Strongly Agree) to 5 (Not Important At All or Strongly Disagree)

In research involving attitudes and opinions, an important factor to consider when scaling is adopted,is that it should include a point for "neutral" or "undecided" category. Black and Champion (1976 p.10) emphasise the importance of including this category because "if a choice is forced when, in fact,the person really has no opinion, ... the researcher can end up with data that are questionable in terms of their theoretical and substantive import". In all of the scaling system used in this questionnaire, a point of neutrality was included.

With questions regarding the degree of involvement in investment decisions and the adjustments made to figures in the financial statements, a three point scale was used (e.g 1-No involvement, 2 -Minor involvement and 3-Major involvement). In this instance, a point of neutrality was not included as it was not relevant as the questions were dichotomous in nature. For example, in the question regarding the degree of involvement in investment decisions, the respondents were either involved with the investment decisions or they were not. There is no point of neutrality in these cases. In addition, the respondents were also asked to state the extent of their involvement in investment decisions and the level of adjustment made to the figures in the financial statements.

Only one open_ended questions was asked in the questionnaire and this question asked for any additional information which the defendents would like to see contained in the company annual reports.

As can be seen from the above, the questionnaire was designed to make it easy for the respondents to answer. As a scaling system was used in the majority of the questions, most of the variables in the study were quantifiable to expedite the coding and analysis of data, and allow specific statistical methods to be applied.

Part II of the questionnaire consisted of questions regarding the respondents background including respondent's organisation, age, sex, experience, position in the management hierarchy, educational and training background. The reasons for asking these questions were to build up a profile of the respondents who took part in the survey and gauge the amount of knowledge and experience the respondents have in investment analysis. Also, these background factors will also be used to indicate the importance of the respondents as representatives of the Malaysian investment sector. These characteristics then used to divide the respondents into several sub-groups to test for differences in the answers given in the questionnaires

6.4 Pretesting the Questionnaire

An early version of this questionnaire was pretested prior to a pilot survey which was carried out in Malaysia between January and February, 1987. As was stated in Section 6.2 of this chapter, the interview method was adopted in the pretesting and pilot survey stage of this research. Though the format of the initial questionnaire had some differences, including additional open-ended questions, there were only minor differences between this early version and the final version of the questionnaires.

The early version of the questionnaire was pretested among the academic staff of the Department of Accountancy and Business Law at the University of Stirling, research students in the Department of Business Studies and MBA students from Malaysia, who were employed by financial institutions in Malaysia. Although no major problems were encountered with this questionnaire, minor modifications were made to improve the clarity of some of the questions,

The amended version of the questionnaire was used in the pilot study carried out in Malaysia.

Interviews with six senior investment analysts were carried out: These analysts were employed by an insurance company (1), mutual and trust funds (3) merchant banks (2).

The interview method was used in the preliminary stages as a means of pretesting the questionnaire because this method would

> "1. permit an investigator to explore the clarity of questions with respondents.
> 2. enable investigators to structure responses along lines more realistically related to the range of views as seen by respondents.
> 3. bring to the forefront those questions that, for one reason or another, respondents do not want to answer.
>
> (Gorden (1956) p.55)

As a result of the pilot survey, several changes were made to the questionnaire:

(1) The number of items identified as important sources of information was increased from an initial eight to ten; interim reports and visits to companies were added;

(2) Questions which the respondents were reluctant, or refused,to answer were not used in the final version of the questionnaire. These items related to the size and number of holdings, the total amount of funds for investment in shares, and specific methods used in investment analysis. Even though such information might have been useful, it was felt that the inclusion of such questions may result in a low response rate to the final survey.

(3) The interviews confirmed this researcher's views that the mailed questionnaire technique was the most appropriate method to be used. Without exception, the interviewees stated that , if given a choice, they would have preferred the mailed questionnaire technique.

The pretesting and pilot survey conducted proved to be important in developing the final version of the questionnaire.

6.5 The Sample

In research involving a survey, the ideal situation would be to select a "representative" sample, that is to draw or select individuals from the population in such a way that the sample represents the population being studied. If such a sample could be obtained, then the results produced could be generalised for the whole population.

Such a sample could only be obtained if a sampling frame exists; that is, if there existed a list of all the investment analysts in Malaysia. Unfortunately, no such list exists.

As an alternative, the researcher decided to approach the organisations which normally employ investment analysts; that is the institutional investors, merchant banks and stockbrokers. This approach was used by other researchers in the developed countries; for example by Chang and Most (1985) and Lee and Tweedie (1981). However, there is a major difference in the approach and emphasis between the current research and the above studies. As an example, the study conducted by Lee and Tweedie concentrated on the views of the institution; that is , the interviews were undertaken to reflect that institution's views and policies rather than those of the individual analysts. The authors admitted that there were problems:

> "where more than one employee was interviewed, it became apparent that perceptions of policy differed; the resulting analysis has to outline these areas of disagreement"
>
> (p.19).

The emphasis of the current research, on the other hand, is on the individual investment analyst rather than the institutions themselves. As there are only 94 such organisations in Malaysia (see Table 6.2), it was therefore decided to approach all Malaysian institutional investors, merchant banks and stockbrokers.

The questionnaires were distributed to the institutions listed in Table 6.2 to be redistributed to the investment analysts employed by them. Table 6.3 shows the estimated amount of investment funds controlled by the institutional investors and merchant banks in 1985. Based on the amount of funds controlled by these organisations, the analysts surveyed in the sample organisations could be considered as an important force in the investment sector in Malaysia.

Table 6.2

The Number of Institutional Investors, Merchant Banks and Stockbrokers in Malaysia

(a) Pension, Provident and Unit Trusts Companies			
The number of these companies are as follows:			
(i) Pension and Provident[1]		4	
(ii) Unit trusts companies[2]		6	
	Total		10
(b) Insurance Companies[3]			
(i) Life Insurance		5	
(ii) Life and General		14	
	Total		19
(c) Merchant Banks [4]			
Number of Merchant Banks			12
(d) Stockbrokerage Firms[5]			
(a) In Kuala Lumpur		19	
(b) Outside Kuala Lumpur		31	
	Total		50
	Grand Total		94

(1) Bank Negara Malaysia, Money and Banking in Malaysia 2nd Edition, 1984, pg252-266. Only the active funds are included in the figure. Other funds such as the Teachers Provident Fund and Sabah and Sarawak Funds were excluded because these were either "progressively phased out" or "have been transferred to the trusteeship of the Federal Government"(op. cit., pg 261). Another reason why these funds were not included in the survey was that the bulk of their funds were "invested in Federal Government Securities" (op.cit., page 261).

(2) ibid., p. 314.

(3) The Malaysian Insurance Directory 1984, Malaysian, National Reinsurance Berhad, 1984.

(4) Bank Negara Malaysia, op. cit. p.217.

(5) Investors Digest, The Kuala Lumpur Stock Exchange,1988, p.53. Excluding member

Table 6.3

Estimates of Investment in Corporate Securities by Institutional Investors and Amount of Portfolio Managed by Merchant Banks in 1985.

		M$(million)
1.	Provident and Pension funds	
	(a) Employees Provident Fund	544.9
	(b) Armed Forces Fund	233.5
	(c) Pilgrims Management and Fund Board	398.9
	(d) Social Security Organisation	N/A
2.	Unit Trusts Companies	
	(a) National Unit Trusts	7,000
	(b) Other unit trusts (1980)	162.2
3.	Insurance companies	543.1
4.	Merchant Banks - Portfolio funds managed	1,041.1

Sources: (1) National Unit Trust, as told by a senior analyst of that organisation

(2) Other unit trusts, Money and Banking in Malaysia 1959-1984, p.314

(3) The other figures were taken from *Bank Negara* (Central Bank) Report, 1985; pp.116 - 132.

6.6 Questionnaires Distribution

A major problem often encountered by researchers using the questionnaire technique is the poor response rates. The problem of poor response rates is common whether the research is conducted in the developed or developing countries(*).

In Malaysia, research in an area similar to the present study by Hamzah (1983) encountered this problem. In his survey of accountants, Hamzah managed to achieved a total response rate of 43% using the postal questionnaire technique together with several additional procedures such as personal contacts, follow-up letters and telephone calls.

In planning the distribution procedures for the study, the experience of previous researchers, including Hamzah, served as a useful guideline for ensuring the maximum possible response. Two separate methods were used to distribute the questionnaires:

(a) Personally distributing the questionnaires to the organisations; and

(b) Distribution by Post

(*) A discussion of these problems appears in Kaynak, E. (1978), "Difficulties of Undertaking Marketing Research in Developing Countries", European Research, November (1978), pp. 251-259.

6.6.1 Company Visits and Questionnaires Distribution

As discussed in section 6.5 , the questionnaires were distributed to all the institutional investors, merchant banks and stockbrokers in Malaysia.

Telephone calls were made to several firms, belonging to each of the four types of organisations viz; the mutual fund/unit trust companies, insurance companies, provident or pension fund organisations and stockbroker firms, located in and around Kuala Lumpur. These telephone calls were made to request an appointment to see the senior management of these firms. Out of the initial ten phone calls made, six were successful in obtaining interviews.

On meeting the senior management of the firms who agreed to see the researcher, the purpose and objectives of the research project were explained. At the same time, an undertaking was given that any information provided would be treated as confidential. In the majority of the cases, a short interview was conducted with the senior managers to obtain their views on the contents of the company annual reports, the accounting profession and the Kuala Lumpur Stock Exchange. The purpose of these interview was to provide additional background material for the study.

An important purpose of the preliminary meeting was to seek the assistance of the senior manager in distributing the questionnaires to each of the executives of the investment departments (in the case of merchant banks, insurance companies and the unit trusts firms) and the stockbrokers.

Finally, those interviewed were asked to recommend persons with whom they were familiar and who were working with other firms and organisations, and their permission was sought to use their names as a reference. This "snowballing" technique was used in order to obtain introductions to other firms so that questionnaires could be personally distributed.

With the list of names provided by the initial respondents, phone calls were then made to these individuals seeking an appointment and, when these individuals agreed to the appointments, the same procedures were used. A total of 23 firms were visited and 152 questionnaires distributed (Table 6.4).

Table 6.4
Distribution of Questionnaires

Types of Organisation	No. Visited	Quest Dist.	No. Posted	Quest Posted
Mutual/Unit trusts	5	70	4	20
Insurance companies	2	6	17	51
Stockbrokers	9	6	38	114
Merchant banks	7	39	4	40
Total	23	152	63	225

Number of firms = 86, Number of questionnaires=377

6.6.2 Posting Procedures

For those organisations to which it was not possible to make a visit either because they are located outside of Kuala Lumpur or because it was not possible to make an appointment to meet with the senior management, the questionnaires were posted directly.

The postal package consisted of a covering letter, a set of questionnaires and stamped self addressed envelopes. The cover letter briefly outlines the objectives of the research and contained an undertaking to treat all information as confidential and to assure the anonymity of the respondents.

A total of 225 questionnaires were posted to 63 firms belonging to the various groups of the target population (Table 6.4) on the previous page. These questionnaires were posted in one batch early in January, 1988.

Using the procedures above, a total of 377 questionnaires were distributed to 86 organisations. It is estimated that the total number of investment analysts working in these organisations number between 600 to 800 analysts. The remaining six organisations were not involved because of refusal of the management to allow their analysts to take part in the survey when they were contacted over the phone or because they consisted of small stockbroking firms.

6.6.3 Follow-up Procedures.

Three weeks after the questionnaires were posted, a follow up and reminder letter was sent. Since the questionnaire was designed with anonymity of respondents as an important consideration, it was not possible to identify which firms did not respond to the first mailing using the completed questionnaires as a reference.

As a result, the follow up letter was sent to all the firms in the target population. The follow-up letter was basically similar to that of the cover letter with the addition of a short paragraph emphasising the importance of their participation in ensuring the success of the research project.

No further attempts were made to obtain the completed questionnaires after the follow up letters were posted. The response rates to the questionnaire survey is discussed in Chapter 7.

6.7 Analysis of Data

Data obtained from the postal questionnaires were entered into a computer file [data processing and the coding frame used in processing the data is given in Appendix 6]. The SPSS-X [Statistical Package for Social Science - Extended Version] computer package was used in processing and analysing the data. Several statistical tools were used in examining the data obtained from the survey. They are:

(a) Descriptive statistics such as frequency distributions, counts, median, mode, mean scores of variables, standard deviations and coefficient of variation.

(b) T-test for differences in means; and

(c) Chi-square test for independence.

These statistical methods were used in the analyses because they were well-suited to the data collected in the study. The majority of the answers obtained from the questionnaire were quantifiable because they were based on a rating scale.

The t-test and the chi-square tests were used extensively in the current research to test for non-response bias and to observe differences in the answers between sub-groups of analysts. Appendix 7 describes the important features of both methods, and the use of these methods in the current study.

6.8 Summary

In this chapter, the methodology used in conducting the investment analysts survey was described in detail. Two approaches were considered in carrying out this survey: the interview and postal questionnaire methods. Each of these methods has its advantages and disadvantages. However, in view of the objectives of the research, and the environment and conditions under which the study was conducted, it was decided that the postal questionnaire technique was the most suitable.

The questionnaire used in the survey was designed to ensure a high response rate: factors such as the length of the questionnaires, the anonymity of respondents and the choice of questions included in the questionnaires were carefully considered against the objective of the research when preparing the questionnaire.

The questionnaire was pretested and a pilot survey was conducted using the interview method. Since there was no sampling frame available from which to select a representative sample, an alternative was adopted, that is to distribute the questionnaires to investment analysts employed in institutional investing organisations, merchant banks and stockbrokers. The questionnaires were either distributed personally or posted directly to the organisations.

The information collected from the questionnaires were mostly based on a five point scale and consisted of mainly quantifiable data. The answers to the questionnaires were coded and processed through the computer. The SPSS(X) program were used to analyse the data. The statistical methods used to analyse the data were also presented.

In Chapters 7 and 8, the questionnaires received from the respondents are analysed and the findings of the survey discussed.

CHAPTER VII

SURVEY RESPONSE AND PROFILE OF RESPONDENTS

7.1 Introduction

In Chapter 6, it was explained that the postal questionnaire methodology was chosen for use in the survey of analysts. In the current chapter, the results of the initial analysis of the questionnaires; viz, the response rate, the tests conducted on the answers to determine non-response bias and the profile of the respondents who took part in the survey, are analysed and discussed.

7.2 Survey Response.

As a result of personally distributing the questionnaires to the various firms together with the initial postings (Table 6.4), a total of 101 questionnaires were received: 57 were collected personally from the various firms and the balance of 44 questionnaires were received by post by the 15th of January, 1988. The total of 101 questionnaires initially received represented a response rate of 26.8 percent.

After sending the follow-up letters, another 36 (9.5%)were received making a total of 137 questionnaires and a response rate of 36.3 per cent (excluding three unusable questionnaires). The detailed breakdown of the response rate is shown in Table 7.1.

Table 7.1

Response rates for each group of respondents

Types of organisation	No. sent N	No. sent %	No. Received N	No. Received %	Response Rates(%)
Mutual/Unit trusts	90	24	42	31	46.7
Insurance companies	57	15	25	18	43.9
Stockbrokers	151	40	32	23	21.2
Merchant banks	79	21	38	28	48.1
Total	377	100	137	100	

Overall response rate = 137/377 x 100 = 36.3%

As can be seen from Table 7.1 above, the lowest response rate was from the stockbrokers (21.1%). One possible reason why the response rate from the stockbrokers is low is that the majority of the firms are located outside the main financial centre, Kuala Lumpur The regional firms are much smaller in terms of staff employed than the firms in and around Kuala Lumpur. These firms, therefore, may not provide full services, such as research activities and investment advisory services, to their clients.

The response rate for the institutional investors is 46%, which is more than twice that of the stockbrokers. Unlike the stockbrokers, the majority of the organisations have their own departments or sections doing investment analysis or research. As the research study is directly related to the investment activities of these organisations, they may have been more inclined towards participating in the survey.

It was this researcher's initial view that a better response rate would result if the questionnaires were distributed and collected personally. However, based on the number of questionnaires received, there does not seem to be any significant difference in the response rates between the questionnaires distributed personally and those questionnaires distributed by post (Table 7.2).

In the previous chapter, it was stated that the main weakness of the postal questionnaire method is the low response rate. As can be seen from Table 7.2, the response rate for this research is 36.3%. There is no consensus in the research methodology literature as to what constitutes a "proper" or "satisfactory" response rate.

Moser and Kalton (1979) gave an indication of what in their view constitute a low response rate by stating that "(A) poor response rate must constitute a dangerous failing, and if it does not rise above, say, 20 or 30 percent the failing is so critical as to make the survey results of little, if any, value" (p.268).

Table 7.2

Response rates according to methods of distribution and collection.

Methods of distribution	No. Distributed N	%	No. Collected N	%	Response Rates(%)
Personally distributed	152	40	57	41	37.5
Distribution by post	225	60	80	59	35.6
Total	377	100	137	100	

Black and Champion (1976, p.398) stated that, usually, "...response rates to mailed questionnaires are in the 30 to 40 percent range..".

The response rate for this research meets the threshold stated by Moser and Kalton and is within the average response rate for mailed questionnaires as mentioned by Black and Champion.

Even though the response rate for this survey amounted to 36.3% and could be considered as "reasonable", the question still remains as to the non-response bias. An important question is whether the outcome of the survey would be different if the answers from non-respondents were to be part of the data analysed. Unless the answer to this question was negative then results obtained from the questionnaires received could not be generalised.

7.3 Non-Response Bias

It was stated in the preceding section that the main criticism of the postal questionnaire method of data collection is the low response rates obtained when compared with the interview method. A low response rate will give rise to the problem of non-response bias. The problem with non-response bias is that it is important for the researcher to know whether those who did not respond would have reacted differently to the research variables than those who had responded to the questionnaire survey.

There are several approaches available when testing for non-response bias. [See Moser and Kalton (1979 p.267), Oppenheim (1973 p.34), Armstrong and Overton (1977 pp.396-401); and Goodstadt et al (1977 pp. 391 - 395).]. Two approaches that had been used in previous studies are considered below.

The first approach involve the use of a shorter version of the appropriate questionnaires which is then sent to the non-respondents. The replies are then analysed to indicate whether differences exist between the characteristics of the responding and non-responding groups. Lee and Tweedie (1981 p.25) used this approach to test for non-response bias. A short questionnaire consisting of questions regarding background variables were sent to the non-respondents. The answers were analysed and the non-respondents background variables were then compared with those of the respondents. By using this method, they found that the background characteristics of respondents and non-respondents appeared to be "reasonably similar". They concluded that the sample was representative of the group of investors.

The above approach was not used in the current research because; (a) since the non-respondents did not respond to the first posting and the subsequent follow-up reminder letter, it was deemed highly probable that they would not respond to the shorter version of the questionnaire; and (b) since the anonymity of the respondents was considered to be important in the design of the questionnaires, it was not possible to identify the non-respondents.

The second approach is to compare the replies of the respondents to the second posting (that is after the reminder letter was sent) with the replies of the respondents to the first posting. According to Moser and Kalton (1979 p.267) this approach was based on the assumption that "the non-respondents are closer in their characteristics to those who respond to the follow-up effort than to those who do so after the initial mailings". If there were no significant differences in the answers between the two groups, then it may be concluded that that the respondents were representative of the whole group.

The second approach for testing for non-response bias was used by Chang and Most (1985)in their study on the "Perceived Usefulness of Financial Statements for Investors Decisions". They compared the answers of the respondents to the first posting to those from the second posting to see whether there were significant differences in the scoring of variable in the questionnaires. Using the chi-square technique (see Appendix 7), they compared the means of the scores of the variables between the two groups of replies. Based on the results of the chi-square test, they found that there were no significant differences between the mean scores of the variables in the questionnaire between the two groups and concluded that the respondents were representative of the group of investors.

This latter approach of testing for non-response was selected because it was considered to be more practical and applicable to the circumstances of the study than the first approach.

7.3.1 Results of Test for Non-Response Bias Using the Two Sample T-Test

For the purpose of testing for non-response bias in the current study, those questionnaires that were collected personally and received two days after the reminder letters were sent (to take into account the number of days it would take the reminder letters to reach their destination) were included in the first mailing category. There were 101 questionnaires belonging to this category. The questionnaires that were received on or after three days after the follow-up letters were sent were classified as the second posting. There were 36 questionnaires under this category.

Based on the answers in the questionnaires of two postings, the t-test for differences in means and the chi-square test for independence of variables were performed to determine whether there were any non-response bias.

The t-test for non-response bias was applied to these variables which were measured on the ordinal scale scale; that is variables contained in Questions (1), (2) (3), (7b) and (9) (see Table 7.3 and Appendix 5).

With the exception of variable V12 - Visits to Companies, the t-test showed that, the null hypothesis that the means of the two mailing are equal cannot be rejected at the 0.01 level of significance. Therefore the conclusion was made that there was no significant difference in the mean scores of the variables between the first and second postings. The results that there is a lack of non-response bias.

Therefore, this meant that the answers given by the respondents to the questionnaire may be generalised as representative of the population of investment analysts as a whole.

Table 7.3

Results of the T-test for non-response bias

(Q.1) Importance of Various Sources of Information

Variable No.	Description	Mean 1st M	Mean 2nd M	T-test t	d.f	
V4	Annual Reports	1.19	1.17	0.28	135	N.S.
V5	Interim Reports	1.41	1.56	1.33	135	N.S.
V6	Prospectuses	1.58	1.64	0.38	135	N.S.
V7	Newspapers	2.47	2.31	1.14	135	N.S.
V8	Business Mags	2.47	2.31	1.19	135	N.S.
V9	Communications With Management	1.83	2.02	1.10	134	N.S.
V10	Advisory Svcs	2.16	2.33	1.08	135	N.S.
V11	Tips & Rumours	3.25	3.19	0.23	135	N.S.
V12	Visits to Co.s	1.75	2.33	2.85	135	.005*
V13	Government Publications	2.35	2.19	0.83	135	N.S.

(Q.2) Uses of information contained in annual Financial statements

Variable No.	Description	Mean 1st M	2nd M	T-test t	d.f	
V15	Providing background information	1.61	1.39	1.45	135	N.S.
V16	Providing Primary Information for Invst Analysis	1.54	1.61	0.60	135	N.S.
V17	Monitor Invst	1.61	1.69	0.60	133	N.S.

M = Mailing d.f. = degrees of freedom
(*) = Significant Difference at 0.01 Level of Confidence
N.S.= No Significant Difference

Table 7.3 (cont'd)

Results of the T-test for non-response bias

(Q.1) Importance of Various Sources of Information

Variable No.	Description	Mean 1st M	Mean 2nd M	T-test t	T-test d.f	
V18	Comparison with prior years' performance	1.46	1.58	1.16	135	N.S.
V19	Comparison with other companies' performance	1.83	2.02	1.29	135	N.S.
V20	Evaluate new investment	1.92	1.92	0.03	135	N.S.
V21	Forecast profits or eps	1.75	1.72	0.20	135	N.S.
V22	Preparing ratios or commentaries	1.36	1.53	1.44	134	N.S.

(Q.3) Importance of Sections of Financial Statements

Variable No.	Description	Mean 1st M	Mean 2nd M	T-test t	T-test d.f	
V24	Chairman's Letter	2.36	2.33	0.14	135	N.S.
V25	Balance Sheet	1.24	1.25	0.15	135	N.S.
V26	P & L Account	1.17	1.25	1.07	135	N.S.
V27	Stmt of Changes In Financial Position	1.62	1.61	0.07	134	N.S.
V28	Statement Of Acctg Policies	2.14	2.00	0.85	135	N.S.

M = Mailing d.f. = degrees of freedom
(*) = Significant Difference at 0.01 Level of Confidence
N.S.= No Significant Difference

Table 7.3 (cont'd)

Results of the T-test for non-response bias

Variable No.	Description	Mean 1st M	Mean 2nd M	T-test t	T-test d.f	
V29	Notes To The Accounts	1.74	1.78	0.24	135	N.S.
V30	Auditors Reports	2.02	1.72	1.79	135	N.S.
V31	Mgmt Discussion - Prior Years Results	2.27	2.14	0.71	134	N.S.
V32	Mgmt Discussion - Future Years	2.24	2.11	0.69	135	N.S.
V33	Profiles-Senior Management	2.80	2.58	1.05	135	N.S.
V34	Profiles-Board Directors	2.73	2.69	0.18	135	N.S.
V35	Mgmt Forecasts of Profits	2.16	1.86	1.87	135	N.S.

(Q.7b) Measures to Improve Confidence in Financial Statements

Variable No.	Description	Mean 1st M	Mean 2nd M	T-test t	T-test d.f	
V50	Enforcement of IAS/MAS	1.55	1.66	1.01	134	N.S.
V51	Increase Govt Regulation	1.85	1.86	0.04	134	N.S.

M = Mailing d.f. = degrees of freedom
(*) = Significant Difference at 0.01 Level of Confidence
N.S.= No Significant Difference

Table 7.3 (cont'd)

Results of the T-test for non-response bias

Variable No.	Description	Mean 1st M	Mean 2nd M	T-test t	T-test d.f	
V52	Audited by Firms with Inter'al Links	1.71	1.86	1.18	134	N.S.
V53	The Use of Std Formats	2.03	2.31	1.86	133	N.S.
V54	Audited by Local Acctg Firms	2.95	2.83	0.67	134	N.S.

(Q.9) Attitudes of respondents towards the following variables

Variable No.	Description	Mean 1st M	Mean 2nd M	T-test t	T-test d.f	
V59	Legal Compliance with IAS	1.61	1.71	0.81	134	N.S.
V60	Use of Std Accounts for all Companies	1.92	1.92	0.81	134	N.S.
V61	Legal Compliance with MAS	1.66	1.97	2.36	134	0.02(*)
V62	Limited Rptg Practices	1.76	2.06	1.70	134	N.S.
V63	Use of the Same Accounting Practices	2.02	2.00	0.12	134	N.S.
V64	Auditors-Indpd of Mgmts' Influence	2.37	2.74	1.41	134	N.S.

M = Mailing d.f. = degrees of freedom
(*) = Significant Difference at 0.01 Level of Confidence
N.S.= No Significant Difference

Table 7.3 (cont'd)

Results of the T-test for non-response bias

Variable No.	Description	Mean 1st M	Mean 2nd M	T-test t	T-test d.f	
V65	Auditors Exercise a Strict Code of ethics	2.41	2.71	1.18	134	N.S.
V66	Acctg Bodies Strictly Enforce Rules	2.49	2.66	0.68	134	N.S.
V67	Auditors qual.s and Experience are Adequate	3.09	3.09	0.00	133	N.S.
V68	Confidence in Audited Fin Statements	2.18	2.34	1.27	134	N.S.

M = Mailing   d.f. = degrees of freedom
(*) = Significant Difference at 0.01 Level of Confidence
N.S.= No Significant Difference

7.3.2 Results of the Test for Non-Response Bias Using the Chi-Square Test of Independence.

The chi-square test was used to test for non-response bias using questions 4,5,6,7 and 8 in the questionnaire as the answers to these questions were based on a categorical scale.

In applying the chi-square test for non-response bias, the hypothesis was that the two variables (ie the types of mailings and the variables in the questionnaire) are independent.

The results of the chi-square test for non-response bias are given in Table 7.4. In only one variable was the hypothesis that there is no relationship between the types of mailings rejected at the 0.01 level of significance. This is variable number 56 related to the respondents degree of involvement in decisions relating to what sectors to invest in.

In the case of the other categorical variables, the observed significant levels were greater than 0.01. Therefore the hypothesis that there is no relationship between the types of mailings and answers to the questionnaires cannot be rejected, and it could be concluded that the answers to the questionnaire survey is representative of the population of investment analysts.

Table 7.4

Results of the Chi-square test for non-response bias

(Q. 8) Degree of Involvement in Investment Decisions

Variable No.	Description	Chi-square	d.f	
V56	Sectors to invest	10.46	2	0.005(*)
V57	Co.s in part. sectors	3.99	2	N.S.
V58	No. of equities	7.23	2	N.S.

d.f. = degrees of freedom
(*) = Significant Difference at 0.01 Level of Confidence
N.S.= No Significant Difference

Table 7.4 (Cont'd)

Results of the Chi-square test for non-response bias

(Q.4) Adjustments to Items in Financial Statements

Variable No.	Description	Chi-square	d.f	
V36	Depreciation Expense	6.21	2	N.S.
V37	Asset Valuations	0.66	2	N.S.
V38	Extraordinary Items	0.50	2	N.S.
V39	Inventory Valuations	0.25	2	N.S.
V40	Taxation	1.39	2	N.S.
V41	Intangible assets	0.62	2	N.S.
V42	Earnings per share	3.61	2	N.S.
V43	Leased assets	0.17	2	N.S.
V44	Exchange rates	0.10	2	N.S.
V45	Investments	2.27	2	N.S.

(Q. 5,6 & 7) Perceived Understanding, relevance and Confidence in Using Company Annual Reports For Investment Analysis.

Variable No.	Description	Chi-square	d.f	
V47	Understanding of Corporate Ann Reports	2.82 2.82	2 2	N.S. N.S.
V48	Relevance of Corporate Ann Reports	3.62	2	N.S.
V49	Confidence in Using Corporate Ann Reports	4.47	2	N.S.

d.f. = degrees of freedom
(*) = Significant Difference at 0.01 Level of Confidence
N.S.= No Significant Difference

7.4 Profile of the Respondents.

In Part Two of the questionnaire, respondents were required to provide background information (Table 6.4) relating to their organisation, age, sex, number of investment analysts employed, educational details, job description, position in the management hierarchy and their involvement in investment decisions

The primary reason for examining the background characteristics of the respondents who took part in the survey was to assess the importance of the sample group within the total user sub-group and to judge the the significance of the answers given.If the background characteristics of the respondents were to indicate that they were greatly involved in investment decisions and that they were also members of senior management, then the answers received from the questionnaires could be judged as being authoritative and of high "quality". Conclusions derived from the answers would also possess greater authority.

The second reason for examining these background characteristics is to categorise the analysts into several sub-groups and to formulate and test hypotheses to determine whether the answers given were significantly different across the sub-groups.

7.4.1 The Organisations in which the Respondents were Employed.

Table 7.5 shows the types of organisations in which the respondents were employed. Nearly one-third (31%) of the respondents were employed by unit trust or mutual fund companies. The next largest group of respondents (28%) were employed by merchant banks.

According to Lee and Tweedie (1981 p.4), the 'sophisticated investors', i.e.the investment analysts can be classified into two distinct groups: those employed 'directly'(as investment analysts or managers by institutional investors) or 'indirectly' in the stockbroking firms and merchant banks. In other words,

Table 7.5

Organisations the respondents were employed

	N	%(*)
Insurance Companies	25	18
Provident fund/unit trust	42	31
Stockbroking firms	32	23
Merchant banks	38	28
Total	137	100

(*) Note: The calculation of percentages (rounded to the nearest one percent) were based on the 137 usable questionnaires received. However, if the number of analysable answer was less than this number, it will be indicated in the relevant tables.

those investment analysts employed by the institutional investors are often directly responsible for investing their organisations funds in the stock market whereas those employed by stockbroking firms and merchant banks act primarily as advisors and only invest according to specific instructions or investment guidelines laid down by their clients.

For purposes of analysing the results in greater detail, the respondents were thus regrouped into the two categories identified by Lee and Tweedie on the basis of employment, i.e. those working for:

(a) The institutional investors; comprising the insurance and unit trusts companies, and provident and pension funds organisations; and

(b) the investment intermediary organisations which comprised the merchant banks and stockbrokers (Table 7.6).

Table 7.6

Types of organisations the respondents were employed

	N	%(*)
Group I		
Institutional investor	67	49
Group II		
Investment intermediary	70	51
Total	137	100

* - To the nearest percent

Table 7.6 shows that as a result of the regrouping, the respondents were about equally divided between the two groups of organisations.

7.4.2 Respondents Personal Characteristics: Sex and Age

Table 7.7 shows that an overwhelming majority of the respondents were male (89%). This figure merely confirms that the investment analyst community in common with many other sectors in Malaysia is dominated by males.

Table 7.7

Sex of respondents

	N	%(*)
Male	122	89
Female	15	11
Total	137	100

* - To the nearest percent

Table 7.8

Age of respondents

	N(*)	%(*)
20 - 25 years	11	8
26 - 30 "	39	28
31 - 35 "	40	30
36 - 40 "	33	24
41 - 45 "	7	5
>46 "	1	1
No response	6	4
	137	100

Mean : 33 Minimum age: 22 Maximum:46

* - To the nearest percent

Table 7.8 shows that the average age of the respondents was 33 years. Two thirds of the respondents were aged 35 years or below. Together with the information in Chapter 5 relating to the development of the stock market and the institutional investors in Malaysia, these figures show the relative "youthfulness" of the Malaysian investment analysts community.

7.4.3 Respondents Qualifications, Academic Background in Accounting and Experience.

Tables 7.9, 7.10 and 7.11 reveal the respondents academic background, knowledge of accounting and experience. These background factors were examined to determine the extent of their influence on the respondents perception of the use and usefulness of financial statements in investment analysis, and of their use of adjustments to the reported figures in the annual reports.

Table 7.9
Respondents academic background

	N	%(*)
Business degree	73	53
Accounting degree/ qualifications	33	24
Other qualifications	18	13
No response	13	10
Total	137	100

* - To the nearest percent

Table 7.9 shows that 77% of the investment analysts had degrees in accounting or business courses. Twenty four percent of these respondents had specialised training in accounting. Thirteen percent of the respondents had degrees in other areas including science, art and agriculture.

In order to judge the extent of the respondents academic knowledge in accounting, the respondents were asked to estimate the extent of accounting studies in their degrees. Table 7. 10 shows that the majority (68%) of the respondents reported that they had undertaken many accounting courses in obtaining their degrees. However, 23% of the respondents had limited academic exposure to accounting.

Table 7.10

Extent of accounting courses in the qualifications of the respondents.

	N	%(*)
No Accounting courses	6	4
A few accounting courses	26	19
Many accounting courses	93	68
No response	12	9
Total	137	100

* - To the nearest percent

The figures in Table 7.11 (below) show that 60% of the investment analysts who took part in the survey had obtained their qualifications from overseas countries, including the United Kingdom, United States, Australia and India. These figures indicated the importance of foreign countries to the education and training of investment analysts in Malaysia.

Table 7.11

Places where respondents' qualifications were obtained

	N	%(*)
Local institutions	41	30
Overseas institutions	82	60
No response	14	10
Total	137	100

* - To the nearest percent

Table 7.12 discloses the number of years of experience which the respondents have had in investment analysis. The average experience of the respondents was 6.3 years. More than half (52%) of the respondents had more than five years experience as investment analysts. This figure is significant as it shows that the majority of the respondents who took part in the survey are experienced and not newcomers to the investment sector, despite their relative youth.

Table 7.12
Number of years of experience as investment analysts

	N	%(*)
Less than 2 years	20	15
2 - 4 years	35	26
5 - 10 years	50	37
11 - 15 years	17	12
>15 years	4	3
No answer	11	8
Total	137	100

* - To the nearest percent
Mean : 6.3 Mode: 3 Median : 5
S.D. : 4.2

7.4.4 Respondents Position in their Organisations and Involvement in Investment Decisions.

Table 7.13 shows that 77% of the respondents were in the middle and senior management positions in their respective organisations. Their influence is therefore not negligible either in their own organisations or in the investment community at large.

Table 7.13
Respondents' Management Level

	N	%(*)
Senior management	36	26
Middle management	71	51
Lower management	27	20
No answer	3	3
Total	137	100

* - To the nearest percent

The respondents were asked to indicate the the degree of their involvement in three areas of investment decisions - sectors to invest in, choice of particular companies and the amount to be invested. Table 7.14 shows that, on the average, more than half of the respondents were greatly involved with all three areas of investment decisions. This figure also reinforced the findings on management level and influence of the respondents shown in Table 7.14. About ten per cent of the respondents, however, were not involved in any aspect of the investment decisions.

Table 7.14

Respondents involvement in investment decisions.

	Types of Investment decisions					
	Sectors		Companies		Amount	
	N	%	N	%	N	%
Greatly involved	75	55	76	56	66	48
Minor involvement	47	34	47	34	52	38
No involvement	15	11	14	10	19	14
Total	137	100	137	100	137	100

% - To the nearest percent

7.4.5 Summary of the Respondents' Profile

Based on the findings in this section, a profile of the respondents who took part in the survey can be made: (1) an overwhelming majority of the respondents are males, with an average age of thirty three; (2) nine out of ten respondents indicated that they had academic degrees of which three quarters (77%) are in accounting or business areas; (3) sixty percent of the respondents obtained their qualifications from institutions of higher learning in other countries; (4) the majority of the respondents have had some formal courses in accounting; (5) more than half (52%) of the respondents have more than five years experience working as investment analysts; (6) a majority of the respondents (77%) belong to the middle and senior management levels in their respective organisations; and (7) nine out of ten respondents are involved in investment decisions.

The respondents profile above shows that the majority of the respondents are directly involved with investment decisions and also many of the respondents are in the senior management level in their respective organisations.The conclusion can therefore be made that the respondents fall within the decision making group in their respective organisations, and are therefore influential within the investment community in Malaysia.

In addition, the amount of investment funds these respondents managed on behalf of their respective organisations are substantial (see Table 6.3). Also, these institutional investors owned about half of the total shares of companies listed on the Kuala Lumpur Stock Exchange (Table 5.3). Answers given by the respondents to the questionnaires can be considered as authoritative and knowledgeable views of the investment sector in Malaysia.

7.5 Summary

This chapter has reported the initial results of the questionnaire survey of the investment analysts working in the institutional investment firms, merchant banks and stockbrokers.

The overall response rate for the survey was 36.3%. Due to this level of response rate, the data was tested for non-response bias in which two statistical method were used ;(1) t-test of differences in means; and (2) chi-square test of independence The results of these tests indicated that the answers given by the respondents are representative of representative of the population of investment analysts in Malaysia.

The chapter also analyses the background characteristics of the respondents who took part in the survey and a profile of the respondents was then developed. The profile of the respondents indicated that the investment analysts who took part in the survey are influential members of the investment analysts community. The answers given by these respondents can therefore be considered as authoritative and representative of the views of the investment analysts in Malaysia.

In the next chapter, detailed analysis and is presented of the findings of the questionnaire survey into the importance of Malaysian company annual reports in investment analysis.

CHAPTER VIII

INVESTMENT ANALYSTS SURVEY - RESULTS AND FINDINGS

8.1 Introduction

In Chapter VII, the initial findings into the questionnaire survey were reported. The response rate for the investment analysts survey was 36.3%. Tests for non-response bias of the answers to the questionnaires indicated that the answers were representative of the investment analysts in Malaysia. The profile of the respondents, developed from the initial analysis of returned questionnaires, also revealed that the respondents were the decision makers in their respective organisations. The answers obtained from these respondents, therefore, could be considered as authoritative and influential.

In the current chapter, detailed findings of the survey are analysed and discussed. The chapter is divided into the following sections:

(1) the importance of the various sources of information to investment analysts;

(2) the usefulness of company annual reports in various areas of investment decisions;

(3) the importance of sections of company annual reports as a basis in making investment decisions or recommendations;

(4) the adjustments made by analysts to reported figures in company financial statements;

(5) identification of the factors that investment analysts perceived to be important in increasing their confidence in using company annual financial statements; and

(6) summary of the results of the survey.

8.2 The Importance of Various Sources of Information for Investment Decisions.

Respondents were asked to indicate the importance of company annual reports and other sources of information for investment decisions and recommendations, using a five point scale with "1" being most important and "5" being not important at all (see the questionnaire in Appendix 15, Question 1).

The mean scores, standard deviation and coefficient of deviation for the various sources of information are given in Table 8.1. As can be seen from this table, investment analysts ranked company annual reports as the most important source of information for investment decisions and recommendations (mean score = 1.182). The next two important sources of information for investment analysts are the corporate interim reports, and prospectuses (prepared by the companies when listing or issuing new shares in the stock exchange (mean scores: 1.445 and 1.599 respectively)).

Table 8.1

Importance of various sources of information to investment analysts

Sources of information	Rank	Mean	S.D	C.V
Corporate annual reports	1	1.182	0.424	35.8
Corporate interim reports	2	1.445	0.581	40.2
Prospectuses	3	1.599	0.742	46.4
Communications with company	4	1.882	0.927	49.2
Visits to companies	5	1.905	1.077	56.5
Advisory services	6	2.204	0.833	37.7
Government Publications	7	2.307	0.944	40.9
Newspapers	8	2.423	0.725	29.9
Business magazines	9	2.431	0.736	30.2
Tips and rumours	10	3.234	1.165	36.0

S.D. - Standard Deviation

C.V. - Coefficient of Variation (%)

An indication of the level of agreement as to the importance of the company annual report as a source of information among the investment analysts was shown by the standard deviation (0.424), which was the lowest dispersion among the other sources of information. The coefficient of variation, however, indicated that this dispersion, relative to the means, was third lowest among the other sources of information.

The standard deviation for interim reports and prospectuses as sources of information for investment decisions or recommendations were 0.581 and 0.742 respectively which were the next lowest among the other sources of information. The coefficient of variation for these two sources of information indicated a fair degree of agreement among the investment analysts. These results were confirmed by examining the frequency of responses given in Table 8.2.

The sources of information "communications with company" and "visits to companies" were ranked fourth and fifth respectively with means scores of 1.882 and 1.905 (Table 8.1).

Investment analysts gave low ratings to the next group of information sources, i.e; advisory services, government publications, newspapers business magazines and tips and rumours. The lowest ratings given to a source of information was 'tips and rumours' (mean score = 3.234). Although the standard deviation (1.165)indicated that this latter item showed a greater degree of dispersion, the coefficient of variation

(36%) is one of the lowest among the other sources of information. This indicated general agreement of the low rating given to 'tips and rumours' as can be seen from the detailed distribution of answers given in Table 8.2.

The importance of the annual reports as a source of information for investment decisions was again illustrated by the figures in Table 8.2. The vast majority of respondents (83%) rated company annual reports as very important. None of the respondents in the survey rated the annual reports as unimportant.

In spite of the weaknesses of the annual reports of Malaysian companies, described in the examination of a sample of annual reports (Chapter 4), the above results indicated that investment analysts still regard these reports as the most important source of information for investment analysis.

The reliance on these sources of information by the investment analysts could be due to the fact that alternative sources of information are limited because of the lack of well-developed support and information facilities (see chapter 5).

The reason company annual reports are given high rankings may be due to the fact that these reports have to be certified by the external auditors. The external validation of the reports may provide the investment analysts with a greater degree of confidence in using these reports for investment analysis.

Table 8.2

Investment analysts rankings of the importance of the sources of information for investment decisions and recommendations

Sources of Information	Frequency of Response(%)*				
	1	2	3	4	5
Annual reports	83	15	2	-	-
Interim reports	60	36	4	-	-
Prospectuses	53	37	7	3	-
Communications with company	42	35	15	8	-
Visits to companies	46	31	12	8	3
Advisory services	20	46	29	4	1
Government publications	17	48	23	10	2
Newspapers	7	49	39	4	1
Business magazines	7	51	35	6	1
Tips and rumours	7	23	23	33	14

To the nearest one percent

(*)A five point scale was used where 1=Very important 2=Important 3=Neutral 4=Not very important and 5=Not important at all

Another possible reason for the high ranking given to information sources originating from the companies may be due to the fact that company annual reports are a low cost source of information: the annual reports are provided free of charge to the users.

Interim reports were rated the next highest in importance by the investment analysts. Unlike annual reports and prospectuses, the preparation of the interim reports is not covered by any specific regulations or guidelines. The interim reports for example, are not required to be audited, and only the barest information are being disclosed in these reports.

An important feature of the preceding analysis is that the highest rankings were given to information sources originating from the companies themselves: the annual and interim reports and prospectuses. The next highest rating were given to information gathered and assembled by the respondents; information obtained directly by either communicating with the companies concerned or making personal visits to the companies.

A significant analysis of this survey is that in Malaysia, investment analysts gave very low ranking to information sources derived from third parties; that is, information sources originating from advisory services, government publications, newspapers and business magazines. This result contrasted sharply with the results of the research carried out in the economically advanced countries. For example in the studies carried out by Chang et al (1983) and Anderson (1981), the sophisticated investors in the advanced countries (U.S., U.K., New Zealand and Australia) gave third party sources of information higher rankings than the current study.

Although the respondents were not asked the reasons for the rankings given to the sources of information, two important reasons could be put forward to explain the low rankings given to third party sources of information:

(a) Due to the "youthfulness" of the stock market, the financial press in Malaysia has not yet establish the degree of integrity and reliability generally associated with the financial press in other countries, for example, The Financial Times in the UK or The Wall Street Journal in the US.

(b) The major newspapers and business magazines are closely linked with the political parties in Malaysia. As a result there may be suspicions among the financial analysts that the reports and articles published in these newspapers and magazines may have a political motive.

8.2.1 Comparison of the Results of the Current Study with that of Other Studies.

Although there have been a number of previous studies into the usefulness of company annual reports, these have generally focussed on the economically advanced countries such as the United States, Australia, United Kingdom and New Zealand. The comparison of the results of this research, which was conducted in a "developing" country - Malaysia, is interesting and important. This is because the comparison could reveal similarities and differences between the perceptions of the analysts concerning the various sources of information for investment analysis.

In selecting the previous studies to be used in comparing with the current study, two important factors were chosen:

(a) sample population - the population surveyed should have consisted of investment analysts or other 'sophisticated investors'; and

(b) variables used i.e. the sources of information tested, should be similar to those in the current study or their equivalent.

Based on these criteria, the studies by Chang, Most and Brian (1983) and Anderson (1981) were selected for comparison. A comparison in importance of the various sources of information is shown in Table 8.3. The investment analysts in the current study were not divided between the two groups because of their almost identical rankings as demonstrated in section 8.3.1 and in Table 8.4.

Table 8.3 demonstrates that the results obtained for the current study were similar to the results obtained in the other studies. Company annual reports were the most important source of information for the analysts both in Malaysia and four of the other countries (except for the UK in which they were ranked second).

Other sources of information originating from the companies (interim reports and prospectuses) were also rated highly by the analysts, in agreement with the results of this study.

There were however differences in the rankings of importance of information from third parties such as newspapers and magazines and advisory services. The institutional investors in the United States and Australia ranked the two sources of information highly (second and third). However, analysts in the United Kingdom gave these sources a comparatively low ranking which was in approximate agreement with the rankings given by the analysts in Malaysia, New Zealand and Australia.

Table 8.3

Comparison of rankings with other studies on the usefulness of sources of information for investment decisions and recommendations

	Current Study	Chang et al (1)						Anderson(2)
Sample population	Investment Analysts	Institutional Investors			Financial Analysts			Institutional Investors
Countries	M'sia	U.S.	U.K.	N.Z.	U.S.	U.K.	N.Z.	Australia
Sources of information								
Corporate annual reports	1	1	1	2	1	2	1	1
Corporate interim reports	2	-	-	-	4	4	2	-
Prospectuses	3	-	-	-	2	3	5	-
Communications with company	4	-	-	-	3	1	3	-
Visits to companies	5	-	-	-	-	-	-	3
Advisory services	6	2	5	3	5	8	8	5
Government Publications	7	-	-	-	-	-	-	6
Newspapers	8	3	4	5	8	5	7	4(*)
Business magazines	9							
Tips and rumours	10	7	7	7	-	-	-	7
Stockbrokers advise	-	4	2	1	-	-	-	2
Proxy statements	-	5	3	4	7	7	6	-

Notes: (-) Not available/applicable
(*) Equivalent source of information

(1) Chang, L.S., Most, K.S. and Brian, C.W., "The Utility of Annual Reports: An International Study.", Journal of International Business, Spring/Summer 1983, pp. 63 - 84.

(2) Anderson, R.,"The Usefulness of Accounting and Other Information Disclosed in Corporate Reports to Institutional Investors in Australia", Accounting and Business Research, Autumn 1981, pp.259 - 265.

Another result of the current research which was in agreement with the studies carried out in the advanced countries was the ranking given to the item "tips and rumours". This variable was also given the lowest ranking in Malaysia.

In conclusion, the studies in the other countries confirmed that company annual reports were the most important source of information for investment decisions and recommendations, which was similar to the results obtained in the current study.

8.2.2 Respondents Characteristics and the Perceived Importance of Sources of Information and Company Annual Reports.

In the current study, an analysis was undertaken in order to find whether differences in the respondents background characteristics resulted in differences, if any, on the perceived importance of the sources of information and company annual reports.

The background characteristics examined in this study are as follows:

(1) analysts' place of employment

(2) the experience of the respondents in the investment analysts function;

(3) participation in investment decisions

(4) background in accounting and accounting knowledge; and

(5) country of origin of the investment analysts' qualifications.

8.2.2.1 Respondents Place of Employment.

The Briggs study (1975) refered to in Chapter 2, had been criticised on the grounds that it did not differentiate between the analysts who are directly involved in the investment decisions and those analysts who are indirectly involved in the investment decisions. Arnold and Moizer (1984) also criticised the Lee and Tweedie (1981) studies on similar grounds. Although Lee and Tweedie made a distinction between the two types of investment analysts in their study, they did not carry out specific tests between the two groups on the importance of the different sources of information.

The distinction between the two types of analysts is considered to be important because, it is speculated, since their role in the investment function is different, that is one group is directly involved and the other groups are mainly investment advisors, their views towards the importance of the various sources of information would also be different.

Table 8.4 presents a comparison of the rankings of the importance of the various sources of information for the two groups of investment analysts described in Chapter 7, Section 4.1. The results in this table are consistent with the discussions in the preceding sections. The three most important sources of information for the two groups are identical viz., company annual reports,interim reports and prospectuses.

Table 8.4
Comparison of the ranking in importance of the sources of information between the two groups of investment analysts.

Sources of information	All Rank	Group 1 Rank	Group 2 Rank
Corporate annual reports	1	1	1
Corporate interim reports	2	2	2
Prospectuses	3	3	3
Communications with company	4	4	5
Visits to companies	5	5	4
Advisory services	6	6	6
Government Publications	7	7	7
Newspapers	8	9	8
Business magazines	9	8	9
Tips and rumours	10	10	10

Group 1 - Institutional investors
Group 2 - Investment intermediary

No appreciable difference was found in the rankings given to the types of information sources by the two groups of analysts. The most important were information produced by the companies, followed by information gathered or assembled by the investment analysts and lastly, information from third party sources.

The t-test was used to determine whether there were any significant differences between the mean scores the two groups of analysts gave to the importance of the sources of information. The results of the t-test are presented in Table 8.4.

Table 8.4 shows that there are no significant differences between the two groups of investment analysts for seven out of the ten sources of information. However, the t-test showed that there were significant differences for three sources of information :

(a) communications with the company;

(b) visits to companies; and

(c) tips and rumours

The mean scores for the two sources of information; communications and visits to companies; were rated significantly higher by analysts working in institutional investor firms (Group 1). This is because institutional investors tend to be regarded as long term investors in companies. Thus, personal contacts with companies, may be considered to be important in obtaining the latest information about the company. In contrast the investment intermediary firms, as advisors to their clients, may have no direct interest in these companies. Indeed, this explanation was partly supported by the fact that the institutional investors ranked advisory services lower than these personal with the companies (see Table 8.4).

Table 8.5

Results of T-test of differences between the two groups of investment analysts

Sources of information	GROUP 1 Mean	GROUP 2 Mean	T-value	D.F.	
Corporate annual reports	1.2090	1.1571	0.71	135	N.S.
Corporate interim reports	1.5373	1.3571	1.83	135	N.S
Prospectuses	1.5224	1.6714	1.18	135	N.S
Communications with company	1.6418	2.1159	3.07	135	0.003(*)
Visits to companies	1.7015	2.1000	2.20	135	0.031(*)
Advisory services	2.2090	2.2000	0.06	135	N.S.
Government Publications	2.2836	2.3286	0.28	135	N.S.
Newspapers	2.4328	2.4143	0.15	135	N.S.
Business magazines	2.3433	2.5143	1.36	135	N.S.
Tips and rumours	3.0149	3.4429	2.18	135	N.S.(*)

Group 1 - Institutional investors
Group 2 - Investment intermediary
D.F. - Degrees of freedom

(*) -significant at 0.05
N.S.-Not Significant

Although "tips and rumours" were ranked the lowest in importance by the two groups of investment analysts, the t-test showed that there was a significant difference in the mean scores between Group 1 and Group 2 analysts (3.01 and 3.44 respectively).

This result was most surprising as one would expect that the institutional investing firms would be more prudent in their sources of information than the investment intermediary firms. A possible explanation for this result is that investment intermediary firms (stockbrokers and merchant banks) are more exposed to "tips and rumours" in their daily activities and, therefore have more experiences in dealing with this source of information. However, there was no evidence (either from this or other research), to support this explanation.

8.2.2.2 <u>Respondents Experience</u>

Another important background factor examined in this section was the experience the respondents have had in investment analysis. In Table 7.12 of Chapter 7, it was shown that the number of years of experience of the respondents who took part in the survey range from less than two years to more than 15 years, with a mean of 6.3 years.

The analysts were divided into two groups: Group 1 consisted of those analysts who had less than 4 years of experience and Group 2 consisted of those respondents who had more than 4 years of experience as investment analysts. The number of analysts in Group 1 was 55 and in Group 2, 71 (11 of the respondents did not indicate the length of their experience).

It was assumed that the number of years of experience that analysts have had would affect their perceptions of the importance of the various sources of information (see Table 8.6) for investment decisions and recommendations. It was hypothesised that since Group 2 analysts have had more experience and therefore had more exposure to information other than those originating from the companies, they would be more likely to perceive sources of information such as visits to companies, communications with management and advisory services higher in importance than analysts with less experience - Group 1.

The results of the t-test on the differences in the mean scores are shown in Table 8.6. With the exception of the first two items (annual and interim reports), the analysts in Group 2 rated the other sources of information as more important than those in Group 1. In six of the items,viz; annual reports, interim reports, prospectuses, tips and rumours,

Table 8.6

T-test results of differences in analysts' experience and perceived importance of sources of information

	Group 1 Mean Score	Group 2 Mean Score	
Annual reports	1.145	1.169	N.S.
Interim reports	1.400	1.465	N.S.
Prospectuses	1.690	1.507	N.S.
Communications with management	2.091	1.728	0.029(*)
Visits to companies	1.982	1.761	0.235(*)
Advisory services	2.400	2.070	0.027(*)
Government publications	2.473	2.141	0.048(*)
Business magazines	2.473	2.394	N.S.
Newspapers	2.455	2.409	N.S.
Tips and rumours	3.382	3.042	N.S.

Group 1 - Analysts who had less than four years experience

Group 2 - Analysts who had more than four years experience

(*) - Significant differences at 0.05 level

N.S.- Not significant.

Mean scores based on a five point scale with 1 (- being very important) ranging to 5 (being not important at all).

newspapers and magazines, the t-test indicated that these differences were not significant.

Analysts with more than four years working experience rated four items; communications with management, advisory services, visits to companies and government publications,as significantly more important than the analysts with less than four years experience.

This result suggests that analysts with greater experience in investment analysis placed more reliance on other information sources, rather than relying on the annual reports alone for their investment analysis.

8.2.2.3 Respondents Participation in Investment

From the discussions in Chapter 7, it was shown that a majority (90%) of the respondents were involved, to some degree, with investment decisions or recommendations. The amount of involvement, however, varied considerably. Table 7.14 showed that although 86% of the respondents were involved with investment decisions regarding the amount of investment in particular companies, 38% replied that their involvement in such decisions were "minor". In addition, 14% of the respondents were not involved at all with such investment decisions.

It was expected that analysts who were greatly involved with investment decisions would rate the the importance of company annual reports as a source of information for investment analysis, lower than those analysts who were either not directly involved or those whose involvement was minor. This is because those who are involved with such decisions would presumably have more opportunity to evaluate the usefulness of financial statements.

The results of the t-test (Table 8.7) show that there were no significant differences between the the two groups of investment analysts.

Therefore, it was concluded that the respondents degree of involvement in investment decisions and recommendations did not result in significant differences in the perceived importance of annual reports as a source of information for investment analysis.

Table 8.7
Results of T-test of differences in level of involvement in investment decisions and perceived importance of annual reports.

	Importance of annual reports as a source of information.	
	Mean Scores(*)	S.D.
Group 1 - Those who were greatly involved in investment decisions	1.1447	0.354
Group 2 - Those who were less involved or not involved in investment decisions	1.2295	0.496
T-value	1.16	
Degrees of freedom	135	
No significant difference		

(*)Based on a five point scale

8.2.2.4 Knowledge in Accounting

Respondents were requested to estimate the amount of accounting courses that they had undertaken in obtaining their qualifications. Those respondents who replied to this question were then divided into two sub-groups as shown in Table 8.8. (Note: 8% of the respondents did not answer this question and were therefore excluded from the analysis).

It was expected that the analysts who had undertaken a significant number of accounting courses, would rate the company annual reports significantly higher in importance as a source of information for investment analysis, because of their academic knowledge in accounting, than those analysts whose knowledge in accounting was less.

The results of the t-tests in Table 8.8 showed that there was no significant difference in the perceived usefulness of the annual reports by the two groups.

8.2.2.5 Country of Origin of Respondents' Qualifications

In Chapter 3, it was pointed out that many accountants in Malaysia had received their training and qualifications from overseas countries, principally from the United Kingdom, Australia and New Zealand. An analysis of the returned questionnaires in Table 7.11, also showed that 60% of the investment analysts who had degrees in business related fields obtained their qualifications from other countries.

Table 8.8

Results T-test of differences in accounting knowledge and perceived importance of annual reports

	Importance of annual reports as a source of information. Mean Scores(*)	S.D.
Group 1 - Those who had taken many accounting courses.	1.1935	0.449
Group 2 - Those who had few or no accounting courses	1.1250	0.336
T-value	0.79	
Degrees of freedom	123	

No significant difference

(*)Based on a five point scale 1 - very important to 5 - not important at all.

The exposure of the foreign educated analysts to practices in the advanced countries may result in greater scepticism towards the annual reports of Malaysian companies.It was expected that these analysts would rate the annual reports significantly lower in importance than those analysts who obtained their qualifications in Malaysia.

The t-test was used to test for differences in perception of the two groups. The results in Table 8.9 show that there are no significant differences in the mean scores attached to the importance of the annual reports by the two groups of analysts.

Table 8.9

Results of t-test of foreign and Malaysian qualified analysts and the perceived importance of annual reports

	Mean Score
Local	1.1951
Overseas	1.1707
T-value	0.30
Degrees of freedom	121
No significant differences	

8.2.3 Summary of the Section

In this section, the results of the survey into the importance of the sources of information were analysed and discussed. It was found that the most important source of information for investment analysts was the company annual reports.An overwhelming majority (98%) of the investment analysts in the survey perceived that the annual reports were either "very important" or "important" as a source of information for investment decisions and recommendations.

A detailed analysis of the responses also revealed that the most important group of information was those originating from the companies themselves, such as prospectuses, annual and interim reports. Third party sources of information were ranked relatively lower in importance by the analysts. The analysis also showed that the more experienced analysts tended to use other information sources more than those analysts with less experience.

A comparison of the current study with studies in other countries showed agreement in that investment analysts ranked company annual reports as the most important source of information for investment analysis. There were however, differences in the importance attached to third party information sources: analysts in Malaysia ranked these sources of information lower than analysts in the developed countries.

The t-test was used in investigating whether differences in analysts' background characteristics resulted in significant differences in their perceptions of the importance of the annual reports. The results showed that none of the five characteristics examined resulted in significant differences between the analysts. Thus the conclusion was made that, regardless of the analysts background characteristics, the most important source of information perceived by the analysts was company annual reports.

8.3 The Importance of Sections of Company Annual Reports

This section examines the importance attached to the various sections elements of the company annual reports to the investment analysts.

Twelve sections of company annual report were identified and respondents were asked to rate the importance of each section on a five point scale (see Part 1,question 2 of the questionnaire in Appendix 5).

Responses to the questions are presented in Table 8.10, which shows the mean scores, standard deviations and coefficient of variation, and Table 8.11 which shows the frequency of responses by the financial analysts.

From Table 8.10, it can be seen that the most important sections of the annual reports are the Profit and Loss Account (mean score: 1.190) and the Balance Sheet (mean score: 1.241). The closeness in the mean scores indicated that there is little difference in the perceived importance of these two sections of company annual reports to the investment analysts for investment decisions and recommendations. The coefficient of variation of these two sections are also the lowest, indicating agreement within the analysts group regarding the importance of these sections. This finding is again confirmed by examining Table 8.11, in that all of the respondents perceived that the above

Table 8.10

Importance of sections of annual reports for investment decisions and recommendations.

	Rank	Mean	S.D.	C.V.
Profit and Loss Account	1	1.190	0.394	33.1
Balance Sheet	2	1.241	0.429	34.6
Statement of Changes in Financial Position	3	1.618	0.678	41.9
Notes to the accounts	4	1.752	0.745	42.5
Auditors reports	5	1.949	0.894	45.8
Management forecast of expected profits (or loss) for the coming year	6	2.088	0.853	40.9
Statement of Accounting Policies	7	2.102	0.843	40.1
Management discussions and analysis of coming years	8	2.204	0.948	43.0
Management discussions and analysis of operations for preceding years	9	2.235	0.888	39.7
Chairman's Letter	10	2.350	0.871	37.0
Profiles of the Board of Directors	11	2.723	1.083	39.8
Profiles of senior management	12	2.745	1.078	39.3

S.D. - Standard Deviation

C.V. - Coefficient of Variations (%)

two sections of the financial statements as either "very important" or "important" to their investment activities.

The third most important section of the company annual report is a relatively new section, the Statement of Changes in Financial Position, which was made compulsory under the 1985 Amendment to the Malaysian Companies Act.

The results in Table 8.10 are not surprising because the Profit and Loss Account, Balance Sheet and Statement of Changes in Financial Position are the foundation of company annual reports. These three provide the major source of company financial information for investment analysis, particularly in a developing country like Malaysia, where secondary sources of financial information are either not readily available or are looked upon with suspicion by the investment analysts.

Information relating to the basis of preparation of the above sections of the annual reports were ranked next in importance. As can be seen from Table 8.10, the sections "Notes to the Accounts" and "Auditors Reports" were ranked third and fourth, respectively (with mean scores of 1.618 and 1.752).

One finding of this section of the study is that analysts place greater emphasis on management forecast of profits and discussions of operations for

Table 8.11

Frequencies of analysts responses to the importance of sections of annual reports

Sections of Annual Reports	Frequencies of responses(%)(*) 1	2	3	4	5
Profit and Loss Account	81	19	-	-	-
Balance Sheet	76	24			
Statement of Changes in Financial Position	47	46	5	2	-
Notes to the accounts	41	45	12	2	-
Auditors reports	37	35	24	3	1
Management forecast of expected profits (or loss) for the coming year	26	39	24	10	-
Statement of Accounting Policies	22	53	19	4	2
Management discussions and analysis of coming years	11	33	31	19	6
Management discussions and analysis of operations for preceding years	21	43	27	9	1
Chairman's Letter	16	42	33	8	1
Profiles of the Board of Directors	13	31	31	20	6
Profiles of Senior management	11	33	31	19	6

(*) - To the nearest one percent

Scale:

1 - Very Important
2 - Important
3 - Neutral
4 - Not Important
5 - Not Important At All

the coming years (mean scores of 2.088 and 2.204, respectively) than those discussions of operations for the preceding years (mean score:2.235).

Forecasts represented only the opinions the company and are not subject to any audit of the basis of the forecast nor do they necessarily have the comparative reliability of historical audited financial information. These forecasts are quite speculative and have, on occasions in the past, been abused by companies making exaggerated claims. As a result, the Kuala Lumpur Stock Exchange, have imposed a new regulation making the Chairman of the Board of Directors responsible for the accuracy (to within 5%) of the forecasted results .

Given the uncertain nature of forecasts, it was expected that the analysts would have given low ratings to this section of the annual reports. However, the opposite was true. The possible explanation, is that the "future" orientated information is used to complement the historical information obtained from the "traditional" sections of the annual reports.

The importance of both forecasts and historical information can clearly be seen by examining the frequency responses , which are almost equal (65% and 64%), of the respondents who rated as important, "management forecasts" and "results of preceding years operations" (Table 8.11).

The other sections of the annual reports viz; chairman's letter, profiles of senior management and board of directors were rated as moderately important (with mean scores of between 2.350 to 2.745). The low rankings given for these sections may indicate that these were used for background information only.

8.3.1 Comparison with studies in other countries.

The criteria for the choice of other studies to be used in this comparison is similar to that of section 8.2.1 viz; (a)the sample population;and (b) the variables used in the research. Based on these criteria, the following studies were chosen: Chang, et al (1983); Lee and Tweedie(1981) and Anderson,(1981).

The rankings in importance of each section of the annual reports were used as a basis for comparing the studies and is presented in Table 8.12.

Table 8.12 shows that the high ranking attached to the Balance Sheet and Profit and Loss Account in the study were identical to that in the studies carried out in the United States, United Kingdom, and Australia.

One major difference between the ranking in the current study and those carried out in the advanced countries was that given to the item 'auditors reports'. In Malaysia, this item was ranked more highly (fifth) than in the other advanced countries which ranked this item very much lower (ranging from eighth to twelth).

Table 8.12

Comparison of the rankings of sections of the company annual reports of the current and other studies.

Sample population	Current Study Investment Analysts	Chang, Most and Brian(1) Institutional Investors			Chang, Most and Brian(1) Financial Analysts			Lee and Tweedie(2) Institutional Investors	Anderson(3) Institutional Investors
Country	Malaysia	U.S.	U.K.	N.Z.	U.S.	U.K.	N.Z.	U.K.	Australia
Sections of annual reports									
(a)Profit and Loss Account	1	1	1(*)	1	1	1	1	1(*)	1
(b)Balance Sheet	2	2	1(*)	3	2	2	2	1(*)	2
(c)Statement of Changes in Financial Position	3	3	3	2	3	3	5	5	5
(d)Notes to the accounts	4	4	5	9	7	7	8	4	3
(e)Auditors reports	5	8	10	10	9	10	10	12	9
(f)Management forecast of expected profits (or loss) for the coming year	6	-	-	-	-	-	-	-	-
(g)Statement of Accounting Policies	7	6	4	8	4(*)	6	9	8	8
(h)Management discussions and analysis of coming years	8	-	-	-	-	-	-	-	-
(i)Management discussions and analysis of operations for preceding years	9	9	6	5	8	5	4	-	-
(j)Chairman's Letter	10	10	9	7	10	8	6	3	4
(k)Profiles of the Board of Directors	11	-	-	-	-	-	-	-	-
(l)Profiles of senior management	12	-	-	-	-	-	-	-	-
(m)Directors reports	-	-	-	-	-	-	-	9	-

Notes: (-) No equivalent sections
(*) The sections of the annual reports share similar rankings

(1) Chang, L.S., Most, K.S. and Brian, "The Utility of Annual Reports: An International Study." Journal of International Business, Spring/Summer 1983, pp. 63 - 84

(2) Lee, T.A. and Tweedie, D.P., The Institutional Investor and Financial Information, Institute of Chartered Accountants in England and Wales, London, 1981, p.81.

(3) Anderson, R.,"The Usefulness of Accounting and Other Information Disclosed in Corporate Reports to Institutional Investors in Australia", Accounting and Business Research, Autumn 1981, p. 262.

A possible explanation for this significant difference in the ranking is the perceived difference of the accounting profession in Malaysia. In the advanced countries, the accounting bodies exercise strict control over their members and enforce their accounting standards and regulations. Analysts in these countries may take it for granted that the annual reports will be prepared to high standards.

The situation in Malaysia is different as described in the discussions on the Malaysian accounting environment in Chapter 3 and 4. As such, it is important for the analysts in Malaysia to ensure that company financial statements are properly attested to by the auditors. In addition, the identity of the auditors (for example whether the company is being audited by a local or international accounting firms) is also important to the financial analysts in Malaysia (see section 8.6). For these reasons, the analysts in Malaysia ranked auditors reports much higher than do their counterparts in the other countries.

Table 8.12 also shows that in the current study, analysts in Malaysia gave a low ranking (ranked tenth) for the 'Chairman's Letter', in contrast to the high rankings given in the UK study by Lee and Tweedie and the Australian study by Anderson (third and fouth, respectively). A possible explanation could be the exaggerated statements in the past by the directors of Malaysian companies, as explained in section 8.3.

Other sections in the annual reports were ranked at approximately the same level of importance by analysts in the studies.

8.3.2. Summary

The results of the survey indicated that the most important sections of the company annual reports to analysts are the Profit and Loss Account and the Balance Sheet.

In comparing the results of this study with studies in other countries, it was found that the results obtained from this study are generally consistent with those of studies carried out in the advanced countries.

8.4 The Uses of Company Annual Reports.

The investment analysts were asked to indicate the importance of the various components of annual reports to eight areas of investment decisions and activities, based on a five point scale (Question 2 of the attached questionnaire in Appendix 5).

The mean scores for each of the areas of investment activities are shown in Table 8.13. The analysis revealed that the most important use of the annual reports is related to the traditional aspects of investment analysis, with activities such as preparing ratios and commentaries (mean value 1.404), comparing the performance of the companies over previous years (1.489), providing background and primary information for investment analysis (with equal mean scores of 1.555), and monitoring previous investment decisions (mean score 1.637).

However, an examination of the use of the annual reports as a basis for comparing inter-company performance revealed an interesting insight into Malaysian accounting practice; this item was ranked next lowest (mean value 1.883). Reasons for the low ranking for this item could be that company annual reports in Malaysia are prepared with varying degrees of quality (see Chapter 4) and that accounting practices differed considerably from company to company. As a result, the use of annual reports for inter - company comparison is limited.

The low ranking given to annual reports for inter-company comparison was in sharp contrast to their usefulness in comparing a company's performance over a period of time, ranked second in order of usefulness. The higher ranking given to this latter use suggested that analysts believed companies in Malaysia to be more consistent in the application of accounting practices from year to year as required under Schedule 9(2)(3) of the Companies Act.

Table 8.13

Usefulness of company annual reports in the areas of investment decisions.

	Rank	Mean	S.D.
To prepare ratios or commentaries	1	1.404	0.601
In making comparison of company's performance over previous year	2	1.489	0.570
To provide background information	3(*)	1.555	0.804
To provide primary information	3(*)	1.555	0.652
To monitor previous investment decisions	5	1.637	0.665
To forecast profits/eps	6	1.745	0.767
In making comparison of a company's performance with that of other companies	7	1.883	0.787
To investigate companies to make new or additional investment	8	1.920	0.411

(*) - Equal mean scores

S.D.- Standard deviation

8.5 Extent of Adjustment of Figures in the Company Annual Reports

Chapter 4 reported the results of an analysis of a sample of annual reports of companies in Malaysia. The analysis was carried out in order to determine whether or not these reports complied with the International and Malaysian accounting standards. The major conclusion was that if these standards converged with the legal requirements, then accounting standards were generally complied with but otherwise, compliance with these standards were inconsistent and varied from company to company.

It was also found that the annual reports of a number of companies in Malaysia did not comply with the requirements of certain accounting standards. Even if the companies were to comply with the IAS the alternative treatment allowed under these standards could lead to great differences in the performance figures of the company(*).

The areas chosen were as follows:

(a) depreciation
(b) asset valuations
(c) extraordinary items
(d) inventory valuations
(e) taxation
(f) intangible assets
(g) earnings per share
(h) leased assets
(i) investment valuations
(j) exchange rates

(*) Note: EMH studies suggests that investors are indifferent to alternative accounting methods adopted by companies, as long as they are being adequately disclosed (see Chapter 2).

Analysts were asked to identify the extent to which they made adjustments to the figures appearing in a company's financial statements in respect of the above items; ie; (a) major adjustment; (b) minor adjustment; and (c) no adjustment at all (see Part 1, Question 4 of questionnaire in Appendix 5).

The above questions were included in the questionnaires both to gauge whether the non-compliance with the accounting standards and differences in accounting practices of these items by some companies greatly impaired the usefulness of these figures for investment purposes and to assess the ability of investment analysts to identify and correct perceived problem areas.

Table 8.14 shows that the item adjusted most by the analysts is the asset valuation figures. In Chapter 4, it was stated that a common accounting practice carried out by companies in Malaysia was to undertake regular upward revaluations of assets such as land and building. Although revaluations of assets are permitted under the Malaysian Company's Act (Schedule 9(2)1, the analysts who took part in the survey were clearly sceptical of the valuations placed on such assets. It was also found in the earlier analysis of the financial statements of Malaysian companies that a few companies failed to comply with the IAS by not depreciating certain assets.

Table 8.14

Extent of adjustments to financial statement figures by investment analysts.

	Extent of adjustment (*)		
	Major Adjustment (%)	Minor Adjustment (%)	No Adjustment (%)
Asset Valuations	50	30	20
Earnings per share	39	36	25
Exchange rates	37	32	31
Investments	31	34	35
Extraordinary Items	23	40	37
Inventory Valuations	11	49	40
Intangible assets	18	39	43
Depreciation Expense	10	47	43
Leased assets	7	47	46
Taxation	8	36	56

(*) - to the nearest one percent.

Eighty percent of the investment analysts stated that they made adjustment to the asset figures given in the annual reports of the companies. Of this, slightly less than two thirds (62.5%) of these analysts stated that the adjustments made to the asset figures were considered as "major".

The other figures in the annual reports that were adjusted by a significant majority of the investment analysts in the survey were those relating to the earnings per share, gains or losses on exchange rates and the valuations placed on the investment by the companies.

With the exception of the taxation item, the other items shown in Table 8.14 were adjusted by around 60% of the investment analysts in the survey.

A significant minority of the investment analysts did not make any adjustment at all,even for those items that were reported to be frequently adjusted. For the items "asset valuations" and "earnings per share", about one quarter of the analysts made no adjustments. adjustments . For the other items, a larger proportion proportion (about forty percent) of the analysts made no adjustments to the items.

The fact that a significant minority of analysts did not adjust these figure seemed to imply that these analysts were not aware of the importance of these items and the effects different accounting treatments have on the reported profits and financial position of the company. An alternative explanation is that the analysts considered these figures to be adequately reported. Foster (1978, p.147) gave the following additional reasons for analysts not adjusting figures appearing in the financial statements:

(a) the companies had selected the accounting methods to best represent their underlying economic characteristics;

(b) there is insufficient information available to make adjustments that the analysts would consider as reliable; and

(c) the choice of accounting methods adopted by companies is irrelevant to the decisions to be made.

8.5.1 <u>Analysts Characteristics and Adjustments</u>

Two of the analysts background characteristics, i.e., (a) knowledge in accounting and (b) experience, that were thought to influence the level of adjustments to figures appearing in the financial statements were tested to see whether there is a relationship between these characteristics and the level of adjustments. The results are shown in Table 8.15 and 8.16.

The first characteristic was chosen because certain figures appearing in the financial statements could be considered as technically complex (such as the treatment of foreign exchange gains and losses, leases, intangibles and others) to those without formal accounting training . It was hypothesised that those respondents with a better knowledge in accounting will use their expertise to adjust the figures in the financial statements in their investment decisions and recommendations.

The chi-square tests indicated that at the 0.05 level of significance,except for the depreciation item, there is no relationship between the level of knowledge in accounting and level of adjustment to figures published in the financial statements.

The second background characteristics examined in this part of the analysis was the respondents number of years of experience in investment analysis. It was postulated that those analysts who had more experience would adjust the figures to a greater extent than the less experienced analysts.

Table 8.15

Results of Chi-square test on respondents accounting knowledge and extent of adjustment to ten figures in annual reports

	Level of Adjustments			
	Major (%)	Minor (%)	None (%)	Total (%)
1. Depreciation Expenses				
Group 1	6	54	40	100
Group 2	19	25	56	100
Observed Chi-square Significance = 0.009(*)				
2. Asset valuations				
Group 1	51	31	18	100
Group 2	38	31	31	100
Not Significant				
3. Extraordinary items				
Group 1	20	41	39	100
Group 2	22	34	44	100
Not significant				
4. Inventory valuations				
Group 1	8	50	42	100
Group 2	16	50	34	100
Not significant				
5. Taxation				
Group 1	7	30	63	100
Group 2	9	50	41	100
Not significant at 0.05 level				
6. Intangible assets				
Group 1	19	31	50	100
Group 2	16	50	34	100
Not significant at 0.05 level				

Table 8.15 (cont'd)

Respondents accounting knowledge and extent of adjustment to figures in annual reports

	Level of Adjustments			
	Major (%)	Minor (%)	None (%)	Total (%)
7. Earnings per share				
Group 1	36	40	24	100
Group 2	44	25	31	100
Not significant at 0.05 level				
8. Leased assets				
Group 1	8	47	45	100
Group 2	3	47	50	100
Not significant at 0.05 level				
9. Exchange rates				
Group 1	38	32	30	100
Group 2	28	31	40	100
Not significant at 0.05 level				
10. Investments				
Group 1	30	34	36	100
Group 2	25	34	41	100
Not significant at 0.05 level				

Group 1 (N=93) - Investment analysts who had taken many accounting courses.

Group 2 (N=33) - Investment analysts who not not taken any accounting course or had taken only a few accounting courses.

The results of the cross tabulations and chi-square tests are given in Table 8.17 which shows that, with the exception of taxation, the proportion of analysts who had more than four years experience who carried out adjustments to the figures given in the annual reports were greater than those analysts with less than four years experience.

At the 0.05 level of significance, the chi-square tests showed that six of the items in the table showed significant differences in the proportions between the two groups of analysts who adjusted these figures. These items were ; (1)depreciation expenses, (2)asset valuations, (3)extraordinary items, (4)inventory valuations, (5)exchange rates and (6)investments.

Thus, the results in Table 8.16 show that there is a relationship between the experience of the analysts and the level of adjustments to the above six figures in the annual reports.

In the case of the remaining four items,i.e, taxation, intangible assets, earnings per share, and leased assets, the chi-square tests indicated that there is no relationship between the analysts' experience in investment analysis and the adjustments to figures disclosed in financial statements of companies.

Table 8.16

Results of Chi-square tests of experience and level of adjustments to the figures in annual reports.

	Levels of Adjustments			
	Major (%)	Minor (%)	No (%)	Total
1. Depreciation Expenses				
Group 1	9	33	58	100
Group 2	10	61	29	100
Significance=0.0041(*)				
2. Asset valuations				
Group 1	36	31	33	100
Group 2	61	30	9	100
Significance=0.0027(*)				
3. Extraordinary items				
Group 1	22	31	47	100
Group 2	24	49	27	100
Significance=0.0439(*)				
4. Inventory valuations				
Group 1	7	40	53	100
Group 2	14	57	29	100
Significance=0.0206(*)				
5. Taxation				
Group 1	9	44	47	100
Group 2	4	32	64	100
Not significant				
6. Intangible Assets				
Group 1	13	38	49	100
Group 2	21	38	41	100
Not significant				

Table 8.16 (cont'd)

Results of Chi-square tests of experience and level of adjustments to the figures in annual reports.

	Levels of Adjustments			
	Major (%)	Minor (%)	No (%)	Total
7. Earnings per share				
Group 1	33	36	31	100
Group 2	48	34	18	100
Not significant				
8. Leased assets				
Group 1	6	47	47	100
Group 2	7	51		
Not significant				
9. Exchange rates				
Group 1	24	36	40	100
Group 2	46	31	23	100
Significance=0.0199(*)				
10. Investments				
Group 1	20	38	42	100
Group 2	42	31	27	100
Significance=0.026(*)				

(*) - Significant relationship exists at 0.05 level

Group 1 - Analysts with less than four years experience

Group 2 - Analysts with more than four years experience

To summarise,this section tested two background characteristics of the respondents, their knowledge of accounting and their experience in investment analysis, against the levels of adjustment carried out on ten specific figures appearing in financial statements. It was found that there was no relationship between level of accounting knowledge and the degree of adjustment to figures in the financial statements. There is however, a relationship between the analysts' experience and the level of adjustments on six of the ten items listed. It is therefore concluded that the more experienced the analysts, the more likely they will adjust the figures in the annual reports when carrying out investment analysis.

8.6 Investment Analysts' Confidence in Using Company Annual Reports

As can be seen from the discussions in the previous sections, financial analysts depend a great deal on company annual reports as a source of information for investment analysis.

In questions 6 and 7(a) of the survey questionnaire, analysts were asked to assess their confidence in the information provided in company annual reports and the relevance of these reports for investment analysis. They were asked to rate their confidence based on a five point scale.

Table 8.17 shows that the majority of the analysts had a reasonable degree of confidence in their use of company annual reports, and also found the information relevant to investment analysis. However, only 12% of the analysts rated themselves as "very confident" in using the annual reports for investment decisions, compared with 68% who were just "confident". For the item "relevance", 29% of analysts found the reports to be "very relevant" and 67% found them to be "relevant".

In question 7(b), the respondents were asked to rate whether the factors listed in Table 8.18 would affect their confidence in using the annual reports based on a five point scale with "1" denoting

Table 8.17
Confidence in using company annual reports for investment decisions

	Level of confidence/ relevance (*)				
	1	2	3	4	5
Confidence in using annual reports for investment decisions.	12	68	20	-	-
Relevance of information in annual reports for investment decisions	29	67	4	-	-

to the nearest one percent

(*) Scale used:

1 - Very confident/relevant
2 - Confident/relevant
3 - 50% confident/relevant
4 - Little relevance/confidence
5 - No confidence/relevance

greatly increase confidence and "5" being greatly decrease confidence. The results to this question are are presented in Table 8.18.

The figures disclosed in this table confirmed that the overwhelming majority (96%) of investment analysts surveyed believed that greater enforcement of the accounting standards would bring about increase confidence in using information contained in financial statements for investment purposes. A majority of the analysts also rated that an increase in government regulations concerning the preparation of company accounts and the use of standardised formats by companies would also increase their confidence in the use of annual reports.

The preference of investment analysts for international audit firms rather than local firms in auditing the companies in Malaysia also pointed to the perceived different levels of quality of services performed by these firms.

Table 8.18
Factors affecting confidence in using annual reports for investment decisions.

	Increase Confidence (%)	No change (%)	Decrease Confidence (%)
Greater enforcement accounting standards	96	4	-
Increase in Government regulations	86	13	3
Audit carried out by international firm	84	14	3
The use of standardised formats by co.s	70	28	2
Audit carried out by local firms	27	46	27

In summarising this section, the results indicated that most analysts in the survey reported that they were reasonably confident in using company annual reports for investment decisions and recommendations. The majority of analysts also perceived that the most important factor that will increase their confidence in using the annual reports was the greater enforcement of International and Malaysian accounting standards. They appeared to see non-compliance then as a feature of the Malaysian accounting environment, which was confirmed by the analysis of the financial statements in Chapter 4.

8.7 Limitations of the Survey

The questionnaire survey was conducted to obtain the views of investment analysts concerning the importance of company annual reports as a source of information for investment decisions and recommendations. However,the nature and purpose of this study, and the environment under which the survey was undertaken, had imposed a certain amount of restrictions as explained in Chapter 6.

Consequently, the following limitations had to be taken into consideration when interpreting the results and findings of the survey:

(1) The population of the study was confined to the investment analysts who are working in the following organisations:

(a) mutual and unit trust companies;

(b) provident and pension funds;

(c) insurance companies;

(d) merchant banks; and

(e) stockbrokers.

From sources such as the Bank Negara (Central Bank) Economic reports and business directories, it was determined that only 94 such organisations and firms in Malaysia are actively engaged in investment activities (See Table 6.1). Analysts working in other organisations such as commercial banks (who are mostly involved with credit rather than investment analysis) were not included in the survey. However, there is no a priori reason why their views should differ from those expressed by the respondents in the current study.

(2) The nature and the purpose of this study were dependent to a large extent on the willingness of the organisations to allow access to the investment analysts and allowing them to answer the questions in the survey questionnaire. The response rate to the survey amounted to 36.3%.

(3) The sample may not be described as fully representative of the population because of the following factors:

(a) Random selection procedures had not been employed since the whole population consisted of the investment analysts working in 94 organisations, the whole population had been requested to participate in the survey.

(b) The sample organisations used in the survey were not restricted by factors such as size and number of analysts employed. As can be determined from the limited information disclosed in the returned questionnaires, the institutions and firms taking part in the survey were varied.

(c) As stated in Chapter 6, certain firms (stockbrokers) located in small towns were not asked to participate in the survey.

(4) The institutional investing firms in Malaysia vary a great deal in terms of size and the number of analysts employed. The largest have around one hundred analysts involved with some aspects of investment analysis and the smaller ones between 5 to 15 analysts.

There is thus a possibility that the large institutional investors may be over-represented in the returned questionnaires. However, as these organisations represent the major investment portfolios, there will be no bias in the significance of the result to the Malaysian economy.

(5) Respondents views views were limited primarily to the annual reports of companies and its importance as a source of information for investment analysis.

As regards to (2) and (3) above, the tests for non-response bias (see Chapter 7), however, indicated that the answers given could be described as representative of the population of investment analysts.

With these limitations in mind, the following section presents a summary of the results and findings of the survey:

8.8 Summary of the Major Findings.

The main purpose of the research project was to evaluate the importance of the annual reports and their role in investment analysis from the point of view of the investment analysts in Malaysia. The term "role" for the purpose of this thesis include the perceived importance of the annual reports to these 'sophisticated investors' in making investment decisions and recommendations, the use made of these annual reports, an investigation into the importance of the sections of the annual reports, the extend of adjustment made to the figures in the annual reports and the confidence in the use of the annual reports for investment analysis.

The summary of the major findings of this chapter are as follows:

(1) The most important source of information for investment decisions and recommendations for investment analysts is the company annual reports Information from third party sources such as advisory services, tips and rumours, government publications, newspapers and magazines is ranked of secondary importance by these investment analysts.

(2) The results achieved above are generally consistent with the results of studies conducted in the developed countries viz; United States, United Kingdom, Australia and New Zealand. This is especially so with regards to the finding that company annual reports is the most important source of information to investment analysts.

(3) The analysis of the investment analysts background characteristics revealed that factors such as the types of organisations the analysts were employed, knowledge in accounting, origin of analysts qualifications, level of involvement in investment decisions and the analysts

investment experience did not result in any significant differences in their perceptions of the importance of the annual reports for investment analysis. The more experienced analysts, however, used other sources of information as well for their information needs.

(4) The most important sections of the annual reports perceived by the investment analysts are the Profit and Loss Accounts, the Balance Sheet and the Statement of Changes in Financial Position. These three sections of company annual reports provide the major source of company financial information. In addition, discussions about the company's future operations and performance were considered more important by the investment analysts than sections discussing past performance of the company.

(5) A comparison of the current study with studies in the United States, United Kingdom, Australia and New Zealand showed that analysts in these countries also ranked the Profit and Loss Account, Balance Sheet and the Statement of Changes in Financial Position as the most important sections of company financial statements. Auditors' Report was , however, ranked relatively higher in importance by Malaysian analysts. In contrast, Chairman's Letter was ranked higher by analysts in the developed countries.

(6) The most important use of the annual reports found by the survey was related to the traditional aspects of investment analysis, such as preparing ratios, and commentaries which were then used as aids in making investment decisions. It was also found that the analysts perceived that company annual reports have limited value for inter-company comparison.

(7) It was found in the survey that the majority of investment analysts made varying degrees of adjustments to the ten specific figures listed in the questionnaires. In addition, half of the analysts surveyed stated that they carried out major adjustments to the asset valuation figures. The survey also revealed that a significant minority of analysts did not make any adjustment at all to the ten specific figures.

(8) Two background characteristics of analysts were tested to see whether there were any relationship between these characteristics and the level of adjustment carried out on figures appearing in the financial statements. It was found that there is no relationship between the analysts knowledge in

accounting and the level of adjustment. The chi-square test, however, indicated that there is a relationship between the number of years of experience of the analysts and the level of adjustment to the figures in the financial statements.

(9) The survey shows that the majority of the analysts were confident in using annual reports, and found that the information contained in the reports relevant for investment analysis, the analysts also indicated that measures such as greater enforcement of accounting standards and an increase in government regulations would result in an increase in their confidence in using the company annual reports for analysis.

The conclusions to this questionnaire survey together with the findings into the examination of annual reports of a sample of companies listed on the Kuala Lumpur Stock Exchange are presented in the next final chapter. In addition, the next chapter summarises the main features of the thesis and recommendations for future research are presented.

CHAPTER IX

CONCLUSIONS

9.1 Introduction - A Summary of the Research Project.

Company annual reports constitute a major channel by which companies communicate information to outsiders such as shareholders and investment analysts. In a developing country such as Malaysia, the role of annual reports for investment analysis assumes a much more dominant and prominent role than in the more advanced and economically developed countries. Alternative sources of company information in developing countries tend to be more limited, both in quantity and quality.

In Chapter 2 of the thesis, there were discussions concerning the studies and research that had been conducted into the importance of the annual reports to one of the most important user groups - the investors. The studies discussed relate to the importance of the annual reports and information contained in such reports to investor groups such as the individual or private shareholders, investment analysts and institutional investors. The two approaches used in the research, that is, share price using the Efficient Market Hypothesis and investors surveys were discussed.

The studies discussed in Chapter 2 were carried out in the economically developed countries, namely the United Kingdom, United States, Australia and New Zealand. A search of the literature revealed no similar studies being carried out in the developing countries. One of the aims of the study is to add to knowledge concerning annual reports and the importance of these reports for investment analysis in one developing country, Malaysia.

One important feature of the Malaysian financial system that made such a study important is the existence of an active, albeit small, Stock Exchange. Although the Kuala Lumpur Stock Exchange is small in terms of the number of listed companies, capitalisation and trading volumes, when compared with the more established stock exchanges in the developed countries, there is no doubt that the role of this stock exchange is crucial to the development of the Malaysian economy.

One of the most important requirements for an active Stock Market is the availability of reliable information on quoted companies . The most important source of such information in Malaysia is information is the company annual reports.

Many commentators such as Paton and Littleton (1940), Mautz and Sharaf (1961) and Beaver (1978), among others, argue that the most important group of users of the company reports for investment analysis are the "sophisticated investors", ie, those professional analysts who are employed by the institutional investing firms and information intermediaries. They maybe investors in their own right, when acting as portfolio managers for institutional investors, or as investment advisors or information intermediaries, when employed, for example by the merchant banks and stockbrokers.

As was shown in Chapter 6, the institutional investors represent the biggest group of investors on the KLSE, owning about 50% of the shares listed (see Table 6.4). The amount of funds invested by these organisations in shares of companies listed on the Kuala Lumpur Stock Exchange are substantial and growing steadily over the years (see Table 6.4). The growing importance of the institutional investors in stock exchanges is also reflected, for example, in the UK (Briston and Dobbins, 1978).

Thus, these analysts employed by the above organisations are rightly considered as the "opinion leaders" concerning the investment activities in

Malaysia. For the purpose of this research, these investment analysts, including those employed by the investment intermediary firms (ie, merchant banks and stockbrokers) were the subjects used in the questionnaire survey.

In this questionnaire survey, a total of 377 questionnaires were distributed to the analysts working for these institutional investors, merchant banks and stockbrokers. A total of 137 useable questionnaires were received from these analysts and used in the analysis.

9.2. Research Objectives and Methodology.

A two stage research methodology was used in the current research project.

The first stage consisted of a detailed examination of the annual reports of a sample of 44 companies listed on the Kuala Lumpur Stock Exchange. These annual reports were evaluated on the basis of whether or not they complied with the International Accounting Standards adopted by the Malaysian Association of Certified Public Accountants (IAS 1-17).

The objectives of this examination are:

(i) to determine to what extent Malaysian companies complied with the reporting requirements of the accounting standards adopted by the Malaysian Association of Certified Public Accountants and company legislation;

(ii) to highlight any differences in accounting practices of Malaysian companies, particularly for those controversial items affected by accounting standards;

(iii) to identify a set of contentious accounting issues for inclusion in the postal questionnaire survey made to investment analysts; and

(iv) to find out the differences in the formats and methods of presentation of information in these companies annual reports;

The examination of the annual reports of the companies in the sample showed instances in which companies did not comply with the International Accounting Standards adopted by the MACPA. This is especially true with standards that do not have equivalent requirements as in the Malaysian Companies Act.

This examination also revealed that the companies in the sample used different formats and methods of presentation of the information in the financial statements.

The detailed findings of this investigation were reported at the end of Chapter 4.

The second stage of the study involved a questionnaire survey, conducted among the investment analysts employed by the various institutional investors (i.e; the mutual and unit trusts organisations, pension and provident funds and insurance companies), merchant banks and stockbrokers. The main objective of this questionnaire survey was to evaluate the importance of the annual reports and the information contained therein for investment decisions and recommendations by these "sophisticated investors", in other words, the role and importance of the company annual reports in investment analysis.

This main objective was then broken down into the following sub-objectives:

(a) to identify the relative importance of the annual reports and sections of the financial statements as a source of information for investment decisions and recommendations;

(b) to determine the importance of other sources of information for investment analysis by investment analysts;

(c) to determine whether or not the investment analysts adjust annual report figures for specific items of information. These items of information were chosen because of their materiality and the variability in their treatment in the accounts (as found in the examination of the sample companies annual reports):

(a) annual depreciation expense;
(b) asset valuations;
(c) extraordinary items;
(d) inventory valuations;
(e) taxation;
(f) intangible assets;
(g) earnings per share;
(h) leased assets;
(i) effects of changes in exchange rates; and
(i) investment.

(d) to ascertain whether differences in the background factors of the analysts affected their perceptions concerning the usefulness of the company annual reports and level of adjustment to the above figures appearing in the financial statements.

A total of 377 questionnaires were distributed to 86 of the 94 organisations shown in Table 6.4. Out of this total, 137 useable questionnaires were used in the analysis, representing a response rate of 36.3 percent. As a result of this response rate, the answers given in the questionnaire were tested for non-response bias (Chapter 7). The results of this this test indicated that, generally, the answers given were representative of the investment analysts population as a whole.

The detailed results and findings of the questionnaire survey are presented and discussed in Chapter 8 of this study.

9.3 Limitations of the Study

In arriving at the conclusions of the study, several limitations concerning the methodology and approaches to this study must be considered. The detailed limitations of the study are given in Chapters 4 and 6 of the thesis.

The major limitations of this study are:

(1) In the examination of the annual reports of a sample of 44 companies listed on the KLSE, only the latest annual reports (1984/85) received from these companies were used. The annual reports for subsequent and prior years were not used in the examination. Hence, it was not possible to evaluate certain aspects of company annual reports in Malaysia such as improvement in reporting requirements, contingent items and consistency in accounting practices.

(2) The primary source of information concerning the role of the annual reports for investment analysis was the responses to the 137 questionnaires returned by the investment analysts working in the institutional investors organisations, merchant banks and stockbrokers. Although the responses were tested for non-response bias (and the results showed that the data were not subject to sampling bias as there were no significant difference between the respondents and non-respondents (Chapter 7)), the findings of this study should be interpreted with the following limitations:

(i) The sample used was non-random; 86 of the 94 institutional investors, merchant bankers and stockbrokers were invited to take part in the questionnaires survey. Investment analysts working in other organisations such as commercial and nominee companies were not included in the survey.

(ii) The returned questionnaires may be over-represented by analysts working in the larger institutional investors firms, merchant banks and stockbrokers.

(iii) The limitations imposed by the postal questionnaire methodology as discussed in Chapter 6.

With these limitations in mind, the conclusions of the research project are discussed in the following section.

9.4.1 Conclusions Regarding the Presentation of Information and Compliance with Accounting Standards in Company Annual Reports.

(1) The examination of the annual reports of a sample of companies to see whether they complied with the International Accounting Standards (IAS 1 - 17) adopted by the Malaysian Association of Certified Public Accountants, found that the level of compliance varies, not only between companies in the sample but also between Standards. Although the examination showed that certain companies seemed to comply with the requirements of the IAS, it was also observed that other companies did not make appear to comply with these IAS (detailed analysis of the examination are given in Chapter 4 and Appendix 4A-I).The non- compliance with the IAS was not even disclosed in the accounts and this fact was not noted by the auditors. [Under the requirements of the IAS, if a company did not comply with the disclosure or measurement standards, this fact should be disclosed in the accounts.]

(2) Those IAS which coincided with the requirements of the Malaysian Companies Act were complied with almost in their entirety (eg. IAS 1, 5, 13 and 17).

However, compliance with the other IAS by the companies in the sample were varied. There were instances of companies not following the International Accounting Standards that were adopted by the MACPA, as detailed in Chapter 5. The conclusion that could be derived from the erratic compliance with the IAS was that the accounting profession in Malaysia was not sufficiently rigorous in policying and enforcing these accounting standards among its members and that where compliance was not required by legislation the standards tended to be treated as discretionary.

(3) Generally, it was found that companies in the sample paid too little attention to the structure and presentation of the Balance Sheet and Profit and Loss Account. For example, there were cases where companies failed to show such important headings as "Shareholders Funds", "Total Assets Employed", "Profit Before Extraordinary Items", etc. None of the companies in its Profit and Loss Account showed a proper division of expenses (e.g. between sales, administrative and financial expenses) in arriving at the Profit Before Tax figures other than those required by the Ninth Schedule of the Companies Act. Although these companies were observed to comply with

the disclosure requirements of the Malaysian Companies Act, the presentation and arrangement of these information were left entirely with the companies. The attempts by the accounting profession in Malaysia to standardise the presentation of the final accounts (with the introduction of Malaysian Accounting Standard 4) did not appear to be successful as evidenced by the variety of the formats used by the companies in the survey.

9.4.2 Conclusions Regarding the Role of the Company Annual Reports in Financial Analysis.

(1) A major conclusion of the study is that, despite the inconsistencies of companies in complying with the requirements of the International Accounting Standards, the results of the questionnaire survey showed that the investment analysts ranked company annual reports as the most important source of information for investment decisions and recommendations. Eighty three percent (83%) of the investment analysts considered the annual reports as "very important", 15% as "important" and 2% rated the annual reports as "neutral". Significantly, none of the analysts rated the annual reports as "not important". Statistical tests among groups of

analysts showed that background characteristics such as level of involvement in investment decisions, accounting knowledge, origin of qualifications and analysts experience showed that these factors did not result in any significant difference in their perceptions as to the importance of the annual reports as a source of information for investment analysis. Thus it can be concluded that the annual reports are the major source of information for the investment analysts and therefore play a major role in investment analysis in Malaysia.

(2) This study also showed that the investment analysts, regardless of whether they worked for the institutional investors, merchant banks or stockbrokers, made considerable use of the company annual reports for investment analysis. This conclusion was supported by the analysis carried out in Chapter 8 which showed that there were no significant differences, in the perceptions of the importance of company annual reports between investment analysis who worked for the institutional investors and those working for the merchant banks and stockbrokers. From these findings, it can be concluded again, that the most thoroughly used and influential source of

information for investment analysis is the company annual reports.

(3) In assessing the importance of the sections of the company annual reports, a major outcome was that for investment analysis purposes, analysts regarded as most important the traditional sections of the annual reports; the balance sheet, and profit and loss account. These results were not surprising because these two sections provide the major source of financial information of the company. It was also observed that a comparatively new section of the annual reports, the Statement of Changes in Financial Position (statutorily required only in 1985 under the latest amendment of the Malaysian Companies Act) was rated the next highest in importance as a source of information for investment analysis. These three sections together represented the major information sources for investment analysts in the survey. The high rating given to the Statement of Changes in Financial Position also showed that the investment analysts were willing to accept new methods of presenting financial information by the companies (and indirectly,the requirement for additional information). The willingness of the investment analysts to accept

changes to the annual reports was corroborated by the higher ratings given to future orientated information such as forecasts by company officials, than the ratings given to discussions of past company performance.

(4) In evaluating the importance of the annual reports for investment decisions and recommendations, the analysts were asked to rate the usefulness of the annual reports in eight areas of investment analysis. The results of the analysis, that the overwhelming majority of the investment analysts rated the annual reports as useful in all the eight areas of investment analysis listed. This result confirmed the earlier findings that the company annual reports were the most important and influential source of information for investment decisions and recommendations. This result also indicated that these analysts made extensive use of the company annual reports for investment analysis . Notwithstanding the high rating given to the annual reports, a detailed analysis of the results revealed that the usefulness of the annual reports for inter-company comparison was ranked second lowest, thus, indirectly indicating not only the diversity of accounting practices between

companies in Malaysia but also the differences in the quality of these annual reports.

(5) As a result of the investigation into the company annual reports, ten important items that appeared in the annual reports were identified and included in the survey questionnaire. These ten items were chosen based upon the controversial nature of the IAS that deal with these items and the potential for these items to have a great impact on the profit figures depending on the accounting treatment in the accounts. In the section on analysis of the accounts of a sample of companies listed on the KLSE(Chapter 5), it was observed that the ten items were given a variety of accounting treatments. Consequently, in order to ascertain whether the analysts compensated for the variability of the treatment of these items in the profit and loss account and balance sheet, they were asked to indicate whether or not they adjust these items and if they did so, the extent of these adjustments. It was found that a majority of the investment analysts made adjustments to figures provided in the annual reports. The figures that were most frequently adjusted were those relating to asset valuations (80%), profit or loss on foreign exchange (69%), earnings per share (75%), and valuation of investments (65%). In contrast, a significant minority of these analysts (around 40%)

made no adjustments to the other items, viz; inventory valuations, intangible assets, depreciation expenses, leased assets and taxation. One possible conclusion from this result is that these analysts do not consider the variability in the accounting treatment of these items as serious enough to warrant adjusting these figures or that these items, individually, were not important to their investment analysis. Another probable reason is that the analysts do not have sufficient additional information available to make adjustments to these figures.[The EMH explanation is that the investors are indifferent and are not fooled by the accounting methods used by companies; see for example the research conducted by Sunder (1973 and 1975), Kaplan and Roll (1972) and Hong, Kaplan and Mandelker (1978).] Statistical tests carried out investigating respondents background characteristics (see (1)) and level of adjustment to these figures showed that of the four factors examines (i.e. involvement in investment decisions, accounting knowledge, origin of qualifications and experience) only the analysts' experience in investment analysis analysts resulted in differences in the level of adjustment: those analysts with more than four years experience adjust these figures significantly more than those analysts with less experience.

(6) In the questionnaire survey, the investment analysts were asked their views on the importance of the alternative sources of information. A discernable pattern emerged from the analysis of the replies. The most important sources of information for these analysts after the corporate annual reports were that information which originated from the companies themselves. viz.; corporate interim reports and prospectuses. The next important sources of information were those gathered by the analysts themselves, i. e., visits to companies and communications with the companies management. The group of information sources that were given lowest ratings were those information contained from third parties; that is; advisory services, government publications, newspapers, business magazines and tips and rumours. This result again emphasized the importance of the information generated by the company to the investment analysts for investment analysis. One conclusion that could be drawn from the findings was that the investment analysts made considerable use and regarded as important other sources of information, in addition to the company annual reports, for their investment decisions and recommendations. An analysis of the analysts' characteristics showed that those

more experience tend to rate company based information lower than those with less experience. This would imply that since the experienced analysts have had more opportunity to evaluate the usefulness of the annual reports for investment analysis, they may find that the usefulness of these reports limited and therefore tended to be cautious towards the figures presented in the annual reports.

9.5 Recommendations.

(1) This study clearly shows that the most important source of information for the "sophisticated investors" in Malaysia, that is those analysts working for the institutional investors, merchant banks and stockbrokers, is the company annual reports. However, an examination of the annual reports of a sample of Malaysian companies showed that there were instances of non-compliance with the requirements of those International Accounting Standards (IAS) that had been adopted by the Malaysian Association of Certified Public Accountants (MACPA). In the analysts survey, an overwhelming majority of the analysts perceived that the enforcement of the accounting standards would

bring about increased confidence in using the annual reports for investment analysis. Lack of compliance reduces both the usefulness of specific annual reports and the credibility of accounting reports generally. Thus, in order for the company annual reports to play a greater role in investment analysis, the accounting bodies in Malaysia must ensure that these standards are enforced. Greater enforcement of accounting standards will instill greater confidence in the use of the annual reports for investment analysis by both the local and international investors.

(2) In order for the accounting profession to be properly regulated, the MIA and the MACPA should be combined into one single unifying body, with the necessary powers and expertise in promoting and developing the accounting profession in Malaysia. The combination of the two bodies will make the pronouncement (or adoption) and enforcement of accounting standards much easier and more effective.

(3) In adopting the International Accounting Standards, the professional accounting bodies in Malaysia must also exert greater efforts in coming out with standards that had not yet been promulgated by the International Accounting Standards Committee

but which are relevant to the Malaysian economic environment. For example, in Malaysia, the plantations or estates, tin mining and forestry sectors are important sections of the economy. The Malaysian accounting bodies should undertake research and set standards in these areas.

(4) The formats used by the companies to present their accounts in the annual reports should be restricted to those formats either approved by statutes or by the accounting profession. The attempts by the MACPA to provide a "standard" format was not successful as this single format might not be suitable for all the different companies in different sectors of the Malaysian economy. The use of a limited number of approved formats will be very helpful, not only to the sophisticated investors (who may not find difficulty in extracting pertinent information from the different formats) but, perhaps of more importance, to the ordinary "unsophisticated" investors. The use of "standard" formats will also require companies to disclose additional information in an orderly fashion.

(5) The survey of investment analysts clearly showed that the most important group of information sources, apart from company annual reports, was that originating from the companies themselves, that is the

interim reports and prospectuses. Preparation of prospectuses is closely governed by the Companies Act and the regulations laid down by the KLSE. However, the preparation of the interim reports is not covered by any of the regulations of the Companies Act or the KLSE nor any accounting guidelines and standards. Thus the interim reports are not being prepared under the stringent conditions as that of the annual reports and prospectuses. As a result the interim reports were not required to be audited and these interim reports only disclosed the minimum amount of information. Given the importance of the interim reports to the investment analysts in Malaysia, there is a need to control the preparation and content of the interim reports. The accounting profession should take the proper actions to prepare guidelines and regulations in the preparation of the interim reports.

In conclusion the research has shown that the most important source of information for investment analysts is the company annual reports. The analysis of a sample of listed companies annual reports has shown that there are companies not complying with the International Accounting Standards adopted by the Malaysian Institute of Certified Public Accountants. Given the limited alternative sources of company information in Malaysia, the importance of the company annual reports in investment analysis cannot be over-emphasised. The above recommendations are proposed to to improve the usefulness of the annual reports in order to enable the information provided to be used more effectively in resource allocation in Malaysia. Improvements in company annual reports could help improve the efficiency of the KLSE so that it could become more effective in contributing to the economic development of Malaysia

9.6 Suggestions for Further Research.

From the research findings and conclusions, the following areas of research into accounting and investment practices in Malaysia are suggested:

(1) The International Accounting Standards are being adopted (with minimal changes) by the accounting bodies in Malaysia at a very rapid rate. There is a need for research into the acceptability of these standards by companies in Malaysia and on the suitability and impact of these standards on the annual reports in Malaysia.

(2) A detailed study into the methods of investment analysis of the institutional investors in Malaysia is suggested and a comparison made with the institutional investors in other countries.

(3) Another area of research suggested is the increasing importance and impact of Islam on the business and investment sectors in Malaysia. For example, do reporting practices of companies have to be changed to accommodate the Muslim investors which are becoming an important section of the investment community due to organisations such as the Pilgrimage Fund Management Board and the Islamic Bank?

(4) A conclusion reached in the current study is that compliance with the International Accounting Standards varies between listed companies. A research study could be conducted into the differences in the characteristics of companies which comply and those which do not comply with the standards.

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APPENDIX 1

CROSS REFERENCE BETWEEN THE NINTH SCHEDULE AND THE INTERNATIONAL ACCOUNTING STANDARDS

Ninth Schedule Paragraph	Disclosure Requirements		Equivalent IAS Reference
Profit and Loss Account			
1a	Turnover		5.18a
b	Trading Profit		5.18j
c	Income from sub-companies	]	
d	Investment Income	]	5.18d
e	Other Income	]	
f	Depreciation		5.18b
	on goodwill		22.19-25
	amount		5.18c
	basis		4.18a
	changes		4.14
g	other expenses inc. R&D		9.23
h	profit on sale of fixed assets		5.18h
i	movement of reserve		5.17b
j	provisions excluding depreciation		5.18g
k	capital redemption		5.17b
l	tax charges		5.18f & 12.53a
	inc. deferred		12.42
m	tax losses		12.50
	used from this year's		12.50a
	used from past years'		12.50b
	balance carried forward		12.50c
n	dividends paid and proposed		5.15c
o	directors and past directors		--
	fees and emoluments		--
	benefits in kind		--

APPENDIX 1 (CONTINUED)

CROSS REFERENCE BETWEEN THE NINTH SCHEDULE AND THE INTERNATIONAL ACCOUNTING STANDARDS

Ninth Schedule Paragraph	Disclosure Requirements	Equivalent IAS Reference
Profit and Loss Account		
p	payments via 3rd parties to directors	--
q	auditors renumeration	--
r	unusual items	8.18
s	prior period adjustments	8.19-21
t	accounting estimates	8.22 & 23
u	"related corporation" transactions	5.18 & 24
Balance Sheet		
2(1)a	capital; movements rights etc	5.17a
b	redeemable pref. shares	5.17a
c	interest paid on shares	--
d	reserves; movements tax credits	5.17b 5
e	deferred income	--
f	deferred expenses/assets goodwill development expd basis of deferral	5.12c 22 9.24 --
g	reissuable debentures	5.17a
h	classification system for assets/liabilities	5.8 & 5.11

APPENDIX 1 (CONTINUED)

CROSS REFERENCE BETWEEN THE NINTH SCHEDULE AND THE INTERNATIONAL ACCOUNTING STANDARDS

Ninth Schedule Paragraph	Disclosure Requirements	Equivalent IAS Reference
Balance Sheet		
i	fixed assets	16.35-50
	inc. valuation frequency	16.50b
	external valuer	16.50b
	basis	16.50b
	restrictions on title	5.10a
	retired held for disposal	16.41
	basis for depreciation	16.50a
	long/short leaseholds	17.58
	on instalment plans	5.11
j	investments	25
k	trading stock incl.	
	overheads	2.21
	at LCM	2.20
l	contract work in progress	11.47a
	inc basis	--
	debtors; details of payments	11.47b
m	liabilities	5.14c & 15c
	group balances highlighted	"
n	debentures and l/t debts incl contractual terms	5.14
o	debtors	5.12b & 5.13c
	inc. directors	5.13c
p	tax provisions incl. deferred	12.53
q	pension provision	19 and 5.10c
r	div. payable and proposed	5.15c
s	arrears of pref div	5.17a
t	contingent liabilities	5.10d & 10.33
	capital commitments	5.10c

APPENDIX 1 (CONTINUED)

CROSS REFERENCE BETWEEN THE NINTH SCHEDULE AND THE INTERNATIONAL ACCOUNTING STANDARDS

Ninth Schedule Paragraph	Disclosure Requirements	Equivalent IAS Reference
Holding and Subsidiary Companies		
Statement of Changes in Financial Position		
Sub-paras 2(2)	separation of different basis of valuation	--
(3)	borrowing/guarantor company rules	--
Valuation Rules 3	determination of asset values	16.44
4	"source and application" of fund format	7.20 & 7.21
	for company or group	7.22
5(1)	P&L with minority interest separate & inter-co adj.	3.43
(2)	Sub-co details	3.47a
(3)	Con. B/S with minority interest & inter-co adj.	3.43
(4)	Non-consolidation of sub-cos	3.47b, 48 and 49
	inc. wholly owned	3.34
	temporary control	3.36a
	impairment of control	3.36b
	dissimilar business	3.47
(4)c	reasons	3.47b
	attachment of fin. statements of non-con sub-cos	3.48
(5)	sub-cos basis same as parent	--
(6)	"gazetted" countries law to apply to sub-co	--
(7)	sub-co audit report qualified	--

APPENDIX 1 (CONTINUED)

CROSS REFERENCE BETWEEN THE NINTH SCHEDULE AND THE INTERNATIONAL ACCOUNTING STANDARDS

Ninth Schedule Paragraph	Disclosure Requirements	Equivalent IAS Reference
General		
6(1)	Malaysian currency requirement	--
(2)	comparative figures	5.9
(3)	can adjust comparative figures	--
(4)	basis of currency translation	21.37
(5)	group accounting policies	1.18 & 19
(6)	should have common group accounting	--
	policies or adjustment to common policies	--

Notes.

(--) = no IAS equivalent

Adapted from "Focus on IAS and the Regulation of Corporate Business", *Malaysian Accountant*, July 1986, pp 13-14.

APPENDIX 2

NAMES OF COMPANIES WHOSE ANNUAL REPORTS ARE ANALYSED

[I] INDUSTRIAL COMPANIES	ANNUAL REPORT
1) ALLIED MALAYSAN DEVELOPMENT BERHAD	1985
2) AMALGAMATED INDUSTRIAL STEEL BERHAD	1986
3) BATA (MALAYSIA) BERHAD	1985
4) CARLSBERG BREWERY (MALAYSIA) BERHAD	1986
5) C.I. HOLDINGS BERHAD	1986
6) COLD STORAGE (MALAYSIA) BERHAD	1986
7) DAYAPI INDUSTRIES (MALAYSIA) BHD	1985
8) DOW CHEMICAL COMPANY (HONGKONG) LTD	1985
9) THE EAST ASIATIC COMPANY(MALAYSIA) BHD	1986
10) ERICSSON TELECOMMUNICATIONS INDUSTRIES BERHAD (A PRIVATE LIMITED COMPANY)	1986
11) FABER MERLIN MALAYSIA BERHAD	1985
12) FIMA METAL BOX BERHAD	1986
13) FIRST ALLIED CORPORATION BERHAD	1986
14) IMATEX BERHAD	1986
15) INNOVEST BERHAD	1985
16) NATIONAL IRON AND STEEL MILLS LIMITED (A SINGAPORE COMPANY LISTED ON THE KLSE)	1986
17) THE NEW STRAITS TIMES PRESS (M) BHD	1986
18) PELANGI BERHAD	1986
19) PILECON ENGINEERING BERHAD	1985
20) RENONG BERHAD	1986
21) ROTHMANS OF PALL MALL (MA) BHD	1986
22) ROXY ELECTRIC INDUSTRIES (MA) BHD	1985
23) SETRON (MALAYSIA) BERHAD	1985

APPENDIX 2 (CONTINUED)

24) SHELL REFINING COMPANY (M) BHD	1985
25) THE STRAITS TRADING COMPANY LIMITED (A SINGAPORE COMPANY LISTED ON THE KLSE)	1985
26) TRACTORS MALAYSIA BERHAD	1986
27) U.A.C. BERHAD	1986
28) U.M.W. CORPORATION BERHAD	1985
29) YEO HIAP SENG (MALAYSIA) BERHAD	1985
[II] BANKS AND FINANCE COMPANIES	
1) ARAB-MALAYSIAN DEVELOPMENT BERHAD	1986
2) DEVELOPMENT AND COMMERCIAL BANK BERHAD	1985
3) MALAYAN BANKING BERHAD	1986
[III] HOTEL AND PROPERTY COMPANIES	
1) ISLAND AND PENINSULAR GROUP	1986
2) PARAMOUNT CORPORATION BERHAD	1985
3) PETALING GARDEN BERHAD	1985
4) RASA SAYANG BEACH HOTELS (PENANG) BHD	1985
5) UNITED ESTATES PROJECTS BERHAD	1985
[IV] TIN AND OTHER MINING COMPANIES	
1) BERJUNTAI TIN DREDGING BERHAD	1986
2) RAHMAN HYDRAULIC TIN BERHAD	1986
3) MALAYSIA MINING CORPORATION	1986
[V] OIL PALM AND RUBBER COMPANIES	
1) BATU LINTANG RUBBER COMPANY BERHAD	1985
2) GUTHRIE ROPEL BERHAD	1985
3) HIGHLANDS & LOWLANDS BERHAD	1985
4) PERLIS PLANTATIONS BERHAD	1986

APPENDIX 3

[SOURCE: MALAYSIAN ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS MALAYSIAN ACCOUNTING STANDARD - 4 FORMAT FOR THE PRESENTATION OF FINANCIAL STATEMENTS.]

The Blank Company Berhad
(Incorporated in Malaysia)

Balance Sheet as at 30th April, 1975

	1975 $'000	1974 $'000	Act Reference 9th Schedule
Employment of Capital			
Fixed Assets (notes 2&3)	12,401	7,040	2(1)(g)
Interest in Subsidiary Companies (notes 4 & 5)	1,770	960	
Amounts Owing by Related Corporations	130	75	4(7)
Investments (note 6)	4,790	2,365	
Current Assets			
Stock and work-in-progress (note 1(c))	3,234	1,862	
Hire purchase debtors (note 7)	517	402	2(1)(i)
Trade debtors and bills receivable less provision for doubtful debts $64,000 (1974: $43,000)	1,496	1,127	2(1)(i)
Other debtors and prepayments (note 8)	423	299	2(1)(i)
Deposits with:-			
Quoted corporations	2,600	1,700	2(1)(h)
Unquoted corporations	100	100	2(1)(h)
Cash and bank balances	56	34	
	8,426	5,524	
Less:			
Current Liabilities and Provisions			2(1)(g)
Trade Creditors	1,831	904	2(1)(p)

APPENDIX 3 [CONTINUED]

Other creditors and accrued liabilities	287	215	2(1)(q)
Taxation	1,302	613	2(1)(g)
Short term loans - secured (note 9)	200	200	2(1)(l)
- unsecured	100	100	2(1)(n)
Bank overdraft (unsecured)	-	65	2(1)(m)
Bank loan (note 9)		200	2(1)(m)
Provision for plant overhaul	150	125	2(1)(g)
Proposed ordinary dividend (net)	735	635	
	4,605	2,467	
Net Current Assets	3,821	2,467	
Expenditure Carried Forward (note 10)		70	
	22,912	12,977	
	$'000	$'000	
Share Capital (notes 11 to 13)	16,000	7,650	
Share Premium (note 14)	280	-	
Reserves (note 15)	3,250	2,502	2(1)(g)
Share capital and reserves	19,536	10,152	
Deferred Taxation (note 1(e))	940	594	2(1)(g)
Long Term and Deferred Liabilities (notes 16 and 17)	1,834	1,779	2(1)(g)
Amount Owing to Holding Company	602	452	4(7)

The above balance sheet is to be read in conjunctin with the notes on the accounts on pages 8 to 17.

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APPENDIX 3 [CONTINUED]

The Blank Company Berhad
(Incorporated in Malaysia)

Profit and Loss Account for the year ended 30th April, 1975

1974 $'000		$'000	$'000	Act Reference 9th Schedule
1,375	Profit before taxation (note 18)		2,978	
	Less:			
565	Taxation (note 19)		1,643	1(j)
810	Profit after taxation		1,335	
	Add:			
-	Extraordinary item::-			
-	Profit on sale of freehold land		220	
810	Net profit for the year		1,555	1(a)
489	Profit unappropriated brought forward from the previous year		612	
1,229	Profit available for appropriation		2,167	
	Dealt with as follows:			
240	Transfer to reserves (note 15)		540	1(g)(i)
	Dividends:-			
	Paid (net)			
43	Dividend on Redeemable Cumulative Preference Shares of 8%	43		
23	Dividend on participating Preference Shares of 7½ %		23	
	Proposed (net)			
381	Ordinary dividends of 8½% (1974 10%)		735	
687		1,341		
612	Profit Unappropriated		826	

The above profit and loss account is to be read in conjunction with the notes on the accounts on pages 8 to 17.

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APPENDIX 4A

ANALYSIS OF ITEMS DISCLOSED UNDER "SIGNIFICANT ACCOUNTING POLICIES" UNDER IAS 1

NAME OF COMPANIES	ACCOUNTING POLICIES (PLEASE REFER TO THE NUMBERS AT THE END OF THE APPENDIX)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
[I] INDUSTRIAL COMPANIES																
1) ALLIED MALAYSAN DEVELOPMENT BERHAD	Y	Y	-	Y	Y	-	-	Y	Y	Y	-	Y	-	Y	-	-
2) AMALGAMATED INDUSTRIAL STEEL BERHAD	Y	-	-	Y	Y	Y	-	Y	Y	-	-	-	-	-	Y	-
3) BATA (MALAYSIA) BERHAD	Y	-	-	Y	Y	Y	-	Y	Y	-	-	-	-	-	-	-
4) CARLSBERG BREWERY (MALAYSIA) BERHAD	Y	-	-	Y	Y	-	-	Y	Y	-		Y	-	-	-	-
5) C.I. HOLDINGS BERHAD	Y	Y	-	Y	Y	-	-	Y	Y	Y	Y	Y	Y	Y	-	-
6) COLD STORAGE (MALAYSIA) BERHAD	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	Y	-	-	Y	-
7) DAYAPI INDUSTRIES (MALAYSIA) BHD	Y	Y	Y	Y	Y	Y	-	Y	Y	Y	-	-	-	Y	-	-
8) DOW CHEMICAL COMPANY (HONGKONG) LTD	Y	Y	Y	Y	Y	-	-	Y	Y	-	Y	Y	Y	-	-	-
9) THE EAST ASIATIC COMPANY(MALAYSIA) BHD	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	Y	-	Y	Y	Y
10) ERICSSON TELECOMMUNICATIONS INDUSTRIES BERHAD (A PRIVATE LIMITED COMPANY)	Y	-	-	Y	Y	-	-	Y	Y	-	-	-	-	-	-	-
11) FABER MERLIN MALAYSIA BERHAD	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	Y	-	-	-	-
12) FIMA METAL BOX BERHAD	Y	Y	-	Y	Y	-	-	Y	Y	-	-	Y	-	-	Y	-
13) FIRST ALLIED CORPORATION BERHAD	Y	Y	-	Y	Y	-	-	Y	Y	Y	Y	Y	-	Y	-	Y
14) IMATEX BERHAD	Y	Y	-	Y	Y	Y	-	Y	Y	Y	Y	-	-	Y	-	-
15) INNOVEST BERHAD	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	-	-	-	-	-
16) NATIONAL IRON AND STEEL MILLS LIMITED (A SINGAPORE REGISTERED COMPANY LISTED IN THE KLSE)	Y	Y	Y	-	Y	-	-	Y	Y	-	-	-	-	Y	Y	-
17) THE NEW STRAITS TIMES PRESS (MALAYSIA) BERHAD	Y	Y	Y	Y	Y	Y	-	Y	Y	-	-	Y	Y	-	Y	-

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"Y" - INCLUDED UNDER THE SECTION "SIGNIFICANT ACCOUNTING POLICIES

"-" - NOT INCLUDED OR NOT RELEVANT TO THE COMPANY

APPENDIX 4A [CONTINUED]

	ACCOUTING POLICIES (PLEASE REFER TO THE NUMBERS AT THE END OF THE APPENDIX)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
18) PELANGI BERHAD	Y	Y	-	Y	Y	-	-	Y	Y	-	-	-	Y	Y	-	-
19) PILECON ENGINEERING BERHAD	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	-	Y	Y	-	-
20) RENONG BERHAD	Y	Y	Y	Y	Y	-	-	Y	Y	Y	-	-	Y	Y	-	-
21) ROTHMANS OF PALL MALL (MALAYSIA) BERHAD	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	Y	-	-	Y	-
22) ROXY ELECTRIC INDUSTRIES MALAYSIA BERHAD	Y	Y	-	Y	-	-	-	Y	-	-	-	-	-	-	-	-
23) SETRON (MALAYSIA) BERHAD	Y	Y	-	Y	Y	-	-	Y	Y	-	-	Y	-	Y	-	-
24) SHELL REFINING COMPANY (MALAYA) BERHAD	Y	-	-	Y	Y	-	-	Y	Y	-	-	Y	-	-	Y	-
25) THE STRAITS TRADING COMPANY LIMITED (A SINGAPORE COMPANY LISTED IN THE KLSE)	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	Y	-	Y	-	-
26) TRACTORS MALAYSIA BERHAD	Y	Y	-	Y	Y	-	-	Y	Y	-	-	Y	-	Y	Y	-
27) U.A.C. BERHAD	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	-	Y	Y	-	-	-
28) U.M.W. CORPORATION BERHAD	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	-	Y	-	-	-
29) YEO HIAP SENG (MALAYSIA) BERHAD	Y	Y	Y	Y	Y	Y	-	Y	Y	-	Y	Y	-	-	Y	-
[II] BANKS AND FINANCE COMPANIES																
1) ARAB-MALAYSIAN DEVELOPMENT BERHAD	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	Y	-	Y	-	-
2) DEVELOPMENT AND COMMERCIAL BANK BERHAD	Y	Y	Y	Y	-	Y	-	Y	Y	-	-	-	Y	Y	-	-
3) MALAYAN BANKING BERHAD	Y	Y	-	Y	-	Y	-	Y	Y	-	-	Y	Y	Y	-	Y

"Y" - INCLUDED UNDER THE SECTION "SIGNIFICANT ACCOUNTING POLICIES
"-" - NOT INCLUDED OR NOT RELEVANT TO THE COMPANY

APPENDIX 4A [CONTINUED]

ACCOUTING POLICIES (PLEASE REFER TO THE NUMBERS AT THE END OF THE APPENDIX)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
[III] HOTEL AND PROPERTY COMPANIES																
1) ISLAND AND PENINSULAR GROUP	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	-	-	Y	-	-
2) PARAMOUNT CORPORATION BERHAD	Y	Y	-	Y	Y	-	-	Y	Y	Y	-	-	Y	Y	-	-
3) PETALING GARDEN BERHAD	Y	Y	Y	Y	Y	Y	-	Y	Y	Y	-	-	Y	Y	-	-
4) RASA SAYANG BEACH HOTELS (PENANG) BHD	Y	Y	-	Y	Y	-	-	Y	Y	-	-	-	-	-	-	-
5) UNITED ESTATES PROJECTS BERHAD	Y	Y	Y	Y	Y	Y	-	Y	Y	Y	-	Y	-	-	-	-
[IV] TIN AND OTHER MINING COMPANIES																
1) BERJUNTAI TIN DREDGING BERHAD	Y	-	Y	Y	Y	-	-	Y	-	-	-	Y	Y	Y	-	Y
2) RAHMAN HYDRAULIC TIN BERHAD	Y	-	-	Y	Y	-	-	Y	Y	-	-	Y	Y	Y	Y	-
3) MALAYSIA MINING CORPORATION	Y	Y	Y	Y	Y	-	-	Y	Y	-	-	Y	Y	-	-	Y
[V] OIL PALM AND RUBBER COMPANIES																
1) BATU LINTANG RUBBER COMPANY BERHAD	Y	-	-	Y	Y	-	-	Y	Y	Y	-	Y	-	-	-	-
2) GUTHRIE ROPEL BERHAD	Y	Y	Y	Y	Y	-	-	Y	Y	Y	-	Y	-	-	-	Y
3) HIGHLANDS & LOWLANDS BERHAD	Y	Y	Y	Y	Y	-	Y	Y	Y	Y	-	Y	-	-	-	-
4) PERLIS PLANTATIONS BERHAD	Y	Y	Y	Y	Y	-	-	Y	Y	Y	-	-	Y	Y	Y	-

"Y" - INCLUDED UNDER THE SECTION "SIGNIFICANT ACCOUNTING POLICIES
"-" - NOT INCLUDED OR NOT RELEVANT TO THE COMPANY

APPENDIX 4A [CONTINUED]

THE FOLLOWING ARE THE NUMBERS USED TO DENOTE THE "SIGNIFICANT ACCOUNTING POLICIES USED IN THE ABOVE TABLES

1 - BASIS OF ACCOUNTING

2 - BASIS OF CONSOLIDATION

3 - TREATMENT OF ASSOCIATED COMPANIES

4 - FIXED ASSETS/DEPRECIATION

5 - STOCKS

6 - BAD AND DOUBTFUL DEBTS

7 - RESEARCH AND DEVELOPMENT

8 - TAXATION AND DEFERRED TAXATION

9 - CURRENCY CONVERSIONS AND TRANSLATIONS

10 - EXPENDITURE CARRIED FORWARD

11 - LEASING

12 - PENSION CONTRIBUTIONS

13 - INVESTMENTS

14 - INCOME RECOGNITION

15 - TURNOVER

16 - EXTRAORDINARY ITEMS

APPENDIX 4B

COMPANY BY COMPANY ANALYSIS OF THE DISCLOSURES RELATING TO VALUING STOCK AT COST [NOTE: THE MAIN METHODS DISCLOSED BY THE COMPANIES WERE ANALYSED AND NO DISTINCTION MADE AS TO THE VARIOUS CATEGORIES OF STOCK]

NAME OF COMPANIES	PRINCIPAL METHODS OF VALUING STOCK (PLEASE REFER TO THE NUMBERS AT THE END OF THE APPENDIX)						
	1	2	3	4	5	6	7
[I] INDUSTRIAL COMPANIES							
1) ALLIED MALAYSAN DEVELOPMENT BHD	X	X	X			X	
2) AMALGAMATED INDUSTRIAL STEEL BHD	X					X	
3) BATA (MALAYSIA) BERHAD		X		X	X	X	
4) CARLSBERG BREWERY (MALAYSIA) BHD	X	X		X		X	
5) C.I. HOLDINGS BERHAD		X		X	X	X	
6) COLD STORAGE (MALAYSIA) BHD		X			X	X	
7) DAYAPI INDUSTRIES (MALAYSIA) BHD	X					X	
8) DOW CHEMICAL COMPANY (HONGKONG) LTD			LIFO				
9) THE EAST ASIATIC COMPANY(MA) BHD	X			X	X	X	
10) ERICSSON TELECOMMUNICATIONS IND. BERHAD	X				X	X	
11) FABER MERLIN MALAYSIA BERHAD	X					X	
12) FIMA METAL BOX BERHAD		X				X	
13) FIRST ALLIED CORPORATION BERHAD	X					X	
14) IMATEX BERHAD	X				X		
15) INNOVEST BERHAD		X				X	

APPENDIX 4B [CONTINUED]

PRINCIPAL METHODS OF VALUING STOCK
(PLEASE REFER TO THE NUMBERS AT THE
END OF THE APPENDIX)

	1	2	3	4	5	6	7
16) NATIONAL IRON AND STEEL MILLS LTD (A SINGAPORE REGISTERED COMPANY LISTED IN THE KLSE)	X					X	
17) THE NEW STRAITS TIMES PRESS (MALAYSIA) BERHAD		X				X	
18) PELANGI BERHAD	X		X				
19) PILECON ENGINEERING BERHAD						X	
20) RENONG BERHAD							X
21) ROTHMANS OF PALL MALL (M) BHD	X		X		X		
22) ROXY ELECTRIC INDUSTRIES (M) BHD							X
23) SETRON (MALAYSIA) BERHAD	X			X		X	
24) SHELL REFINING COMPANY (M) BHD		X				X	
25) THE STRAITS TRADING COMPANY LIMITED (A SINGAPORE COMPANY LISTED IN THE KLSE)	X					X	
26) TRACTORS MALAYSIA BERHAD		X	X				
27) U.A.C. BERHAD							X
28) U.M.W. CORPORATION BERHAD	X		X			X	
29) YEO HIAP SENG (MA) BHD		X		X	X	X	

APPENDIX 4B [CONTINUED]

PRINCIPAL METHODS OF VALUING STOCK (PLEASE REFER TO THE NUMBERS AT THE END OF THE APPENDIX)

	1	2	3	4	5	6	7
[II] BANKS AND FINANCE COMPANIES							
1) ARAB-MALAYSIAN DEVELOPMENT BERHAD[1]				X		X	
2) DEVELOPMENT AND COMMERCIAL BANK BHD	[NOT APPLICABLE]						
3) MALAYAN BANKING BERHAD	[NOT APPLICABLE]						

[1] Consists of properties and textiles (of subsidiary companies)

	1	2	3	4	5	6	7
[III] HOTEL AND PROPERTY COMPANIES							
1) ISLAND AND PENINSULAR GROUP	X						
2) PARAMOUNT CORPORATION BERHAD		X					
3) PETALING GARDEN BERHAD						X[1]	
4) RASA SAYANG BEACH HOTELS (PENANG) BHD.		X					
5) UNITED ESTATES PROJECTS BERHAD		X		X			

[1] Stock consists of unsold propertes

	1	2	3	4	5	6	7
[IV] TIN AND OTHER MINING COMPANIES							
1) BERJUNTAI TIN DREDGING BERHAD						X	
2) RAHMAN HYDRAULIC TIN BERHAD						X	
3) MALAYSIA MINING CORPORATION					X	X	

APPENDIX 4B [CONTINUED]

PRINCIPAL METHODS OF VALUING STOCK (PLEASE REFER TO THE NUMBERS AT THE END OF THE APPENDIX)

	1	2	3	4	5	6	7
[V] OIL PALM AND RUBBER COMPANIES							
1) BATU LINTANG RUBBER COMPANY BERHAD	X				X		
2) GUTHRIE ROPEL BERHAD	X				X		
3) HIGHLANDS & LOWLANDS BERHAD	X				X		
4) PERLIS PLANTATIONS BERHAD				X			X

NUMBERS DENOTING THE VARIOUS METHODS OF VALUING STOCK AT COST

1 - AVERAGE/WEIGHTED AVERAGE COST
2 - FIRST IN FIRST OUT
3 - SPECIFIC IDENTIFICATION
4 - PROVISION MADE FOR SLOW MOVING AND OBSOLETE STOCKS
5 - TRANSPORT COSTS INCLUDED
6 - INCLUDES DIRECT MATERIAL, DIRECT LABOUR AND PRODUCTION OVERHEADS
7 - NOT DISCLOSED

APPENDIX 4C

METHODS OF DEPRECIATION AND RATES OF DEPRECIATION ON MAJOR CLASS OF FIXED ASSETS

	DEPRECIATION METHODS			DEPRECIATION RATES ON MAJOR CLASS OF FIXED ASSETS A=BUILDINGS B=PLANT AND MACHINERY C=VEHICLES C=FURNITURE, FITTINGS AND EQUIPMENT
	1	2	3	
[I] INDUSTRIAL COMPANIES				
1) ALLIED MALAYSAN DEVELOPMENT BERHAD	X	X		(B)10%-20% (C)20% (D)10%-33.3% (E)10%-20%
2) AMALGAMATED INDUSTRIAL STEEL BERHAD	X			(A)7.5% (B)10% (C)25% (D)7.5%-10% (E)7.5%
3) BATA (MALAYSIA) BERHAD	X			(A)5% (B)10% (C)25% (D)10%
4) CARLSBERG BREWERY (MALAYSIA) BERHAD	X			(A)2% (B)5%-20% (C)20% (D)20%
5) C.I. HOLDINGS BERHAD	X			(A)2%-7.7% (B)&(D)8.33%-20% (C)20% (E)10%
6) COLD STORAGE (MALAYSIA) BERHAD	X			(A)2% (B)10%-20% (C)20% (D)20% (E)10%
7) DAYAPI INDUSTRIES (MALAYSIA) BHD	X			(A)10% (B)7.5%-10% (C)20% (D)10%
8) DOW CHEMICAL COMPANY (HONGKONG) LTD		X		(A)4% (B)4%-40% (C)20%-40% (D)20%40%
9) THE EAST ASIATIC COMPANY(MALAYSIA) BHD	X			(A)2%-10% (B)10% (C)20% (D)15%
10) ERICSSON TELECOMMUNICATIONS INDUSTRIES BERHAD (A PRIVATE LIMITED COMPANY)	X			(A)2% (B)5%-20% (C)20% (D)10%-20% (E)10%-20%
11) FABER MERLIN MALAYSIA BERHAD	X			(A)2% (B)10%-15% (C)25% (D)20%
12) FIMA METAL BOX BERHAD	X			(A)2% (B)7%-25% (C)20%-25%
13) FIRST ALLIED CORPORATION BERHAD	X			(A)4% (B)10% (C)25% (D)10%
14) IMATEX BERHAD	X			(A)2% (B)8.5% (C)33.3% (D)10%
15) INNOVEST BERHAD	X			(A)2% (B)10% (C)25% (D)15%

DEPRECIATION METHODS

1 = STRAIGHT LINE/EQUAL INSTALMENT METHOD
2 = DECLINING/REDUCING METHOD
3 = PRODUCTION/OUTPUT METHOD

APPENDIX 4C [CONTINUED]

	DEPRECIATION METHODS 1	2	3	DEPRECIATION RATES ON MAJOR CLASS OF FIXED ASSETS A=BUILDINGS B=PLANT AND MACHINERY C=VEHICLES C=FURNITURE, FITTINGS AND EQUIPMENT
16) NATIONAL IRON AND STEEL MILLS LIMITED (A SINGAPORE REGISTERED COMPANY LISTED IN THE KLSE)	X			(A)2% (B)10%-20% (C)20% (D)20%
17) THE NEW STRAITS TIMES PRESS (MALAYSIA) BERHAD	X			(A)2%-2.5% (B)7.5%-15% (C)20%-30% (D)10%-20%
18) PELANGI BERHAD	X			(A)2% (B)10%-20% (C)20% (D)10%-15%
19) PILECON ENGINEERING BERHAD	X			(A)2% (B)15% (C)20% (D)15%
20) RENONG BERHAD (*)	X			(A)10% (B)&(C)5%-50%
21) ROTHMANS OF PALL MALL (MALAYSIA) BERHAD	X			(A)2.5% (B)15% (C)25% (D)10%
22) ROXY ELECTRIC INDUSTRIES MALAYSIA BERHAD	X			(A)2% (B)&(D)10%-25% (C)20%
23) SETRON (MALAYSIA) BERHAD	X			(A)2% (B)10% (C)20% (D)20%
24) SHELL REFINING COMPANY (MALAYA) BERHAD	X			(A)2.5%-10% (B)4%-7% (C)25% (D)10%-15%
25) THE STRAITS TRADING COMPANY LIMITED (A SINGAPORE COMPANY LISTED IN THE KLSE)	X			(A)2% (B)10%-20% (C)20% (D)105-20%
26) TRACTORS MALAYSIA BERHAD	X			(A)3.3% (B)10% (C)20% (D)20%
27) U.A.C. BERHAD	X			(A)2%-4% (B)5%-25% (C)20% (D)10%-20%
28) U.M.W. CORPORATION BERHAD	X			(A)2% (B)7%-33% (C)20% (D)10%-20%
29) YEO HIAP SENG (MALAYSIA) BERHAD	X			(A)2%-7.5% (B)10%-33.3% (C)10%-20% (D)10%-20%

DEPRECIATION METHODS

1 = STRAIGHT LINE/EQUAL INSTALMENT METHOD
2 = DECLINING/REDUCING METHOD
3 = PRODUCTION/OUTPUT METHOD

APPENDIX 4C [CONTINUED]

	DEPRECIATION METHODS 1	2	3	DEPRECIATION RATES ON MAJOR CLASS OF FIXED ASSETS A=BUILDINGS B=PLANT AND MACHINERY C=VEHICLES C=FURNITURE, FITTINGS AND EQUIPMENT
[II] BANKS AND FINANCE COMPANIES				
1) ARAB-MALAYSIAN DEVELOPMENT BERHAD	X			(A)2%-5% (B)7.5%-10% (C)20% (D)5%-15%
2) DEVELOPMENT AND COMMERCIAL BANK BERHAD	X			(A)2% (C)20% (D)5%-33.3%
3) MALAYAN BANKING BERHAD	X			(A)2% (C)25% (D)15%-25%
[III] HOTEL AND PROPERTY COMPANIES				
1) ISLAND AND PENINSULAR GROUP	X			(A)5% (B),(C)&(D)10%-20%
2) PARAMOUNT CORPORATION BERHAD	X			(A)2% (B)10% (C)25% (D)10%
3) PETALING GARDEN BERHAD	X			(A)2% (B)10% (C)20% (D)10%
4) RASA SAYANG BEACH HOTELS (PENANG) BHD.	X			(A)2% (C)20% (D)5%-17%
5) UNITED ESTATES PROJECTS BERHAD	X			(A)2%-3.33% (B)10%-20% (C)&(D)10%-20%
[IV] TIN AND OTHER MINING COMPANIES				
1) BERJUNTAI TIN DREDGING BERHAD			X	BASED ON OUTPUT
2) RAHMAN HYDRAULIC TIN BERHAD	X			(A)5%-10% (B)&(D)%5-10% (C)25%
3) MALAYSIA MINING CORPORATION	X		X	(A)3% (B)10%-25%
[V] OIL PALM AND RUBBER COMPANIES				
1) BATU LINTANG RUBBER COMPANY BERHAD	X			(A)5% (B)10% (C)20% (D)20%
2) GUTHRIE ROPEL BERHAD	X			(A)4% (B)10% (C)20% (D)10%
3) HIGHLANDS & LOWLANDS BERHAD	X			(A)&(B)5%-10% (C)&(D)20%
4) PERLIS PLANTATIONS BERHAD	X			(A)1.2%-5% (B)&(D)10%-20% (C)20%-25%

DEPRECIATION METHODS

1 = STRAIGHT LINE/EQUAL INSTALMENT METHOD
2 = DECLINING/REDUCING METHOD
3 = PRODUCTION/OUTPUT METHOD

APPENDIX 4D

ANALYSIS OF CONTINGENCIES DISCLOSED IN THE FINANCIAL STATEMENTS OF THE COMPANIES IN THE SAMPLE

NAME OF COMPANIES	CONTINGENCIES 1	2	3	4	5	POST BALANCE SHEET EVENTS A	B	C	D	E
[I] INDUSTRIAL COMPANIES										
1) ALLIED MALAYSAN DEVELOPMENT BERHAD	X	X				X				
2) AMALGAMATED INDUSTRIAL STEEL BERHAD										
3) BATA (MALAYSIA) BERHAD										
4) CARLSBERG BREWERY (MALAYSIA) BERHAD										
5) C.I. HOLDINGS BERHAD		X								
6) COLD STORAGE (MALAYSIA) BERHAD		X								
7) DAYAPI INDUSTRIES (MALAYSIA) BHD		X	X							
8) DOW CHEMICAL COMPANY (HONGKONG) LTD		X								
9) THE EAST ASIATIC COMPANY(MALAYSIA) BHD		X		X						
10) ERICSSON TELECOMMUNICATIONS INDUSTRIES BERHAD (A PRIVATE LIMITED COMPANY)										
11) FABER MERLIN MALAYSIA BERHAD										
12) FIMA METAL BOX BERHAD		X								
13) FIRST ALLIED CORPORATION BERHAD		X								
14) IMATEX BERHAD		X	X	X	X		X	X		
15) INNOVEST BERHAD										

NUMBERS INDICATING CONTINGENCIES DISCLOSED BY COMPANIES IN THE SAMPLE

1 - BILLS DISCOUNTED
2 - GUARANTESS GIVEN TO BANKS IN RESPECT OF LOANS GIVEN TO ASSOCIATED AND SUBSIDIARY COMPANIES
3 - CLAIMS BY THIRD PARTIES AGAINST THE COMPANIES
4 - BENEFITS PAYABLE TO EMPLOYEES ONLY ON FULFILLMENT OF CERTAIN CONDITIONS OF ENTITLEMENT
5 - TAX CONTINGENCIES

LETTERS INDICATING POST BALANCE SHEET EVENTS

A - OFFER TO ACQUIRE A COMPANY
B - COMPANY RESTRUCTURING
C - REDEMPTION OF PREFERENCE SHARES
D - BONUS ISSUE
E - CHARGE ON AN ASSET TO SECURE A LOAN

APPENDIX 4D [CONTINUED]

NAME OF COMPANIES	CONTINGENCIES					POST BALANCE SHEET EVENTS				
	1	2	3	4	5	A	B	C	D	E
16) NATIONAL IRON AND STEEL MILLS LIMITED (A SINGAPORE REGISTERED COMPANY LISTED IN THE KLSE)		X								
17) THE NEW STRAITS TIMES PRESS (MALAYSIA) BERHAD		X			X	X	X		X	
18) PELANGI BERHAD		X								
19) PILECON ENGINEERING BERHAD		X								
20) RENONG BERHAD		X								
21) ROTHMANS OF PALL MALL (MALAYSIA) BERHAD		X					X			
22) ROXY ELECTRIC INDUSTRIES MALAYSIA BERHAD										X
23) SETRON (MALAYSIA) BERHAD										
24) SHELL REFINING COMPANY (MALAYA) BERHAD		X								
25) THE STRAITS TRADING COMPANY LIMITED (A SINGAPORE COMPANY LISTED IN THE KLSE)		X								
26) TRACTORS MALAYSIA BERHAD	X	X								
27) U.A.C. BERHAD										
28) U.M.W. CORPORATION BERHAD	X	X			X					X
29) YEO HIAP SENG (MALAYSIA) BERHAD		X								

NUMBERS INDICATING CONTINGENCIES DISCLOSED BY COMPANIES IN THE SAMPLE

1 - BILLS DISCOUNTED
2 - GUARANTESS GIVEN TO BANKS IN RESPECT OF LOANS GIVEN TO ASSOCIATED AND SUBSIDIARY COMPANIES
3 - CLAIMS BY THIRD PARTIES AGAINST THE COMPANIES
4 - BENEFITS PAYABLE TO EMPLOYEES ONLY ON FULFILLMENT OF CERTAIN CONDITIONS OF ENTITLEMENT
5 - TAX CONTINGENCIES

LETTERS INDICATING POST BALANCE SHEET EVENTS

A - OFFER TO ACQUIRE A COMPANY
B - COMPANY RESTRUCTURING
C - REDEMPTION OF PREFERENCE SHARES
D - BONUS ISSUE
E - CHARGE ON AN ASSET TO SECURE A LOAN

APPENDIX 4D [CONTINUED]

NAME OF COMPANIES	CONTINGENCIES 1	2	3	4	5	POST BALANCE SHEET EVENTS A	B	C	D	E
[II] BANKS AND FINANCE COMPANIES										
1) ARAB-MALAYSIAN DEVELOPMENT BERHAD		X				X			X	
2) DEVELOPMENT AND COMMERCIAL BANK BERHAD		X	X							
3) MALAYAN BANKING BERHAD		X				X				
[III] HOTEL AND PROPERTY COMPANIES										
1) ISLAND AND PENINSULAR GROUP		X				X				
2) PARAMOUNT CORPORATION BERHAD										
3) PETALING GARDEN BERHAD		X				X				
4) RASA SAYANG BEACH HOTELS (PENANG) BHD										
5) UNITED ESTATES PROJECTS BERHAD		X								
[IV] TIN AND OTHER MINING COMPANIES										
1) BERJUNTAI TIN DREDGING BERHAD			X							
2) RAHMAN HYDRAULIC TIN BERHAD										
3) MALAYSIA MINING CORPORATION		X	X							
[V] OIL PALM AND RUBBER COMPANIES										
1) BATU LINTANG RUBBER COMPANY BERHAD						X				X
2) GUTHRIE ROPEL BERHAD		X								
3) HIGHLANDS & LOWLANDS BERHAD			X		X					
4) PERLIS PLANTATIONS BERHAD		X	X							

NUMBERS INDICATING CONTINGENCIES DISCLOSED BY COMPANIES IN THE SAMPLE

1 - BILLS DISCOUNTED
2 - GUARANTESS GIVEN TO BANKS IN RESPECT OF LOANS GIVEN TO ASSOCIATED AND SUBSIDIARY COMPANIES
3 - CLAIMS BY THIRD PARTIES AGAINST THE COMPANIES
4 - BENEFITS PAYABLE TO EMPLOYEES ONLY ON FULFILLMENT OF CERTAIN CONDITIONS OF ENTITLEMENT
5 - TAX CONTINGENCIES

LETTERS INDICATING POST BALANCE SHEET EVENTS

A - OFFER TO ACQUIRE A COMPANY
B - COMPANY RESTRUCTURING
C - REDEMPTION OF PREFERENCE SHARES
D - BONUS ISSUE
E - CHARGE ON AN ASSET TO SECURE A LOAN

APPENDIX 4E

METHODS USED FOR ACCOUNTING FOR TAXES ON INCOME

	TAX METHODS USED 1	2
[I] INDUSTRIAL COMPANIES		
1) ALLIED MALAYSAN DEVELOPMENT BERHAD	X	
2) AMALGAMATED INDUSTRIAL STEEL BERHAD	X	
3) BATA (MALAYSIA) BERHAD	X	
4) CARLSBERG BREWERY (MALAYSIA) BERHAD		X
5) C.I. HOLDINGS BERHAD	X	
6) COLD STORAGE (MALAYSIA) BERHAD		X
7) DAYAPI INDUSTRIES (MALAYSIA) BHD	X	
8) DOW CHEMICAL COMPANY (HONGKONG) LTD	X	
9) THE EAST ASIATIC COMPANY(MALAYSIA) BHD		X
10) ERICSSON TELECOMMUNICATIONS INDUSTRIES BERHAD (A PRIVATE LIMITED COMPANY)	X	
11) FABER MERLIN MALAYSIA BERHAD		
12) FIMA METAL BOX BERHAD		X
13) FIRST ALLIED CORPORATION BERHAD		X
14) IMATEX BERHAD	X	
15) INNOVEST BERHAD	X	
16) NATIONAL IRON AND STEEL MILLS LIMITED (A SINGAPORE REGISTERED COMPANY LISTED IN THE KLSE)	X	

TAX METHODS USED

1 - DEFERRAL METHOD

2 - LIABILITY METHOD

APPENDIX 4E [CONTINUED]

METHODS USED FOR ACCOUNTING FOR TAXES ON INCOME

	TAX METHODS USED 1	TAX METHODS USED 2
17) THE NEW STRAITS TIMES PRESS (MALAYSIA) BERHAD	X	
18) PELANGI BERHAD	X	
19) PILECON ENGINEERING BERHAD	X	
20) RENONG BERHAD	X	
21) ROTHMANS OF PALL MALL (MALAYSIA) BERHAD	X	
22) ROXY ELECTRIC INDUSTRIES MALAYSIA BERHAD	X	
23) SETRON (MALAYSIA) BERHAD	X	
24) SHELL REFINING COMPANY (MALAYA) BERHAD	X	
25) THE STRAITS TRADING COMPANY LIMITED (A SINGAPORE COMPANY LISTED IN THE KLSE)	X	
26) TRACTORS MALAYSIA BERHAD	X	
27) U.A.C. BERHAD	X	
28) U.M.W. CORPORATION BERHAD	X	
29) YEO HIAP SENG (MALAYSIA) BERHAD		X

TAX METHODS USED

1 - DEFERRAL METHOD

2 - LIABILITY METHOD

APPENDIX 4E [CONTINUED]

METHODS USED FOR ACCOUNTING FOR TAXES ON INCOME

	TAX METHODS USED	
	1	2
[II] BANKS AND FINANCE COMPANIES		
1) ARAB-MALAYSIAN DEVELOPMENT BERHAD	X	
2) DEVELOPMENT AND COMMERCIAL BANK BERHAD	X	
3) MALAYAN BANKING BERHAD	X	
[III] HOTEL AND PROPERTY COMPANIES		
1) ISLAND AND PENINSULAR GROUP	X	
2) PARAMOUNT CORPORATION BERHAD	X	
3) PETALING GARDEN BERHAD	X	
4) RASA SAYANG BEACH HOTELS (PENANG) BHD	X	
5) UNITED ESTATES PROJECTS BERHAD	X	
[IV] TIN AND OTHER MINING COMPANIES		
1) BERJUNTAI TIN DREDGING BERHAD	X	
2) RAHMAN HYDRAULIC TIN BERHAD		X
3) MALAYSIA MINING CORPORATION	X	
[V] OIL PALM AND RUBBER COMPANIES		
1) BATU LINTANG RUBBER COMPANY BERHAD	X	
2) GUTHRIE ROPEL BERHAD		X
3) HIGHLANDS & LOWLANDS BERHAD	X	
4) PERLIS PLANTATIONS BERHAD	X	

TAX METHODS USED

1 - DEFERRAL METHOD

2 - LIABILITY METHOD

APPENDIX 4F

DISCLOSURE OF SEGMENT INFORMATION BY COMPANIES IN THE SAMPLE

	DISCLOSURE OF SEGMENT INFORMATION		SEGMENT INFORMATION DETAILS		
	YES	NO	1	2	3
[I] INDUSTRIAL COMPANIES					
1) ALLIED MALAYSAN DEVELOPMENT BERHAD		X			
2) AMALGAMATED INDUSTRIAL STEEL BERHAD		X			
3) BATA (MALAYSIA) BERHAD		X			
4) CARLSBERG BREWERY (MALAYSIA) BERHAD		X			
5) C.I. HOLDINGS BERHAD		X			
6) COLD STORAGE (MALAYSIA) BERHAD		X(*)			
7) DAYAPI INDUSTRIES (MALAYSIA) BHD		X			
8) PACIFIC CHEMICALS BERHAD	X		X	X	X
9) THE EAST ASIATIC COMPANY(MALAYSIA) BHD		X(*)			
10) ERICSSON TELECOMMUNICATIONS INDUSTRIES BERHAD (A PRIVATE LIMITED COMPANY)		X			
11) FABER MERLIN MALAYSIA BERHAD		X			
12) FIMA METAL BOX BERHAD		X			
13) FIRST ALLIED CORPORATION BERHAD		X			
14) IMATEX BERHAD	X		X	X	X
15) INNOVEST BERHAD		X			
16) NATIONAL IRON AND STEEL MILLS LIMITED (A SINGAPORE REGISTERED COMPANY LISTED IN THE KLSE)		X			

(*) - NON COMPLIANCE DISCLOSED

SEGMENT INFORMATION DETAILS

1 - SEGMENT SALES

2 - SEGMENT RESULTS

3 - SEGMENT ASSETS EMPLOYED

APPENDIX 4F [CONTINUED]

DISCLOSURE OF SEGMENT INFORMATION BY COMPANIES IN THE SAMPLE

	DISCLOSURE OF SEGMENT INFORMATION		SEGMENT INFORMATION DETAILS		
	YES	NO	1	2	3
17) THE NEW STRAITS TIMES PRESS (MALAYSIA) BERHAD	X		DISCLOSED UNDER NON-FINANCIAL INFORMATION		
18) PELANGI BERHAD	X		X	X	X
19) PILECON ENGINEERING BERHAD		X			
20) RENONG BERHAD		X			
21) ROTHMANS OF PALL MALL (MALAYSIA) BERHAD		X			
22) ROXY ELECTRIC INDUSTRIES MALAYSIA BERHAD		X			
23) SETRON (MALAYSIA) BERHAD	X		X	X	X
24) SHELL REFINING COMPANY (MALAYA) BERHAD		X			
25) THE STRAITS TRADING COMPANY LIMITED (A SINGAPORE COMPANY LISTED IN THE KLSE)		X			
26) TRACTORS MALAYSIA BERHAD		X			
27) U.A.C. BERHAD		X(*)			
28) U.M.W. CORPORATION BERHAD		X			
29) YEO HIAP SENG (MALAYSIA) BERHAD		X			

(*) - NON COMPLIANCE DISCLOSED

SEGMENT INFORMATION DETAILS

1 - SEGMENT SALES

2 - SEGMENT RESULTS

3 - SEGMENT ASSETS EMPLOYED

APPENDIX 4F [CONTINUED]

DISCLOSURE OF SEGMENT INFORMATION BY COMPANIES IN THE SAMPLE

	DISCLOSURE OF SEGMENT INFORMATION		SEGMENT INFORMATION DETAILS		
	YES	NO	1	2	3
[II] BANKS AND FINANCE COMPANIES					
1) ARAB-MALAYSIAN DEVELOPMENT BERHAD		X			
2) DEVELOPMENT AND COMMERCIAL BANK BERHAD		X			
3) MALAYAN BANKING BERHAD		X			
[III] HOTEL AND PROPERTY COMPANIES					
1) ISLAND AND PENINSULAR GROUP	X		X	X	X
2) PARAMOUNT CORPORATION BERHAD		X			
3) PETALING GARDEN BERHAD		X			
4) RASA SAYANG BEACH HOTELS (PENANG) BHD		X			
5) UNITED ESTATES PROJECTS BERHAD	X		X	X	X
[IV] TIN AND OTHER MINING COMPANIES					
1) BERJUNTAI TIN DREDGING BERHAD		X			
2) RAHMAN HYDRAULIC TIN BERHAD	X		X	X	X
3) MALAYSIA MINING CORPORATION		X			
[V] OIL PALM AND RUBBER COMPANIES					
1) BATU LINTANG RUBBER COMPANY BERHAD		X			
2) GUTHRIE ROPEL BERHAD		X			
3) HIGHLANDS & LOWLANDS BERHAD		X			
4) PERLIS PLANTATIONS BERHAD		X			

(*) - NON COMPLIANCE DISCLOSED

SEGMENT INFORMATION DETAILS

1 - SEGMENT SALES

2 - SEGMENT RESULTS

3 - SEGMENT ASSETS EMPLOYED

APPENDIX 4G

AN ANALYSIS OF THE ACCOUNTING FOR PLANT, PROPERTY AND EQUIPMENT OF THE COMPANIES IN THE SAMPLE

	BASES USED IN DETERMINING CARRYING AMOUNTS		VALUATION DISCLOSURES		
	COST	VALUATION	1	2	3
[I] INDUSTRIAL COMPANIES					
1) ALLIED MALAYSAN DEVELOPMENT BERHAD	X	X	X	X	X
2) AMALGAMATED INDUSTRIAL STEEL BERHAD	X	X	X	X	X
3) BATA (MALAYSIA) BERHAD	X	X	X	X	X
4) CARLSBERG BREWERY (MALAYSIA) BERHAD	X	X	X	X	X
5) C.I. HOLDINGS BERHAD	X	X	-	X	X
6) COLD STORAGE (MALAYSIA) BERHAD	X	X	-	X	X
7) DAYAPI INDUSTRIES (MALAYSIA) BHD	X	X	-	X	X
8) PACIFIC CHEMICALS BERHAD	X	-	N/A	N/A	N/A
9) THE EAST ASIATIC COMPANY(MALAYSIA) BHD	X	X	X	X	X
10) ERICSSON TELECOMMUNICATIONS INDUSTRIES BERHAD (A PRIVATE LIMITED COMPANY)	X	X	-	X	X
11) FABER MERLIN MALAYSIA BERHAD	X	X	-	X	X
12) FIMA METAL BOX BERHAD	X	X	X	X	X
13) FIRST ALLIED CORPORATION BERHAD	X	X	X	X	X

(*)REVALUATION OF ASSETS OTHER THAN PROPERTY N/A - NOT APPLICABLE (-) NOT DISCLOSED

VALUATION DISCLOSURES

1 - METHOD OF VALUATION

2 - YEAR(S) OF VALUATION

3 - USE OF EXTERNAL VALUER

APPENDIX 4G [CONTINUED]

AN ANALYSIS OF THE ACCOUNTING FOR PLANT, PROPERTY AND EQUIPMENT OF THE COMPANIES IN THE SAMPLE

	BASES USED IN DETERMINING CARRYING AMOUNTS		VALUATION DISCLOSURES		
	COST	VALUATION	1	2	3
14) IMATEX BERHAD	X	X(*)	X	X	X
15) INNOVEST BERHAD	X X	X	X	X	
16) NATIONAL IRON AND STEEL MILLS LIMITED (A SINGAPORE REGISTERED COMPANY LISTED IN THE KLSE)	X	X	-	X	X
17) THE NEW STRAITS TIMES PRESS (MALAYSIA) BERHAD	X	X	-	X	X
18) PELANGI BERHAD	X	X	X	X	X
19) PILECON ENGINEERING BERHAD	X	-	N/A	N/A	N/A
20) RENONG BERHAD	X	-	N/A	N/A	N/A
21) ROTHMANS OF PALL MALL (MALAYSIA) BERHAD	X	X	X	X	X
22) ROXY ELECTRIC INDUSTRIES MALAYSIA BERHAD	X	X	-	-	-
23) SETRON (MALAYSIA) BERHAD	X	X	-	X	X
24) SHELL REFINING COMPANY (MALAYA) BERHAD	X	X	X	X	X
25) THE STRAITS TRADING COMPANY LIMITED (A SINGAPORE COMPANY LISTED IN THE KLSE)	X	X	-	X	X
26) TRACTORS MALAYSIA BERHAD	X	X	-	X	-

(*)REVALUATION OF ASSETS OTHER THAN PROPERTY N/A - NOT APPLICABLE (-) NOT DISCLOSED

VALUATION DISCLOSURES

1 - METHOD OF VALUATION

2 - YEAR(S) OF VALUATION

3 - USE OF EXTERNAL VALUER

APPENDIX 4G [CONTINUED]

AN ANALYSIS OF THE ACCOUNTING FOR PLANT, PROPERTY AND EQUIPMENT OF THE COMPANIES IN THE SAMPLE

	BASES USED IN DETERMINING CARRYING AMOUNTS		VALUATION DISCLOSURES		
	COST	VALUATION	1	2	3
27) U.A.C. BERHAD	X	X	X	X	X
28) U.M.W. CORPORATION BERHAD	X	X	-	X	-
29) YEO HIAP SENG (MALAYSIA) BERHAD	X	X	X	X	X
[II] BANKS AND FINANCE COMPANIES					
1) ARAB-MALAYSIAN DEVELOPMENT BERHAD	X	X	-	X	X
2) DEVELOPMENT AND COMMERCIAL BANK BERHAD	X	-	N/A	N/A	N/A
3) MALAYAN BANKING BERHAD	X	-	N/A	N/A	N/A
[III] HOTEL AND PROPERTY COMPANIES					
1) ISLAND AND PENINSULAR GROUP	X	X	X	X	X
2) PARAMOUNT CORPORATION BERHAD	X	X	-	X	X
3) PETALING GARDEN BERHAD	X	X	X	X	X
4) RASA SAYANG BEACH HOTELS (PENANG) BHD	X	X	X	X	X
5) UNITED ESTATES PROJECTS BERHAD	X	X	-	X	X

(*)REVALUATION OF ASSETS OTHER THAN PROPERTY   N/A - NOT APPLICABLE   (-) NOT DISCLOSED

VALUATION DISCLOSURES

1 - METHOD OF VALUATION

2 - YEAR(S) OF VALUATION

3 - USE OF EXTERNAL VALUER

APPENDIX 4G [CONTINUED]

AN ANALYSIS OF THE ACCOUNTING FOR PLANT, PROPERTY AND EQUIPMENT OF THE COMPANIES IN THE SAMPLE

	BASES USED IN DETERMINING CARRYING AMOUNTS		VALUATION DISCLOSURES		
	COST	VALUATION	1	2	3
[IV] TIN AND OTHER MINING COMPANIES					
1) BERJUNTAI TIN DREDGING BERHAD	X	X(*)	-	-	-
2) RAHMAN HYDRAULIC TIN BERHAD	X	X	-	X	-
3) MALAYSIA MINING CORPORATION	X	X	X	X	X
[V] OIL PALM AND RUBBER COMPANIES					
1) BATU LINTANG RUBBER COMPANY BERHAD	X	X	-	X	-
2) GUTHRIE ROPEL BERHAD	X	X	-	X	-
3) HIGHLANDS & LOWLANDS BERHAD	X	X	-	X	X
4) PERLIS PLANTATIONS BERHAD	X	X	-	X	X

(*)REVALUATION OF ASSETS OTHER THAN PROPERTY   N/A - NOT APPLICABLE   (-) NOT DISCLOSED

VALUATION DISCLOSURES

1 - METHOD OF VALUATION

2 - YEAR(S) OF VALUATION

3 - USE OF EXTERNAL VALUER

APPENDIX 4H

DISCLOSURE OF LEASING IN THE FINANCIAL STATEMENTS OF THE SAMPLE COMPANIES.

NAME OF COMPANIES WHICH DISCLOSED LEASING ACTIVITIES IN THE FINANCIAL STATEMENTS	INFORMATION DISCLOSED
1) ALLIED MALAYSAN DEVELOPMENT BERHAD	X - Minimal disclosure - only disclosed in the notes to the accounts under lease commitments; did not indicate which assets were under lease
2) C.I. HOLDINGS BERHAD	X - Leases were accounted for under the financing method, no differentiation in the accounts in the recording of the leases.
3) COLD STORAGE (MALAYSIA) BERHAD	X - Leased assets disclosed in the balance sheet. Lease obligations disclosed under deferred liabilities in the notes to the accounts.
4) DAYAPI INDUSTRIES (MALAYSIA) BHD	X - Complied with IAS 17. Leased assets shown in the balance sheet as a separate item from the other assets, also disclosed current portion and long term portions of lease obligations in the accounts.
5) FIRST ALLIED CORPORATION BERHAD	X - Accounting policy on lease financing disclosed, balance sheet record assets on finance leases as debtors and also indicated the amount of unearned interest on the leases. Complied with the requirements of IAS 17.
6) IMATEX BERHAD	X - Leases assets disclosed in the balance sheet, amount of lease obligations also disclosed under current liabilities and deferred liabilities.
7) INNOVEST BERHAD	X - Lease debtors disclosed in the balance sheet, amount of lease commitments payable in the subsequent accounting period disclosed, leased assets not disclosed, no other information disclosed in the financial statements.

APPENDIX 4H [CONTINUED]

8) PELANGI BERHAD	X - An item "leasing charges" appeared in the profit and loss account, no other information disclosed.
9) RENONG BERHAD	X - An item "lease rental" appeared in the profit and loss account, no other information provided.
10) ROTHMANS OF PALL MALL (MALAYSIA) BERHAD	X - Lease commitments in respect of motor vehicle lease agreements disclosed in the accounts, no indication as to whether these leases were finance or operating leases.
11) ROXY ELECTRIC INDUSTRIES MALAYSIA BERHAD	X - Leased commitments of a subsidiary disclosed, no other information available.
12) U.A.C. BERHAD	X - Amount of lease rental indicated in the profit and loss account as an expense no other information available.
13) U.M.W. CORPORATION BERHAD	X - Accounting policy on leasing disclosed in the accounts - leasing operations accounted for on a financial lease basis, sum of years digits method used to recognise income amount of leased rental receivable was also disclosed in the balance sheet.
14) YEO HIAP SENG (MALAYSIA) BERHAD	X - Disclosed the accounting policy relating to leased assets - leased assets capitalised under finance leased and the lease obligations were disclosed in the accounts. Leases not meeting the criteria of risk of ownership classified as operating leases and rental was charged to profit and loss account. In the balance sheet, leased assets were disclosed separately from other assets, and the current and long term portions of leased liabilities were also disclosed. Complied with the requirements of IAS 17.
15) MALAYAN BANKING BERHAD	X - Amount of lease expense disclosed in the profit and loss account, no other information available.

APPENDIX 4I

OTHER INFORMATION DISCLOSED BY COMPANIES IN THE SAMPLE

NAME OF COMPANIES	INFORMATION DISCLOSED						
	1	2	3	4	5	6	7
1) ALLIED MALAYSAN DEVELOPMENT BERHAD	X	X	-	X	X	-	-
2) AMALGAMATED INDUSTRIAL STEEL BERHAD	X	-	-	X	X	-	-
3) BATA (MALAYSIA) BERHAD	X	X	-	-	X	-	X
4) CARLSBERG BREWERY (MALAYSIA) BERHAD	X	X	-	X	X	X	X
5) C.I. HOLDINGS BERHAD	X	X	X	X	X	X	X
6) COLD STORAGE (MALAYSIA) BERHAD	X	X	-	X	X	-	-
7) DAYAPI INDUSTRIES (MALAYSIA) BHD	X	-	-	X	X	-	X
8) PACIFIC CHEMICALS BERHAD	X	X	X	X	-	-	-
9) THE EAST ASIATIC COMPANY(MALAYSIA) BHD	X	X	X	X	X	X	-
12) FIMA METAL BOX BERHAD	X	X	X	X	X	X	X
13) FIRST ALLIED CORPORATION BERHAD	X	X	X	X	X	-	X
14) IMATEX BERHAD	X	-	X	-	-	-	X
15) INNOVEST BERHAD	X	X	-	X	X	-	-

OTHER INFORMATION DISCLOSED

1 - FOREIGN CURRENCY TRANSLATION

2 - EMPLOYEES' RETIREMENT BENEFITS

3 - RELATED PARTIES DISCLOSURE

4 - EARNINGS (LOSS) PER SHARE

5 - CAPITAL COMMITMENTS

6 - FIVE OR MORE YEARS FINANCIAL SUMMARY

7 - LIST OF LARGEST SHAREHOLDERS

APPENDIX 4I (CONTINUED)

OTHER INFORMATION DISCLOSED BY COMPANIES IN THE SAMPLE

NAME OF COMPANIES	INFORMATION DISCLOSED						
	1	2	3	4	5	6	7
17) THE NEW STRAITS TIMES PRESS (MALAYSIA) BERHAD	X	X	X	X	X	X	X
18) PELANGI BERHAD	X	-	-	X	-	-	X
19) PILECON ENGINEERING BERHAD	X	-	-	-	X	-	X
20) RENONG BERHAD	X	-	X	X	X	-	X
21) ROTHMANS OF PALL MALL (MALAYSIA) BERHAD	X	X	-	X	X	X	X
22) ROXY ELECTRIC INDUSTRIES MALAYSIA BERHAD	-	-	-	X	X	-	X
23) SETRON (MALAYSIA) BERHAD	X	X	X	X	X	-	-
24) SHELL REFINING COMPANY (MALAYA) BERHAD	X	X	X	X	X	X	X
26) TRACTORS MALAYSIA BERHAD	X	X	X	X	X	X	X
27) U.A.C. BERHAD	X	X	-	X	X	X	-
28) U.M.W. CORPORATION BERHAD	X	-	-	X	X	X	X
29) YEO HIAP SENG (MALAYSIA) BERHAD	X	X	-	X	X	X	X

OTHER INFORMATION DISCLOSED

1 - FOREIGN CURRENCY TRANSLATION

2 - EMPLOYEES' RETIREMENT BENEFITS

3 - RELATED PARTIES DISCLOSURE

4 - EARNINGS (LOSS) PER SHARE

5 - CAPITAL COMMITMENTS

6 - FIVE OR MORE YEARS FINANCIAL SUMMARY

7 - LIST OF LARGEST SHAREHOLDERS

APPENDIX 4I (CONTINUED)

OTHER INFORMATION DISCLOSED BY COMPANIES IN THE SAMPLE

NAME OF COMPANIES	INFORMATION DISCLOSED						
	1	2	3	4	5	6	7
[II] BANKS AND FINANCE COMPANIES							
1) ARAB-MALAYSIAN DEVELOPMENT BERHAD	X	X	X	X	X	-	X
2) DEVELOPMENT AND COMMERCIAL BANK BERHAD	X	-	-	X	X	X	X
3) MALAYAN BANKING BERHAD	X	X	-	X	X	X	X
[III] HOTEL AND PROPERTY COMPANIES							
1) ISLAND AND PENINSULAR GROUP	X	-	-	X	X	-	X
2) PARAMOUNT CORPORATION BERHAD	X	-	-	X	-	X	X
3) PETALING GARDEN BERHAD	X	-	-	X	-	X	X
4) RASA SAYANG BEACH HOTELS (PENANG) BHD	X	-	-	X	X	-	X
5) UNITED ESTATES PROJECTS BERHAD	X	X	X	X	X	X	X
[IV] TIN AND OTHER MINING COMPANIES							
1) BERJUNTAI TIN DREDGING BERHAD	-	X	-	X	X	X	X
2) RAHMAN HYDRAULIC TIN BERHAD	X	X	-	X	X	X	X
3) MALAYSIA MINING CORPORATION	X	X	X	X	X	X	X
[V] OIL PALM AND RUBBER COMPANIES							
1) BATU LINTANG RUBBER COMPANY BERHAD	X	X	-	X	X	X	X
2) GUTHRIE ROPEL BERHAD	X	X	X	X	X	X	X
3) HIGHLANDS & LOWLANDS BERHAD	X	X	X	X	X	X	X
4) PERLIS PLANTATIONS BERHAD	X	-	-	X	X	X	X

OTHER INFORMATION DISCLOSED

1 - FOREIGN CURRENCY TRANSLATION

2 - EMPLOYEES' RETIREMENT BENEFITS

3 - RELATED PARTIES DISCLOSURE

4 - EARNINGS (LOSS) PER SHARE

5 - CAPITAL COMMITMENTS

6 - FIVE OR MORE YEARS FINANCIAL SUMMARY

7 - LIST OF LARGEST SHAREHOLDERS

QN NO:......

USEFULNESS OF INFORMATION
CONTAINED IN COMPANY ANNUAL REPORTS
TO INVESTMENT ANALYSTS FOR INVESTMENT DECISIONS.

THE OBJECTIVE OF THIS QUESTIONNAIRE IS TO OBTAIN YOUR OPINIONS REGARDING THE USES AND USEFULNESS OF COMPANIES ANNUAL REPORTS IN YOUR INVESTMENT ACTIVITIES. ALL INFORMATION OBTAINED FROM THIS QUESTIONNAIRE WILL BE TREATED WITH STRICT CONFIDENCE. NO NAMES OF INDIVIDUALS OR COMPANIES TAKING PART IN THE SURVEY WILL BE MENTIONED IN THE ANALYSIS.

IF YOU WOULD LIKE A COPY OF THE SURVEY FINDINGS, PLEASE TICK THE BOX BELOW:

[ ]

PART I

Note: For questions 1, 2 and 3, the following scale should be used

1 - Very Important
2 - Important
3 - Neutral
4 - Not Very Important
5 - Not Important at All

PLEASE CIRCLE ONE NUMBER FOR EACH ITEM

1. In making investment decisions/recommendations, what are your important sources of information?

1. Corporate annual reports.............	1	2	3	4	5
2. Corporate interim reports............	1	2	3	4	5
3. Prospectuses.........................	1	2	3	4	5
4. Newspapers...........................	1	2	3	4	5
5. Business Magazines...................	1	2	3	4	5
6. Communications with the company management..........................	1	2	3	4	5
7. Advisory services eg accountants, merchant banks, etc.................	1	2	3	4	5
8. Tips and rumours.....................	1	2	3	4	5
9. Visits to companies..................	1	2	3	4	5
10. Government publications.............	1	2	3	4	5
11. Other sources (please identify)	1	2	3	4	5

b) Of the above, please identify, in order of importance, three of the most important sources of information.

1)........................

2)........................

3)........................

2. Please indicate the usefulness of companies' annual financial reports in the following areas of investment decision?

1. To provide background information........	1	2	3	4	5
2. To provide primary data for investment decisions..............................	1	2	3	4	5
3. To monitor previous investment decisions..............................	1	2	3	4	5
4. In making comparison of the company's performance over previous years........	1	2	3	4	5
5. In making comparison of a company's performance with that of other companies..............................	1	2	3	4	5
6. To investigate companies to make new or additional investment...........	1	2	3	4	5
7. To forecast profits/eps.................	1	2	3	4	5
8. To prepare specific ratios and commentary.............................	1	2	3	4	5
9. Other purposes............................	1	2	3	4	5

3. In making investment decisions/recommendations, how do you rate the importance of the following sections of a company's annual reports?

1. Chairman's letter	1	2	3	4	5
2. Balance sheet	1	2	3	4	5
3. Profit and loss account	1	2	3	4	5
4. Statement of changes in financial position	1	2	3	4	5
5. Statement of accounting policies	1	2	3	4	5
6. Notes to the accounts	1	2	3	4	5
7. Auditors report	1	2	3	4	5
8. Managements discussions and analysis of operations of preceding year(s)	1	2	3	4	5
9. Management's discussions and analysis of the coming year	1	2	3	4	5
10. Profiles of the senior management staff.	1	2	3	4	5
11. Profiles of the Board of Directors......	1	2	3	4	5
12. Management's forecast of expected profits (or losses) for the coming year	1	2	3	4	5

4. Please indicate the adjustments that you make for the following figures found in company financial statements?

	Major Adjustment	Minor Adjustment	No Adjustment
(a) Annual depreciation expense	[ ]	[ ]	[ ]
(b) Asset valuations	[ ]	[ ]	[ ]
(c) Extraordinary items	[ ]	[ ]	[ ]
(d) Inventory valuations	[ ]	[ ]	[ ]
(e) Taxation	[ ]	[ ]	[ ]
(f) Intangible assets such as goodwill	[ ]	[ ]	[ ]

(g) Earnings per share	[ ]	[ ]	[ ]
(h) Leased assets	[ ]	[ ]	[ ]
(i) Effects of changes in exchange rates	[ ]	[ ]	[ ]
(j) Investment	[ ]	[ ]	[ ]
(k) Others (please specify)	[ ]	[ ]	[ ]

5. Please indicate your degree of understanding of the informations contained in company annual reports.(Please tick the appropriate box)

Fully Understand	Understand	50% Understand	Little Understand	Do not Understand
[ ]	[ ]	[ ]	[ ]	[ ]

6. Please indicate the degree of relevancy of the information contained in company annual reports with regards to investment decisions. (Please tick the appropriate box.)

Very Relevant	Relevant	50% Relevance	Little Relevance	No Relevance
[ ]	[ ]	[ ]	[ ]	[ ]

7(a). Please indicate your degree of confidence in using company annual reports for investment decision. (Please tick the appropriate box.)

Very Confident	Confident	50% Confident	Little Confidence	No Confidence
[ ]	[ ]	[ ]	[ ]	[ ]

(b)How would the following factors affect your confidence in using company annual reports.

[Please use the following scale:
1 - Greatly increase confidence
2 - Increase confidence
3 - No change in confidence
4 - Decrease confidence
5 - Greatly decrease confidence]

i)Greater enforcement of International and Malaysian Accounting Standards....	1	2	3	4	5
ii)Increasing government regulations concerning the preparation of company annual reports..	1	2	3	4	5
iv)Audit carried out by an international firm of accountants....	1	2	3	4	5
iii)All companies using a standard format for presenting its financial statements..............................	1	2	3	4	5
v)Audit carried out by a local firm of accountant with no international connections..........................	1	2	3	4	5

vi)Other factors (Please specify)
.... 1 . 2 3 4 5

8. Please indicate the degree of your involvement in the following investment decision.

	Greatly Involved	Minor Involvement	No Involvement
(a) What sectors to invest in	[ ]	[ ]	[ ]
(b) Which companies in particular sectors	[ ]	[ ]	[ ]
(c) How much in particular equities	[ ]	[ ]	[ ]

9. Please indicate the degree of agreement or disagreement with the following statements.

<u>The scale is as follows:</u>

1 - strongly agree,
2 - agree
3 - indifferent
4 - disagree
5 - strongly disagree

a. Compliance with International Accounting Standards should receive legal backing..	1	2	3	4	5
b. The accounts presented by the companies should be standardised..................	1	2	3	4	5
c. Compliance with Malaysian Accounting Standards should receive legal backing..	1	2	3	4	5
d. The ability of the company's management to decide which reporting practices to use should be severely restricted....	1	2	3	4	5
e. All companies should prepare their financial statements using the same accounting practices	1	2	3	4	5
f. The company's external auditors are independent of management's influence..	1	2	3	4	5
g. The auditors exercise strict rules regarding codes of ethics and standards of professional behaviour....	1	2	3	4	5
h. The professional accounting bodies enforce strictly its rules of professional conduct..................	1	2	3	4	5
i. The auditors qualifications and experience are adequate to prevent abuse and misrepresentations in the accounts of companies.................	1	2	3	4	5
j. I have confidence in using audited financial statements for investment decisions............................	1	2	3	4	5

10. What other information, if any, would you like to see disclosed in the company annual reports?

PART II - BACKGROUND INFORMATION OF RESPONDENTS

1. Type of organisation for which you work:
   a) Insurance company [ ]
   b) Mutual fund/Unit trust [ ]
   c) Stockbrokerage firm [ ]
   d) Bank/Merchant bank [ ]

   Name of organisation:

2. Age:........ Sex: Male [ ] Female [ ]

3. Number of financial analysts employed by your organisation.

   ....

4. Academic/professional qualification(s):

Qualification(s)	Year and Country Qualification obtained	Percentage(approximate) of Accounting related courses in qualification
....	....	....
....	....	....
....	....	....

5. Number of years of experience as financial analysts:.....years

6. In your organisation's hierarchy, are you in:
   Lower management [ ]
   Middle management [ ]
   Senior management [ ]

7. Would you characterise yourself primarily as a :
   (a) security analyst [ ]
   (b) fund manager [ ]
   (c) investment advisor or [ ]
   (d) others (describe) [ ]

IF YOU HAVE INDICATED THAT YOU WOULD LIKE A COPY OF THE SURVEY RESULTS, PLEASE WRITE YOUR NAME AND ADDRESS BELOW.

NAME:
ADDRESS:

THANK YOU VERY MUCH FOR TAKING PART IN THIS SURVEY. I WOULD LIKE TO EMPHASISE AGAIN THAT INFORMATION OBTAINED FROM THIS QUESTIONNAIRE IS FOR ACADEMIC PURPOSES ONLY AND WILL BE TREATED AS STRICTLY CONFIDENTIAL. IF YOU HAVE ANY QUESTIONS PERTAINING TO THIS SURVEY, PLEASE CONTACT ME AT THE ADDRESS BELOW:

SYED NOH BIN SYED AHMAD,
SENIOR LECTURER,
SCHOOL OF ACCOUNTANCY,
INSTITIUT TEKNOLOGI MARA, 40250 SHAH ALAM, SELANGOR.

APPENDIX 6

DATA PROCESSING AND CODING FRAME

When the questionnaires were received, a number was assigned and the method of collection (i.e. either collected personally or received by post) was indicated on the front page of these questionnaires. Questionnaires received after the reminder letters were sent were grouped into a separate category.

In section 6.3.2, it was stated that with the exception of one open-ended question, the answers to the other questions in the questionnaires were based on a scale form 1 to 5 and therefore, could be processed and analysed using the computer. As such, a coding frame for the questionnaire was prepared and a code was assigned to each of the variables in the questionnaire. There were a total of 78 variables in the questionnaires and each variable was assigned a unique code. Unasnwered or incomplete answers ("missing variables") were assigned a special common code to differentiate these from other variables and for easy identification.

Data from these questionnaires were coded using this coding frame and were then transferred into the 80 column coding sheet. These answer were then directly entered into the computer terminal and were processed using the VECCE editor at the University of Stirling Computer Unit. These data were analysed using the Statistical Package for the Social Sciences - Extended [SPSS(X)] computer program.

From the procedures outlined above, there were two possible sources of errors in the processing of the data; (1) the data from the questionnaires could be entered incorrectly onto the coding sheets; (2) data could be incorrectly entered from the coding sheet to the computer terminal.

To check against the first type of error, a random sample of the questionnaires were checked against the coding sheet. In the case of the second source of errors, a print out of the computer files containing the data were checked against the coding sheets. Coding mistakes were immediately rectified and re-entered into the terminals. These checks were conducted to ensure that the data contained no errors and to maintain the integrity of the data which were then analysed using the SPSS(X) program.

APPENDIX 6 (CONTINUED)

CODING FRAME FOR QUESTONNAIRE

QUES. NO.	VAR. NO.	VARIABLE NAME	CODE	COLUMN NO.	RECORD NO.	VAR/COL
A*	001	Questionnaire Number	001-099	1-3	1	V1 1-3
B*	002	Reply method	1-2	4	1	V2 4
		Received by post	1			
		Collect personally	2			
C*	003	Time of reply	1-2	5	1	V3 5
		Early reply	1			
		Late reply	2			
1		Sources Of Information				
	004	Annual Reports	1-5	7	1	V4 7
	005	Interim Reorts	1-5	8	1	V5 8
	006	Prospectuses	1-5	9	1	V6 9
	007	Newspapers	1-5	10	1	V7 10
	008	Business Magazines	1-5	11	1	V8 11
	009	Communications With Management	1-5	12	1	V9 12
	010	Advisory Services	1-5	13	1	V10 13
	011	Tips And Rumours	1-5	14	1	V11 14
	012	Visits	1-5	15	1	V12 15
	013	Govt Publications	1-5	16	1	V13 16
	014	Other Sources	1-5	17	1	V14 17

APPENDIX 6 (CONTINUED)

QUES. NO.	VAR. NO.	VARIABLE NAME	CODE	COLUMN NO.	RECORD NO.	VAR/COL
2		Usefulness Of Companies Reports				
	015	Background Info	1-5	19	1	V15 19
	016	Primary Info	1-5	20	1	V16 20
	017	Monitor Investment	1-5	21	1	V17 21
	018	Comparison - Prior Yrs	1-5	22	1	V18 22
	019	Comparison - Other Co.S	1-5	23	1	V19 23
	020	Forecast profits/eps	1-5	24	1	V20 24
	021	Ratios/Comments	1-5	25	1	V21 25
	022	New Investment	1-5	26	1	V22 26
	023	Other Uses	1-5	27	1	V23 27
3		Importance Of Parts Of Annual Reports				
	024	Chairman's Letter	1-5	29	1	V24 29
	025	Balance Sheet	1-5	30	1	V25 30
	026	Profit And Loss Account	1-5	31	1	V26 31
	027	Changes In Fin Position	1-5	32	1	V27 32
	028	Statement Of Acc Pol	1-5	33	1	V28 33
	029	Notes To The Accounts	1-5	34	1	V29 34
	030	Auditors Reports	1-5	35	1	V30 35
	031	Mgmt Dis. - Prior Yrs	1-5	36	1	V31 36
	032	Mgmt Dis. - Coming Yr	1-5	37	1	V32 37
	033	Senior Managment	1-5	38	1	V33 38
	034	Board Of Directors	1-5	39	1	V34 39
	035	Mgmt Forecasts - Profits	1-5	40	1	V35 40

APPENDIX 6 (CONTINUED)

QUES. NO.	VAR. NO.	VARIABLE NAME	CODE	COLUMN NO.	RECORD NO.	VAR/COL
4		Adjustments in Company Financial Statements				
	036	Depreciation Expense	1-3	42	1	V36 42
	037	Asset Valuations	1-3	43	1	V37 43
	038	Extraordinary Items	1-3	44	1	V38 44
	039	Inventory Valuations	1-3	45	1	V39 45
	040	Taxation	1-3	46	1	V40 46
	041	Intangible assets	1-3	47	1	V41 47
	042	Earnings per share	1-3	48	1	V42 48
	043	Leased assets	1-3	49	1	V43 49
	044	Exchange rates	1-3	50	1	V44 50
	045	Investments	1-3	51	1	V45 51
	046	Other	1-3	52	1	V46 52
5		Degree of Understanding				
	047	Understanding of C A R	1-5	54	1	V47 54
6		Degree of relevancy				
	048	Relevancy of C A R	1-5	55	1	V48 55
7(a)		Degree of Confidence				
	049	Confidence in C A R	1-5	56	1	V49 56

APPENDIX 6 (CONTINUED)

QUES. NO.	VAR. NO.	VARIABLE NAME	CODE	COLUMN NO.	RECORD NO.	VAR/COL
7(b)		Factors Affecting Confidence in C A R				
	050	Enforcement of IAS/MAS	1-5	58	1	V50 58
	051	Increase govt regulatn	1-5	59	1	V51 59
	052	Audit by int'al firms	1-5	60	1	V52 60
	053	Standard format	1-5	61	1	V53 61
	054	Audit by local firms	1-5	62	1	V54 62
	055	Other	1-5	63	1	V55 63
8		Involvement in Investment Decisions				
	056	Sectors to invest in	1-3	64	1	V56 64
	057	Co.s in part. sectors	1-3	65	1	V57 65
	058	No. of equities	1-3	66	1	V58 66
9		Attitude towards financial statements				
	059	Legal compliance - IAS	1-5	68	1	V59 68
	060	Standardised accounts	1-5	69	1	V60 69
	061	Legal compliance - MAS	1-5	70	1	V61 70
	062	Ltd rptg practices	1-5	71	1	V62 71
	063	Use same acctg pract	1-5	72	1	V63 72
	064	Auditors are independent	1-5	73	1	V64 73
	065	Code of ethics	1-5	74	1	V65 74
	066	Acctg assn strict rules	1-5	75	1	V66 75
	067	Auditors qual and expe	1-5	76	1	V67 76
	068	Confidence- audited CAR	1-5	77	1	V68 77

APPENDIX 6 (CONTINUED)

PART II - BACKGROUND OF RESPONDENTS

QUES. NO.	VAR. NO.	VARIABLE NAME	CODE	COLUMN NO.	RECORD NO.	VAR/COL
1	069	Type of organisation	1-4	1	2	V69 1
		Insurance company	1			
		Mutual/Unit trust	2			
		Stockbroker	3			
		Merchant Bank	4			
2	070	Age		2&3	2	V70 2&3
		Age	1-2			
	071	Sex	1-2	3	2	V71 4
		Male	1			
		Female	2			
3	072	No of Analysts		5&6	2	V72 5&6
4	073	Qualifications	1-3	7	2	V73 7
		Business Degrees	1			
		Accounting	2			
		Other Qualificatn	3			
	074	Place Degree Obtained	1-3	8	2	V74 8
		Local	1			
		Overseas	2			

APPENDIX 6 (CONTINUED)

QUES. NO.	VAR. NO.	VARIABLE NAME	CODE	COLUMN NO.	RECORD NO.	VAR/COL
	075	% of Acctg Subjects	1-3	9	2	V75 9
		No acctg course	1			
		Some acctg courses	2			
		Many accounting courses	3			
5	076	Years of Experience		10&11	2	V76 10&11
6	077	Management Hierarchy	1-3	12	2	V77 12
		Lower Management	1			
		Middle Management	2			
		Senior Management	3			
7	078	Job Description	1-3	13	2	V78 13
		Security analyst	1			
		Fund Manager	2			
		Investment/Cor Analysts	3			
		Others	4			

APPENDIX 6 (CONTINUED)

CODING FRAME FOR QUESTONNAIRE

Variable names and column numbers

QUES. NO.	VARIABLE NAME	VAR/COL NO.
A*	Questionnaire Number....	V1 1-3
B*	Reply method...........	V2 4
	Received by post 1	
	Collect personally 2	
C*	Time of reply...........	V3 5
	Early reply....1	
	Late reply.....2	
1	Sources Of Information	
	Annual Reports.........	V4 7
	Interim Reorts.........	V5 8
	Prospectuses...........	V6 9
	Newspapers.............	V7 10
	Business Magazines.....	V8 11
	Communications With Management...	V9 12
	Advisory Services......	V10 13
	Tips And Rumours.......	V11 14
	Visits 1-5............	V12 15
	Govt Publications......	V13 16
	Other Sources.........	V14 17

APPENDIX 6 (CONTINUED)

QUES. NO.	VARIABLE NAME	VAR/COL NO.
2	Usefulness Of Companies Reports	
	Background Info........	V15 19
	Primary Info...........	V16 20
	Monitor Investment.....	V17 21
	Comparison - Prior Yrs.	V18 22
	Comparison - Other Co.S	V19 23
	New Investment.........	V20 24
	Forecast profits/eps....	V21 25
	Ratios/comments.........	V22 26
	Other Uses.............	V23 27
3	Importance Of Parts Of Annual Reports	
	Chairman's Letter........	V24 29
	Balance Sheet............	V25 30
	Profit And Loss Account..	V26 31
	Changes In Fin Position..	V27 32
	Statement Of Acc Pol.....	V28 33
	Notes To The Accounts....	V29 34
	Auditors Reports.........	V30 35
	Mgmt Dis. - Prior Yrs....	V31 36
	Mgmt Dis. - Coming Yr....	V32 37
	Senior Management........	V33 38
	Board Of Directors.......	V34 39
	Mgmt Forecasts - Profits.	V35 40

APPENDIX 6 (CONTINUED)

QUES. NO.	VARIABLE NAME	VAR/COL NO.
4	Adjustments in Company Financial Statements	
	Depreciation Expense.....	V36 42
	Asset Valuations.........	V37 43
	Extraordinary Items......	V38 44
	Inventory Valuations.....	V39 45
	Taxation.................	V40 46
	Intangible assets........	V41 47
	Earnings per share.......	V42 48
	Leased assets............	V43 49
	Exchange rates...........	V44 50
	Investments..............	V45 51
	Other....................	V46 52
5	Degree of Understanding	
	Understanding of C A R...	V47 54
6	Degree of relevancy	
	Relevancy of C A R.......	V48 55
7(a)	Degree of Confidence	
	Confidence in C A R......	V49 56

APPENDIX 6 (CONTINUED)

QUES. NO.	VARIABLE NAME	VAR/COL NO.
7(b)	Factors Affecting Confidence in C A R	
	Enforcement of IAS/MAS...	V50 58
	Increase govt regulatn...	V51 59
	Audit by int'al firms....	V52 60
	Standard format..........	V53 61
	Audit by local firms.....	V54 62
	Other....................	V55 63
8	Involvement in Investment Decisions	
	Sectors to invest in.....	V56 64
	Co.s in part. sectors....	V57 65
	No. of equities..........	V58 66
9	Attitude towards financial statements	
	Legal compliance - IAS...	V59 68
	Standardised accounts....	V60 69
	Legal compliance - MAS...	V61 70
	Ltd rptg practices.......	V62 71
	Use same acctg pract.....	V63 72
	Auditors are independent.	V64 73
	Code of ethics...........	V65 74
	Acctg assn strict rules..	V66 75
	Auditors qual and expe...	V67 76
	Confidence- audited CAR..	V68 77

APPENDIX 6 (CONTINUED)

PART II - BACKGROUND OF RESPONDENTS

QUES. NO.	VARIABLE NAME	VAR/COL NO.
1	Type of organisation.....V69	1
	Insurance company..1	
	Mutual/Unit trust..2	
	Stockbroker........3	
	Merchant Bank......4	
2	Age.....................V70	2&3
	Age.......... 1-2	
	Sex.................V71	4
	Male......... 1	
	Female....... 2	
3	No of Analysts...........V72	5&6
4	Qualifications..........V73	7
	Business Degrees...1	
	Accounting 2	
	Other Qualificatns.3	
	Place Degree Obtained..V74	8
	Local..............1	
	Overseas...........2	

QUES. NO.	VARIABLE NAME	VAR/COL NO.	
	% of Acctg Subjects......	V75	9
	No acctg courses.......1		
	Some acctg courses.....2		
	Many acctg courses.....3		
5	Years of Experience.......	V76	10&11
6	Management Hierarchy....	V77	12
	Lower Management....1		
	Middle Management....2		
	Senior Management.....3		
7	Job Description.......	V78	13
	Security analyst.....1		
	Fund Manager.........2		
	Investment/Corp Analysts...........3		
	Others...............4		

APPENDIX 7

STATISTICAL TECHNIQUES CONSIDERED AND APPLIED

In the survey of investment analysts, two types of tests can be applied to the data obtained; i.e. parametric and non-parametric statistics. For parametric statistics (i.e. the t-test) to be applied, three main requirements have to be satisfied: (a) the samples must be drawn from populations that are normally distributed; (b) the use of interval scales; and (c) variances between the group should be homogeneous. In contrast, the application of non - parametric statistics are constrained by less strict assumtions than parametric tests. They are particularly free of assumptions about the characteristics or the form of distribution of the population of the research sample.

The measurements obtained from the data are based on the ordinal scale but according to Lobovitz (1970 p.515) the distinction between interval and ordinal data is theoretical, since, parametric techniques can be applied to any ordinal data with small error which can be justified by the advantages of parametric statistics. Thus, in the analysis, both parametric and non-parametric statistics are used in the analysis.

(a) T -TEST

The t-test of differences in means between groups were used in the test for non-response bias as well as to test specific hypotheses regarding the characteristics of respondents and answers obtained from the questionnaire. In using the t-test, the hypothesis to be tested was whether the two population means are equal; that is there is, no difference between the population means of the two samples:

$$H(1): u_1 = u_2$$

To test the above hypothesis, the pooled - variance t-test statistic is then calculated:

$$t = \frac{X_1 - X_2}{/S_p/N_1 + S_p/N_2}$$

where

X_1 = sample mean of Ist group

X_2 = sample mean of 2nd group

S_p = pooled variance of 1st and 2nd groups

N_1 = the sample size of the 1st group

N_2 = the sample size of the 2nd group

The t-test is based on the assumption that the population variances in the two groups are equal and is obtained using a pooled estimate of that common variance. Based on the sampling distribution of the above statistic, it is possible to calculate the probability that a difference at least as large as the one observed would occur if the two population means (u_1 and u_2) are equal [Norusis, M. (1983) p.79]. This probability is called the observed significance level.

If the observed significance level is small enough, usually less than 0.05, the hypothesis that the population means are equal is rejected, that is, there is a significant difference between the means of the two groups.

If on the other hand, this probability is greater than 0.05 or 0.01, the hypothesis that the mean variable scores in the population are equal for the twp types of mailings is not rejected. In other words,there is no significant difference between the means of the two groups

The choice of using the t-test in analysing the data is because of the fact that the t-test is considered as robust with regards to assumptions of normality of the distribution of the population, and also because of the reasons outlined in the introduction of this appendix.

(b) <u>The Chi-Square Test for Independence</u>

The chi-square test is a test of independence between two sets of variables. This statistical method was used in testing non-response bias as well as testing relationships between variables in the questionnaires.

The chi-square test was also used when categorical data is involved since the t-test cannot be used in such cases as it is meaningless to calculate the means of data denoted on a categorical scale.

In applying the chi-square test for non-response bias, the hypotheses is that the two variables are independent (Owen and Jones, 1978). Two variables are by definition independent if "the probability that a case falls into a given cell (of a cross-tabulation) is simply the product of the marginal probabilities of the two categories defining the cell" (Norusis, M.J.(1983) p.52).

Thus, as a first step in using this method, a contingency table (cross-tabulation) of the variables had to be constructed and a chi-square statistic is calculated by summing over all the cells the squared residuals (the difference between the observed and expected frequencies) divided by the expected frequencies:

$$X^2 = \frac{(O_{ij} - E_{ij})}{E_{ij}}$$

where

O_{ij} = Observed frequencies

E_{ij} = Expected frequencies

i = Row

j = Column

The calculated chi-square is compared to the critical points of the theoretical chi-square distribution to produce an estimate of the probability this calculated value is if the two variables are in fact independent (Nomuris, M.J. (1983) p.53). This probability is also known as the observed significance level.

If the probability is large (in this test more than (0.05), the hypothesis that the two variables are independent cannot be rejected.

In conclusion to this Appendix, the statistical methods were appropriate for the type of data produced from the questinnaire survey. The t and chi square tests were used to determine differences and relationships between variables in the current study.