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Corporate financial disclosure in emerging markets: the case of Sri Lanka

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CORPORATE FINANCIAL DISCLOSURE IN EMERGING MARKETS: THE CASE OF SRI LANKA

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CERTIFICATION

I, Anura Udaya Priyadarshana De Zoysa, declare that this thesis, submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the School of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

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Anura Udaya Priyadarshana De Zoysa

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Abstract

Improvement of corporate disclosures is very important for the development a country's stock market as it provides a greater degree of transparency for interested parties such as shareholders, creditors, and more importantly for new investors. Although there have been a large number of studies on corporate disclosure practices in developed markets, prior research on this aspect in emerging markets is sparse.

One of the major reasons for the dearth of literature in emerging markets is the lack of understanding of the importance of corporate disclosure, which is due mainly to the relatively low level of development in their stocks markets, coupled with the low investor interest in share investments. However, industrial and commercial activities in many of these emerging markets have expanded dramatically in recent years, creating an increased demand for more timely and extensive financial information by a wider spectrum of external users. In particular, many of the share markets in these countries have shown a sizeable increase in their transactions in terms of value and numbers. With these developments, there is now a growing demand for prompt and adequate disclosure of information required for the purpose of facilitating economic decision making of various users. On the other hand, despite the growing attention and importance given to disclosure of material information, it is a common feature in most stock markets that there is very limited compliance with disclosure requirements. Therefore, in order to help improving corporate accounting disclosures in these markets, it is imperative that the status quo of disclosure practices be identified clearly before taking necessary actions for further improvements.

The major objective of this study is to examine the current state of corporate disclosure practices in one of the emerging markets, Sri Lanka. This objective was achieved through an analysis of a questionnaire survey of seven user groups of corporate annual reports and an analysis on 65 corporate annual reports in Sri Lanka through three disclosure indexes namely, mandatory, voluntary, and overall. The results of the study found that various users of corporate annual reports in Sri Lanka use them mainly to obtain information for the purpose of buying, holding or selling

company shares. Moreover, these users have viewed annual reports as the prime source of information although information provided in these reports is perceived to be inadequate. The examination of the importance attached to various sections of the annual report revealed that both the balance sheet and the profit and loss statement are perceived by the overwhelming majority of users as the most important sections of an annual report. It was also found that the majority of respondents have used annual reports frequently, indicating the important role it plays in their decision making process. As for the factors limiting the use of annual reports in Sri Lanka, the respondents identified the publication delay as the major obstacle. The majority of users held the view that the existing time lag could be reduced substantially. Overall, despite the inadequacy of information provided, corporate annual reports were recognised as a very useful tool for decision making by most of the users in Sri Lanka.

The analysis of annual reports showed a fairly high level of overall disclosure by companies, especially when compared with the disclosure levels of other emerging markets. Also, the age and size of companies in Sri Lanka was found to have a positive association with high disclosure, suggesting that old and large companies disclose more information than vice versa. While a relatively high degree of compliance with mandatory disclosure requirements was observed, the voluntary disclosure was considerably low across all sectors. The differences of disclosure were also observed between companies in all sectors with the motors sector showing the highest level of disclosure and the land and property sector recording the lowest. Finally, it was found that although the overall disclosure level of Sri Lankan companies was comparatively high, the information disclosed in their annual reports has not been adequate both in quality and quantity to satisfy the information needs of annual report users in Sri Lanka.

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List of Abbreviations

ACA	Academics
AAA	American Accounting Association
ACC	Accountants
ACCA	Association of Chartered Certified Accountants
AICPA	American Institute of Certified Public Accountants
ASC	Accounting Standards Committee
ASPI	All Share Price Index
AuSC	Auditing Standards Committee
BAN	Bankers
CBA	Colombo Brokers' Association
CFOs	Chief Financial Officers
CIMA	Chartered Institute of Management Accountants
Companies Act	Companies Act No. 17 of 1982
CSE	Colombo Stock Exchange
DMs	Developed Markets
EMs	Emerging Markets
EXE	Managers / Executives
FA	Financial analysts
HKSA	Hong Kong Society of Accountants
IASC	International Accounting Standards Committee
IASs	International Accounting Standards
ICASL	Institute of Chartered Accountants of Sri Lanka
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IMF	International Monetary Fund
INV	Investors
MOU	Memorandum of Understanding
MPI	Milanka Price Index
PIM	Postgraduate Institute of Management
SBE	Specified Business Enterprises
SEC	Securities and Exchange Commission of Sri Lanka
SLAASAct	Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
SLAASMB	Sri Lanka Accounting and Auditing Standards Monitoring Board
SLASs	Sri Lanka Accounting Standards
SLAuSs	Sri Lanka Auditing Standards
SPI	Sensitive Price Index
TAX	Assessors / Tax officers
TNE	Transnational enterprise
USAID	United States Agency for International Development
USJ	University of Sri Jayewardenepura

Chapter 1
Introduction

1.1 Introduction

Improvement of corporate financial disclosures is very important for the development of a stock market as it provides a greater degree of transparency for interested parties such as shareholders, creditors, and more importantly for new investors (Eng and Teo, 2000). Although there has been a large number of studies on corporate financial disclosure practices in developed markets (Buzby, 1974; Barrett, 1977; Belkaoui, Kahl, and Peyrard, 1977; Firth, 1978; Cooke, 1992; Anderson, 1995) prior research on this aspect in emerging markets is sparse. One of the major reasons for the dearth of literature in emerging markets is the lack of understanding of the importance of this aspect, which is due mainly to the relatively low level of development in their stock markets, coupled with low investor interest in share investments.

However, industrial and commercial activities in many of these emerging markets have expanded dramatically in recent years, creating an increased demand for more timely and extensive financial information by a wider spectrum of external users. In particular, many of the share markets in these countries have shown a sizeable increase in their transactions in terms of value and numbers. With these developments, there is now a growing demand for prompt and adequate disclosure of all material information needed for facilitating informed investment decisions by investors. In essence, the

economic reforms and reorganisations taken place in many of the emerging markets in recent years have created a new corporate disclosure environment.

On the other hand, despite the growing attention and importance given to immediate disclosure of material information, it is a common feature in most stock markets that there is very limited compliance with disclosure requirements, either through a bona fide lack of awareness, apathy, or else, comfort from the knowledge that regulators will be hesitant to enforce requirements (Wickramanayake, 1997). Therefore, in order to help improve corporate accounting disclosures, it is imperative that the status quo of disclosure practices of these markets be identified clearly before taking necessary actions for further improvements. In the light of this background, the current study examines the nature and extent of the existing corporate disclosure practices in one of the emerging markets, Sri Lanka.

1.2 Statement of the Problem

Sri Lanka, formerly known as Ceylon, was a British colony until it gained independence in 1948. As a result, the business practices, education system, accounting system and so forth were inherited from the British. The British system of accounting was imposed on Sri Lanka during the colonial period through a number of avenues such as (1) setting up British business in Sri Lanka, (2) imposing British company law in Sri Lanka, and (3) exporting British accounting education to the island by recognising British accounting qualifications, establishing examination centres in Sri Lanka for British professional accounting bodies, and providing on-the-job training to local staff by British accountants.

The colonial economy up to 1947 had been directed mainly towards the plantation based export sector with businesses set up by British investors as sole proprietorships, partnerships and limited liability companies following the British model. Consequently, during the pre-independence period and a few decades after gaining independence, British companies had a significant influence over the business affairs in Sri Lanka as the business sectors during this period were mainly driven by British administrators. The financial statements of these companies were also published primarily in Britain in order to comply with the British company legislation (Perera, 1985).

Since the setting up of companies in the country during the colonial period, the Joint Stock Companies Ordinance No. 4 of 1861, which embodied the British company law, became the first company legislation in Sri Lanka. Although, from time to time, some of the changes in the British company law led to some amendments to the company legislation in Sri Lanka the local law did not keep pace with the British law. However, after the enactment of the UK Companies Act of 1929, steps were taken to revise the local company law and more closely follow the principles and provisions of the English Companies Act of 1929. As a result, the Companies Ordinance No. 51 of 1938 was enacted to amend and consolidate the law relating to companies in Sri Lanka. Until the Company Act No. 17 of 1982 was enacted, the Companies Ordinance No. 51 of 1938 remained as the company law in Sri Lanka. The Companies Act of 1982, which replaced the 1938 Ordinance, was also based on the English Companies Act of 1948.

With the establishment of a national professional accounting body in 1959, the Institute of Chartered Accountants in Sri Lanka (ICASL), Sri Lanka

was able to take steps to train its own accountants and change accounting practices to suit local needs. Until the establishment of the ICASL any Sri Lankan who wished to enter the accounting profession had to depend entirely on one of the few professional accounting bodies in the U.K to obtain a professional qualification which was required for a person to practice as an accountant. However, after setting up of the ICASL, even though chartered accountants could be produced locally as well, the method of education and training adopted for producing such accountants continued to be the same as that of the Institute of Chartered Accountants in England and Wales (Wijewardene and Yapa, 1998).

Same as accounting education, the country's accounting practices have also been dependent almost entirely on foreign practices. For example, the accounting standards established by the ICASL are based on the International Accounting Standards (IASs). Similarly, the company law in Sri Lanka still follows the old British model.

Although the developments in the accounting environment were slow, the economic and business environment in Sri Lanka showed significant changes especially after 1978 with the introduction of the government's liberalised economic polices. As a result of these changes, a new industrial sector has emerged in the economy. The impact of these changes is visible in many areas. Average GDP per capita of the country increased from Rs. 9,608 (US$ 362) in the 1980-89 period to Rs. 27,102 (US$549) in the 1990-95 period showing 182% increase over the five year period. Also, there is a significant change in the composition of production during the post-independence period. In 1948, tea, rubber, and coconut accounted for about 90 per cent of the

country's export earnings but today its contribution is less than 20 per cent. By contrast, the industrial contribution to GDP has grown from almost zero to 73 per cent over the same period. Overall, despite the on-going ethnic conflict, the economic activities in Sri Lanka have achieved impressive growth performance over the past two decades.

As for the business environment, the developments in the stock market and the increased company formation made significant impact on the public participation in business activities. The stock market in Sri Lanka, which was also started under British administration when the Colombo Brokers Association (CBA) commenced the trading of shares in limited liability companies in 1896, showed a marked development through a number of reforms. The reorganisations taken place in the stock market since 1982 as well as the enactment of the Companies Act No. 17 of 1982 gave a significant boost to the company formation in Sri Lanka. In particular, the Colombo Stock Exchange (CSE) contributed to this process greatly by providing expanded facilities for raising company capital through issues of shares and other types of securities. Consequently, corporate financing gradually improved from the traditional borrowing from banks or other private sources to the issuing of shares to general public. As a response to these developments, there has been a steady growth in the formation of public listed companies during the last two decades. They have grown from 77 in 1976 to 239 companies in 2000.

As described in the proceeding paragraphs, the economic and business environment in Sri Lanka has changed dramatically over the past few decades with the changes in major economic polices and the shift of emphasis on investments through private sector for economic development. In line with these

developments, the share market related activities have shown a marked improvement over the last two decades. Under this background where more and more people in the country are getting involved in business activities and decision making, it is apparent that the need for information for economic decision making has increased in the country as never before.

Given the above changes, the role of financial disclosure has become very important for the smooth functioning of the free enterprise economy of Sri Lanka. As Mautz and May (1978, p.28-29) pointed out, financial disclosure is required to support a viable capital market which is essential for resource allocation within a free enterprise economy. One of the major bases on which such allocations rest is the track record of the various companies vying for capital, a track record that is found in their financial statements. This means that financial disclosure is important to any enterprise seeking capital or credit. It provides a company with the means of telling its story, of appealing to investors and of comparing itself with others in the continuing competition for the limited amount of capital available. Therefore, with the increasing business activities and the development of capital market in Sri Lanka in recent years, one ought to expect a significant improvement in the financial disclosure practices as well.

However, very little is known about the present state of financial disclosure practices in Sri Lanka or the changes of such practices in response to changes in the business environment. The studies that have examined this issue are limited to a few descriptive studies covering only some aspects of financial disclosure and none of these studies has been supported by empirical data[1]. For

[1] Detailed explanations of all the disclosure studies done in Sri Lanka are provided under section 3.3 of Chapter 3, which reviews literature on previous disclosure studies in developed and emerging economies.

example, Perera in 1975 described the state of accounting and its environment in Sri Lanka without providing any empirical evidence. A study done by Wickramarachchi (1978) was confined to the investigation of the formats used for reporting information on assets and liabilities in the balance sheet included in the annul reports of 41 public listed companies in Sri Lanka. In another study on the international accounting standards and developing countries, Perera (1988) provided an analysis of 30 published annual reports. However, his analysis on financial disclosure was limited to an examination of the extent to which those companies complied with such accounting standards. Accordingly, it is apparent that all of the previous studies had a very narrow scope for their investigations. Interestingly, no prior study has made any attempt to investigate either the extent of financial disclosure, both mandatory and voluntary, in all the sections of annual reports or the user satisfaction with regard to the information provided in annual reports.

Given this situation, it is extremely difficult to make an accurate assessment of the present state of disclosure practices in Sri Lanka with the available information. However, as pointed out by previous research, several weaknesses in the Sri Lankan accounting education and practice, such as the use of a wide variety of alternative accounting procedures and practices by companies, the lack of uniformity in the practices adopted in reporting assets and liabilities, and the poor system of accounting education may suggest that some deficiencies exist in the present financial disclosure practices in Sri Lanka.

In the light of the above background, this study attempts to examine whether the financial disclosures in Sri Lanka provide timely and adequate material information as required by various users of financial information.

1.3 Purpose of the Study

In view of the lack of prior research on the problem highlighted in the preceding section, the major purpose of this study is to critically evaluate the corporate disclosures in annual reports of public listed companies in Sri Lanka. This purpose is to be achieved in four phases. First, the study explores the historical development of corporate disclosure practices in Sri Lanka. Second, it examines the perceptions of various users of annual reports on the quality and quantity of information disclosed in annual reports. Third, it examines the current status of disclosure practices by evaluating the extent of disclosures in annual reports and, finally, it identifies the major deficiencies in the present system with a view to suggesting suitable remedial measures for the overall improvement of corporate disclosure practices in the country. Within this scope, the study seeks to explore answers to the following research questions:

(1) What is the historical development and current status of corporate disclosure practices in Sri Lanka?

(2) Do the current corporate disclosure practices in Sri Lanka satisfy the users' needs?

(3) To what extent do the listed companies in Sri Lanka disclose information in their annual reports?

(4) To what extent do the listed companies in Sri Lanka comply with the statutory disclosure requirements?

(5) What additional information is required to satisfy the needs of users?

1.4 Major Concepts, Scope and Research Design

Financial disclosure, which can be defined as "any deliberate release of financial information whether numerical or qualitative, required or voluntary via formal

or informal channels" (Gibbins et al. 1990, p.122) is an important aspect of corporate financial reporting. It can be classified into three types, namely, *initial disclosure*, *ad-hoc disclosure* and *period disclosure*. Initial disclosure (or capital market entry or re-entry disclosure) is usually made in the form of prospectus to raise capital for a new business or for an expansion of the existing business. While ad-hoc disclosure (or bulletins) serves as a means of announcing major news as deemed necessary, periodic disclosure is made to provide information on a regular basis to all interested parties in the form of annual financial reports or interim statements (Wallace, 1987, p. 26). Of these three types of disclosure, the period disclosure is considered the most commonly used method of communication between the company and its interested parties.

Since the information needs of various users[2] of financial information vary significantly, two types of periodic reports are prepared by companies in order to cater to their needs. These two types of periodic reports are known as *special-purpose financial reports* and *general-purpose financial reports*. While the special purpose reports are generally prepared on demand of a specific user group such as a long-term creditor or a government agency, the general purpose financial reports are by far the most widely used medium by which companies provide information to various users. Although interim reports have become popular specially among investors and are mandatory in many countries, it is the annul report that primarily serves as the most significant and practical source of information to users. Therefore, this study concentrates on the corporate

[2] The framework for the preparation and presentation of financial statements of the ICASL identifies seven users of financial information. They are: investors, employees, lenders, suppliers and other trade creditors, customers, the government and its agencies, and the public.

financial disclosures in published annual reports of public listed companies in Sri Lanka.

Considering the nature of this study, a descriptive research design is chosen. The overall purpose of descriptive research is to provide a *picture* of a phenomenon as it naturally occurs, as opposed to studying the impacts of the phenomenon or intervention (Bickman 1998, 14). As Jaggi (1973) points out, descriptive studies provide information regarding the present state of the art of accounting. These are usually exploratory in nature and attempt to determine the status of a particular discipline in a country. The findings from this type of research are considered to be conclusive in nature in that they are used as input into managerial decision-making. Moreover, descriptive design primarily uses secondary data, surveys, panels, and observational data as the source of information and presents the results through statistical analysis and graphical displays. Accordingly, the following steps have been followed in this research:

a) At the outset, a comprehensive literature review was carried out to review the relevant literature on the financial reporting practices in emerging markets, followed by a review of publications and other documents on the historical development and current corporate disclosure practices in Sri Lanka. Through this process, the research problem and the research questions were identified.

b) After the research problem and questions were identified, the concepts were related to propositions at the abstract level through formulation of number of hypotheses.

c) A structured questionnaire survey was then conducted to collect data from seven major user groups: accountants, managers & executives, bankers, tax officers, academics, financial analysts, and investors,. After conducting different validity tests on the responses, the data were analysed using the computer based statistical package, SPSS.

d) The latest annual reports of 65 public listed companies in Sri Lanka were collected and the information contained in these annual reports were entered into a score sheet developed on the basis of three disclosure indexes which contained 318 information items. The extent of information disclosed in the annual reports was examined through this analysis.

e) Based on the results of the questionnaire survey and the annual report analysis, the existing financial disclosure practices were examined and some remedial measures were suggested as possible solutions to the problems identified.

The research methodology (including the statistical tests) used for the analysis of responses to the questionnaire, the analysis based on annual reports, and the analysis of company characteristics in relation to disclosure practices are explained in detail in the early parts of Chapters five and six.

1.5 Need for the Study

As stated at the beginning of this chapter, the importance of improving corporate disclosure practices for the development of stock markets in both developed and developing countries has been highlighted in many studies[3]. In order to improve such practices, it is essential that continued research be carried out not only for examining the current status but also for identifying deficiencies and exploring suitable remedial measures. In economically developed countries, there is a plethora of research studies carried out each year to investigate into various aspects of financial reporting practices in their companies. *Financial Reporting in Canada* and *Australian Company Financial Reporting* published every year are two of such studies that contribute immensely to the improvement of corporate disclosure practices in Canada and Australia. Unfortunately, research carried out in this area in emerging markets is very limited. Therefore, there is certainly a need for this type of research in such markets.

As briefly outlined in the statement of the problem, the accounting education and practice in Sri Lanka have been based on the British system. Nevertheless, Sri Lanka and the United Kingdom are significantly different from

[3] For example see chapter 3—A corporate financial disclosure: A literature review.

each other in terms of their cultural, social and economic conditions. Consequently, some disclosure practices inherited from the British system may not be appropriate for Sri Lanka. It may also be that new developments in the disclosure practices of British companies have not been adopted by Sri Lankan companies. Moreover, it may be that even if some disclosure practices inherited from the British system are applicable and useful to Sri Lankan companies may not be making use of them adequately. More importantly, some disclosure practices in Sri Lanka may need to be adapted or new practices be added to suit the cultural, social and economic conditions of the country. Furthermore, it may be that companies do not comply with some disclosure requirements even when they are imposed by law. Unfortunately, no information is available in respect of any of the above aspects of corporate disclosure in Sri Lanka because no study or survey has ever been conducted to examine these issues. Nevertheless, such information is essential for policy makers to identify deficiencies and take suitable remedial action to improve corporate disclosure practices, which are crucial for the development of the country's capital market.

In many of the developed countries, research carried out by independent researchers, such as academics and market analysts, have had a tremendous impact on the overall improvement of corporate disclosures in those countries. As discussed before, Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, laws and regulations issued by the Securities Exchange Commission of Sri Lanka (SEC) and the Colombo Stock Exchange, and the Companies Act provide guidelines for reporting practices in Sri Lanka. However, these guidelines are based primarily on foreign practices and opinions of the people involved in their formulation. Since no

prior empirical studies have examined the suitability of these guidelines, their effectiveness has remained unchecked. Thus, this type of studies can also help policy makers in their decision-making towards further improving the guidelines and pronouncements relating to corporate disclosure practices in Sri Lanka. As such, it is apparent that the need for this type of a study for Sri Lanka is very critical and urgent.

1.6 Limitations of the Study

This study is subject to a few limitations. First, the scope of the study was limited to an examination of the financial disclosure in corporate annual reports which constitute the main type of reports used in periodic disclosures. Therefore, for pragmatic reasons, no attempt was made to examine the other two types of financial disclosure, namely, initial disclosure and ad-hoc disclosure or to examine the other reports used in periodic disclosures. Second, although the objective of this study was to investigate the financial disclosure practices of all listed companies in Sri Lanka, the companies belonging to some business sectors, such as banking, finance, insurance and investment trust, had to be excluded from the study due to the vast differences in their disclosure requirements as against those of other sectors and the lack of availability of annual reports. Therefore, the sectors covered by this study was confined to manufacturing, beverage, food and tobacco; chemical and pharmaceuticals; diversified; footwear and textile, motors; trading; and hotels and travel as classified by the Colombo Stock Exchange. Third, since the disclosure indexes used for measuring the extent of financial disclosure are unique to this study, the researcher's subjectivity in selecting information items could not have been removed completely despite the precaution taken when constructing the indexes.

Finally, since a questionnaire survey was used as one of the major tools of data collection, the limitations commonly associated with all questionnaire surveys were applicable to this study.

1.7 Organisation of the thesis

The study is organised in seven chapters. Chapter one provides an introduction to the study, highlighting the problem, purpose of the study, research design, need for the study and limitations of the study.

Since this study focuses on one of the emerging markets, Sri Lanka, Chapter two begins with an introduction to emerging markets in general and then highlights their major features, concentrating primarily on the economic, business, and accounting environment of these markets, including Sri Lanka.

Chapter three presents a detailed review of the previous research on corporate disclosure practices in developed and emerging markets. Considering the fact that previous studies in this area are very diverse, they are discussed under four distinctive categories: Disclosure studies of developed markets, disclosure studies of emerging markets, disclosure studies in Sri Lanka, and other relevant disclosure studies. In addition to presenting the major findings of theses studies, this chapter also highlights the shortcomings of previous disclosure studies.

Chapter four describes the evolution of corporate financial reporting practices in Sri Lanka with special reference to its legal and institutional framework. The first section provides an introduction to the historical development of corporate disclosure practices in the country. The next part of this chapter examines the role of professional accounting institutes, the history and development of the stock market, the role of the Securities and Exchange

Commission and other major institutions/bodies that paly a role in corporate disclosure practices. Finally, the mandatory corporate disclosures, as required by the Companies Act, the Sri Lanka Accounting Standards, the Colombo Stock Exchange, and the Securities and Exchange Act are discussed in the third section.

Chapter five presents an analysis of the information needs of various users of annual reports in Sri Lanka. This analysis is based on the results of a questionnaire survey of 575 users. The first section of this chapter sets out the background information and the research questions. This is followed by a discussion on the methods of examination, the questionnaire design and selection of information items, the sample selection, and the response rates and test of non-response bias. The final section deals with the forming and testing of hypotheses and the analysis of results.

Chapter six examines the extent of financial disclosure in annual reports of public listed companies in Sri Lanka. This examination is based on three disclosure indexes, namely, mandatory, voluntary and overall. Accordingly, the first section provides a description of the method used for preparing indexes, the selection of items, and the calculation of scores under each index. The second section explains the sample selection and the sample profiles. The third section presents the results of the analysis.

Chapter seven presents the summary, major findings of the study, conclusions and recommendations. In addition, some insights are also provided for future research.

Chapter 2

The Nature and Environment of Emerging Markets

2.1 Introduction

Accounting is a product of its environment, and a particular environment is unique to its time and locality (Perera 1975). Thus, a fair understanding of the environment of a particular country is necessary for making any evaluation of its accounting practices. Since the subject matter of this study is corporate disclosure practices in Emerging Markets (EMs), it is imperative that a fair knowledge of the general environment within which such practices operate and factors that influence the accounting environment is obtained before attempting to evaluate the present state of corporate disclosure practices and the associated problems in a particular country. Therefore, this chapter aims to (a) define an emerging market, (b) identify the characteristics of such markets, (c) make a general evaluation of the accounting environment and practices of EMs, and (d) provide an overview of Sri Lanka as an emerging market.

2.2 What is an Emerging Market?

The phrase "Emerging Markets" is a relatively new expression used to identify a group of countries with similar economic characteristics. As seen in the literature, it is being adopted in place of the previous lexicon of "developing countries," "less developed countries," "newly industrializing countries," or even "Third World countries." However, despite the increased use of the phrase, there is no one commonly accepted definition for emerging markets.

In general, there are three aspects of a country's economy that often underlie various definitions of EMs. First, the absolute level of economic development, usually indicated by the average GDP per capita income of the country or the relative balance of agrarian and industrial/ commercial activity. Second, the relative place of economic development, usually indicated by the GDP growth rate. Third, the system of market governance, in particular the extent and stability of a free-market system. Although, second and third criteria are intuitively closer to the sense of change implied by "emerging" and critically important to prospective investors, the first criterion is found to be the one used more frequently (Arnold and Quelec, 1998).

The International Finance Corporation (IFC) which provides detailed information on EMs has also dealt with the issue of defining EMs and from time to time has changed the criteria used to identify EMs. An earlier definition given by IFC (1993, pp.3-4) provided thirteen characteristics to identify an EM. They were: (1) the host country, itself is undergoing development, (2) the recent privatisation of state-owned enterprises, (3) the stock exchange is newly created, (4) the underlying economy is rebounding from the international debt crisis of the 1980s, (5) the underlying financial system is undergoing broad reforms, (6) the sectors that had been closed to foreign investment are newly opened, (7) a wide range of investment instruments is expanding, (8) the exchanges are undergoing wide-ranging institutional reforms, (9) the liberalised exchange rules promote its listed stocks to find their way into foreign investment portfolios, (10) the listed firms possess characteristics of long-term business and financial strength, (11) the listed firms are globally competitive, (12) the listed stocks offer significant

diversification for global portfolios, and (13) the listed stocks tend to be undervalued.

However, as quoted below the explanation or the current definition provided by IFC to identify an EM is much simpler than the one it used previously.

> Emerging Markets can be defined in different ways. The term "emerging Market" can imply that a process of change is underway, with stock market growing in size and sophistication, in contrast to markets that are small and stagnant. The term can also refer to any market in a developing economy, with the implication that all have the potential for development. A stock market then be said to be "emerging" if it meets at least one of two general criteria: (i) an Emerging Economy Criterion, and (ii) Developing Stock market Criterion (IFC, 1997, p.2).

Although, in the past, the IFC's definition of an EM was aligned only to an emerging economy measure (i.e. if a country's GNP per capita did not exceed the World bank's threshold for being a high income country, its stock market was said to be emerging), IFC is now proposing to add a complementary criterion to take into account the cases where country may exceed the World Bank threshold, and the qualitative measures to be added under the "Developing Stock Market Criterion" (IFC, 1997). Since the existing Emerging Economy Criterion, which follows the World Bank classification of economies as low, middle, or high income, is to be retained, effectively a market located in a developing country is identified as an emerging market. Table 2-1 below lists all the World Bank member economies with populations of more than 30,000. Economies are divided among income groups according to 1998 GNP per capita, calculated using the World Bank Atlas method. Accordingly, the groups are: low-income, US$760 or less; lower-middle-income, US$761-$3030; upper-middle-income, US$3031-$9360; and high-income, US$9361 or more.

Table 2-1

Classification of Economies by Income (1999)

LOW INCOME COUNTRIES		
Region	**Total**	**Country Name**
East and Southern Africa	18	Angola, Burundi, Comoros, Congo Democratic Republic, Eritrea; Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Rwanda, Somalia, Sudan, Tanzania, Uganda, Zambia, Zimbabwe
West Africa	20	Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo Republic, Cote d' Ivoire, Gambia, Ghana, Guinea, Guinea-Bissaue, Liberia, Mali, Mauritania, Niger, Nigeria, Sao Tome and Principe, Senegal, Sierra Leone, Togo
East Asia and Pacific	9	Cambodia, China, Indonesia, Korea Democratic Republic, Lao PDR, Mongolia, Myanmar, Solomon Islands, Vietnam
South Asia	6	Afghanistan, Bangladesh, Bhutan, India, Nepal, Pakistan
Eastern Europe and Central Asia	6	Armenia, Azebaijan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan
Middle East	1	Yemen Republic
Americas	3	Haiti, Honduras, Nicaragua
	63	

MIDDLE INCOME (LOWER) COUNTRIES		
Region	**Total**	**Country Name**
East and Southern Africa	4	Djibouti, Namibia, South Africa, Swaziland
West Africa	2	Cape Verde, Equatorial Guinea
East Asia and Pacific	10	Fiji, Kiribati, Marshall Islands, Micronesia- Federal State, Papua New Guinea, Philippines, Samoa, Thailand, Tonga, Vanuatu
South Asia	2	Maldives, Sri Lanka
Eastern Europe and Central Asia	14	Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Georgia, Kazakhstan, Latvia, Lithuania, Macedonia FYR, Romania, Russian Federation, Ukraine, Uzbekistan, Yugoslavia Federal Republic
Middle East	5	Iran, Islamic Republic, Iraq, Jordan, Syrian Arab Republic, West Bank and Gaza
North Africa	4	Algeria, Egypt- Arab Republic, Morocco, Tunisia

Americas	16	Belize, Bolivia, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Jamaica, Paraguay, Peru, St. Vincent and the Grenadines, Suriname
	57	

UPPER MIDDLE INCOME (UPPER) COUNTRIES		
Region	**Total**	**Country Name**
East and Southern Africa	4	Botswana, Mauritius, Mayotte, Seychelles
West Africa	1	Gabon
East Asia and Pacific	4	American Samoa, Korea Republic, Malaysia, Palau
Eastern Europe and Central Asia	6	Croatia, Czech Republic, Estonia, Hungary, Poland, Slovak Republic
Rest of Europe	2	Isle of Man, Turkey
Middle East	4	Bahrain, Lebanon, Oman, Saudi Arabia
North Africa	1	Libya,
Americas	15	Antigua and Barbuda, Argentina, Barbados, Brazil, Chile, Grenada, Guadeloupe, Mexico, Panama, Puerto Rico, St. Kitts and Nevis, St. Lucia, Trinidad and Tobago, Uruguay, Venezuela
	37	

HIGH INCOME COUNTRIES		
Region	**Total**	**Country Name**
East and Southern Africa	1	Re'union
East Asia and Pacific	12	Australia, Japan, New Zealand, Brunei, French Polynesia, Guam, Hong Kong-China, Macao, New Caledonia, N. Mariana Islands, Singapore, Taiwan-China
Eastern Europe and Central Asia	1	Slovenia
Rest of Europe	25	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, Andorra, Channel Islands, Cyprus, Faeroe Islands, Greenland, Liechtenstein, Monaco

Middle East	4	Israel, Kuwait, Qatar, United Arab Emirates
North Africa	1	Malta
Americas	10	Canada, United States, Aruba, Bahamas-The, Bermuda, Cayman Islands, French Guiana, Martinique, Netherlands Antilles, Virgin Islands (U.S)
	54	

Source: World Development Report, 1999/2000

As shown in Table 2-1, all 211 World Bank member economies with populations over 30,000 have been classified into three income groups based on their income. These three groups are: Low Income Group (63 countries), Middle Income Group (94 Countries), and High Income Group (54 Countries). Based on the emerging economic measure which identifies countries in low and middle-income groups as emerging markets or EMs and countries in high income group as Developed Markets or DMs, the total number of EMs and DMs amounts to 157 and 54 respectively. Table 2-2 provides a summary of these countries by region.

Table 2-2

Classification of Economies by Region (1999)

Economies	Emerging Markets		Developed Markets		Total
	Markets	%	Markets	%	
Americas	34	77.3	10	22.7	44
East and Southern Africa	26	96.3	1	3.7	27
East Asia and Pacific	23	65.7	12	34.3	35
Eastern Europe and Central Asia	26	96.3	1	3.7	27
Middle East	10	71.4	4	28.6	14
North Africa	5	83.3	1	16.7	6
Rest of Europe	2	7.4	25	92.6	27
South Asia	8	100.0	0	0.0	8
West Africa	23	100.0	0	0.0	23
Totals	157		54		211

Source: World Development Report, 1999/2000

As shown in the above table, the majority of countries in every region, except Europe excluding Eastern Europe, are EMs. Moreover, all countries located in South Asia and West Africa are classified as EMs. On the contrary, 87 per cent of the DMs are located in three regions, Americas, East Asia and Pacific, and Europe excluding Eastern Europe.

Sri Lanka, the subject market of this study, is classified by IFC as an emerging market based on the World Bank listing of the country in the middle-income group. Given the inconsistencies among current definitions, a broad definition of EMs, which considers developing countries synonymous with EMs, is used in this study.

2.3 Characteristics of an Emerging Market

2.3.1General

The countries that have been classified as EMs are so diverse in economic, social, political, cultural and many other aspects. By location, they are spread all over major regions (see Table 2-2) and inherit different geographical features and natural resources. Therefore, finding common characteristics of EMs is an extremely difficult task. However, in order to facilitate the discussion of this study, an attempt is made in this section to identify some characteristics common to EMs in general.

Firstly, as already shown in Table 2-1, the income difference between EMs and DMs is very significant. While the GNP per capita income of 157 EMs (see Table 2-2) is less than US$9,360 (76% of EMs are having per capital income of less than US$ 3030), the per capita income of the 54 DMs is between US$ 9,360 and US$ 40,000. Table 2-3 provides some summarised data on the income disparity between EMs and DMs.

Table 2-3

GNP and GNP Per Capita (1998)

Group	Number of Economies	GNP (US$ Bill)	GNP per capita (US$)
Low income	63	1843.7	520
Lower – middle	57	1557.4	1710
Upper – middle	37	2862.1	4860
High	54	22599.0	25510
World	211	28862.2	4890
Emerging Markets	157	6263.3	1250
Developed Markets	54	22599.0	25510

Source: World Development Report, 1999/2000

Accordingly, the total GNP of all 157 EMs, amounting to USS 6,263.3 billions, is about 3.6 times smaller than the total GNP of all 54 DMs. Similarly. the GNP per capita of all the EMs, amounting to US$ 1.250. is about 20 times smaller than that of DMs, indicating a huge income gap between these two groups of countries.

Secondly, the population and population density in EMs are higher in comparison to those in DMs. Table 2-4 below shows some summarised data relating to the population in EMs.

Table 2-4

Population (1998)

	Number of Economies	Population (millions)	Population Density (People per sq.km)
Low income	63	3515	85
Lower – middle	57	908	25
Upper – middle	37	588	27
High	54	885	29
World	211	5897	45
Emerging Markets	157	5011	50
Developed Markets	54	885	29

Source: World Development Report, 1999/2000

As shown in the above table, EMs account for about 85 per cent of the world's population with the total population of EMs amounting to 5,011 million as against 885 million in DMs. Similarly, the population density of EMs is about 1.7 times higher than that of DMs with 50 people per square kilometre in EMs as against 29 in DMs.

Thirdly, there is a significant difference in the way the GDP is spread between these two groups. Table 2-5 provides some data on the contribution of three major sectors of the economy to the GDP in EMs and DMs.

Table 2-5

Structure of GDP and its trends
(Value added as a % of GDP)

Market	Agriculture		Manufacturing		Service	
	1980	1998	1980	1998	1980	1998
Emerging Markets	18	12	25	23	42	51
Developed Markets	3	2	25	19	59	65

Source: World Development Report, 1999/2000

The data shown in the above table indicate two main features of the structure of GDP in the two markets. Firstly, the contribution of the agricultural sector to the economies in EMs (12% in 1998) is higher than that in DMs (2% in 1998). However, in comparison to the situation prevailed in 1980, the relative dependence on the agricultural sector seems to have deceased in both markets significantly over the last two decades. Secondly, the service sector contribution is also lower in EMs (51% in 1998) in comparison to that in DMs (65% in 1998). Contrary to the situation in the agricultural sector, however, the relative contribution of the service sector has increased by 21% in EMs and 10% in DMs over the last two decades. Surprisingly, the contribution of the manufacturing sector, which was 25% in 1980 in both markets, has decreased to 23% in EMs

and 19% in DMs in 1998. Despite the high dependence of most EMs on the primary sector production, many EMs recently have made considerable structural changes in their economies driving towards industrialization. For example, countries such as South Korea and Malaysia are industrialising rapidly, catapulting their economies from agrarian fiefdoms to high-tech havens.

Fourthly, the economies of EMs are growing faster than those of DMs. Thus, they are being referred to as high-growth economies (SQ-2). Many economists expect this differential in growth rates to persist for years, if not decades (World Bank, 2000). The following table shows the GDP growth rates of both EMs and DMs over the last two decades.

Table 2-6
GDP Growth (%)

Region	1980-90	1990-98
Emerging Markets	3.5	3.3
East Asia and Pacific	8.0	8.1
Europe and Central Asia	..	-4.3
Latin America and Carib.	1.6	3.7
Middle East and North Africa	2.0	3.0
South Asia	5.7	5.7
Sub-Saharan Africa	1.8	2.2
Developed Markets	3.1	2.1

Source: World Development Report, 1999/2000

As shown in the Table 2-6, the GDP growth rates of EMs for the 1980-90 and 1990-98 periods were 3.5 and 3.3 per cent respectively, compared to 3.1 and 2.1 of the DMs during the same period. As in the case of many other aspects, the GDP growth rates also vary significantly within countries and even within regions. Interestingly, over the 1980-90 and 1990-98 periods, the low-income countries in EMs enjoyed a remarkably high growth rate of 6.6 and 7.3 per cent respectively, showing much higher growth rates than those of DMs. This is obvious because DMs have already reached maturity in industrial and economic

development. On the regional basis, EMs in East Asia and Pacific recorded a growth rate of about 8 per cent during this period while it was around 2 per cent in Sub-Saharan Africa during the same period. In the South Asian region, where Sri Lanka is located, the GDP growth rate during the 1980-1998 period was 5.7 per cent, a much higher rate in comparison to the GDP growth in DMs during the same period. While Sri Lanka's GDP growth during the 1980-90 and 1990-1998 periods was 4.0 and 5.3 per cent respectively, some other EMs in the Asian region such as China (10.2% and 11.1%), Thailand (7.6% and 7.4%), Malaysia (5.3% and 7.7%) and India (5.8% and 6.1%) achieved much higher rates of growth during the same periods.

Even though the above-mentioned general differences can be identified between countries in the EMs and DMs, given the diversity of the EMs, it is very difficult to identify any specific characteristics common to all EMs. For example, given the meaning of the term "emerging," one might get an idea that these markets are small in size, lack in efficiency, etc. However, a close view of EMs reveals that they include some of the largest and most liquid markets in the world, several long-established markets where trading still takes place over tea, and many markets where the latest technology has been installed to expedite trading, settlement, portfolio management, market supervision, and information dissemination (IFC, 1997). As such, any further attempt to identify specific features of EMs may be a futile exercise simply because such markets are so diverse that no generalities apply.

The characteristics stated above are related to the social and economic aspects of EMs. Obviously, there are many other political, social, and cultural aspects where disparities may be found between EMs and DMs. However, since

the subject matter of this study is closely related to the stock markets, the scope of the following sections is limited to a discussion on some important aspects of stock markets in EMs.

2.3.2 Stock Markets

It is difficult to differentiate quantitatively the status of stock markets in EMs from that in DMs. For example, if the status of EMs is measured in terms of performance indicators, many EMs could be found both at the top and bottom of a list of the world's best performing stock markets. For instance, in 1996 EMs swept the top 15 spots on a list of 76 world stock markets for annual performance measured in dollar terms. Only Spain and Sweden from the DMs were among the top 20 on the list, which included 54 markets from developing countries and 22 from developed countries. The worst performing markets were also concentrated in EMs. For example, 21 world equity markets dropped in price in 1996, of which 19 were EMs (IFC, 1997).

However, by looking at some standard quantitative and qualitative indicators of these markets it is possible to get some insights on the status of stock markets in the two groups. Table 2-7 and Table 2-8 below present two stock market indicators, namely, measures of size (number of listed domestic companies and market capitalisation[1]) and liquidity (turnover ratio and value traded as a percentage of GDP). It should be noted that the comparability of such indicators between countries may be limited by conceptual and statistical weaknesses such as inaccurate reporting and differences in accounting standards.

[1] Market Capitalisation (also known as market value) is the share price times the number of shares outstanding. It is the total value of the various securities issued by a company and may include Debentures, Preference Shares, and total amount of other share issues such as Bonus and Right issues.

Table 2-7

Size of stock Market

Number of Listed Domestic Companies (end of period level)				
Market	1987		1996	
	Firms	%	Firms	%
Emerging Markets	11296	38.6	22263	52.5
Developed Markets	17982	61.4	20141	47 5
World Total	29278	100.0	42404	100 0

Capital Market Capitalisation (US$ Billions; end of period level)				
Market	1987		1996	
	US$ Bn	%	US$ Bn	%
Emerging Markets	331.7	4.2	2226.0	11.0
Developed Markets	7499.7	95.8	17951.7	89.0
World Total	7831.4	100.0	20177.7	100.0

Capital Market Capitalisation (% of GDP) (end of period level)		
Market	1990	1997
Emerging Markets	18.9	31.3
Developed Markets	56.4	97.8
World Total	51.8	84.6

Sources: International Finance Corporation, Emerging Stock Markets Factbook, 1997 and World Bank, World Development Report, 2000.

Stock market size can be measured in a number of ways, each of which may produce a different ranking among different countries. The number of domestic listed companies is one such measure of market size. Another and most important measure is the market capitalisation which shows the overall size of the stock markets in US dollars and as a percentage of GDP. As shown in the above table, the number of domestic listed companies in EMs has increased from 11,296 in 1987 to 22,263 in 1996, almost doubling the number of companies over the 9-year period. As a result of these increases, the representation of companies in EMs in the world context has increased from 38.6 per cent in 1987 to 52.5 per cent in 1996, while the representation of DMs has declined from 61.4

per cent in 1987 to 47.5 per cent in 1996. Accordingly, it is seen that the majority of domestic listed companies are now located in the EMs.

However, the size of the companies in EMs in dollar values is very much smaller than that of such companies in DMs. According to the data shown in the above table, in 1987, the market capitalisation of EMs represented 4.2 per cent of the total market capitalisation of 7,831.4 billion US dollars. By 1996, it increased to 11 per cent of the total market capitalisation of 20,177.7 billion US dollars. Accordingly, although the relative size of EMs in terms of market capitalisation is still a small proportion of world market capitalisation, it is growing at a much higher rate than that of DMs. Statistically, market capitalisation of EMs has increased 6.7 times during 1987-96, while the world market capitalisation has increased only by 2.4 times. This net increase in market capitalization of EMs over the years has been the result of increases in listings, new issues, and share prices in many EMs.

When market capitalisation is expressed as a percentage of GDP, it indicates the relative size of the stock market in relation to the size of the economy. According to the data shown in Table 2-7, stock markets of EMs are very much smaller than the size of their economies. The market capitalisation of EMs is only 18.9 per cent of the total GDP of EMs in 1990. Although the market capitalisation of stocks markets has increased to 31.3 per cent of GDP by 1997, it still remained a small amount in comparison to the situation in DMs, where the market capitalisation has increased from 56.4 per cent of GDP in 1990 to 97.8 per cent in 1997. These data indicate that economic significance of stock markets in DMs is very much higher than that in EMs.

Another major stock market indicator is the market liquidity, which indicates the ability to buy and sell securities. This is measured by dividing the total value of shares traded by GDP. It complements the market capitalisation ratio by showing whether the market size is matched by trading. The turnover ratio—the value of shares traded as a percentage of market capitalisations—is also a measure of liquidity as well as of transactions costs. The turnover ratio complements the ratio of value added to GDP, because turnover is related to the size of the economy. Liquidity is an important attribute of stock market development because, in theory, liquid markets improve the allocation of capital and enhance prospects for long-term economic growth (World Bank, 2000).

The data relating to the market liquidity situation in EMs and DMs are shown in Table 2-8 below.

Table 2-8

Liquidity of stock Market

Value Traded (% of GDP) (end of period level)		
Market	1990	1997
Emerging Markets	5.3	20.9
Developed Markets	32.4	81.9
World Total	29.0	69.9
Turnover Ratio (Value Traded as % of Market Capitalisation) (end of period level)		
Market	1990	1998
Emerging Markets	..	46.3
Developed Markets	48.7	74.9

Source: World Bank, World Development Report, 2000.

The two market liquidity indicators given in the above table show a low level of liquidity in EMs as against a high level of liquidity in DMs. In 1990, the

value traded as a percentage of GDP in EMs was only 5.3 compared to 32.4 in DMs. Although this ratio in EMs increased to 20.9 per cent by 1997, the market liquidity of EMs remained still at a very low level when compared with the liquidity position of DMs, which increased from 32.4 per cent to 81.9 per cent during the same period. Similar results are shown by the turnover ratio. It must be noted, however, that although the liquidity level of EMs is generally very much lower than that of DMs, there are some stock markets in EMs with very high liquidity levels. For example, the turnover ratios of EMs such as China (130.1%), Korea Republic (184.7%), and Pakistan (114.3%) in 1998 were very much higher than the turnover ratio of DMs (74.9%).

Although the above-mentioned quantitative indicators of market development provide a clear distinction between EMs and DMs, they do not portray a complete picture of the difference between the two markets. Indictors more difficult to determine, but may be even more important, are the "soft," qualitative factors of improved market efficiency in terms of transaction costs; clearing, custody and settlement procedures; corporate governance and disclosure standards; accounting and auditing standards, and standards of company and economic research (IFC, 1997). Although these aspects cannot be measured quantitatively, they are said to be better in shape in DMs than in EMs. The development of these aspects is very sensitive to individual market conditions, making the generalisation a difficult task. However, there have been serious attempts on the part of emerging market companies, brokerage firms, stock exchanges, and regulators towards increased accommodation to the legitimate demands of domestic and international investors.

One of the major aspects not visible from the quantitative indicators is the existence of social, political and economic risk of a country. For example, in many of EMs, problems such as insider trading, inadequate disclosure of information, influence of economic and political factors that affect share prices are prevalent despite efforts taken by these markets to improve the situation. Although these problems can sometimes occur in DMs as well, what is really lacking in EMs are the established monitoring mechanisms and strong punitive actions for prosecuting violators. Although such mechanisms can improve the investor confidence, many EMs seems to have failed to recognise their importance possibly because of the small size of their stock markets. However, with increasing attention to the raising of capital through stock markets in recent years, many EMs are now taking action to establish such systems to boost investor confidence (Sheimo, 1996).

There are many other obstacles to the development of stock markets in EMs. Some of these obstacles are caused by the unpredictability of the economic, political and social aspects in EMs. For example, the recent currency crisis (i.e. Asia in 1997; Russian devaluation in 1998) inflicted heavy damage on EM investors. An additional operational risk of investing in EMs is the capital controls imposed by the respective governments, [i.e. restriction upon repatriation of interest, profits and dividends as well as principal (original and capital)]. Furthermore, high interest in EMs (compared to DMs) coupled with inefficient cost control mechanisms in some companies often lead to lower returns on capital. Economic fundamentals of most EMs are improving, although at a slower pace. However, much more needs to be done in EMs in order to attract investment especially from foreign countries. Among the non-stock

market related aspects that the investors focus on are the macro economic polices, political situation, foreign exchange reserves and a debt profile (Siddiqi, 2001).

More importantly, however, EMs need to address the specific problems confronted by stock exchanges in their development efforts. Most of these problems are related to the lack of regulations and improper implementation. Already, many EMs have identified the importance of addressing these issues seriously and are now taking necessary actions such as passing securities legislation, establishing regulatory commissions and self–regulatory organisations, and building designated investor protection funds to encourage investment within the country or from the international investment community. The establishment, implementation, and active compliance of theses organisations and funds are essential to the growth and development of any stock market. It is compliance with rules, which make the market both fair and orderly, that allows the market to have "transparency". Compliance allows the institutional and individual investors a fair opportunity to profit from a successful business. The potential for profit is still the primary reason for investing in shares.

2.4 Corporate Disclosure Environment and Accounting Issues in Emerging Markets

As pointed out in the preceding sections, the social, cultural, economic and business differences between EMs are highly diverse. This is also true in the case of corporate disclosure environment and accounting practices in EMs. To assume that all EMs are homogeneous and to conclude that they have similar corporate disclosure environment and accounting practices would take generalization too far. However, with varying degree of existence, we can still

find some common accounting characteristics in these countries. The following sections very briefly summarize some of these common features of the accounting environment in these countries[2].

A common factor that came out from previous studies of accounting practices in EMs was that the accounting systems of those countries are deficient. There have been many weaknesses pointed out about the financial accounting and reporting systems of EMs. Some of the major weaknesses are: poor internal control; lack of management accounting concepts; incomplete, inaccurate and late reports, un-auditable systems; shortage of staff; unreliability; inadequacy of financial accountancy; irrelevant and deficient reporting (Wallace, 1990). Vishwanath and Kaufmann (2001, p.50) also observed a number of problems experienced by EMs. They were: failure to establish rigorous accounting conventions; the lack of uniform reporting requirements and the absence of penalties for publishing false information; poor information systems that exacerbate the difficulties of assessing the creditworthiness of borrowers; and inadequate supervision and enforcement. Moreover, the seriousness of the status of accounting practice in EMs was further exposed by a review of accounting practices in five East Asian countries (Indonesia, Malaysia, the Philippines, the Republic if Korea, and Thailand) conducted by Rahman (1998). His examination on the assessment of how actual accounting practices deviated from published accounting statistics, such as related party transactions, foreign currency debt, and contingent liabilities, revealed that the non-compliance of IASs by these countries likely to have triggered the Asian

[2] Although the discussion in this section is on emerging markets (EMs), the literature used in references frequently referred these countries (EMs) as 'developing countries',' less developed countries(LDCs)' or 'third world countries.' Therefore, in order to maintain consistency, the author replaced these terms with EMs except in direct quotations.

financial crises in late mid 90s. In this instance, users of accounting information were misled and were not able to take precautions in a timely fashion.

Accounting literature points out that most of the existing accounting practices in EMs did not originate in responses to the societal needs of those countries but were rather imposed by developed countries initially through colonialism (Hove 1986). In other words, the accounting principles and practices underlying financial measurement and disclosure in emerging markets largely depend on historical variables such as colonial experience and/or colonial affinity. Although accounting and auditing objectives and practices tend to differ from country to country and from region to region, the distinctive conceptual approaches carried over to EMs from the developed countries reflect upon them (Enthoven, 1983). The following quotation from Perera (1975, p.92) explains the impact that a developed country (Britain) made on one of its colonised countries (Sri Lanka).

> The entire accounting education and training in Sri Lanka is based on the British system. For example, the whole gamut of business activity was directed towards the plantation sector which was introduced to the economy by the British. Initially almost all the joint stock companies were owned by British investors and the required personnel for their management, including accountants, came from the UK. Therefore even though these firms were actually located in Sri Lanka, they were managed as if they were in Britain, and no attempt was made to develop an accounting system suitable for local conditions.

Five such diverse historical sources of accounting influence can be distinguished: (1) British, (2) Franco-Spanish-Portuguese, (3) Germanic-Dutch, (4) U.S. and (5) communistic. Since these influences have affected the development of accounting in different countries and regions, it has also been

considered a reason for the outdated regulations and norms of accounting practices inculcated in EMs (Enthoven 1983).

Colonial legacies are only a one source of receiving accounting technology to EMs. In addition to colonial legacies, Wallace and Briston (1993) identified six other channels through which the accounting technology flowed to EMs. They are: importation of accounting qualifications from developed countries; the activities of transnational enterprise (TNE); the role of international organisations such as the World Bank, and regional development organisations; the effort of developed countries' aid-granting institutions, such as the United States Agency for International Development (USAID): the role of the International Federation of Accountants (IFAC), the International Accounting Standards Committee (IASC), and regional accounting groups; the accounting texts books mostly published in English. However, while some countries have been successful in the transfer of accounting technology, others were not. Referring to this aspect, Wallace and Briston (1993, p.215) pointed out that "the above media of transfer may not always have similar effects on recipient countries, because of the differences in economic conditions, levels of preparation, willingness to account, skills, behaviour and culture of the people, training methods adopted and complexity of accounting legacies inherited."

The accounting systems imported to EMs from the above mentioned channels are often being criticized for their inability to cater to users of accounting information in EMs. Referring to this aspect, Hove (1986) asserted that there was no evidence to the existence of any meaningful adaptation of accounting practices by EMs to suit local conditions of these countries. The core of the criticism lies on the fact that accounting systems introduced in these

countries have undergone little or no modifications before they were implemented in EMs. Despite these criticisms, EMs continuously adopted the accounting systems of developed countries owing to a number of good reasons. Wilkinson (1965) pointed out three reasons for such adoption:(1) non availability of any local accounting principles, standards and practices in their countries, (2) the high degree of industrial development made by multinational corporations, compelling the adoption of the accounting systems of those companies in order to maintain uniform accounting and reporting within the group, and (3) accounting of foreign aid provided by international organisations and foreign governments by the accounting system used by donor countries.

What is seen from the above discussion is that the accounting practices in the EMs have been built not on the information needs of users in these countries but on the information needs of the users in developed countries. The following illustration by Hove (1986, p.91) clearly outlines how the economic aid given to EMs by the international organisations such as the World Bank and IMF imposed accounting practices of developed countries on EMs.

> The funds utilised for aid by these organisations are the private-sector funds of investors in developed countries. As a result, two important considerations apply to the manner in which these funds will be managed: (1) the accountability and stewardship concepts as understood during the emergence of the joint stock company apply because managers of World Bank and the IMF must account for the use of the funds to the owners (investors in the developed country), and (2) these managers will seek to maximize shareholders' wealth. To comply with the accountability and stewardship concepts, managers must prepare periodic financial statements that are useful to their users (in this case, primarily the investors in developed country); many factors determine what is "useful" in this context. One critical factor is the need for such financial statements to be prepared according to the generally accepted accounting principles of the developed countries.

As shown in the above specific example, the accounting information needs of the users have not been considered when adopting the accounting systems of developed countries. Although the provision of information to the expectation of investors in developed countries is understandable given the financial stake they have, the value of such accounting information to the users in EMs is questionable. However, despite this major weakness and "the difficulty of proving the causality between the two highly correlated variables of economic development and accounting technology, there is little doubt that accounting is an important factor in achieving the goals of economic growth by a developing country"(Needles, 1976, p. 45).

Another major problem of accounting information in EMs is its lack of transparency. A statistical measure of transparency is the precision of the information obtained, which is in turn a function of its quality and relevance. In a highly transparent firm, the discrepancy between the officially disclosed information and that provided by auditors is minimal. One of the major impediments of measuring transparency is poor data quality—a lack of detailed information on publicly disclosed information, on the various disclosure standards, and on evaluations by independent auditors (Vishwanath and Kaufmann, 2001). Because of the obsolete and less strict disclosure regulation coupled with weak enforcement and monitoring systems in EMs (Perera, 1985), it has generally left to the discretion of companies in EMs to decide to what extent the information should be disclosed.

Although the improvement of disclosure will help the development of stock markets in EMs, companies are more concerned about the cost and benefits of disclosing information more than the benefits that high disclosure

can deliver for the overall improvement of the securities markets. In comparison to developed markets, the cost of producing accounting information such as employment of qualified accountants is generally higher in EMs. On the other hand, cost of not disclosing is comparatively lower in EMs owing to lack of market pressure and ineffectiveness of the regulatory agencies and investors in these countries (Ahmed, 1993). Therefore, the level of disclosure in corporate annual reports in EMs still comparatively lower in comparison to developed markets. Since, a strong correlation between active and well developed securities markets and the extent of financial disclosure in corporate reports has been observed (Gray et al., 1984), action needs to be taken in EMs for the overall improvement of corporate disclosure in order to develop their securities markets.

The lack of professionally qualified accountants to serve in EMs is seen as another barrier for the development of accounting practices in EMs. Gujarathi and Dean (1993) documented the enormous difficulties the government sector has in hiring, training and retaining accountants and auditors in EMs such as Bangladesh, Tanzania, etc. Although the poor accounting education and training system is the major reason for causing this shortage, the great disparities between salaries in the government and private sectors in EMs is also considered as a part of the problem.

Not only accountants in EMs are insufficient in terms of numbers but also lack some qualities required for an emerging market. This is a result of the education and training systems prevailing in EMs. As Abedeen and Yavas (1987) pointed out the accounting education system as well as the training of accountants in EMs is generally based on models used in developed countries.

Furthermore, the textbooks and accounting practical guides used at universities are mostly authored in the developed world. The professional accounting institutes of the colonising countries also exerted a significant influence on accounting education and training methods. As Pok and Eddie (1990. p.5) noted "professionally trained accountants in developing countries formed nucleus of professional associations which often had a monopolistic position and were virtually a copy of the corresponding professional body operating in the colonizing countries. Many were also members of the professional association operating in the colonising country. The majority of qualified accountants adopted accounting principles, standards and practices of the developed countries."

As a result, there was an "overemphasis on the technical aspects of accounting to an extent that almost always produces technicians incapable of understanding whether better way exists, what the purpose of accounting is for their societies, and whether the purpose is being accomplished" (Hove1986, p96). The focus of accountants in EMs has been on reporting information to stake holders and their efforts on providing information for internal decision-making have been rarely appreciated. This was also due to the economic dependence of EMs on developed countries and the shortage of qualified accountants (Ahmed, 1993).

The users of accounting information in EMs are also very different from those in developed countries. They are "likely to be primarily non-technical people, often uninformed and unsophisticated in financial and accounting matters" (Perera, 1985, p.19). Also, the involvement of government sector of EMs in economic activities is very much higher in comparison to the

situation in developed countries. Both these characteristics require the provision and presentation of accounting information in EMs to be different from those of developed countries where the users are known to be well sophisticated and their private sector plays a dominant role in economic activities.

One of the major problems associated with having a large government sector, which is known to have been reluctant to implement modern accounting concepts and principles, is the susceptibility to large scale corruption and frauds leading to substantial amounts of losses in state owned enterprises. The massive corruption and wastage of development resources and the total absence of accountability in any EMs have disenchanted most of the development efforts of the national and international community (Karim, 1995). Corruption may be associated with a lack of transparency (Martin and Feldman, 1998). Thus, the governments of EMs, pressurised by international community, have taken enormous interest in recent years in the introduction and the improvement of accounting standards as the present status of which stands as a serious barrier in bringing foreign direct investment for much needed economic development in EMs.

However, many of the EMs do not have enough resources or know-how for the development of local accounting standards although many researchers believe that it is the best way for improvement of the serviceability of accounting information in theses countries (i.e.: Samuels and Oliga, 1982; Perera, 1989, Pok and Eddie, 1990). Because of this limitation, the other alternative that these countries are left with is adopting IASs in whole or with slight modifications. However, Samuels and Ologa (1982) have reservations on such harmonization efforts which they think have been based on the

unquestioned assumption that the uniformity of standards is both desirable and feasible. They argue that there are both conceptual and practical problems that expose the futility of such an exercise, especially for EMs. At the metatheoretical level, there are intractable problems of differing values and beliefs as well as epistemological and ontological positions, making little congruence in the definition of accounting as well as its nature and purposes. Therefore, it is necessary to consider the accounting needs within a country, particularly the EMs, not just the needs of the international business community.

Nevertheless, irrespective of the debate whether standardised accounting practices will benefit EMs, the adoption of IASs in EMs has been continuing at a very high pace. According to Nobes (2000, p. 75), "it is perhaps in developing and newly industrialised countries that the clearest and most spectacular success for the IASC might be claimed. Many countries (i.e. Nigeria, Malaysia, and Singapore) have adopted IASs with little or no amendments as their national standards." Pakistan has incorporated the standards that are relevant in its particular environment within its laws for listed companies. In Sri Lanka, the Accounting Standards are formulated by the ICASL on the basis of IASs with slight modifications to meet local conditions and needs. Nevertheless, despite the fact that IASC has established itself as the only International Accounting Standards setter, it has not yet won the battle for world-wide leadership in establishing a globally used unique set of accounting standards (Nanayakkara, 1999). As for the impact of IASs on economic development of a country, empirical investigation carried out by Larson (1993) examining the association between the adoption of IASs and the economic growth using data of 35 African countries, found that countries adopting modified versions of IASs experienced

significantly higher economic growth rates than countries not adopting IASs or adopting unmodified version of them.

Although it is difficult to find a clear answer to the question that enterprises in EMs will benefit from IASs, IASC is of the opinion that many, if not all, existing IASs apply equally to EMs and are reasonable standards for all sort of businesses. In their opinion, IASs make it easier for enterprises in EMs to raise capital at an acceptable cost and many EMs that do not have the resources to develop their own accounting requirements can use IASs in the knowledge that they have already been tried and tested elsewhere[3]. The critics of IASs, on the other hand, argue that present IASs are unsuccessful in EMs because the socio-political, economic and cultural value differences tend to be not only pronounced but also highly variable among EMs (Pok and Eddie, 1990).

Since accounting is a product of its environment, including the culture of the country in which it operates, there is no doubt that cultural differences between countries make a huge impact on the way how accounting is practiced. Because each country has its own set of environmental factors and unique cultural attributes, it is very unlikely that universally acceptable accounting standards and practices be established. The influence of cultural environment on accounting standards and practices has been examined by a number of studies (i.e. Jaggi, 1975; Gray, 1988; Perera, 1989; Fechnner and Kilgore, 1994; Doupnik and Salter, 1995). Based on a study of over 100,000 IBM employees in 39 countries, Hofstede (1980) identified four basic dimensions which reflect the cultural orientation of a country. They are: individualism versus collectivism,

[3] These observations were made by Technical Director of IASC, Liesel Knorr, at the L.A. Weerasinghe memorial oration held at the Institute of Chartered Accountants of Sri Lanka in 1998 (Nanayakkara, 1989)

large versus small power distance, strong versus weak uncertainty avoidance, and masculinity versus femininity. As noted by Perera (1989) there are significant cultural differences between DMs and EMs mainly in two dimensions—individualism/ collectivism and large versus small power distance. Also, differences may be present in the areas of uncertainty avoidance and masculinity/femininity dimensions. These differences create gaps in transfer of accounting technology to EMs.

On the basis of the Hofstede's research findings, Gray (1988) developed four value dimensions of accounting sub-culture that could be influenced by national culture. They are: professionalism versus statutory control; uniformity versus flexibility; conservatism versus optimism; and secrecy versus transparency. This finding was supported by an empirical study conducted by Eddie (1989) on a selected EMs in the Asia-Pacific region. According to the results of this study, national cultures appear to be associated with accounting sub-culture values in these countries. Perera (1989) also supported Gray's classification. The results of his study placed EMs at the bottom end of the individual scale, indicating a low level of professionalism in EMs. When it is the case, there is little regard for adequacy or accuracy of published information. Moreover, because of the large power distance and strong tendency towards uncertainty avoidance in EMs, the corporate financial reports in EMs tend to maintain uniform practices between companies consistently.

Although the socio cultural differences between DMs and EMs continue to exit, the business and accounting environments in EMs are changing in a big way in recent years. For example, the economies of these markets are

fast progressing with the transition from a substantially state controlled to a free market economy. Strict regulations concerning interest and foreign exchange rates are being eliminated. Some protected domestic businesses are opening up to foreign markets. Privatisation of state-owned enterprises is progressing. As a result of the rapid transition of economies, capital markets are showing remarkable development. The number of companies raising their capital in the capital market and the volume of transactions are rapidly increasing. These rapid changes in the economic environment have moved the importance of the accounting profession and financial reporting to the front stage. Fundamental changes in the regulations in the capital markets, the accounting profession, and financial reporting are being carried out to facilitate these changes. Therefore, despite the existence of a wide gap between EMs and DMs in relation to socio-political, economic and cultural values, the wide gap existed in the business and accounting environments in EMs is certainly narrowing down.

2.5 Sri Lanka as an Emerging Market

As noted earlier, Sri Lanka has been classified by the IFC as an emerging market. Accordingly, many of the common characteristics of EMs that were described in Sections 2.3 and 2.4 above are applicable to Sri Lanka. The purpose of this section is to provide a brief description of the historical, political and economic[4] status of Sri Lanka and more importantly to evaluate the current state of the stock market in Sri Lanka and to show its relative position among EMs.

[4] The economic analysis of Sri Lanka is mainly based on the facts and figures outlined in the "Economic Progress of Independent Sri Lanka" and "Annual Report-2000" published by the Central Bank of Sri Lanka, and " Sri Lanka- Recapturing Missed Opportunities" published by the World Bank.

2.2.1 Historical, political and economical status of Sri Lanka

Sri Lanka, formerly known as Ceylon, is a country with developed prehistoric human settlements, with a recorded history starting from about the 4th century BC. In 1505, the Portuguese captured the coastal belt of the country and ruled it until the Dutch ousted them in 1658. The British displaced the Dutch in 1796 and brought the entire country under their rule in 1815 before unifying the administration in 1833. Sri Lanka attained its independence in 1948 and became a Republic in 1972. Sri Lanka has been a participatory democracy since independence.

The two principal groups in Sri Lanka are the majority Singhalese (74%) and the minority Tamils (18%). Other minorities include the Moors (7%) and Burghers, Malays, and Veddah aborigines (1%). In 1998, country had a total population of 18.8 million with an annual population growth of 1.4 per cent.

The ancient Sri Lanka predominantly was a well-developed agrarian economy aided by highly developed tank irrigated rice cultivation system built by the kings who ruled the country in ancient times. During the foreign rule in the country, the plantation sector was developed. At the time Sri Lanka regained its independence in 1948, it was still an agricultural economy. However, the structure of the agriculture had changed significantly from the non-plantation production to the production and trade of three plantation crops, viz., tea rubber and coconut which contributed a major share of the national income. In 1948, the agricultural sector directly contributed 40 per cent of the national income. There was little interaction between the plantation sector and the domestic non-plantation agricultural sector. The plantation sector performance dominated the activities of most other sectors of the economy such as trade and commerce,

banking and insurance, transport and manufacturing activities. including the processing of the three plantation crops.

During the five decades since independence, the economy grew by 4.2 per cent annually. The per capita nominal income in 1948 was estimated at US$ 120. This had reached US$ 814 by 1997, an annul increase of 11 per cent. Its per capita income remains the highest in the region, after the Maldives. The post independence government faced the challenging task of nation building and promoting economic development. The major changes in the performance of the economy were caused by several key factors, namely, the economic polices followed by the different governments, the behaviour of world market conditions, in particular the large changes in commodity prices, extreme weather conditions and the ethnic conflict.

Prior to 1977 period, Sri Lanka as many other EMs at that time adopted polices of import substitution under high import tariffs to promote local industrial and agricultural activities. Also there was increased government intervention and state regulation of economic activities from 1950s until 1977. The year 1977 was a landmark in the economic and social polices of the post-independence period. Far-reaching policy reforms were introduced in that year to shift the focus from an inward looking development strategy to an outward looking development strategy to free the economy from an array of controls. During the two decades after the move to economic liberalisation in 1977, economic growth averaged 5.0 per cent per year. However, there were fluctuations in the growth rates. The highest average growth of 6.5 per cent was seen during the first 4 years after 1977. The high growth rate was largely demand driven, supported by a massive public investment program. "Sri Lanka is today South Asia's most open

economy, having liberalised the economy in the late 1970s ahead of other developing countries" (World Bank Study Notes Resilience of Economy, 2000, p.21).

Sri Lanka has experienced several external shocks since independence. Although Sri Lanka benefited from a few short export booms such as during the Korean War in 1951, it was frequently affected severely by sharp downturns in its primary export prices such as during 1957-1960 and the sharp escalation of oil prices in 1973-74 and 1981. The economy has undergone considerable structural transformation since independence, particularly during the last two decades, benefiting from progressive liberalisation. Hence, it is now far more resilient against diverse external shocks than in the past. The dependence on the agricultural sector has declined and manufacturing and service sectors have become leading contributors to the economy, providing greater opportunities for both employment and income generation. The degree of openness of the economy, which declined sharply during the import substitution phase, has recovered during the last two decades. The export structure has become diversified with new export items such as garments, rubber products, ceramics, handicrafts, leather products, electronic goods, processed fruit and fish products successfully entering international markets. Manufactured exports, which accounted for only 0.5 per cent of total exports in 1948 and 1.2 per cent in 1971, accounted for 73 per cent of total exports in 1996.

Despite many challenges and difficulties in the past, the quality of life of the people has gradually improved since independence. Sri Lanka was one of the first developing countries to understand the importance of investing in human resources and promoting gender equality. The improvements in this area are seen

in many spheres of human development such as health, education, utility services and access to the mass media, and so on. It must be noted that Sri Lanka's achievements in the area of human development have been far superior to those of her South Asian neighbours and comparable with those of the economically advanced countries. As for the statistics, Sri Lanka's current Human Development Index (HDI) of 0.71 (the maximum being 1.0) is ranked in the category of achievers of a high level of human development.

On the whole, despite the enormous challenges Sri Lanka had to face, it has been able to achieve a significant economic development over the past few decades. With its free and open economic polices, a dynamic and resilient private sector has emerged in the country. A recent report issued by the World Bank (2000) titled "Sri Lanka- Recapturing Missed Opportunities' commended Sri Lanka for its remarkable resilience in the face of severe shocks to the system caused by the ongoing ethnic war and turbulence in international markets. It attributed the healthy economic growth achieved by the country, despite acceleration of the civil conflict in the 1990s, to the good microeconomic management and progress in trade liberalisation, privatisation, and financial sector reforms. Moreover, the unemployment and inflation in the country have fallen to historic lows, the external current account has strengthened, exports have diversified and expanded, and the direct investment has risen. However, there is still a long way to go before Sri Lanka achieves its most ambitious goal of becoming Newly Industrialised Country (NIC) in the near future. To that end the on-going structural reforms need to focus more on the improvement of public sector efficiency. Further fiscal consolidation in reducing the size of the

Government in the economy is necessary to pave the way for accelerated private sector led growth.

2.5.2 Capital Market in Sri Lanka

The capital market is regarded as the market for long–term securities. Most securities traded in the secondary market belong to two broad categories—stocks and bonds. In Sri Lanka, the only authorised market for securities transactions is the Colombo Stock Exchange (CSE)[5]. The following section provides a brief description to indicate the current status of CSE and its position in the Asian and world context. A market profile of the CSE is given in Table 2-9.

Table 2-9

Sri Lanka Capital Market Profile
(Currency in billions; end of period level)

	1987	1990	1993	1996	1999
Number of Listed Companies					
Colombo Stock Exchange	168	175	200	235	237
Market Capitalisation					
In rupee	18.7	36.9	123.8	104.2	112.8
In U.S. dollars	0.608	0.917	2.498	1.886	1.603
Trading Value (Annual Turnover)					
In rupee	0.335	1.563	18.579	7.403	14.842
In U.S. dollars	0.011	0.039	0.385	0.134	0.211
Local Index					
All Share Price Index (1985=100)	219.1	384.4	979.0	603.0	572.5
Sensitive Price Index (1985=100)	382.3	680.3	1442.4	897.7	937.5*
AVG Exchange rate (Rs. for US$)	29.45	40.07	48.26	55.26	70.39

* This index, The Milanka Price Index (MPI), was introduced in January 1999 (1998=1000) to replace the Sensitive Price Index.

Sources: International Finance Corporation, Emerging Stock Markets Factbook, 1997; CSE, Annual Report, 1999; Central Bank Annual Report, 2000.

As shown in the above table, the CSE had 237 listed companies with a market capitalisation of over 112 billion rupees (US 1.6 billion). Compared to

[5] The historical development and the activities of the CSE are discussed in Chapter 4 under section 4.2: The Institutional Framework.

77[6] listed companies in 1976 and 168 in 1987, this is a significant achievement as the number of listed companies has increased by 3 times during the 1976-87 period. Market capitalisation has also increased from 18.7 billion rupees in 1987 to 112.8 billion rupees in 1996, showing an increase of 503 per cent over the nine-year period. Similarly, trading value has also increased from 0.335 billion rupees to 14.842 billion rupees over the same period. The development of the CSE is also reflected in its two indexes: All Share Price Index (ASPI)[7] and Sensitive Price Index (SPI)[8].

However, the CSE in the context of world stock markets is a very small market. Table 2-10 provides a comparison of CSE with the ten largest stock markets in the world in terms of market capitalisation, value traded, number of listed companies and average company size. Accordingly, it is seen that Sri Lanka's market capitalisation of US$1,848 million is ranked 62 in the world. It is equivalent to 0.6 per cent of Australia's market capitalisation, which occupied the 10th place on the market scale in 1996. Similarly, Sri Lanka has been ranked 60 on the total value traded in 1996. Again, Sri Lanka's trading value of US$134 million was mere 0.1 per cent of the Chinese market capitalisation which occupied the 10th place in the same year. However, due to the recent changes in economic and social environments in Sri Lanka with a change in political administration, the performance of CSE has increased remarkably. As a result,

[6] Source: CSE annual report, 1993.

[7] The All Share Price Index is used to measure the movement of share prices in all the listed companies. This has been prepared on the basis of market capitalisation. The weighting is done in proportion to the issued ordinary capital of listed companies valued at the current market price. Accordingly, the companies that have a higher market capitalisation count more heavily than the ones with a lesser market capitalisation.

[8] Sensitive Price Index is used to identify the general direction of price movement of blue chip companies. Newly introduced price index, MILLANKA (MPI), replaced this index in 1999 with the base index set at 1000 points as at 31 December 1998. This price index comprises of 25 listed companies representing seven sectors. Accordingly, MPI represents over 10% of the listed companies and accounts for over 50% of the total market capitalisation of CSE.

the CSE claimed to have been one of the world's best performing stock markets for the second consecutive year with ASPI moving up by an impressive 31.2% in a post election year (After October 2001) while the MPI advanced 33.3% (Island, 2003).

Table 2-10

CSE in the Context of World Stock Market (1996)

Market Capitalisation			Total Value Traded		
Rank	Market	US$ Millions	Rank	Market	US$ Millions
1	U.S	8484433	1	U.S	7121487
2	Japan	3088850	2	Japan	1251998
3	U.K	1740246	3	Germany	768745
4	Germany	670997	4	U.K	578471
5	France	591123	5	Taiwan, China	470193
6	Canada	486268	6	Switzerland	392783
7	Hong Kong	449381	7	Netherlands	339500
8	Switzerland	402104	8	France	277100
9	Netherlands	378721	9	Canada	265360
10	Australia	311988	10	China	256008
62	*Sri Lanka*	1848	60	*Sri Lanka*	134
Number of listed Companies			**Average Company Size**		
Rank	Market	Companies.	Rank	Market	US$ Millions
1	India	8800	1	Switzerland	1888
2	U.S.	8479	2	Netherlands	1745
3	U.K.	2433	3	Japan	1323
4	Japan	2334	4	Sweden	1080
5	Czech Repub.	1588	5	Italy	1058
6	Canada	1265	6	U.S.	1001
7	Australia	1135	7	Germany	985
8	Slovakia	816	8	Finland	888
9	Pakistan	782	9	Belgium	862
10	Korea	760	10	France	862
28	*Sri Lanka*	235	78	*Sri Lanka*	8

Source: International Finance Corporation, Emerging Stock Markets Factbook, 1997.

In terms of the number of listed companies, however, Sri Lanka has occupied a fairly high position in the world stock market, with 235 Sri Lankan companies being ranked 28. Although, Sri Lanka's 235 companies were just 2.7

per cent of highest ranked India, which had 8,800 listed companies in 1996, it accounted for about 31 per cent of the 10th placed Korea's 760 listed companies, showing a relatively high level of domestic listed companies in Sri Lanka. In the context of EMs, Sri Lanka's 235 listed companies and market capitalisation of US$ 1,886 in 1996 accounted for just 1.1 and 0.1 per cent respectively of those in EMs, again showing the relative smallness of the CSE. Table 2-11 shows the size and liquidity position of CSE in the context of EMs.

Table 2-11

Size and Liquidity of CSE in EMs
(end of period level)

Capital Market Capitalisation (% of GDP)--(end of period level)		
Market	**1990**	**1997**
Emerging Markets	18.9	31.3
Major Emerging Markets in South & East Asia		
Bangladesh	1.1	3.7
China	0.5	22.9
India	12.9	33.7
Indonesia	7.1	13.5
Malaysia	113.6	95.1
Pakistan	7.1	17.8
Philippines	13.4	38.2
Thailand	28.0	15.3
Sri Lanka	11.4	13.9
Value Traded (% of GDP)--(end of period level)		
Market	**1990**	**1997**
Emerging Markets	5.3	20.9
Major Emerging Markets in South & East Asia		
Bangladesh	0.0	0.9
China	0.2	41.0
India	7.3	14.1
Indonesia	3.5	19.4
Malaysia	25.4	149.3
Pakistan	0.6	18.6
Philippines	2.7	24.1
Thailand	26.8	15.0
Sri Lanka	0.5	2.1

Turnover Ratio (Value Traded as % of Market Capitalisation) (end of period level)		
Market	1990	1998
Emerging Markets	..	46.3
Major Emerging Markets in South & East Asia		
Bangladesh	1.5	24.2
China	158.9	130.1
India	65.9	56.0
Indonesia	75.8	60.7
Malaysia	24.6	29.3
Pakistan	8.7	114.3
Philippines	13.6	31.1
Thailand	92.6	71.2
Sri Lanka	5.8	14.8

Source: World Bank, World Development Report, 2000.

When measured as a percentage of market capitalisation, the CSE has been able to increase its market size from 11.4 per cent in 1990 to 13.9 per cent in 1997, achieving an increase of 22 per cent during this period. However, during the 1990-97 period the market size of EMs has increased from 18.9 to 31.3 per cent of GDP, with an increase of 65.6 per cent, showing a very much higher growth in comparison to the size of CSE. Among the major EMs in South and East Asia, only Bangladesh (3.7%) and Indonesian (13.5%) stock markets were smaller in relative size to Sri Lanka's stock market. The stock markets of some countries in this region such as Malaysia (95.1%) and Philippines (38.2%) are even bigger than the average size of EMs (31.3%).

With regard to the market liquidity, Sri Lanka has strengthened its status in recent years. The value of shares traded as a percentage of GDP increased from 0.5 per cent in 1990 to 2.1 per cent in 1997 while the turnover ratio has increased from 5.8 per cent in 1990 to 14.8 per cent in 1998. However, when compared with the performance of EMs where the average value traded as a percentage of GDP and the turnover ratio were 20.9 and 46.3 per cent respectively, Sri Lanka's liquidity position does not appear to be adequate. Particularly when compared

with some of the major South and East Asian countries, Sri Lanka's liquidity position appears to be very small. In fact, Wickramanayake (1994) and Moldrich (1994) pointed out the lack of liquidity[9] as one of the basic constraints to the development of the security market in Sri Lanka. Overall, despite the progress made in the last decade, the small size of the market coupled with the low levels of liquidity remains to be a main weakness of the CSE. For the positives, however, there have been genuine attempts both by CSE and SEC on the improvement of infrastructure and regulation in recent years. These attempts will no doubt bare fruits in the near future. While continuing to place emphasis on this front, the CSE also needs to take sufficient measures for market development.

2.6 Summary

The purposes of this chapter have been to provide information on the definition, characteristics of EMs and to make a general evaluation of the accounting environment in EMs together with an overview of Sri Lanka as an emerging market. Since there have been inconsistencies among the prevailing definitions of EMs, a broad definition of EMs, which considers developing countries synonymous with EMs, is used in the study. One hundred and fifty seven countries have been identified as EMs which also include some of the largest and most liquid markets in the world, several long-established markets and many

[9] This lack of liquidity is both "horizontal" as well as "vertical". It is horizontal in the sense that when one considers the existence of over 20,000 companies registered with the Registrar of Companies, the present number of listings can hardly be considered adequate. Vertical liquidity refers to situations where the quantity of shares available for trading is limited. Many family–held companies hold on to larger percentage of shares to ensure absolute control. Many local investors also hold on to large parcels of shares as "long term" investments without trading on the medium and short term. Finally, the low threshold levels required for listing on the exchange result in only a limited number of shares being available for trading (Wickramanayake, 1994).

markets where the latest technology has been installed to expedite trading, settlement, portfolio management, market supervision, and information dissemination. The countries classified as EMs are so diverse in economic, political, cultural and many other aspects, making it difficult to identify specific characteristics common to all EMs.

Similarly, significant variations exist in EMs in relation to their business and accounting environments. In general, accounting systems of EMs are known to be deficient with reported weaknesses in their financial accounting and reporting systems. Most of the existing accounting practices in EMs were imposed by developed countries initially through colonialism, therefore, inherited features more suitable for developed countries. In addition to colonial legacies, accounting technology flowed to EMs through six other channels. Significant differences were also identified between DMs and EMs in relation to level of transparency, disclosure regulations, quality and quantity of accountants. The improvement of accounting practices through adaptation of IASs is being progressed in EMs at a rapid pace despite reservations of some researchers over their suitability for these markets. The vast differences observed between DMs and EMs in relation to socio-cultural values are seen as a major reason why harmonisation efforts may not succeed in EMs. While the cultural differences between markets continue to exit, the gaps between DMs and EMs in relation to business and accounting environments are narrowing down.

Sri Lanka is predominantly an agricultural country but significantly changed its economic structure by moving to an open market economic system with increased industrial and service output. Despite being an emerging market, it has achieved significant improvements in many spheres of human development

such as health, education, utility services and access to the mass media, in addition to its impressive economic development over the past few decades. Also, owing to its free and open economic polices, a dynamic and resilient private sector has emerged in the country. Its security market, CSE, is comparatively a small market which was ranked 62 in the world in terms of market capitalisation and 28 in terms of number of companies listed on the stock exchange. However, with the recent change in political administration in the country, CSE has become one of the world's best performing stock markets in the world for the second consecutive year.

Chapter 3

Corporate Financial Disclosure: A literature Review

3.1 Introduction

Corporate financial disclosure has been a focus of research all around the world since the pioneering research in the US in 1960s. These research have dealt with many aspects of corporate financial disclosure with varying degrees of emphasis, using variety of research methods. The major objective of this chapter is to provide a comprehensive review of the previous studies conducted on the aspects of corporate disclosure that this study is aimed to examine. Therefore, within the framework of this study, the scope, methodology, findings, and limitations of the relevant studies conducted during the last four decades are reviewed in the following sections.

As for the method used to analyse previous research, this study takes a slightly different approach to the literature review of previous studies, which generally classified and reviewed literature on the issues and methodologies used. The approach taken in this study is to categorise the previous studies according to the country of research before reviewing them to examine their scope, methodologies, and findings. Since the major objective of this study is to examine the corporate disclosure practices in one country, Sri Lanka, the categorising of previous studies by country facilitates a comparison of all aspect of this study with those of other countries. In addition, this classification enables

to examine the similarities and dissimilarities of corporate disclosures between developed and emerging markets. In order to achieve these objectives, this review has been confined to the studies that have directly dealt with corporate disclosures in annual reports of a particular country. However, some studies that were primarily designed to compare disclosure issues between countries have been excluded from this analysis as scope and nature of such studies are different from those of this study[13]. In addition to reviewing country studies, a few studies, which do not fall into this category, are also reviewed in a separate section considering their relative importance to the analysis of results in this study.

The literature on corporate disclosures in annual reports that are reviewed in this chapter basically fall into three categories of research. The first category includes studies that have examined the disclosure practices from the preparers' point of view through quantification of information disclosed in the corporate annuls reports (see, for example, Cerf 1961; Singhvi 1967; Henderson 1969; Singhvi & Desai 1971; Choi 1973; Barrett 1975; Spero 1979; Firth 1980; Amernic & Maiocco 1981; Firth 1984; Marston 1986; Cooke 1989; Tai el al. 1990; Cooke 1991; Priebjrivat 1992; Giner Inchausti 1993; Gray, Meek, & Roberts 1994; Hossain et al. 1995; Ahmed 1996; Marston and Robson 1997; Patton and Zelenka 1997; Naser 1998; Xiao 1999; Eng and Teo 2000).

[13] Examples of studies on this category are: Henderson (1969)—USA & Canada; Frederick (1973)—Europe; Barrett (1975)—USA, UK, Japan, Sweden, Netherlands, Germany, France; Belkaoui and Pevrard (1977)—Canada, USA and Europe; Baker et al (1977)—USA and Australia; Chang (1977)— USA and New Zealand; Spero (1979)—France, UK and Sweden; Chang and Most (1981)—USA, UK, and New Zealand; Kahl and Belkaoui (1981)—18 countries; Marston (1986)—India and U.K; Anderson and Epstein (1986)—Australia, New Zealand and USA; Williams (1992)—13 countries; Gray et al (1994, 1995a, 1995b)—USA, UK, and Europe; Russell and Diga (1998)—Malaysia, Indonesia, Philippines, and Thailand.

The majority of these studies used 'disclosure indexes' for measuring the information content of annul reports (see, for example, Cerf 1961; Singhvi 1967, 1968; Henderson 1969; Singhvi & Desai 1971; Choi 1973; Buzby 1974, 1975; Barrett 1975, 1976, 1977; Stanga 1976; Courtis 1979; Firth 1979; Garsombke 1979; Spero 1979; McNally, Eng, & Hasseldine 1982; Firer & Meth 1986; Marston 1986; Chow & Wong-Boren 1987; Wallace 1988b; Cooke 1989, 1991, 1992, 1979; Tai el al. 1990; Williams 1992 ;Ahmed 1994; Ahmed and Nicholls 1994; Wallace et al. 1994; Nicholls and Ahmed 1995; Naser 1998)[14]. Some of the studies that examined the extent of corporate disclosure by companies have gone beyond the measuring of disclosure levels in annual reports by examining the relationship between those disclosure levels and the corporate characteristics such as size, leverage, and profitability (see, for example, Singhvi & Desai 1971; Cooke 1989, 1991, 1992; Tai el al. 1990; Ahmed 1994; Ahmed and Nicholls 1994; Wallace et al. 1994; Naser 1998)[15]. This relationship between the disclosure levels and the corporate characteristics has been generally examined through statistical measures, usually by a regression analysis (see, for example, Singhvi & Desai 1971; Cooke 1989; Tai el al. 1990; Cooke 1991, 1992; Ahmed 1994; Ahmed and Nicholls 1994; Wallace et al. 1994; Naser 1998)[16].

The second category of studies included in this review are the studies that have examined the user information needs mainly through questionnaire

[14] A comprehensive review of articles on the use of disclosure indexes in accounting research, including the construction of disclosure indexes, weighting the index, problem in calculating indexes has been provided by Marston and Shrives (1991).

[15] A meta-analysis of 29 of such studies was provided by Ahmed and Courtis (1999).

[16] The problems of empirically estimating the relationship between disclosure levels and corporate characteristics through regression analysis were examined by Cooke (1998).

surveys[17] (see, for example, Baker & Haslem 1973; Chandra 1974, 1975; Lee and Tweedie 1975; Chenhall & Juchau 1976, 1977; Belkaoui & Peyrard 1977; Benjamin & Stanga 1977; Chandra and Greenball 1977; Chang and Most 1977, 1981; Belkaoui and Kahl 1978; Firth 1978; Wilton and Tabb 1978; Winfield 1978; Belkaoui 1979; Anderson 1981; 1998; Stanga and Tiller 1983; Robbins 1984; Wallace 1988; Gray & Roberts 1989; Joshi and Abdulla 1994; Anderson and Epstein 1995, 1996; Abu-Nassar and Rutherford 1996; Rahman 1999; Ho and Wong 2001). The third category comprises the studies that have examined the corporate disclosures incorporating both annual reports and user input analysis. In other words, these studies that have incorporated the views of both preparers and users in relation to the financial information disclosed by companies in their annual reports (see, for example, Buzby 1974; Buzby 1975; Stanga 1976; Firth 1979a; Firth 1979a; Courtis 1979; McNally, Eng, & Hasseldine 1982; Firer & Meth 1986; Chow & Wong-Boren 1987; Wallace 1988b; Tong et al. 1990; Malone et al. 1993; Nicholls and Ahmed 1995; Karim 1995; Mirshekary 1999).

The chapter is organised under five sections. After the initial introduction given in this section (3.1), section 3.2 reviews the corporate disclosure studies conducted in each country under the broader headings of developed and emerging markets. The disclosure studies conducted in Sri Lanka, which were excluded from the discussion in section 3.2, are presented

[17] Courtis (1992) examined the reliability of these perception based annual report disclosure studies by analysing 11 of such studies that used user group perceptions regarding the importance of annual report disclosures. He investigated the presence of non-trivial consistency in perceptions on 63 information items across the 11 studies that extended over the period of 16 years in 6 countries, and across six user-preparer groups. The presence of perception consensus was found on approximately 30% of the items-in-common, and between user-preparer groups on most items.

separately in section 3.3. This is followed by section 3.4 which reviews some of the other important disclosure studies. Finally, after discussing the shortcomings of previous disclosure studies in section 3.5, section 5.6 provides a summary of the chapter.

3.2 Corporate disclosure studies by country

3.3.1 DEVELOPED MARKETS

Australia

One of the early attempts to establish some hard data on the information needs of Australian investors is found in the studies conducted by Chenhall and Juchau (1976 and 1977). The survey they conducted on two selected investor/investor representative groups in Australia was based on the rationale and questionnaire format used in the US study of Baker and Haslem (1973). They extended it to provide a basis for some cross national comparisons of investor information requirements. The questionnaire used in the survey consisted 37 factors that would affect share decisions.[18] The respondents were asked to identify the relative importance of each factor on a five-point scale. From a total of 1025 investors surveyed, 476 valid replies were received, representing a response rate of 46.4 per cent. This study focused on some important questions regarding information needs of investors and the provision of investor information from both within and outside the corporate reporting framework. The results suggests that information, both specific and non-specific to the company, which is not disclosed in the corporate report, bears strongly on share decisions. Within the top 18 rankings, at least 8 items have had their origin outside the corporate annual reports. The results indicated that financial statements in an annual report

[18] 34 of factors used were included in the Baker and Haslem's (1973) US study.

do not have a dominant place as a source of information. Given the range of sources accessed by investors, he authors also questioned the validity of using corporate reports as the major vehicle for satisfying the information needs of investors.

Through a questionnaire survey covering 850 individual shareholders with a responses rate of 38%, Winfield (1978) examined. the extent to which shareholders would read and understand the financial statements section of the annual report, whether the information contained therein was sufficient and relevant to their purposes and whether shareholders would act on the basis of information contained in the financial statements. His study revealed that financial statements did not adequately communicate relevant information to shareholders. Most of the respondents of his survey found that the director's report was more informative than the financial statements. It was also found that some of the information provided in the financial statements was irrelevant to some investors and therefore simpler statement with additional item of information was preferred by most respondents.

Davis and Kelly (1979) in their study compiled a list of 43 empirically identified information needs of two user groups (individual investors and analysts) and examined the annual reports of 50 companies. Each company was given a score depending on whether or not each item on the index was disclosed and the extent of its disclosure. If an item appeared in the annual report, then it was recorded as a positive disclosure. According to their analysis, the actual disclosure for the period was 59% of the "ideal" disclosure level, suggesting that annual reports do not provide all of the perceived information needs of users. Suggested improvements to the specific items included the followings: expected

future in crease in share price; listings of shares on stock exchanges; foreign subsidiaries' contribution to sales; revenue and net income; and breakdown of income and sales by division and product. They also found that companies possessing a large spread of report recipients disclose more information for investment decision making than their smaller counterparts.

The major purpose of a study conducted by Anderson (1981a) was to investigate the usefulness of annual reports to institutional investors in Australia. This involved an analysis of questionnaire survey data obtained from a sample of 300 participants with a response rate of 68.1 per cent. The findings of this study indicated that institutional investors attached the highest degree of importance to the investment objective of an equal combination of dividend income and capital gains. The respondents of the survey ranked the annual report as their most important source of information, followed by share brokers' advice and company visits. The most widely read sections of the annual report were the balance sheet, profit and loss statement, notes to the accounts and chairman's report. Seventy two per cent of the respondents indicated that they favoured increased disclosure on remuneration, trading in the company shares and other directorships held by directors. The disclosure of current value of non-current assets and investments; the changes of accounting polices and reasons for the changes; the disclosure of off-balance sheet transactions; information on future prospects, company products, and divisional performance; the provision of management audit reports were also favoured by the institutional investors.

Another study undertaken by Anderson (1981b) gathered information on the extent to which annual reports were considered useful by investors in making investment decisions and the importance of the annual report as a source

of information to investors. The findings of the study revealed that the annual report was considered only moderately important by individual investors in Australia. While the chairman's report was read more thoroughly than any other sections, the profit and loss statement and the balance sheet were seen as the most important sections of the annual report. The major reason for the non-reading of annual reports by investors was perceived to be the lack of interest, time and understanding. This study utilised a questionnaire survey on 2,700 individual investors in Australia with a response rate of 36 per cent.

Anderson and Epstein (1995) carried out an investigation into the reported usefulness of the annual report by individual Australian investors. The questionnaire they used for this study was based on a questionnaire designed by Epstein and Pava (1993). It was sent to 2,359 individual investors who held a minimum of 100 shares. A total of 436 shareholders responded to the questionnaire. There major contributions of the study included the following:

1. Share holders in Australia have adopted a long term investment perspective.
2. Investors relied more heavily on the advice of their stockbrokers and the financial news papers and magazines than on the annul reports for making investment decisions.
3. The director's report was the most thoroughly read section of the annual report, followed by the profit and loss statement and the chairman's report. The cash flow statement readership was low.
4. The auditor's report was the least useful item contained in the annual report.
5. Shareholders had more difficulty in understanding the main financial statements.
6. Both sophisticated and unsophisticated shareholders would like to see additional disclosures in annual reports in terms of both quality and quantity.

By comparing the 1996 survey results (Anderson and Epstein, 1996) with those of his study (Anderson, 1979) conducted in 1978, Anderson (1998) examined the perceived changes in the usefulness of corporate annual reports to individual investors in Australia. The results showed that despite the changes made in the regulatory environment to improve the quality of financial reporting

between the two time periods of the surveys, the corporate annual report has not increased in usefulness relative to other information sources for investor decision making. However, the usefulness of the director's report has increased as improved disclosure requirements enable shareholders to better gauge the accountability of directors.

Canada

One of the early studies on the corporate financial disclosure in Canada was conducted by Belkaoui and Kahl (1979). In their study, they utilised a weighted index, consisting of 30 information items selected on the basis of their personal experience of the Canadian financial reporting environment, a review of the relevant literature in the area and the responses received from chartered accountants and financial analysts Using the Kendall rank correlation coefficient, they examined the impact of six corporate characteristics (firm size, profitability, liquidity, debt/equity ratio and industry type) on the disclosure quality of the 1976 annual report in 200 companies in Canada. The results of their analysis showed a negative impact of profitability and debt/equity and a positive impact of size and liquidity on the disclosure quality of annual reports.

Through an analysis carried out through a 30-item index of disclosure, Belkaoui (1979) examined whether there is a consensus on corporate disclosures in Canada. The results revealed that in general there was a consensus on disclosures among the corporations, the auditors, and the financial statements users. Belkaoui found that contrary to the established belief, the issue on disclosure adequacy did not focus on the information already disclosed by corporations in their annual reports. Adequate disclosure requires that what is disclosed should meet the information needs of all 3 groups. Auditors have a dual relationship, one with the corporation and the other with financial statement

users, which implies a social responsibility to insure that the users' information needs are met. A lack of consensus between auditors and users on the value of information disclosed may due to the fact that the auditor does not feel liable to the user.

Using corporate annual report analysis through a developed "weighted disclosure index", Amernic (1981) empirically assessed the improvement in corporate disclosures in Canada over the period from 1967 to 1977. The annual reports of a sample of 60 Canadian corporations were used for this purpose. The results showed that the mean disclosure score rose from 38.8 in 1967 to 45.8 in 1972, and 50.2 in 1977. Based on the one way-ANOVA statistics, he concluded that there was significant and consistent increase in the mean disclosure score of the sample firms over the period examined. The reasons for this apparent improvement would be many and complex. Some possible factors he identified included the increased disclosure requirements of the CICA hand book, influence of the Securities and SEC and other American institutions on Canadian firms' reporting practices, possible recognition by corporate management that information may reduce the investor uncertainty about the firm, and thus reduce the financing costs, influence of the 'social accountability' view, etc.

Hong Kong

Tai et al (1990) examined a sample of 76 annual reports issued by a set of selected Hong Kong listed companies in order to investigate the quality of disclosure in those annual reports. The major objectives of their study were to (1) identify the significant areas in which the financial statement of Hong Kong listed companies did not comply with the companies ordinance, the Securities Ordinance, SSAP issued by the Hong Kong Society of Accountants [HKSA], (2)

review the causes of non-compliance, if any, and (3) to review whether the non-compliance was related to the size and nature of the listed companies and to the size of the auditing firm. The study found that the overall non-compliance rate among the 76 firms was 22 per cent. This ranged from a high 49 per cent non-compliance rate for the requirement of depreciation accounting on fixed assets to a low 4 per cent for the extraordinary items and prior year adjustments. Furthermore, the study indicated a significant relationship between the size of companies and the departure from disclosure requirements as the large companies and small companies had fewer departures than medium-sized firms. However, no significant difference was found in the departure from disclosure requirements between various sizes of auditing firms.

Wallacer and Naser (1995) tested the multivariate impact of selected firm characteristics on corporate annual reports through an examination of the cross-sectional variation in the researcher created indexes of the comprehensiveness of the mandatory information contained in the corporate annual reports of a sample of 80 firms listed on the stock exchange of Hong Kong. The study which utilised two regression models to analyse results provided evidence to assert that the researcher-created indexes would vary positively with asset size and scope of business operations but negatively with profits.

The objective of a study conducted by Ho and Wong (2001) was to provide comprehensive and up-to-date evidence of current practice and perceived effectiveness of corporate disclosures of listed companies in Hong Kong. It compared the perceptions of chief financial officers (CFOs) and financial analysts on a variety of information flows, disclosures and capital

market efficiency issues. It also sought to determine whether there was a perceived need for increased financial reporting regulations and to what extent this and other alternative means would improve market functioning. The questionnaire survey utilized for the study resulted in usable responses from 98 CFOs and 92 financial analysts, with a response rate of 16.8 per cent and 17.2 per cent respectively. The study concluded that annual reports and individual meetings between managers and analysts/investors were perceived by analysts as the two most important communication media. About 40% of the analysts believed that the typical company only fulfils the minimum disclosure requirements. More preparers than analysts were satisfied with the adequacy of current corporate disclosures in Hong Kong, but over 75% of analysts (Vs. 56% of CFOs) believed that there was a need for some or considerable improvements in corporate disclosure.

Japan

For the purpose of examining the relationship between a number of firm-specific characteristics of Japanese companies and voluntary disclosure, Cook (1991) measured the level of voluntary disclosure by 48 sample companies in Japan and regressed the results with three firm-specific characteristics. An unweighted disclosure index was calculated using 108 information items that were not required to be disclosed by the Japanese regulations. Based on the linear regression results, the study has concluded that the single most important independent variable that helps explain variations in voluntary disclosure is size. The stock market listing was also found to be a significant predictor. Furthermore, it was found that manufacturing firms tended to disclose voluntary information more than other types of business.

Expanding the scope of his 1991 study, Cook (1992) examined the extent of both voluntary and financial disclosures in Japanese corporate annual reports and attempted to determine whether the independent variables of size, stock market listing, and industry type would affect the levels of disclosure. According to the results, the overall disclosure level among 35 sample companies varied from 46 per cent to 68 per cent with an average of 56 per cent. The study found that size and listing status were important explanatory variables. The manufacturing companies were found to be disclosing information more than other types of Japanese companies.

New Zealand

With a view to examining whether financial reports produced by New Zealand companies contained useful information for various users, Wilton and Tabb (1978) did a study concentrating on 300 private shareholders (55% usable responses). The study revealed that while the profit and loss account was rated to be the most important aspect of the company's annual financial report for decision making, the unsophisticated user category tended to rely more on the chairman report for such purposes. In general, the majority of respondents regarded the sections other than the profit and loss account and balance sheet to be of moderate or no importance as sources of information for decision making.

The study of Courits (1979) examined the association between the levels of annual report disclosure and 24 corporate variables. In this study, he used the 38-item disclosure index used by Buzby (1974) to quantify the 1974 annul report disclosure behaviour of 126 New Zealand public companies. According to the Chi-square association tests, it was found that disclosure was positively related to the amount of expenditure and time devoted to annual

report preparation as well as to profitability level, gearing and seven measures of company size.

The study by McNally (1982) investigated the quality of discretionary disclosure practices and their association with corporate characteristics. An analysis of annual reports of 103 New Zealand companies and a questionnaire based on 41 information items were used for the study. A total of 187 financial editors and stock exchange members responded to the questionnaire. According to the results, the voluntary disclosure of a wide variety of items of information was perceived to be important by stock brokers and financial editors. There was a divergence between the actual degree of disclosure provided by the firm and the degree of disclosure perceived by external users as desirable. Further, the firm size was found to be related to voluntary disclosure.

Voluntary disclosure in the annual reports of New Zealand companies was again investigated by Hossain et al (1995) with the use of additional variables to explain the extent of voluntary disclosure under a more liberal and changed economic environment. Specifically, the study empirically examined the relationship between the five firm-specific characteristics and the voluntary disclosure. The results obtained showed that the firm size, foreign listing status and leverage were significantly related to the voluntary disclosure, but the assets in place and the type of auditors were not significant explanatory variables.

Singapore

Eng and Teo (2000) examined the impact of annual report disclosure on the analysts' forecast for a sample of companies listed on the Stock Exchange of Singapore. The level of disclosure of 88 annual reports in 1994 and 37 annual reports in 1995 was measured by a disclosure checklist. The results revealed that the level of annual report disclosures was positively related to the accuracy of

earnings forecasts by analysts, provided that there was no big earnings surprise. Accordingly, the findings indicated benefits of having more disclosures.

Spain

The objectives of the study by Wallace et al (1994) were to examine whether the differences in the details offered on selected information items in the annul reports of Spanish firms were systematic and whether the firm-specific characteristics found to be relevant in previous country disclosure studies were implicated in Spain. The study focused on investigating annual reports of 50 non financial Spanish firms. The calculated disclosure score of these firms varied form 29 per cent to 80 per cent with an average score of 59 per cent. The results of the study indicated that the amount of details in annual reports of Spanish companies increased with firm size and stock exchange listings and decreased with liquidity.

Inchausti (1993) looked at the impact of market and regulatory pressures on the information disclosure of Spanish companies. For this purpose, annual reports of 49 firms listed on the Valencia Stock Exchange over the period 1989-91 were analysed. In this study, regression and panel data analyses were executed on 50 unweighted items. The results suggested that time as a surrogate for regulation explained the level of disclosure, although it did not influence the amount of voluntary information disclosed. Also, the firm size, the auditing firm, and the stock exchange listing were all found to be related to disclosure.

Sweden

Measuring the overall extent of corporate annual report disclosure in Sweden, assessing whether there was a significant relationship between the quotation status and the extent of disclosure and assessing the extent to which disclosure was determined by firm- specific characteristics were the major objectives of a

study conducted by Cook (1989a). The annual reports of 90 Swedish firms were analysed using an disclosure index consisting 224 unweighted items. The results showed that there was a significant association between the extent of disclosure and the listing status. Also a significant association was observed between the size of the firm and the extent of disclosure.

With a view to resolving some of the inadequacies found in previous disclosure studies on Sweden, Cook (1989b) attempted to measure the extent of voluntary disclosure in the corporate annual reports of unlisted and listed Swedish companies by analysing the annual reports of 90 Swedish companies. The study showed that the single most important independent variable in explaining the variability in voluntary disclosure in Swedish corporate annual reports was the quotation status. It was also found that a significant contribution to the explanatory power resulted from the incorporation of the size variable.

Switzerland

Raffournier (1995) looked for possible determinants of the disclosure policy of Swiss listed companies by relating the content of their annual reports to several of their characteristics. The sample included the 1991 annual report of 161 industrial and commercial firms. The extent of disclosure was measured by an unweighted disclosure index. The results indicated that the extent of disclosure was significantly related to size, internationality level, percentage of fixed assets, size of auditing firms and, to a smaller extent to industry type and profitability. However, no significant relationship was found with leverage and ownership diffusion.

UK

Lee and Tweedie (1975a and 1975b) investigated the user perception of the usefulness of annul reports. The investigation was carried out through a

questionnaire survey conducted on 1,594 private shareholders in the UK (response rate 23.5). The study found that while the chairman's report was considered to be the most widely read section, the profit and loss account and the balance sheet were rated by users with financial experience as the most useful sections in an annual report. Financial press reports were considered to be the most important source of information other than annual reports. The economic prospects of a company were considered to be the most important items of information contained in an annul report.

Firth (1978) provided empirical evidence relating to the importance of disclosure in corporate annual reports in the U.K. The questionnaire he utilised for this purpose was sent to a total of 750 persons consisting of 250 finance directors, 250 auditors, 120 financial analysts, and 130 bank loan officers. The usable responses amounted to 40.3 per cent. The results found that financial directors and auditors had somewhat similar views. However, there were significant differences between finance directors and loan officers as well as financial analysts and loan officers. In the vast majority of cases, the latter group attached greater importance to items that were disclosed in annual reports.

Firth (1979a) reported the extent of disclosure achieved by 100 UK companies. A weighted disclosure index consisting of 48 information items was used for the study. The general conclusion reached was that disclosure levels were very low (Only 8 items out of 48 being reported by more than half the populations) and there was a high demand for grater degree of information to be released through annual reports. The impact of size, stock market listing, and auditors on voluntary disclosure in corporate annual reports in UK was also investigated by Firth (1979b). A questionnaire comprising 48 information items

was sent to 120 financial analysts (response rate: 38.3%) asking them to indicate the importance of each item. It was found that both the size and the stock market listing variables were related to disclosure but the auditor factor had no impact on the level of disclosure.

Firth (1980) attempted to investigate whether UK companies would significantly increase the extent and quality of voluntary financial disclosure in their annual reports when they raised new finance on the stock market. For this purpose, the disclosure levels in some companies were measured over a 2-year period prior to raising funds and then they were measured again after raising the funds. According to the results, smaller sized companies increased their voluntary disclosure levels significantly when rasing new stock market finance via new issues and right issues. The result was consistent with the predictions of agency theory as applied to financial disclosure.

Firth's 1984 study examined the extent of voluntary disclosure in annul reports and its association with security risk measures. Specifically, the level of disclosure was investigated to determine whether it was associated with systematic risk, unsystematic risk, and variance of return on 100 manufacturing firms randomly selected from The Times 1000 largest companies. The results did not find any significant association between the disclosure and the security risk, suggesting that increasing disclosure levels was not because of assessing any security risk.

USA

The study conducted by Cerf (1961) is the first of its kind that attempted to identify the major disclosure deficiencies in corporate annul reports. His study was based on an analysis of 527 annual reports of US companies which consisted of 258 NYSE listed firms, 113 firms listed on other exchanges, and

156 OTC firms over the period from July 1956 to June 1957. For analysing these reports, he selected 31 information items through a literature review, interviews with security analysts and a review of analysts' reports. The study found a positive relation between disclosure and: (1) asset size, (2) number of stockholders, and (3) profitability.

Through an analysis of annual reports using an index consisting of 32 information items, Singhvi (1968b) examined the corporate reporting practices of 100 of the Fortune 500 firms and 50 OTC firms during the period from April 1965 to March 1966 and found that there was a strong tendency for firms to publicize narrower range of information in their annual reports than they proclaimed to the SEC.

Following the research design developed by Cerf (1961), Singhvi and Desai (1971) examined the annual reports of 100 NYSE and 55 OTC firms (1965/66) to identify some of the US company characteristics of the corporations associated with the quality of corporate disclosure. The index used by Singhvi and Desai comprised 34 weighted items. The chi-square analysis undertaken to test the association between the level of disclosure and the four company characteristics—assets size, number of shareholders, rate of return and earnings margin— revealed that all four variables were significantly associated with the disclosure score.

Baker and Haslem (1973) reported the information needs of individual investors and identified the important sources of information used by investors in their analyses of common stocks. The questionnaire used to gather information consisted of 33 information items and was sent to 1,623 individual investors. Based on the 52.4 per cent of responses received from investors, the

study concluded that individual investors tended to use many different factors simultaneously in their development of expectations. Also the results indicated that actual disclosure was not always in line with the requirements stated by users. The information needs of individual investors were also found to be different from those of professional analysts.

Buzby (1974) in his paper "selected items of information and their disclosure in annual reports" presented the results of a mail questionnaire survey of financial analysts which sought to determine the relative importance of 38 selected items of information. The extent of disclosure was then measured on the basis of annual reports of 88 US companies. According to the results, many of the items were inadequately disclosed in the sample and the correlation between the relative importance of the items and the extent of their disclosure was found to be small.

Chandra (1974) provided empirical evidence on the adequacy of disclosure in published corporate annual reports. His study was the first study that attempted to examine whether the preparers and users in the US had any consensus about the value of information included in published annual reports. Based on a questionnaire survey, which included 58 information items and was conducted on 1000 public accountants and security analysts (response rate: 49.8%), the study revealed significant differences between financial analysts and accountants as to the perceived value of information disclosed in financial statements.

Buzby's 1975 paper attempted to analyse the relationship between the subcomponent of adequate disclosure and two company characteristics, namely, size of the company and listing status. Buzby found that there was a positive

relation between the disclosure in annual reports and the size of company assets. However, disclosure and listing status were not found to be related to each other. Although, the result of this study was consistent with the findings of Cerf'(1961), it did not support those of Singvi and Desai (1971).

The study by Chandra in 1975 inquired into the information needs of security analysts for equity decisions. Although the scope of this study was limited to an examination of the information needs of only one user group, it produced four important conclusions. They were: (1) Security analysts were more interested in information items relating to the income statement, (2) security analysts were only moderately interested in the disclosure of budgetary projections, (3) price level adjusted annual reports, even as supplementary statements, did not have much appeal for security analysts, and (4) user information requirements would differ depending on the sophistication of the user groups.

Using a questionnaire consisting of 79 disclosure items and a developed weighted scoring, Stanga (1976) investigated the impact of company size on the quality of disclosure. His analysis was based on the responses of 275 financial analysts and the model was then applied to a sample of 80 large US corporations. The study found that there was a significant association between the firm size and the disclosure index, supporting the findings of Cerf (1961) and Buzby (1975). On the level of disclosure, the study pointed out that firms tended to imitate one another with respect to what disclosures should be made to satisfy users.

The major objective of the study by Benjamin and Stanga (1977) was to compare the perceived information needs of two user groups (bank loan

officers and professional financial analysts). The results found that for 51 of the 79 items, the two groups valued information differently. However, the differences noted in the study could be due to the fundamental differences in the two types of decisions considered (credit vs. equity investments).

Chandra and Greenball's 1977 study empirically tested the hypothesis that American management is reluctant to disclose additional information items in corporate annual reports because it does not share the objectives and perceptions of investors. The study found that in respect of 46 of the 58 items, financial executives as preparers differed significantly from security analysts in terms of the perceived value of the information items. Financial executives as users differed significantly from security analysts for 41 items. Also, two groups of financial executives, one as prepares and the other as users, differed from each other for only 22 items indicating that financial executives, apparently did not see the value of information items so highly when they were acting as preparers.

The relationship between corporate disclosure and firm risk in the context of US companies was examined by Garsombke (1979). The level of disclosure for this purpose was measured by the discloser index used by Singvhi and Desai (1971). Price volatility was analysed with respect to disclosure, size, leverage, growth, and dividends. Disclosure was found to be the least effective of the variables in explaining price volatility, indicating that there was no evidence to support a significant correlation between disclosure and firm risk.

The study by Stanga and Tiller (1983) examined the information needs of a user group (bank loan officers) of corporate annual reports. The data for the study was obtained from 230 loan officers located throughout the United States.

The conclusion of the study was that the information needs of bank loan officers did not differ substantially between large public companies and small private companies.

Robbins (1984) looked at the issue of consensus between the prepares and the users of annul reports in the context of reports prepared by government agencies. Specifically, the study examined the differences in information needs between 200 municipal finance officers (prepares) and 200 municipal bond analysts (users). According to the results, a significant difference was found for 20 of the 36 pair-wise comparisons, suggesting the existence of a moderate degree of agreement between the two groups.

Examination of the extent of financial disclosure in one US industry (Oil and Gas) was the subject matter of the study by Malone et al (1993). Specifically they examined whether there were identifiable and measurable factors that were associated with the extent of information disclosure by firms in the oil and gas industry. The study concluded that three variables (exchange listing status, debt to total equity ratio, and number of shareholders) were statistically significant in explaining the extent of financial disclosure. The broader conclusion was that there were systematic differences between firms that provided different amounts of information.

3.3.2 EMERGING MARKETS

Bangladesh

Ahmed (1993) and Nicholls and Ahmed (1995) assessed the information needs of users in Bangladesh and examined the extent to which companies satisfied their needs. They also measured the disclosure quality longitudinally to determine whether it has improved over time. In addition to calculating a

disclosure index based on an analysis of the 1988 annual reports of 63 companies and the 1983/84 to 1987/88 annual reports of 30 companies, they conducted a questionnaire survey covering 1000 various users of annual reports in Bangladesh, and received response rate of 44.6 per cent. The results revealed that during the five-year period examined, the quality of disclosure had improved significantly mainly due to the improvements in the regulatory environment. However, despite this improvement, the overall disclosure quality remained low in 1988. Companies disclosed very little information of voluntary nature, suggesting that companies in Bangladesh appeared to be less receptive to the information needs of those who would use the annual reports for investment and credit decision purposes.

The paper by Ahmed and Nicholls (1994) looked at the level of disclosure of statutory information and the relationship between mandatory disclosure and number of company characteristics. They also developed a model to estimate the degree of compliance based on significant company characteristics. The results showed that the degree of compliance in Bangladesh was low, since none of the sample companies complied with the statutory requirement of disclosing all mandatory information. Based on a linear regression model, the results showed that subsidiaries of multinational companies and large audit firms had significant positive impact on the level of disclosure compliance. The qualification of the principal accounting officer of a reporting company had less influence.

Ahmed (1994) assessed the level of financial disclosure in annual reports of listed companies in Bangladesh and determined the degree of association between the disclosure levels and the company size, total debt,

relationship with multinational companies, qualifications of the company's chief accounting officer, and size of the company's audit firm. A disclosure index based on 150 items was developed to investigate the level of disclosure in the 1978-88 annual reports of 63 companies listed on the Dhaka Stock Exchange. The results showed that the average level of disclosure in the sample companies was 51.3 per cent with a high 73.4 per cent and a low 29.8 per cent. The multivariate regression analysis revealed that multinational companies and large audit firms had a significant impact ($p<0.05$) on the overall level of disclosure compliance.

Karim (1995) empirically examined the association between a number of corporate attributes and the levels of disclosure in annual reports. Using a structured questionnaire, he also examined the perceived importance of selected information items in respect of six categories of Bangladeshi users. For his analysis, Karim utilised weighted and unweighted disclosure indexes applied to 161 corporate annual reports in 1991. The results showed that size, profitability, active trading in the stock exchange, employment of qualified accounts(s), size and international link of company's auditor, and multinational subsidiary were significantly associated with the extent of disclosure. From the analysis of the questionnaire data, it was found that the users had substantial differences in their perceptions about the importance of information items in respect of 94 out of 113 questionnaire items. An overwhelming majority of respondents perceived that the information presented in annual reports published in Bangladesh was not adequate and reliable.

In 1996, Ahmed replicated his 1994 study to examine the extent of disclosure in the 1987-88 and 1992-93 annual reports of 118 non-financial

publicly quoted companies in Bangladesh and the association of disclosure levels with company size, total amount of debt, relationship with parent companies, qualification of the principal accounting officer, and size of the company's audit firm. The results showed an average disclosure level of 53.3 per cent. While the voluntary disclosure remained to be very low, there has been some improvement in the disclosure levels of local companies and companies audited by smaller audit firms in 1992/93 as against the 1987/88 period. The study also showed that subsidiaries of multinational enterprises and companies audited by large audit firms disclosed significantly more information in their annual reports.

China

Using a small sample of annual reports prepared by listed companies, Xiao (2000) provided a description on the quality of corporate disclosure practices in China. Owing to the small sample size, this study did not utilise the usual index method used by other disclosure studies to measure the disclosure quality. Alternatively, a relatively comprehensive disclosure check list was utilised to analyse the annual reports of 13 Chinese listed companies with a view to gaining an understanding of the disclosure quality in China. The results indicated an improvement of the disclosure level in China mainly due to the recently promulgated requirements. Compliance with the new requirements has also been high because of the mandatory nature of those requirements. Many voluntary disclosures such as earnings forecast and the Supervisory Board's report were also found. Although some voluntary disclosures were motivated by a desire to impress investors, the market or regulators, it was revealed that voluntary disclosures might simply be a matter of following the foreign practice.

Based on an analysis of the 1995-98 financial statements of three listed companies in China, Lin and Wang (2001) commented on the financial disclosure and the accounting harmonisation in China. This study demonstrated significant discrepancies in the disclosure of information through financial statements. It also confirmed the existence of a substantial gap between the Chinese practices of corporate accounting and financial reporting and the internationally accepted norms. In order to enhance the relevance and usefulness of financial statements, the study emphasised the need for improving the understandability and comparability of financial statements prepared by Chinese listed companies.

Czech Republic

The research conducted by Patton and Zelenka (1997) provided an initial description of some financial reporting practices of a set of Czech companies for a period immediately after the introduction of major changes in the accounting, law and regulations of the country. The empirical results revealed quite a bit of variety in the annual reports of 50 companies listed on the Prague Stock Exchange Index. The variety reflected the ill-defined nature of Czech annual reports in 1993 and suggested that different companies pursued different strategies in their accounting-based annual reports. A significant portion of the variety in annual reports was explained by a combination of the firm's size, performance, risk, and other monitoring characteristics. The firm's choice of an auditor and the number of employees were particularly related to the extent of disclosure in annual reports. Also, more profitable Czech firms could be expected to disclose somewhat more information in their annual reports than less profitable firms.

India

The 1968 study conducted by Singhvi attempted to examine the relationship between four corporate characteristics— assets size, number of shareholders, rate of return and earnings margin— and the corporate disclosure through a disclosure index analysed using a step-wise multiple regression. The study revealed that smaller and less profitable Indian companies managed by Indians rather than other nationalities were having lower disclosure levels. According to the chi-square test results, the relationship between the disclosure score and the assets size, rate of return and type of management was significant at 0.01 level while the relationship between the disclosure score and the earnings margin was significant at 0.05 level. The size of the company's audit firm, however, did not have a significant relationship with the disclosure score.

Joshi and Abdulla (1994) examined the importance of information items as perceived by individual investors in India and analysed the differences in information requirements of sophisticated and non-sophisticated investors in India and compared the results with those of other selected countries. Their analysis was based on a set of data obtained through a questionnaire, which contained 59 information items and was sent to 226 investors (response rate: 25.5 per cent). The results were analysed using several statical measurements such as Mann-Whitney U test, Kruskal – and Wallis one way ANOVA by ranks. A significant difference in the information requirements of two investor groups was found for 37 information items. Furthermore, information of an expectational orientation was not perceived to be more important than historical and current information. Additionally, no statical significance was found in the mean values of common information items when the results were compared with

Australia and USA and except that significant difference was observed for Bahrain.

A comprehensive study examining the changes in disclosure in India over the period from 1982 to 1990 was done by Marston and Robson (1997). Their analysis was based on a disclosure index, which consisted of both voluntary and mandatory information items, and was calculated on annual reports of 29 large Indian companies. The results showed that the levels of disclosure had increased over time and in both periods it was positively associated with company size. Some reasons observed for the improved disclosure were the increased compliance with accounting standards and an increase in the disclosure required by accounting standards.

Indonesia

Replicating the research methods used by Singhvi and Desai (1971), Arya (1991) did a study to examine the corporate characteristics, users' preference and information disclosure practices in Indonesia. The results of the study showed a very low level of disclosure quality in the annual reports of Indonesian listed companies. The univariate and multivariate test showed no significant relationship between disclosure quality and company characteristics, namely assets size, number of shareholders, rate of return and earnings margin. The R2 of 0.013 confirmed that the model was very weak, suggesting that a disclosure index intended to be used in a developed country is not appropriate for a developing country. Unlike Wallace (1988a), Arya found a significant degree of consensus ($p<0.01$) between financial executives and stockbrokers.

The 1992 study of Susanto examined whether systematic differences in the level of corporate disclosure existed among different groups of companies listed on the Jakarta Stock Exchange. For measuring the extent of disclosure in

annual reports, a disclosure index was utilised using annual reports of 98 firms listed on the JSE in 1980. He performed a multiple regression analysis on 30 weighted items. The study found that nationality (domestic/foreign) of a firm, new regulations and size were related to the level of disclosure.

Iran

Measuring the level of disclosure of accounting information in Iran and determining whether some important corporate characteristics would have any impact on the quality of disclosure in Iran were the major objectives of a study conducted by Mirshekary (1999). Her study employed a questionnaire survey to determine the perceived information needs of various users. In addition, an annual report analysis based on an unweighted disclosure index applied to the 1995/96 annual reports of 62 companies was used to measure the level of disclosure in Iran. The results showed a weak level of consensus on 81 information items between the groups combined with bank loan officers, tax officers, and auditors. The overall disclosure level ranged from 36 per cent to 72.5 per cent with an average disclosure level of 62 per cent. The results also indicated that there was a high association between the actual disclosure of information items and the rankings of two groups of users (auditors and tax officers).

Jordan

Abu-Nassar and Rutherford (1995) examined the characteristics, attitudes, and believes of prepares of external financial reports in Jordan. The research was conducted by means of a survey questionnaire distributed to 112 companies listed on the Amman Financial Market (Usable response rate: 74 per cent). According to the results, preparers in Jordan attached less importance to improved access to capital than those in developed countries. For reasons

connected with institutional structure, perceptions on the cost of disclosure also differed from those in developed countries. The examination of the relationship between the perceptions on the benefits and costs of disclosure and the company size revealed that the similar positive relationship observed in earlier studies in both developed and developing countries was found to be applicable to Jordan as well.

The 1996 study of Abu-Nassar and Rutherford examined the way in which users of external financial reports would view those reports in a less-developed country such as Jordan. The data reported in the study were collected in 1991 through a questionnaire sent to 463 various users of annual reports (response rate: 48.4 %). The results indicated that annual reports were viewed by users in broadly in the same way as those in developed countries. However, it appeared that they placed more importance to the contents of the auditors' report possibly due to their concern on the reliability of information in a poorly regulated environment. Overall, users did not perceive the information disclosed were to be difficult to understand preferred more information being disclosed in annual reports.

Nassar (1998) empirically examined the effect of specific financial characteristics on the comprehensiveness of disclosure in annual reports of 54 companies listed on the Amman Financial Market. The disclosure index used in the study consisted of 74 disclosure items. The results showed an improvement in the level of disclosure since the country chose to implement the international accounting standards. Moreover, company size, leverage and return on equity were statistically related to the comprehensiveness of disclosure in the sample.

Malaysia

With objectives of examining (1) the external users' desire for selected items of voluntary information, (2) the expectation gap between the users' desire for selected items of voluntary information and the actual information disclosure of Malaysian listed corporations, and (3) the possible association of voluntary disclosure levels with two corporate characteristics (firm size and auditor), Tong et el. (1990) did a study using a questionnaire survey and an annual report analysis. Thirty five responses to the questionnaire, which included 25 voluntary information items, were received from the sample group of financial analysts. The sample size of the survey was 43 corporations. According to the results of the study, the extent of voluntary disclosure of Malaysian firms was considerably low and was positively associated with the size of company but not with the influence of auditors. To a greater extent, the empirical results of this study were similar to those of earlier studies that examined the voluntary disclosure.

A study by Hossain et el. (1994) sought to investigate the relationship between the firm-specific characteristics and the general level of voluntary disclosure in annual reports of a randomly selected 67 non-financial sector companies in Malaysia. In this study the level of voluntary disclosure was measured by a disclosure index of 78 information items. On the basis of univariate and multivariate analysis, the study concluded that the voluntary disclosure systematically varied depending upon the firm size.

The perception of two user groups (accountants and financial analysts) in Malaysia regarding the importance of a set of 56 items of information was the subject matter of a study by Rahman (1999). Data collected through a questionnaire survey from 135 respondents were analysed by using parametric

and nonparametric statistics. The results indicated that the two groups demonstrated a significant difference in the perceptions on 31 (55 per cent) information items. Moreover, it was found that while financial analyst group placed more emphasis on 'forward-looking' nature of information which was beyond the statutory requirements, the accountant group placed more importance on statutory items.

Mexico

The study by Chow and Wong-Boren (1987) reported on voluntary financial disclosure practices of 52 companies listed on the Mexican Stock Exchange and related the extent of disclosure to the firm size, financial leverage, and proportion of assets in place. Voluntary disclosure was measured by using a weighted and unweighted disclosure index calculated on the basis of 24 voluntary information items disclosed in the annul reports. In order to examine the relationship between the disclosure and the company characteristics, both weighted and unweighted disclosure scores were regressed on the 3 company characteristics. The results on both models showed that voluntary disclosure varied widely within the sample companies, and the extent of disclosure was significantly and positively related to firm size ($p<0.01$). However, no such relationship was found to exist between the disclosure and the other two characteristics examined.

Nigeria

Wallace (1988a) reported on the extent of financial reporting by a sample of publicly quoted companies in Nigeria. The disclosure index used in this study consisted of 109 items which were disaggregated into 185 items in the index calculation process. Index was unweighted and used dichotomous disclosure score. Disclosure indexes were also computed for various sections of the annual

report. Using these indexes, Wallace described the trend of reporting practices between 1982 and 1986. The calculated overall disclosure decreased from 37.75 % in 1982 to 37.55 % in 1986 peaking at 43.11% in 1984, indicating a low level of disclosure by Nigerian companies. The results showed a dualistic pattern in the sampled annual reports: the more desired types of information were relatively abandoned and/or overshadowed by the types which were not so relevant to the needs of users although they were preferred by the accounting profession and the reporting entities. The poor compliance with disclosure requirements, and the relatively low importance attached to the needs of users were also observed from the results of this study.

The detailed evidence of user information needs in Nigeria was the focus of a study by Wallace (1998b). The questionnaire survey used in this study was sent to 1,200 persons (300 chartered accountants, 200 investors, 100 senior civil servants, 200 managers, 200 financial analysts, and 200 other professionals). Wallace developed 15 hypothesise to assess whether there was any consensus regarding the importance of disclosure items across the six user categories. The hypotheses were tested using Mann-Whitney U test. The results showed that consensus varied from a low 49 % between accountants and professionals, to a high 97% between managers and other professionals. The overall consensus was 59%. There was a high level of agreement between other professionals and, managers, financial analysts and accountants and shareholders. However, there was relatively little agreement between this group and the accountants and civil servants. From this result, Wallace concluded that the degree of agreement among users about the importance of information to be disclosed in Nigerian corporate annual reports was low. The major conclusion of

this study was the lack of consensus between accountants, as a user group, and all other user groups. The study suggested that Nigerian users did not perceive the same set of information items to be very important as reported from some other developing countries.

South Africa

The study by Firer and Meth (1986) examined the South African investors' information requirements in annual reports and compared them with those of their UK counterparts. For this purpose, they measured the extent of voluntary disclosure of 36 South African companies by a weighted disclosure index developed for the study and compared it with a similar index used in the UK by Firth (1978). A spearman correlation coefficient of 0.13 between the disclosure index and the rankings of financial analysts (users) showed that companies did not disclose many information items perceived to be important by financial analysts. However, a Spearman rank correlation of 0.56 between the actual disclosure levels and the rankings of finance directors (preparers) showed that the needs of finance directors were more reflective in the corporate annual reports in South Africa than those of financial analysts. Investment analysts placed (1) high importance on items that embodied predictive information, (2) low importance on inflation related items, and (3) high importance on a statement of transactions in foreign currency. In the comparative analysis, a low level of correlation between South African investment analysts and their U.K. counterparts was found, indicating differing information needs of analysts in the two countries.

Thailand

Priebjrivat (1992) examined whether the linkage between the levels of disclosure and capital costs observed in mature markets would exist in Thailand

as well. His study also attempted to examine whether specific company characteristics relating to disclosure in Thailand were similar to those in mature markets such as the U.S. For this study, Priebjrivat reviewed the annual reports of 63 firms operating in the Securities Exchange of Thailand in 1989. Regressions were performed on 27 unweighted and weighted items. The results showed that companies in Thailand would be motivated by lower capital costs in providing voluntary information. As such, the level of disclosure was not seen to be related to capital costs as measured by beta and return variance. Also, it found that specific company characteristics—size; ownership control status, capital structure, and choice of the auditor—were related to disclosure in Thailand in the same way as applicable to mature markets.

3.3 Corporate disclosure studies in Sri Lanka

As noted in the introduction, to date no any in-depth study has examined the corporate disclosure practices in Sri Lanka, despite the enormous changes that have taken place in the country's accounting, business and legal environment in the recent past. The studies by Wickramarachichi (1978) and Perera (1985) are the only published research that have examined the disclosure practices in Sri Lanka. However, because of their limited coverage and investigation, they cannot be considered as in-depth studies While the former study was confined to a review of the formats used for reporting information on assets and liabilities in the balance sheet, the latter was limited to an investigation of the extent to which 30 companies complied with accounting standards. In addition to these two studies, another study by Wickramanayeke (1997) described the legal implications of disclosure requirements in Sri Lanka. However, the objective of

his study was merely to outline the immediate disclosure requirements[19] but not to examine empirically whether the companies were complying with the stipulated legal requirements of disclosure. Given the severe dearth of accounting literature in Sri Lanka, it is not surprising that any in-depth studies on country's disclosure practices are not in existence. For example, apart from a few anecdotal studies describing the general status of accounting (VIZ: Perera, 1975, Wijewardena and De Zoysa, 1998) and a few empirical studies on accounting education (Wijewardena and Yapa, 1988, Yapa, 1999, Yapa, 2001) no other published research is available on accounting practices in Sri Lanka. As for the purpose of this study a review of the two disclosure studies mentioned above is provided in the following sections.

Wickramarachichi (1978) was the first major research that attempted to examine the disclosure practices in Sri Lanka. It dealt with the practices adopted for reporting information on assets and liabilities in the balance sheet of corporate annual reports in Sri Lanka and provided an analysis of various matters concerning the reporting of assets and liabilities, including terminology used to describe various types, the titles and sub-titles used and the totals and sub-totals reported for various classifications and groupings. However, it was not the objective of this study to examine whether the matters investigated in the study were important for the users of the balance sheet published in corporate annual report but simply to reports the reporting practices in Sri Lanka with regard to the items examined.

[19] Immediate disclosures are related to the events that take place on an ad hoc basis and which have to be disclosed immediately, so that investors can make investment decisions about the securities of the company (Wickramanayeke, 1997). The examination of immediate disclosure is not within the purview of this study.

In this study, applying a descriptive method of research. Wickramarachichi analysed the annual reports of 41 commercial and miscellaneous public listed companies. For this purpose, he used a list of reporting procedures that he developed on the basis of a review of various research publications on company reporting practices in the USA, UK, and Australia. The results were recorded in the positive and negative form with a view to indicating the existence or non-existence of each practice. Although reporting practices of the above three countries were observed when preparing the checklist of reporting practices, the study did not attempt to make comparisons between the reporting practices of Sri Lanka and those of the other countries.

The study found a lack of uniformity, presence of anomalies, and different reporting practices used in the preparation of balance sheets. Since these features characterised most aspects of financial reporting such as terminology, valuation methods, classification and presentation, they were shown in the study as impediments to the users' understanding of company annual reports.

The major objective of the study by Perera (1985) was to examine the validity of the claim that by adopting IASC standards the developing countries would be able to improve the quality of their accounting systems so that their specific financial information requirements could be better satisfied. It paid special attention to (1) the observable dominance of the western style of accounting in the international accounting standard setting process, (2) the difference between the environmental variables that influence accounting systems of western capitalist countries and (3) the specific accounting needs of

developing countries. As a part of this study, he also presented an analysis of annual reports of 30 public companies in Sri Lanka as a case study of a developing country. In contrast to Wickramarachichi's study where the focus was on the presentation of information in balance sheets, this study focused on the extent to which companies in Sri Lanka complied with the applicable accounting standards. The general environmental conditions influencing the accounting practices in Sri Lanka was also presented in the study before the results on the analysis of annual reports was presented. By methodology this study can be identified as both descriptive and empirical.

The examination of the 30 annual reports revealed varying degree of compliance with standards[20]. Specially, non or lack of compliance was observed in the disclosure of inventories, fixed assets, funds flow statements, redeemable preference shares, social and non-financial reporting. The survey results clearly demonstrated that there was a wide variety of alternative accounting procedures and practices available for use by companies in Sri Lanka. This finding supported the findings of Wickramarachichi's study that there was a lack of uniformity in the practices adopted in reporting assets and liabilities in the balance sheets of public listed companies in Sri Lanka.

3.4 Other important corporate disclosure studies

Besides corporate disclosure studies based on annual reports and user input analyses, there has been a large number of studies conducted on other aspects of corporate disclosure, particularly on policy issues. Although, an examination of such aspects is not within the scope of this study, it is important to gain an

[20] By the time this study was conducted, the Institute of Chartered Accountants of Sri Lanka had issued 15 standards (SLASs).

understanding of some of the major studies on these aspects in order to view the results of this study in an overall context. Hence, some of the representative studies on other aspects of corporate disclosure issues are presented below.

Through an examination of 233 accounting principles and reporting practices of 38 countries in 1973 and 264 principles and practices in 46 countries in 1975, Nair and Frank (1980) found that groupings analysed by disclosure practices were different from those based on measurement practices. Factor and discriminant analyses were performed on 6 classification categories for principles and practices in 1973 and 7 classification categories for principles and practices in 1975. Economic variables were found to be related to the grouping, but the specific variables most closely related to each subset were different. Also, the underlying environmental variables most closely associated with the practices were different. These findings indicated that it would be more difficult for policy makers to achieve harmonisation of accounting practices that was previously realised. The affiliation of a given country with others is dependent upon the set of accounting practices selected. Therefore, the validity of cross-country comparisons depends on the nature of the practice on which the comparison is made.

Hoskin et al. (1986) conducted a study to assess the incremental information content of additional firm disclosures released concurrently with the announcement of annual earnings. The results provided evidence that additional disclosures released concurrently with earnings appeared to be important disclosures. The effects of such disclosures on excess returns were statistically significant. Among the specific disclosures that appeared to drive these findings

were: earnings components, dividend increases, prospective officer comments, and prospective operating data.

Based on grounded theory, Ginnins et al. (1990) presented an empirically derived structure to explain and predict corporate financial disclosures. Twenty interviews were conducted to develop a vocabulary of constructs and variables to describe disclosure processes and to identify relations among these constructs and variables. A two-dimensional internal preference for managing disclosures was developed. The first dimension measured the degree of uncritical acceptance of rules and norms while the second dimension measured the propensity to seek firm-specific advantage in how the disclosures were made and interpreted.

In order to understand how the differences in accounting quality would be related to observable accounting characteristics, Imhoff (1992) examined the security analysts' perceptions on the accounting quality of 185 firms in 7 industries. For this purpose, he performed a regression analysis on the analysts' ratings, which were listed in the host document. The results suggested that accounting quality were systematically related to earnings and several other accounting characteristics of the sample firms. The results also provided evidence that earnings announcement from firms with relatively high accounting quality produced a larger response coefficient per unit of unexpected earnings than that of the firms with low accounting quality.

Examining corporate disclosure strategies, Lev (1992) reported a change of business focus towards the integral type of disclosure strategy. In his study, he classified the disclosure action available to management into 3 categories, namely, (1) disclosure choices whin the legally mandated set of

generally accepted accounting principles, (2) voluntary statements and communications by corporate executives, and (3) actions or commitments aimed at enhancing the impact of disclosures. The study emphasised the importance of a strategy of voluntary information disclosure on the grounds that it has considerable potential for changing stakeholders' perceptions of the company and thereby its market value. It also helps decreasing the cost of capital and consequently enhancing growth, and improving the terms of trade with suppliers and customers. Moreover, through a strategy of voluntary information disclosure, the likelihood of regulatory intervention in the firm's affairs could be reduced.

Lang and Lundholm (1993) examined the cross-section variation in the analysts' published evaluations of firms' disclosure practices and provided evidence that the analysts' ratings increased with firm size and performance as measured by earnings and return variables, decreased in the correlation between earnings and returns, and they were higher for firms issuing securities in the current or future period.

Price (1993) investigated the relationship between: (a) investor sophistication and institutional ownership, (b) sophistication and earnings responsiveness, and (c) sophistication and quality of accounting disclosures. He used COMPUSTAT and CRSP data to examine 2,533 firms over the years from 1984 to 1991. Regression analyses were performed on variables derived from a set of simultaneous equations in which disclosure quality was first considered exogenous; then endogenous. The results of the study indicated that institutions would not select investments on the basis of disclosure quality, but institutional presence would increases the quality of disclosure.

The relation between the corporate disclosure policy and the cost of equity capital was investigated by Welker (1993) using COMPUSTAT and CRSP data on 2,596 firms over the years from 1981 to 1990. He performed a regression on variables derived from a set of simultaneous equations in which disclosure quality was first considered exogenous and then endogenous. The findings of the study indicated that the disclosure policy reduced the information asymmetry and thereby the cost of equity capital. Moreover, it was found that the reduction in the cost of capital resulting from improvements in disclosure practices was not a cross-sectional constant.

In order to explore issues relating to differential informativeness in annual reports, Sutley (1994) examined a sample of winners and non-winners in an annual report award program organised by the Financial Post, a leading Canadian financial newspaper. The sample consisted of 116 winning and 123 non-winning annual reports for the period from 1982 to 1987. He performed regression and content analyses on the disclosure quality evaluations and found that changes in stock prices were less correlated with contemporaneous changes in earnings in the award year for winners than for nonwinners. In addition, he asserted that during the annual report's announcement week winners had larger increases in return variability than nonwinners. One explanation of the results was that winners had a finer prior information environment, inducing relatively more measurement error in the proxy for the market's expectation of earnings. Another explanation was that the disclosure of additional non-earnings information made the earnings of winners relatively less value-relevant than those of nonwinners.

The audited estimates of future events in financial reports contained uncertainty which was partly subject to managerial discretion. However, because firms did not routinely report on the precision of their estimates. outside parties would be unsure about how the estimates should be interpreted. Penno (1996) modelled a scenario theorizing that disclosure precision could be forecast by the knowledge of the reporting firm's relative degree of success. It was shown that the incentive to develop more precise information was a function of future prospects. Firms with a high degree of disclosure tended to be experiencing difficulties, while firms publishing less precise disclosures tended to generate more stable earnings.

3.5 Shortcomings of previous disclosure studies

The review of literature in this chapter is focused mainly on the county studies that have examined the information content in annual reports either from prepares' or/and users' point of view. However, the results of these studies should be interpreted with caution because some of them were impaired by the limitations that they have been subjected to. Most of these limitations were mainly related to the construction and use of disclosure indexes and to the statistical analysis utilised in those studies for data analysis. The following sections outline some of these major limitations.

One of the major problems associated with the use of disclosure indexes is the reliability of index scores awarded to companies. As Marston and Shrvies (1991) pointed out, if the results can be replicated by another researcher the index score awarded to companies can be considered reliable. However. in order for a subsequent researcher to be able to replicate the scoring, clear instructions are needed on problem areas such as partial scores and decisions as

to whether a non-disclosed item is applicable to a particular company. Some studies (for example Tonkin, 1989) failed to provide such instructions.

Another major problem of disclosure indexes is related to the validity of index scores. "The index scores can be considered to be valid if they mean what the researchers intended" (Marston and Shrvies, 1991, p.198). If the scores may provide different meaning to different people as in the case of many disclosure indexes, then there is a question of validity. As Marston and Shrvies (1991) pointed out, most researchers adapt and tailer existing indexes to meet their own perceived needs, creating indexes valid only in the particular research environment being investigated. Because of the fact that researchers have used different indexes in different research, the direct comparison of the results of one study with another becomes difficult.

In constructing a disclosure index, researchers have to decide as to what and how many items to be included in it. This is always a difficult decision to make because there are no established standards for selecting items for an index and there are virtually unlimited number of information items that may be disclosed in an annual report. However, general view is that an index which includes a large number of information items is more likely to capture the extent of disclosure of an annual report than an index comparising a small number of information items. Some of the previous disclosure studies have been criticised for their use of a small number of information items (for example, Cerf, 1961-31 items; Buzby, 1974 &1975- 38 items; Barrett, 1976 &1977; 17 items). A heuristic framework of "more disclosure is better" is most apparent in studies using disclosure indexes (Ball and Foster 1982). As a matter of fact, the number of information items included in the disclosure indexes of the studies that were

reviewed in this chapter varied from 10 (Benjamin et al. 1976) to 244 (Nicholls and Ahmed 1995).

In order to measure the level of disclosure, some studies have used a weighted disclosure index (For example: Cerf 1961; Singhvi and Desai 1971; Buzby 1975, Barrett 1976; Firth 1979) while others (For example: Wallace 1988; Tai et al. 1990; Cooke 1992; Ahmed 1994) have used a non-weighted disclosure index. Which method is most suitable is debatable as there seem be considerable merits and demerits of both methods. Non-weighted indexes are preferred by many researchers as the element of subjectivity in assigning weights[21] can be avoided. On the other hand, they are criticised for distinguishing a mere disclosure of an item with a detailed disclosure of the same item. The fact that an index is weighted or non-weighted also has a bearing on judging the level of measurement achieved by a disclosure index which is important as "the permissible operations which may be carried out on the index scores may be dependent on the level of measurement achieved" (Marston and Shrvies, 1991, p.199).

Some researchers confined their investigation only to the disclosure of mandatory items (For example Perera, 1985; Ahmed and Nicholls, 1994; Wallace and Naser, 1995; Owusu-Ansah, 1998) while some others confined their studies only to examine the disclosure of voluntary items (for example, Chow and Wong-Boren, 1987; Cooke, 1989; Tong et al., 1991; Cooke, 1991). Also there were studies that considered both mandatory and voluntary items in constructing the disclosure indexes. Although it is understandable that

[21] Some researchers have weighted items based on the perceived importance of one or more user groups (For example: Cerf 1961, Firth 1980). Other researchers such as Buzby (1975) and Barrett (1976) have assigned weights based on personal judgement.

researchers have to limit their scope of research only to examine either the mandatory or voluntary items due to practical reasons, it is very clear that one can get a better understanding of the disclosure level of annual reports of a particular country by using an analysis done through indexes that comparise both types of information.

Another problem associated with disclosure studies that used indexes is how to deal with the items which are included in the disclosure index but may not be relevant to a particular company. Obviously, a company cannot be penalised for non-disclosure of an item which is not relevant to that company. Referring to this problem, Cooke (1989) stated that in the case of non-disclosure it is not always clear whether the item is relevant or not. For example, if no contingent liabilities are disclosed, does this mean that there are none or that the company is declining to disclose them? Previous researchers have dealt with this issue in one of the following three ways. First, considering all disclosure items as relevant to all companies in the sample (Buzby 1974). Second dividing the actual score by the maximum score possible for that company (Buzby 1975). Third making the judgement based on the knowledge of the company gained by reading the whole annual report (Cooke 1989).

Most of the earlier disclosure studies were conducted in developed markets. The disclosure indexes used in those studies consisted of information items applicable to developed countries with well developed capital markets. Some of the disclosure studies conducted in emerging markets (Singhvi 1968, Maston 1986) replicated studies conducted in developed markets without suitable adjustments to the massive socio-cultural, business environmental differences between the developed markets and emerging markets.

After having measured the level of disclosure of a country, some disclosure studies have attempted to identity the relationship between the disclosure and some firm-specific characteristics, such as company size, listing status, turnover, and leverage. The results of these tests were very often consistent across countries, either developed or emerging markets. Company size was probably the most tested company characteristic. Very often it was found to be closely related to the level of disclosure. (See: Cerf 1961, Singhvi and Desai 1971, Stanga 1974, Buzby 1975, Belkaoui and Kahl 1978, Firth 1979, MaNally et al. 1982, Chow and Wong-Boren 1987, Cooke 1989 and 1992). The problem, however, is that no predictive model based on significant company variables to measure relationship between the company characteristics and the level of disclosure has been developed so far despite the fact that this type of research has been in existence for more than four decades. Such a model would have provided an estimate of the probability of disclosure of all information applicable to a company in a given country (Kamran 1993). Furthermore, the studies that have examined this relationship have merely accumulated evidence that some firm-specific characteristics are reflected in disclosures but not attempted to add to the knowledge of how a firm should communicate in order to best reduce the information asymmetry between managers and investors (Schadewitz and Blevins 1999).

Another limitation is related to the method used for data analysis. The majority of previous disclosure studies utilized various statistical techniques for analysing data. The studies (i.e.: Perera 1985, Abu-Nassar and Rutherford 1995, Anderson 1998) that did not use any statistical techniques have analysed data mainly as percentages. These studies have been subjected to criticism because of

not utilising statistical techniques. The studies that have made use of statistics (for example, Henderson, 1969; Buzby, 1975, Firth, 1978; Courtis, 1979) have also been criticised for the inappropriateness of the techniques used. One common criticism pointed to the use of univariate statistical methods for assessing the relationship between variables when there is more than one independent variable. Another criticism was the use of parametric statistical tests, which are appropriate when measurement on an interval or ratio scale has been achieved and the population is normally distributed, when nominal or ordinal scale of measurement has been achieved. While this was accepted in the behavioural and social sciences it met with resistance from statisticians and mathematicians (Marston and Shrives 1991).

The limitations of disclosure studies with user input are mainly related to the selection of the sample. When 37 of these studies were analysed it was found that there were 12 broad user groups from which opinions have been sought. The most common user groups were: financial/security analysts (49%); investors-both private and institutional (46%); bank loan officers (24%); accountants (22%); financial directors/executives (16%); and stock brokers (11%). However, most of the studies with user input were confined to examining the information needs of a fewer user groups—in most cases one or two. In the 37 studies, the number of user groups varied from 1 to 7 but 84% (31 studies) of studies had examined just 2 user groups (54%-one user groups, 30%-two user groups). Most of the studies that examined user perceptions on the information content of annual reports (for example: Baker and Haslem, 1973; Belkaoui et al., 1977; Chenhall and Juchau, 1977; Anderson, 1981) revealed that different groups of users perceive the importance of information items differently from

each other. Therefore, the studies with larger user groups could provide more insights for accomplishing the research objectives than those studies with fewer user groups.

3.6 Summary

The major objective of this chapter was to review the scope, methodologies, findings, and limitations of corporate disclosure studies done in DMs and EMs. However, this review has been confined to the studies that have directly dealt with corporate disclosure in annual reports of a particular country. Previous corporate studies comprise studies that have examined the disclosure practices from the point of view of: (1) preparers through quantification of information disclosed in the annual reports, (2) users through questionnaire surveys, and (3) both preparers and users through annual report and questionnaire surveys. The majority of disclosure studies used 'disclosure indexes' for measuring the information content of annual reports. The literature review revealed that, in general, annual reports have failed to provide adequate information for the users in EMs. While some studies reported a high degree of agreement among user-groups with regard to their information needs, relatively low degree of consensus between user-groups was observed in some other studies. Literature also showed that a greater emphasis has been placed in EMs for improving corporate disclosures for further development of their stock markets. Overall, the level of disclosure in many EMs has improved over time. However, the large firms, whether in DMs or EMs, disclosed more information than smaller firms. Despite increased attention for the improvement of corporate disclosure practices in EMs, only a few studies have so far dealt with such issues. The user information needs of EMs are also largely unknown as previous studies have

examined the information needs of only a few users. Moreover, the significantly different disclosure indexes used in previous disclosure studies also hinder a fair comparison between these studies.

Chapter 4

Corporate Financial Disclosure in Sri Lanka: Regulatory Environment and Recent Developments

4.1 Introduction

The regulations aimed at improving the quality and uniformity of corporate financial reporting, including financial disclosures, in Sri Lanka consist of Company Law, CSE & SEC requirements, Sri Lanka Accounting Standards (SLASs) and other by-Laws. The objective of this chapter is to outline the related institutional and legal framework and discuss the provisions of the major regulations on corporate disclosure in Sri Lanka. The chapter is organised in five sections. While the second section provides a historical development of disclosure practices in Sri Lanka, the third section describes the legal and institutional framework. The fourth section outlines all major disclosure requirements imposed by various regulatory bodies and the final section provides a summary of the chapter.

4.2 Historical Developments and Disclosure Requirements

Although there has been a long history for the corporate culture in Sri Lanka, improving the quality of disclosure practices is a recent phenomenon. Interestingly, despite the existence of public companies for a long period of time, "there has been no tradition of financial reporting to the public in the history of accounting practices in Sri Lanka" (Perera, 1975, p.87). However, such a situation is not surprising when one considers the nature and ownership of

companies, especially in the pre-independence period. Perera (1975) describes this situation as follows:

> The country is characterised by an elite class that dominates the economic and political fabric of the society. They are generally a small percentage of the total population, but they own a large proportion of the country's capital assets and receive a highly disproportionate share of the national income. This elite class often controls major domestic firms, and in most cases their family members and friends hold responsible managerial positions. ... In view of the close-knit nature of the elite group there has been little incentive for the development of a system of extensive financial reporting; under such conditions the owners and managers tend to believe that they need only a minimum of accounting information (pp. 87-88).

However, this situation changed dramatically in early 1970s with the emergence of a new class of people with an investible surplus of income and new lending institutions including state banks (Manoharan, 1972). With these changes, companies slowly started to respond to the demand for information needs of this new class of people.

In Early days, the company law in Sri Lanka did little to improve the quality of reporting practices. For Example, the first company legislation in Sri Lanka, Joint Stock Companies Ordinance No. 4 of 1861, did not include any provisions to make the publication and audit of company financial statements obligatory. Although the Companies Ordinance No. 51 of 1938 introduced some statutory requirements on disclosure and presentation of financial information, they were based mainly on the commercial and social needs of England in 1929, which were not relevant to the changing business environment in Sri Lanka (Wickramarachchi, 1978, p.3). Compared to the limited disclosure requirements laid down in the Companies Ordinance, the Colombo Brokers' Association (CBA) had imposed a greater amount of more specific disclosure requirements.

Since the CBA was the authority for granting public quotations. its rules and regulations were applicable to all public companies wishing to have their shares quoted in the official list. In order to protect the public interest, the CBA took the greatest care when granting a quotation to a company. Therefore, the by-laws of the association were closely modelled on those of the London Stock Exchange and were far in advance of those of the local Companies Ordinance of 1938. Accordingly, a vast amount of details had to be given in the company's prospectus or advertised statement (Perera, 1975, pp. 88-89). These rules and guidance provided to listed companies for preparing their financial statements were published in a CBA publication under the title of "By-Laws for the Official List, quotations and dealings".

With the establishment of the ICASL in 1959, the reporting practices in Sri Lanka took a significant turn. While advising its members to comply with the provisions of the Companies Ordinance, the ICASL, following the recommendations of the Institute of Chartered Accountants in England and Wales, introduced more progressive reporting requirements and auditing standards (Perera, 75, pp. 90-91). Accordingly, since 1970[22] the ICASL has been regularly adopting, with necessary modifications, several Accounting Standards and Auditing Guidelines set out by some international bodies for the improvement of reporting practices in Sri Lanka. Until recently, these standards mainly served as guidelines for accountants and auditors to prepare and audit

[22] The first Sri Lanka Accounting Standard (SLAS-1)—The treatment of dividends duly grossed in the balance sheets and Appropriation Statements of Companies—was issued on 1 April 1970, and supplemented by circulars of 14 and 19 December 1973 (Wickramaarchi, 1978). This standard was later withdrawn.

accounts whilst the Companies Act and the CSE's listing regulations stipulated mandatory disclosure requirements.

Because of the small number of companies whose accounting came under the rules of the CSE in 1970s, stock market was the least important source for accounting regulation (Perera, 1975, p.90). Amid the absence of legal backing for SLASs and less significance of stock market rules, the Companies Ordinance continued to maintain the legal control over accounting and accountants in the country. The Company Ordinance required every company to maintain certain records and have them audited by a qualified auditor every year. However, the requirements specified by the Companies Ordinance had many limitations. For example, although the rules applicable to the preparation of the balance sheet were specified in the Ordinance no such rules were given in respect of the profit and loss account.

By 1977, the ICASL had issued seven Sri Lankan Accounting Standards (SLAS) of which SLAS 7—Information to be disclosed in financial statements—provided specific information with regard to the preparation of financial statements. Five years after the introduction of SLAS 7, the existing Companies Ordinance No. 51 of 1938 was replaced by a new Companies Act, No. 17 of 1982, which specified the reporting requirements in grater detail. Effectively, most of the requirements recommended by the ICASL through the SLAS 7 were included in the new Act.

However, despite the introduction of the new Companies Act and continued issuance of SLASs as guidelines for reporting practices, there were serious concerns over the reliability of company financial statements. A committee report on financial sector reforms in July 1993 had specific reference

to some of these concerns. The report sates, "There has been a considerable concern expressed both in official circles as well as among the interesting public, that the true financial position of banks and other financial institutes and of public companies is not always fully revealed in their published accounts. For instance, the true financial position of the Bank of Ceylon and the People's Bank and some leading finance companies which were in serious difficulties, was not revealed in the accountants and audits of these institutions (Rodrigo, 1996).

In the absence of research examining the state of accounting practices in Sri Lanka, the real state of these practices were largely unknown to the general public and even to the regulators. The fact that the Companies Act had stipulated reporting requirements and an independent auditor was required to certify whether financial statements were prepared following these legal requirements made people to believe that financial statements of companies showed the true state of the companies. However, the sudden collapse of some finance companies in late 1980s without any prior warning raised serious doubt about the credibility of financial statement of the entities in Sri Lanka. In 1991, A World Bank official, Dr. M G Parry, (cited by Rodrigo, 1996) had the following comments to make on the state of accounting and auditing in Sri Lanka.

(1) There is a generally low perception of the quality of financial statements, and the reliability of the audit opinion of both privately owned companies and public enterprises.

(2) Private companies are frequently audited by licensed, but unqualified auditors, their financial statements are seriously in arrears, and they very substantially understate profit.

(3) The financial statements of quoted companies are typically superficially well produced and attractively presented documents. In reality, they often fail to comply with accounting standards, they sometimes significantly misstate results, and therefore by implication their audit cannot be relied upon.

(4) In their corporate lending decisions, banks make very limited use of financial statements.

This problematic situation in reporting practices in Sri Lanka was also seen as a major impediment to the development of CSE. Cabraal (1994) referring to the importance of financial reporting as a key factor that actively contributes to the sustenance of investor confidence, which is the most vital ingredient in a stock market, pointed out some negative aspects of financial reporting practices in Sri Lanka that obstruct the attempts for increasing investor confidence. They are:

- Non-availability of proper Accounting standards,
- Lack of properly educated and trained personal in the preparation of financial statements,
- Poor and questionable auditing practices,
- Lack of authoritative pronouncements pertaining to the interpretation of Accounting Standards,
- Lack of enforcement of Accounting Standards to ensure that the financial statements give a true and fair view;
- Delays in dissemination and publication of financial statements,
- Lack of professional ethics governing those involved in the preparation and the audit of financial statements, and
- Possible coercion by interested parties in manipulating financial statements.

Supporting these views, Rodrigo (1994) pointed out the quality of financial statements as a major area that affects the development of capital market in Sri Lanka. In his opinion, there are many instances of falsification of accounts that have passed undetected although those accounts have been audited. The main areas of falsification of accounts are:

- Manipulation of accounting policies or application of inappropriate accounting polices,
- Inadequate disclosure in financial statements, and

- Misleading presentation

In view of these comments, it was evident that despite the SEC serving as the regulatory authority and the disclosure requirements stipulated by the Companies Act, they were unable to deliver the intended results. Further, the mechanisms to monitor compliance with laws and regulations ware also not operating properly, resulting a creation of false values for enhancing share prices of some listed companies. Because of this unhealthy situation created by the existing accounting practices, in early 1990s, the importance of strengthening the legal backing for disclosures requirements was seen as a possible solution for improving the reporting practices.

The outcome of all these comments resulted in the enactment of the Sri Lanka Accounting and Auditing Standards Act of 1995 (SLAASAct) which made the compliance of the SLASs mandatory for Specified Business Enterprises (SBE) in the preparation of their financial statements. Unlike in the past where Accounting Standard Committee consisted of only members of the ICASL, the new Accounting Standards Committee (ASC) established under Section 8 of the Act for the continuous achievement of the objectives of the Accounting Standards Act has a broader representation. The SLAASAct has not only placed equal responsibility for ensuring compliance with the standards on the management of the entity but also on its auditors, who are required to specifically report on whether the entity has complied with the relevant SLASs (Accounting and Auditing Standards Act, 1995).

4.3 Legal and Institutional Framework

4.3.1 The accounting profession

The first national professional accounting body, the Institute of Chartered Accountants of Sri Lanka (ICASL), was established in December 1959 under the Parliamentary Act No. 23 of 1959. This was in response to a recommendation made to the Government by the L M D de Silva Commission on Company Law. The ICASL replaced the Accountancy Board which functioned as the only authoritative accounting body in Sri Lanka during the 1941-1959 period (Wijewardena and Yapa, 1998).

The ICASL is administered by a council consisting of the president, vice-president and four members elected by the members and six members appointed by the Minister of Internal and External Trade. The main duties of the Council are: to supervise and regulate accounting education and training; to maintain professional standards, and acquaint members with the methods and practices necessary to maintain standards; to encourage research in accountancy and related subjects and to secure the well being and advancement of the profession. Currently, the Institute has over 2,000 members along with over 16,000 registered students (ICASL, 2001).

The ICASL has a significant influence over the national policy formulation in areas related to the accountancy profession. It is the sole accounting standards setting authority in Sri Lanka and the application of accounting standards issued by the ICASL is mandatory for Specified Business Enterprises (SBE) including all companies listed on the Colombo Stock

Exchange[23]. In the fields of taxation and company law, it renders assistance to the government in the form of suggestions and recommendations on various fiscal and accounting related matters before the respective legislation is formulated. Since 1964, with the intention of improving the quality of corporate reporting practices in Sri Lanka, the ICASL has been conducting an annual competition among companies, public corporations and banks for selecting the "Best Corporate Report and Accounts".

In addition to ICASL, two other professional bodies, the Chartered Institute of Management Accountants (CIMA), which has a well-established branch in Sri Lanka, and the Association of Chartered Certified Accountants (ACCA), provide professional accounting qualifications to Sri Lankans. However, since the CIMA basically caters to accountants engaged in cost and management accounting in commerce and industry, its members cannot function as auditors. Therefore, they are mainly involved in management accounting functions in organisations rather than in financial reporting. The number of ACCA members in Sri Lanka is very small and they too do not act as auditors. In 1999 the Sri Lankan accountants with CIMA and ACCA qualifications amounted to 1,321 and 62 respectively (Wijewardena, 1999).

[23] Other SBEs are: Companies licensed under the Banking Act, No. 30 of 1988; Companies authorized under the Control of Insurance Act No. 28 of 1962 to carry on insurance business; Companies carrying on Leasing business; Factoring companies; Companies registered under the Finance Companies; Companies licensed under the Securities Act to operate unit trusts; Fund Management Companies; Companies licensed under the Securities Act to carry on business as stockbrokers or stock dealers; Companies licensed under the Securities Act to operate a stock exchange, Companies not listed on a stock exchange licensed under the Securities Act (a) which have turnover in excess of the prescribed limit, (b) which at the end of the previous financial year, had a shareholders equity in excess of the prescribed limit, (c) which at the end of the previous year, had liabilities to banks and other financial institutions in excess of the prescribed limit, (e) which have a staff in excess of the prescribed limit; Public corporations engaged in the sale of goods or the provision of services: and A group of companies, any one of which fall within any of the above categories.

4.3.2 Accounting Standards Committee (ASC)

The ASC established by the SLAASAct for the purpose of making recommendations and assisting the ICASL in adopting of accounting standards consisted of twelve members. Six of them are members of the ICASL including the President. The other six members are: one member nominated by the Sri Lanka Division of the CIMA, the Registrar of Companies, the Director General of the Securities and Exchange Commission, a nominee of the Governor of the Central Bank, an nominee of the Ceylon Chamber of Commerce and a nominee of the Federation of Chambers of Commerce and Industry of Sri Lanka. The committee is required to consult the Central Bank when making any recommendation regarding accounting standards for licensed Commercial Banks and financial institutions within the supervisory control of the Central Bank.

4.3.3 The Auditing Standards Committee (AuSC)

This committee was also established by the SLAASAct to make recommendations and to assist the ICASL in the adoption of SLAuSs. It consists of eight members of the ICASL nominated by its Council. At least four of these members are members of the ASC.

4.3.4 Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

This Board was established in 1995 by an Act of Parliament for the purpose of facilitating the monitoring of compliance by specified business enterprises with the Accounting and Auditing Standards. It comprises the following 13 members: (a) Three ex-officio members—the Registrar of Companies, the Commissioner General of Island Revenue, and the Director General of the SEC; (b) Ten members appointed by the Minister including: an officer of the Central

Bank as nominee of its Governor, three members of the ICASL, a member of the Sri Lanka division of the CIMA, two company Directors with executive managerial experience, one Senior Lawyer, one Senior Banker, and a nominee of the University Grants Commission. The Chairman of the committee is appointed by the Minister. The SLAASAct requires every EBE to forward a copy of its annual accounts to the Monitoring Board to enable it to determine whether the accounts have been prepared in accordance with the SLASs.

4.3.5 Colombo Stock Exchange (CSE)

The Colombo Stock Exchange was originally known as the Colombo Brokers' Association (CBA) which commenced trading of shares in limited liability companies involved in the opening up of plantations when they country was under the British rule. Public funds were channelled into equity capital in these plantation companies under the sponsorship of the CBA. It also created an active secondary market for such securities. Since then, share trading grew gradually and Colombo had an active share market for most of the century. However, the nationalisation of private enterprises including plantation companies and banks in the 1960s and 1970s had a serious adverse impact on the share market reducing its trading to insignificant proportions. With the introduction of a new political and economic philosophy that espoused free and open market ideals in the latter part of the 1970s, the share market quickly recovered its lost stature. In 1984, the Colombo Stock Exchange (CSE) took over the operations of the stock market from the CBA and for the first time in the history of share trading in Sri Lanka the stock market was opened up to the public with the establishment of a public trading floor based on an 'open outcry' system of trading (CSE, 2000).

The free market economic polices of 1978 and the emergence of the private sector as the dominance force of the economy caused a restructuring of the stock market. After many decades of inactivity, the stock market activities in the country picked up very significantly in the early 1990s due to a number of positive steps such as the liberalisation of stock market investments, fiscal incentives, opening of the market to foreign investors, modernisation and improvement of trading activities. In 1997, the CSE became the seventh stock exchange in the world to set up a fully integrated screen based trading system, replacing the century old 'open outcry' system. In 1997, the CSE had 237 listed companies with market capitalisation of over 112 billion rupees (Central Bank of Sri Lanka, 1998).

The CSE has been organised as a company limited by guarantee. Its polices are formed by a board of directors consisting of five brokers elected by the members and four non-brokers who are appointed by the Finance Minster on the recommendation of the SEC of Sri Lanka. Among the committees set up by the board are the Rules and By-Laws Committee, the Disciplinary and Arbitration Committee, the Finance Committee, the Listings Committee, and the Research and Development Committee. Membership is restricted to stockbrokers who are permitted to act as intermediaries or agents for buyers and sellers of securities. Currently, there are 15 member firms operating on the exchange floor (Sheimo, 1996).

The key statutes, which have an impact on the operations of the CSE, are given below.

- The Securities Council Act No. 36 of 1987 (as amended)
- The Companies Act No. of 1982 (as amended)
- The Companies Act as amended by Act No.33 of 1991
- The Exchange Control Act No. 35 of 1956 (as amended)

- The Banking Act No. 30 of 1998 (as amended)
- The Fair Trading Commission Act No.1 of 1987 (as amended)

The Colombo Stock Exchange (CSE) is licensed by the Securities and Exchange Commission of Sri Lanka (SEC). The stock market comes within the purview of the Securities Council Act of 1987 (SEC Act). The CSE has several rules and regulations that govern Listed Companies and Member Firms. Rules of the CSE also form part of the regulations of the SEC under the SEC Act. The following are the rules and regulations of the CSE:

- Listing rules
- Member Regulations
- Rules for Clearing, Settlement, and Depository activities (CDS Rules)
- Conditions of Sale Trading Rules

4.3.6 Securities and Exchange Commission (SEC)

This is a statutory body set up under the Securities Council Act[24] No. 36 of 1987 with the purpose of regulating the securities market in Sri Lanka; granting licences to stock exchanges, stock brokers and stock dealers who are engaged in the business of trading in securities; and setting up a compensation fund. The specific objectives of the Commission stipulated by the Act are the creation and maintenance of a fair and orderly security market in Sri Lanka; the protection of the interest of investors and the operation of a compensation fund to protect investors from financial loss arising from the failure of a broker to meet his contractual obligations; and the regulation of the securities market (SEC, 2002). By regulating and overseeing the securities market, the SEC ensures that professional standards are maintained in the market.

[24] This act was amended by the Securities Council (Amendment) Act No. 26 of 1991 and is hereinafter referred to as the "Securities Act". With this amendment, the name of the Securities Council was changed to Securities and Exchange Commission in Sri Lanka.

The SEC consists of 10 non-executive members and is headed by a Director General who functions under the general direction and guidance of the commission. Of the 10 members, the Minister of Finance appoints 6 of them who are qualified and experienced in legal, finance, business and administrative affairs. Also, the Governor of the Central Bank of Sri Lanka nominates one of his Deputy Governors to the commission. The remaining 3 members of the commission are ex-officio members. They are: Deputy Secretary to the Treasury, the Registrar of Companies, and the President of the Institute of Chartered Accountants of Sri Lanka. The Director General is appointed by the Minister of Finance on the recommendation of the SEC is responsible for managing and carrying out various activities of the commission.

Although the SEC has been very active in recent years in developing the CSE by taking a number of positive measures, it have been subject to heavy criticism for several years on a number of issues. Cabraal (1994) identified the following weaknesses: (1) Lack of proper rules, regulations and orders to ensure the orderly trading of securities, (2) Slow response to public complaints and concerns, (3) Unfair and arbitrary rulings, (4) Conflicts of interests, particularly in relation to key persons, (5) Not being up-to-date with international and /or regional developments, enactment of regulations that prevent or retard market growth, insufficient commitment to future market development, not being sufficiently independent and objective.

However, the SEC has recently taken a number of steps towards achieving its intended objectives. One of them was signing of a memorandum of understanding (MOU) between the SEC and the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) in 2001. According to this

MOU, both SEC and SLAASMB agreed to co-ordinate their regulatory functions to the extent feasible with a view to preventing any overlap or duplication of activities. Listed below are the specific items they have agreed to:

1. SEC scrutinise annual reports and financial statements of listed companies in respect of compliance with the Companies Act and CSE rules, and statements of corporate governance;
2. SLAASMB will scrutinise annual reports and financial statements of companies in relation to compliance with Sri Lanka Accounting Standards (SLASs) and Sri Lanka Auditing Standards (SLAuSs);
3. SEC will keep the SLAASMB informed of any non-compliance by companies with SLASs and SLAuSs that SEC will become aware of;
4. The SEC will share with SLAASMB its final decisions or rulings following its examination of annual reports and financial statements which are considered necessary for the SLAASMB to be aware of;
5. SEC will share copies of its communications with listed companies concerning matters pertaining to SLASs;
6. SLAASMB will keep the SEC promptly informed of any investigations it initiates on entities regulated by the SEC which SLAASMB considers relevant for the SEC to be aware of;
7. The final findings by SLAASMB on matters mentioned in 5 above which the Board considers relevant for the SEC to know will be conveyed to SEC promptly;
8. SLAASMB will keep the SEC informed of any directions issued to entities regulated by the SEC agreements reaches with such entities to amend, update or disclose any item in their annual financial statements, interim reports or any other publications;
9. SEC will share with the SLAASMB complaints relating to the non-compliance with SLASs and SLAuSs;
10. SEC and SLAASMB will engage in joint public awareness activities pertaining to transparent and good corporate governance practices

Since the examination of annual reports of listed companies to check the compliance with regulations has now become an activity of the SLAASMB, the SEC confined it activities in relation to the annual reports to check the compliance with listing rules, corporate government practices, etc. However, prior to this change the Corporate Affairs, Governance and Research Division of

the SEC reviewed annual reports of listed companies to ensure full and fair disclosure, as required by SEC Act, CSE Rules, the Companies Act, and the compliance with SLASs.

4.3.7 The Registrar of Companies

The Department of the Registrar of Companies is the primary administrative authority of all companies registered in Sri Lanka and is responsible for the implementation of the Companies Act. Its mission is to establish business and other institutions under the relevant Acts in accordance with the economic and trade policy of the Government and to act in vigilance in regard to their effective functioning and to assist in other commercial activities. The Registrar also functions as an ex-officio in the Board of the SEC. This role enables him to reduce the overlaps in the regulatory oversight exercised by the Registrar and in the areas of investor protection and disclosure.

4.4 Legislative Requirements

4.4.1 Company Act requirements

Unlike the Companies Ordinance No. 51 of 1938, the new Companies Act included specific requirements for both the balance sheet and the profit and loss account. Accordingly, under the new Act, the directors were required to prepare and present profit and loss accounts, balance sheets, group accounts (if any) and other necessary reports in accordance with the provisions under Sections 144, 146, and 152 of the Act. Further, Part I of the fifth Schedule of the Act explicitly detailed out the information that should be disclosed in these statements. More specifically, paragraphs 2 to 11 of the Schedule pointed out the balance sheet items while paragraphs 12 to 14 specified the profit and loss items. Part II of the Schedule outlined the special provisions applicable to

holding or subsidiary companies while Part III pointed out the exceptions to the disclosure requirements in respect of special types of companies. Finally, Part IV provided the details as to how the terms used in the Schedule should be interpreted (Companies Act, 1982).

The Companies Act requires the directors of every company to keep proper books of accounts and publish a balance sheet and a profit and loss account at least once in every calendar year. With regard to the general provisions in respect of contents and form of accounts, the section 145 (1) of the Act stipulates that the balance sheet and the profit and loss account of the company should give a true and fair view of the state of affairs and the operating performance of the company. In addition, section 145 (2) requires that these two statements must comply with the requirements of the Fifth Schedule of the Act. The balance sheet and the profit and loss account must be audited. Auditors are also required to state whether these statements provide the information required by the Act to give a true and fair view of the company. Also, both the Act and the SLASs require that financial statements should include corresponding figures for the preceding period as well.

If a company has one or more subsidiary companies and is not itself a wholly owned subsidiary of another company incorporated in Sri Lanka, it needs to prepare group accounts. In such a case, the holding company is required to prepare consolidated financial statements showing the state of affairs of the company and its subsidiaries.

In accordance with section 152 of the Act, a report by the directors with respect to the state of company affairs should be attached to the balance sheet. This report should state the amount of dividends recommended and the

profits transferred to reserves. Also, it should state whether any director of the company is directly or indirectly interested in any contract with the company and, if so, the nature of such contracts. In addition to the requirements of the Companies Act, there are several items of information that may be included in the directors' report. Some of them are required by the existing accounting standards. These items include fair review of businesses, future development plans, significant changes in fixed assets, principal activities of the company, names of directors, and a reference to the reappointment of auditors.

4.4.2 Accounting Standard Requirements

Since 1995 the compliance of the SLASs formulated and issued by the ICASL has been mandatory for Specified Business Enterprises (SBE) including all listed companies in Sri Lanka. Up to 1999, 34 SLASs had been issued (See Table 4-1). Six of the standards issued have been withdrawn due to their inapplicability or replacement by other standards (ICASL, 1999).

Table 4-1

Sri Lanka Accounting Standards

NO.	Name of the Standard
SLAS 3	Presentation of Financial Statements (Revised 1998)
SLAS 5	Inventories
SLAS 8	Depreciation Accounting
SLAS 9	Cash Flow Statements
SAAS10	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
SLAS 11	Research and Development Costs
SLAS 12	Contingencies and Events Occurring After the Balance Sheet Date
SLAS 13	Construction Contacts
SLAS 14	Accounting for Taxes on Income
SLAS 15	Presentation of Current Assets and Current Liabilities
SLAS 16	Retirement Benefits Costs
SLAS 18	Property: Plant and Equipment
SLAS 19	Accounting for Leases
SLAS 20	Borrowing Costs
SLAS 21	The Effects of Changes in Foreign Exchange Rates
SLAS 22	Accounting for Investments

SLAS 23	Revenue Recognition and Disclosures in the Financial Statements of Banks
SLAS 24	Accounting for Government Grants and Disclosure of Government Assistance
SLAS 25	Business Combinations
SLAS 26	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
SLAS 27	Accounting for Investments in Associates
SLAS 28	Reporting Financial Information by Segment
SLAS 29	Revenue
SLAS 30	Related Party Disclosures
SLAS 31	Financial Reporting of Interests in Joint Ventures
SLAS 32	Plantations
SLAS 33	Revenue Recognition and Disclosures in the Financial Statements of Finance Companies
SLAS 34	Earnings per share
	Note: SLAS 1, SLAS 2, SLAS 4, SLAS 6, SLAS 7, and SLAS 17 were withdrawn

Source: ICASL, 2000

Newly revised SLAS-3: Presentation of Financial Statements outlines the components that should be included in a complete set of financial statements. They are:

(a) Balance sheet,
(b) Income statement,
(c) A statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners,
(d) Cash flow statement, and
(e) Accounting policies and explanatory notes.

The cash flow statement may be presented in a variety of ways, for example, as a statement of cash flows or statement of funds flow. The financial statements may also include supplementary schedules and information based on or derived from such statements. These schedules and supplementary information may be needed to provide adequate information on the operational performance and financial status of a company. For example, information on industrial and geographical segments and disclosures on the effect of changing prices may be given in this form. However, the items such as reports from directors, statement by the chairman, and discussion and analysis by

management that are included in an annual report are not considered as a part of the financial statements.

The ICASL in recent years has developed a conceptual framework for the preparation and presentation of financial statements. This framework sets out the concepts that underline the preparation and presentation of financial statements for external users. Although the framework is not a SLAS and does not override any specific SLAS, it greatly assists the Council of the ICASL in reviewing and developing accounting standards in addition to being help to various other parties such as the preparers and auditors of financial statements in applying SLASs. This framework outlines the following: the objective of financial statements; the qualitative characteristics that determine the usefulness of information in financial statements; the definition, recognition and measurement of the elements from which financial statements are constructed; and concepts of capital and capital maintenance (ICASL-Standards, pp 5-43).

4.4.3 CSE listing rules

Listing rules of the CSE have been a major regulatory source on financial disclosures in Sri Lanka. A listed entity must agree to abide by the listing rules to gain admission to the official list and to remain listed. The CSE lays down the corporate disclosure polices for companies included in its official list. As a guiding principle, the CSE has held the view that the conduct of a fair and orderly market requires every listed entity to make available to the public the information necessary for making informed investing decisions. Accordingly, it has taken reasonable steps to ensure that all those who invest in its securities enjoy equal access to such information. In applying this fundamental principle, the CSE has adopted six specific policies as shown in Table 4-2.

Table 4-2

Major Disclosure Policies of the CSE

1.	Immediate public disclosure of material information
2.	Thorough public dissemination
3.	Clarification or confirmation of rumours and reports
4.	Response to unusual market action
5.	Unwarranted promotional disclosure
6.	Insider trading

Source: Colombo Stock Exchange, 1998

The CSE has provided greater details of these disclosure polices in its publication (Blue Book) and the directors of the companies listed on the Exchange are obligated to follow the listing requirements based on these policies on a continuing basis. If a company listed on the Exchange violates these requirements, it becomes subjected to various sanctions imposed by the CSE. An extreme or continuing violation of these requirements by a company may result in a de-listing of its name on the Exchange. Although there are many instances where stock exchange has suspended trading of companies for failure to disclose material information, there have been no cases to date where the more extreme step of a delisting has been carried out for the reason of non-disclosure (Wickramanayake, 1998).

According to CSE regulations, listed companies in Sri Lanka are required to submit quarterly profit statements to shareholders and the CSE within two months of the end of each quarter, and audited accounts to shareholders and the CSE within six months of the end of each financial year.

In addition to the listing rules and regulations, several other laws directly or indirectly emphasise the requirements of immediate disclosure.

These laws are embodied in the Securities Act, the Takeovers and Mergers Code, and the insider dealing provisions of the SEC Act (Daily News, 1998).

4.4.4 SEC Rules

The rules of the Securities Act provide the SEC powers to compel listed companies to make immediate disclosure of material events. In case a listed company fails to provide all material information, using the powers provided by Section 13 (h) of the Securities Act, the SEC could cancel or suspend the listing or trading of that company for protecting the investors. Therefore, through the powers vested on the SEC, it can force listed companies to comply with immediate disclosure requirements. Although the CSE also has the powers to enforce companies to follow disclosure requirements through suspension or delisting, the SEC has a wider set of options in enforcing these requirements in terms of its general enforcement powers. From 2000, the SEC has recommended that all public companies should disclose their corporate governance practices in their annual reports. Such practices include, for example, the role the board of directors plays in the management of the company, the frequency of board meetings, and the board policy on ethical conduct and how it is enforced.

4.4.5 Obligation for Audit of Accounts

Section 6 of the SLAASAct requires the Accounts of SBE to be audited by qualified auditors who are members of ICASL. Accordingly, the auditors are required to certify: (1) that the audit has been conducted in accordance with the SLAuSs and (2) that the accounts have been prepared and presented in accordance with the SLASs. When a qualified auditor fails to comply with the

SLASs and SLAuSs as required by the SLAASAct, he should specify clearly the deviations made together with reasons for such deviations.

Since the disclosures mentioned above include the disclosures which are not within the purview of this study, it is important to reiterate the scope of this study before proceeding to the analysis and discussion in the next two chapters on the financial disclosures in Sri Lanka from the users' and preparers' point of views. As already outlined previously[25], period disclosure and ad-hoc disclosure are two of the most common financial disclosures of a company. These two financial disclosures are also known as "structured period disclosures"[26] and "unstructured disclosures"[27]. Although the regulatory sources on financial reporting described in this chapter deal with both period disclosures and ad-hoc disclosures, the scope of this study is limited to examining the issues relating to period disclosures.

Although ad-hoc disclosures are not within the purview of this study, an examination of the regulatory disclosure sources described in this chapter indicates that the requirements for ad-hoc disclosures under statutes such as Companies Act are very limited, contrary to the public belief that public companies are required to make immediate disclosure of material events.

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[25] See: Section 1.4 of Chapter 1: Introduction.

[26] The disclosures which are statutorily required to be made periodically in statutory documents such as financial reports, directors' report etc. The statues such as Companies Act and SLASs specify when and how these disclosures be made. These disclosures are primarily meant for anyone who has a vested interest on the company.

[27] This refers to disclosures relating to events that take place on an ad hoc basis and have to be disclosed immediately, so that investors can make investment decisions about the shares of the company. These disclosures are generally meant for investors.

4.5 Summary

The major objectives of this chapter were to outline the related institutional and legal framework and discuss the provisions of major regulations on corporate disclosure in Sri Lanka. The major players in the legal and institutional framework in Sri Lanka include the accounting profession, mainly the ICASL, CIMA and ACCA; ASC; AuSc; SLAASMB, CSE, SEC, and the Registrar of Companies. The activities of these institutions for the improvement of corporate disclosures practices in Sri Lanka have intensified in recent years with the increased demand for timely and reliable information by a wider spectrum of users. The legislative disclosure requirements for the companies in Sri Lanka are provided by the Companies Act, SLASs, the CSE listing rules and the SEC rules. However, with the legalisation of the SLASs in 1995 by an Act of parliament making the compliance of which is mandatory for all SBE, they have now become the most influential regulations on corporate disclosure in Sri Lanka. According to SLASs, a complete set of financial statements should consist of Balance Sheet, Income Statement; a Statement Showing the Changes in Equity, Cash Flow Statement, and Accounting policies and explanatory notes. The financial statements of SBE should be audited by an auditor who is a member of ICASL. Despite increased attention being paid to improve corporate disclosure in Sri Lanka by regulatory bodies, the lack of disclosure is still a major reason for the erosion of investor confidence.

Chapter 5

Information Needs of the Users: The Survey and Its Results

5.1 Introduction

Empirical examination of user perceptions on the information needs of corporate annual reports has been the subject matter of a large number of studies conducted in many countries during the past few decades (See Table 5-1). A closer look at these studies reveals that while most of them have been based on countries having developed capital markets, those focused on countries with emerging capital markets have been limited only to a few studies. Since the findings of the studies conducted in developed capital markets are not similarly applicable to emerging capital markets due to the large differences in political, cultural, economic and social factors between the two markets (see, for example, Jaggi 1975; Perera 1989), it is apparent that little is known about the way in which users of corporate annual reports in the emerging markets view those reports.

Another feature of the previous research on this aspect is that most of these studies were confined to an examination of the information needs of a very few user groups—one or two in most cases (see Table 5-1). Because of this limitation, relatively little is known about the views of the user groups that have not been the subjects of previous research. Therefore, one of the objectives of this study is to examine the views of a larger number of user groups on the usefulness of corporate annual reports of public listed companies in an emerging

market. This objective is to be achieved through an analysis of data obtained from a questionnaire survey[28] conducted in Sri Lanka in the latter part of 2000.

Table 5-1

Annual Report Studies with User Input

Market	Author and Year	User Groups	Sample Size	Response Rate
Developed Australia	Chenhall and Juchau (1976); Chenhall and Juchau (1977)	Individual investors	1025	46.4
	Winfield (1978)	Shareholders	850	37.5
	Anderson (1981a)	Institutional investors	300	63.1
	Anderson (1981b)	Shareholders	2682	36.0
	Anderson and Epstein (1995); Anderson (1998)	Individual shareholders	2359	18.9
Hong Kong	Ho and Wong (2001)	Finance directors and Financial analysts	1145	16.6
New Zealand	Wilton and Tabb (1978)	Private shareholders	300	55.0
	Courtis (1979)	Companies	280	45.0
	McNally, Eng, and Hasseldine (1982)	Financial Editors, Stock Exchange members	187	44.4
U.K.	Lee and Tweedie (1975); Lee and Tweedie (1975)	Shareholders	1594	23.5
	Firth (1978)	Financial directors, Accountants, Financial analysts, loan officers	750	40.3
	Firth (1979)	Financial analysts	120	38.3
U.S.	Baker and Haslem (1973)	Individual investors	1623	52.4
	Buzby (1974)	Financial analysts	500	26.2
	Chandra (1974)	Accountants and security analysts	1000	49.8
	Buzby (1975)	Financial Analysts	150	21.3
	Chandra (1975)	Financial analysts	400	45.0
	Benjamin and Stanga (1977)	Financial analysts and bank loan officers	1200	34.6
	Chandra and Greenball (1977)	Financial executives and security analysts	1200	41.1
	Stanga and Tiller (1983)	Bank loan officers	400	57.5
	Robbins (1984)	Bond analysts and finance officers	400	40.3

[28] Questionnaire survey is one of the most common approaches used in the social sciences to empirically study the characteristics and interrelations of sociological and psychological variables. Its impact on research in accounting and related disciplines has been substantial. For critical assessment of this method, see Roberts (1999).

	Malone, Fries, and Jones (1993)	Financial analysts	694	16.6
Australia, New Zealand, and U.S	Anderson and Epstein (1986)	Individual shareholders	5718	16.3
Canada, U.S, and Europe	Belkaoui, Kahl, and peyrard (1977)	Financial analysts	700	45.7
U.S and Australia	Baker et al. (1977)	Investors	2648	50.1
U.S and New Zealand	Chang and Most (1977)	Shareholders	1334	20.0
U.S, U.K and New Zealand	Chang and Most (1981)	Individual investors, institutional investors, and financial analysts	5800	26.0
Emerging				
Bangladesh	Nicholls and Ahmed (1995)	Practicing accounts, non-practicing accountants, bank loan officers, financial analysts	1000	44.6
	Karim (1995)	Bankers, accountants, stock brokers, academics, tax officers, financial analysts	651	45.5
India	Joshi and Abdulla (1994)	Chartered accountants and investors	850	25.5
Iran	Mirshekary (1999)	Bank loan officers, academics, stock brokers, bank investment officers, institutional investors, auditors, tax officers	500	49.0
Jordan	Abu-Nassar and Rutherford (1995)	Individual shareholders, institutional shareholders, bank loan officers, stockbrokers, and academics	463	48.4
	Abu-Nassar and Rutherford (1996)	Preparers of financial statements mainly finance directors and chief accountants	112	74.0
Malaysia	Rahman (1999)	Accountants and financial analysts	300	45.0
Mexico	Chow and Wong-Boren (1987)	Bank Loan officers	106	63.2

Nigeria	Wallace (1988a) ; Wallace and Cooke (1988b)	Chartered accountants, investors, senior civil servants, managers, financial analysts and other professionals	1200	39.2
South Africa	Firer and Meth (1986)	Investment analysts and financial directors	595	31.1

This chapter describes the research questions, the methods and procedures used in questionnaire design and administration, the formulation of hypotheses on the stated research questions, and the testing of hypotheses using the data obtained from the survey. Since no any prior research on this aspect of Sri Lankan companies has been reported in the literature, the findings of this chapter, while contributing to the literature on corporate disclosure practices in emerging markets, can provide valuable insights to Sri Lankan policy makers for improving the quality of corporate disclosures in the country.

5.2 Research Questions

In order to examine the users' responses and perceptions on a number of issues pertaining to the usefulness of annual reports for their needs, this study aims to address the following research questions through an analysis of the data obtained from the questionnaire survey:

(1) Is there any significant difference between the perceptions of various users in relation to the purposes of using annual reports?

(2) Is there any significant difference between the perceptions of various users in relation to the importance of various sources of information?

(3) Is there any significant difference between the perceptions of various users in relation to the adequacy of information provided in annual reports?

(4) Is there any significant difference between the perceptions of various users in relation to the importance they attach to the different parts of annual reports?

(5) Is there any significant difference between the perceptions of various users

in relation to the degree of use of annual reports?

(6) Is there any significant difference between the perceptions of various users in relation to the problems that restrict the use of annual reports in Sri Lanka?

(7) Is there any significant difference between the perceptions of various users in relation to the reduction or avoidance of the time lag between the end of the financial year and the issuance of the annual report?

(8) Is there any significant difference between the perceptions of various users in relation to the importance of information items included in the questionnaire?

The hypotheses formulated on the basis of the above research questions and the testing of those hypotheses using the data obtained from the questionnaire survey are discussed in Section 5.6 of this chapter.

5.3 Questionnaire Survey

5.3.1 Selection of the sample

Since the purpose of conducting the questionnaire survey was to gather information on the usefulness of annual reports to various users, an attempt was made to cover all the major user groups in Sri Lanka. As shown in Table 5-1, many of the previous questionnaire surveys on disclosure studies in other countries restricted their sample to investors. Even the studies aimed at covering all different user groups have finally categorised them into a few common groups based on some of their common characteristics. For example, both Wallace (1987) and Karim (1995) used six user groups but only two of them (Accountants and Financial Analysts) were common to both studies. According to Table 5-1, bank loan officers, financial analysts, and accountants seem to have been the most commonly used user groups in previous studies. After having carefully examined the various user groups used in other studies in view of the Sri Lankan situation, it was decided to use seven user groups for this

study. They included (1) Accountants (ACC), (2) Executives/ Managers (EXE), (3) Bankers (BAN), (4) Assessors/Tax officers (TAX), (5) Academics (ACA), (6) Financial Analysts (FA), and (7) Investors (individual, institutional and stock broking) (INV).

The sample was drawn from the population located in the Colombo District[29]. Considering the difficulties associated with previous researches in getting a high response to questionnaire surveys in Sri Lanka and other emerging markets, as a possible strategy to minimise this problem, it was decided to adopt two methods for the distribution and collection of the questionnaire. The first method was to deliver and collect the questionnaire by the researcher himself[30] and through a number of persons with whom the researcher had personal contacts[31]. All the persons who delivered the questionnaire to the people known to them were briefed properly about the objectives and the nature of the questionnaire. Based on this method, 243 copies of the questionnaire were distributed during August and September 2000. The second method employed was a mail survey in which 332 copies were mailed to the home/office addresses of the prospective respondents along with a letter of request addressed personally to each of them. The questionnaire and the letter of

[29] Colombo is the former capital and the major commercial and industrial city of Sri Lanka in which all the major companies, stock market, banks, and other professional organizations are located.

[30] Researcher adopted two methods for this purpose. One method was to meet the respondents known to him and get them to fill the questionnaire. The other method was to meet respondents at the Postgraduate Institute of Management (PIM), which is the premier postgraduate institute in the field of management and has a large number of students who hold various positions in the government organisations, companies, universities, etc., and to get them to fill the questionnaire after explaining briefly the objectives of the study.

[31] This includes some lectures of the PIM who agreed to distribute the questionnaire to their students during lecturers and explain to them the objectives and nature of the questionnaire. Students were given a week to complete the questionnaire and return it to the office of the PIM. Also, a number of bankers, academics, accountants, and assessors undertook the task of distributing and collecting the questionnaire to and from their fellow professionals.

request were provided only in English. A stamped envelope was also sent for easy returning of the completed questionnaire.

The sample of accountants was drawn from the *Directory of Members and Firms 1999* issued by the Institute of Chartered Accountants of Sri Lanka. Since 32 of the 150 accountants included in the sample were personally known to the researcher, they were handed over the questionnaire personally. Questionnaire for the other 118 accountants was mailed to their addresses. The sample of the executives/managers (100) was drawn from the students' registry of the Master of Business Administration degree program of the Postgraduate Institute of Management (PIM). The sample of 50 bankers (senior managers) was drawn from two leading commercial banks (the Sampath Bank and the Bank of Ceylon) as well as from bank managers enrolled in the MBA program of the PIM. The sample of 35 tax officers (assessors) was taken from those working in the Department of Inland Revenue, Colombo. The sample of academics consisted of 12 senior lecturers/lecturers from the Department of Accounting of the University of Sri Jayewardenepura (USJ) and randomly selected 38 senior lecturers from the commerce and management faculties of the Colombo, Kalaniya, and Peradeniya universities. While the questionnaire for the 12 lecturers of the USJ was handed over personally, it was mailed to the other 38 lecturers through their respective universities. Because of the non-availability of a formal list of financial analysts in Sri Lanka, the researcher had to draw the sample of financial analysts (40) from two indirect sources. First, 14 financial analysts who were personally known to the researcher were included in this group and the questionnaire was given to each of them personally. Then, the next 26 members for this group were randomly chosen from the chartered

accountants who were listed as "financial consultants" in the ICASL's *Directory of Members and Firms 1999,* and the questionnaire was mailed to all of them. Finally, a list of 150 investors was prepared with the information obtained from the Colombo Stock Exchange[32] and the questionnaire was mailed to their home addresses.

Every attempt was made to obtain a high response rate for the questionnaire with a view to minimising the effect of non-response bias. As for the 200 copies of the questionnaire distributed personally, researcher himself visited the respondents to collect the completed questionnaire. While some respondents returned the completed questionnaire as expected at the researcher's first visit, others sought extra time to complete it. In such cases, visits had to be repeated. However, even after several visits some respondents did not return the questionnaire stating that they could not find the time to fill it. Also, a number of respondents could not be contacted after the first visit. As for the mailed questionnaire, considering the cost factor, it was decided to limit the number of reminders to one. Accordingly, reminders were sent to those who had not responded within the first two weeks after mailing the questionnaire. Since the mailed questionnaire was pre-numbered, it was possible to identify the non-respondents by their names.

5.3.2 Design of the questionnaire

Questionnaire was the major tool selected to be used to achieve the objectives

[32] Initially, an attempt was made to obtain a list of investors from a number of stockbrokers. However, since all the brokers contacted were reluctant to supply the names and addresses of their clients, it was decided to construct the list of investors from the list of subscribers to the publications of CSE. The database of the subscribers to CSE publications consisted of 8 categories depending on daily, weekly, monthly, and quarterly postings and receptions of the publications. The sample of 150 investors for this study was drawn from the list prepared after

Footnote continued on the next page...

stated in this chapter. Therefore, the following logical steps[33] were followed in the designing of it:

(1) Determined the nature of information to be collected from respondents,
(2) Formulated the questions to obtain the necessary information.
(3) Decided on the order and wording of the questions, the layout and the length of the questionnaire.
(4) Pilot tested the questionnaire on a sample of 10 participants to identify omissions and ambiguity, and
(5) Revised some of the questions after reviewing the responses received on the pilot test.

The questionnaire[34] finalised after following the above steps consisted of two sections and had 93 questions (14 in Part I and 79 in Part II). The first section dealt with questions on the user profile and the usage patterns of annual reports in Sri Lanka while the second section dealt with questions on items that should or could appear in corporate annual reports. In 10 of the 14 questions in Part I, the respondents were asked to tick the appropriate answer box for each question. In 3 of the remaining questions in Part I and the 79 questions in Part II, the respondents were asked to indicate their perceptions of the importance of each item on a five-point Likert Scale. The scale for each of these items ranged from 1 = "Least important" to 5 = "Most important". The remaining question in Part I of the questionnaire (Q.10) was an open-ended one applicable to the respondents who would have answered the previous question (Q.9) affirmatively.

Selecting the appropriate information items to be included in the questionnaire is the most difficult task in the development of a questionnaire for

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analysing and sorting the full database of all the subscribers provided by the CSE.

[33] This sequence of steps was proposed by Paul B. Sheatsley, "Questionnaire Design and Wording" (Chicago: National Opinion Research Corp., 1969).

[34] The covering letter and a copy of the questionnaire are shown in Appendix 2 and 3

Footnote continued on the next page...

a disclosure study. Since there is no standard method of selecting such items, any method chosen by the researcher may be susceptible to a personal judgment bias. Therefore, the only way to avoid such a bias would be to include all the information items that could possibly be included in a typical annual report[35]. However, this approach is difficult to implement as the information items included in an annual report become too large and vary with the nature of business. Even if such a list of information items is prepared, inclusion of all those items in a questionnaire is practically impossible as it will make the questionnaire excessively lengthy leading to a poor response rate.

A review of previous studies indicated that researchers have used a number of methods for selecting items for a questionnaire survey. Thus, Wallace (1988) and Ahmed (1993), by reviewing the previous literature, created a broad database and then chose from that database only those items that were considered to be capable of meeting one or more of their decision criteria. Karim (1995) replicated the items used by Wallace and Ahmed with some modifications. Taking a similar approach, this study adopted the following method for selecting items for the questionnaire.

First, in order to avoid any personal judgement bias in selecting items, a list of information items that could be included in an annual report of listed companies in Sri Lanka was prepared after reviewing (1) all previous disclosure studies in developed and emerging markets, (2) all accounting standards issued by the ICASL and (3) the other statutory disclosure requirements in Sri Lanka. In addition, some information items were added to this list after reviewing

respectively.

[35] Craig and Diga (1998) constructed a list of items that could be included in an annual report in

Footnote continued on the next page...

several recent annual reports of companies, which had won awards as the best annual reports in Sri Lanka. Second, information items for the questionnaire were selected from this list if they met one or more of the following the criteria:

(1) The item is required to be disclosed by any of the statutes such as the Companies Act and the Sri Lanka Accounting Standards.
(2) The item has been covered in a previous disclosure study and is relevant to an emerging market.
(3) The item has been reported by one or more firms in their published annual reports.
(4) The item is considered in the literature as useful to be to be included in annual reports.

Accordingly, 86 information items were selected for inclusion in the questionnaire. These items were classified into five major categories: profit and loss account—22 items, balance sheet—20 items, other components of financial statements[36]—11 items, statutory reports[37]—6 items, and other information—27 items. Since the items selected consisted of both mandatory and voluntary disclosure items, it was possible to evaluate the user response to overall level of disclosure practices in Sri Lanka rather than confining the examination to either mandatory or voluntary items[38].

5.4 Responses

The total number of usable responses to the questionnaire amounted to 264, giving a response rate of 45.9 per cent. As expected, a very high response rate

ASEAN countries. This list consisted of 30 information items.

[36] As outlined in chapter 4, financial statement consists of 5 components. 'Other components' refers to the components of financial statement other than profit and loss account and balance sheet namely: cash flow statement, account policies and explanatory notes, and a statement showing changes in equity.

[37] Statutory reports refers to the reports such as auditor's report that should be included in an annual report by law.

[38] For example, McNally et al. (1982), Chow and Wong-Boren (1987) and Cook (1991) focused on the extent of disclosure of only voluntary items.

(75.7%) was achieved for the questionnaires distributed personally. Of the 243 such copies of the questionnaire, 184 were personally collected by the researcher. The response rate for the mailed questionnaire was only 24.1 % as 80 of the 332 respondents returned their questionnaires. The breakdown of the response rates under each user group is displayed in Table 5-2.

Table 5-2

Survey Response by Category of Users

User	Sample	Response	%
Accountants (ACC)	150	53	35.3
Executives/ Managers (EXE)	100	74	74.0
Bankers (BAN)	50	32	64.0
Assessors/ Tax Officers (TAX)	35	16	45.7
Academics (ACA)	50	22	44.0
Financial Analysts (FA)	40	24	66.0
Investors (INV)	150	43	28.7
Overall	575	264	45.9

The overall response rate of 45.9% compares favourably with those of the previous studies (See Table 5-1). For example, out of the 37 studies shown in Table 5-1, only 15 (41%) studies had response rate of more than 45%. Despite the inherent complicated nature of the questionnaire, this relatively high response could be due to the combination of methods used for distributing and collecting the questionnaire and the intensive follow-ups used particularly for the personally distributed questionnaires. As seen in the Table 5-2, the response rates within the user groups varied from 28.7 per cent to 74 per cent.

Although the objective of sampling is to obtain a body of data that is representative of the population, it may be partly achieved as some sample members become nonrespondents due to their non-cooperativeness, inability to respond, or inaccessibility by the researcher. Whatever the reason may be, the non-responsiveness can be a serious problem for a research because the sample

size has to be large enough to allow for nonresponse and more importantly may cause those who respond differ from nonrespondents in a meaningful way, thereby creating biases. This nonresponse bias can arise if the respondents do not return the questionnaire or they do not answer certain questions. As for this study, two approaches were adopted to deal with the problem of nonresponse bias. First, an attempt was made to improve the simplicity and appearance of the questionnaire. Secondly, the contacts were repeated in respect of certain non-respondents.

Despite the conscious efforts taken to reduce the amount of non-responses, it amounted to 54.1% of the sample in this study. Even though this rate could still be considered low when compared with the non-response rates of 80%-90% reported in some studies [See, for example, Malone et al. (1986); Anderson and Epstein (1986); Ho and Wong (2001)], a test was carried out to ensure that the results achieved would be representative of the whole population. The test used for this purpose was the one suggested by Openheim (1966)[39]. Accordingly, the differences in responses between the early respondents and the late respondents were examined. Thus, a sample of 20 completed questionnaires received within a week of posting the questionnaire was compared with the same number of completed questionnaires received after sending the reminders. The non-parametric Mann-Whitney U test was carried out to test whether the difference between these two groups would be significant at the 0.05 level. The results of the test are summarised Table 5-3 below:

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[39] According to Oppenheim (1966, p. 34) it is possible to detect the presence if one assumes that late respondents represent nonrespondents. The method he proposed is to compare one or more "variable of interest" for the *k* respondents of the last *m* weeks with those of a random sample of *k* respondents drawn from the early returns to see whether any significant difference

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Table 5-3

Non-response Bias by Category of Users

User	Significant	Not Significant	Total Questions
Accountants (ACC)	3	83	86
Executives/ Managers (EXE)	0	86	86
Bankers (BAN)	1	85	86
Assessors/ Tax Officers (TAX)	0	86	86
Academics (ACA)	1	85	86
Financial Analysts (FA)	0	86	86
Investors (INV)	0	86	86

The information in Table 5-3 shows that there were no significant differences in the mean scores between the two sets of responses in relation to 4 categories of users. In the case of other users, the difference varied only form 1 (BAN & ACA) to 3 (ACC) of 86 items, indicating insignificant differences in the mean score of the two sets of responses in relation to the other three categories as well. According to these results, it can be concluded that there ware no significant differences between the early and late respondents to the study, indicating non-existence of a non-response bias. Therefore, the results of the study can be generalised to represent the whole population.

5.5 Sample Profile

With a view to identifying the respondent bio data (qualification, experience, etc), a number of questions were included in the questionnaire. However, considering the necessity for limiting the length of the questionnaire to a minimum level and avoiding questions which respondents would generally be reluctant to answer (e.g. age and income), the questions on user bio data ware confined only to 4, which aimed at identifying some of their important

is exists between the two groups.

characteristics namely, education, accounting knowledge, work experience, and share holdings of the respondents.

5.5.1 Education

As the potential respondents of this survey included the users of annual reports for some purposes, the education background of the majority of them was expected to be high. In order to gain an understanding of the level of education, respondents were asked to indicate their highest educational qualification by ticking one of the eight options given in the questionnaire. The responses to this question are summarised in Table 5-4.

Table 5-4

Highest Educational Qualification of the Users

Qualification	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL
G.C.E (Ordinary Level)	0.0	0.0	0.0	0.0	0.0	0.0	4.7	0.8
G.C.E (Advanced Level)	14.0	14.9	25.0	0.0	0.0	16.7	34.9	17.2
Diploma	0.0	18.9	25.0	0.0	0.0	8.3	16.3	11.9
Bachelor's Degree	56.0	43.2	28.1	75.0	27.3	33.3	16.3	39.1
Master's Degree	12.0	14.9	9.4	25.0	54.5	41.7	9.3	19.2
Doctor's Degree	0.0	0.0	0.0	0.0	9.1	0.0	2.3	1.1
Other	18.0	8.1	12.5	0.0	9.1	0.0	16.3	10.7
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Respondents	50	74	32	16	22	24	43	261

Notes
ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors.

As Table 5-4 indicates, the majority of respondents (82%) have received tertiary education indicating that they possess a high level of education. This is not an entirely unexpected result for groups other than investors. Since there are no educational requirements for an investor, the educational level of investors is not expected to be very high. However, as the results indicate the educational level of the investors chosen for this study was fairly high, with 61% of the them having received tertiary education.

5.5.2 Accounting Knowledge/ Qualifications

Since the knowledge in accounting helps understanding the information provided in annual reports better, it is important to consider the level of accounting knowledge of respondents. In order to assess this aspect, they were asked to indicate their accounting qualification/s. The results are summarised in Table 5-5 below:

Table 5-5

Accounting Knowledge/ Qualifications of the Users

Accounting Knowledge	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL
None	0.0	2.8	3.2	0.0	0.0	0.0	19.0	4.3
G.C.E (O/L) / (A/L)	0.0	22.2	6.5	25.0	22.2	0.0	21.4	13.7
Diploma in Accounting	3.8	11.1	22.6	25.0	0.0	16.7	9.5	11.3
Bachelor's Degree	0.0	12.5	9.7	75.0	11.1	33.3	4.8	14.1
ICA/CIMA Parts, MAAT /SAT	15.1	19.4	6.5	25.0	33.3	16.7	23.8	18.8
Master's/ Doctoral Degree	5.7	4.2	6.5	0.0	22.2	8.3	2.4	5.9
ICMA/ CIMA/ ACCA Membership	28.3	11.1	3.2	0.0	11.1	16.7	11.9	13.7
ICA Membership	100.0	22.2	12.9	6.3	33.3	16.7	4.8	33.6
Other	3.8	13.9	38.7	25.0	0.0	8.3	7.1	12.9
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Respondents	53	72	31	16	18	24	42	256

Notes
ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors.

According to the information provided in the above table only 4.3% of the respondents had no knowledge of accounting, indicating that 95.7% of the respondents have studied accounting at some stage. Overall, 39.5% of the respondents have studied accounting at the academic level with 52.7% having it acquired at the professional level. Since the accounting knowledge is required for the professions of ACC, BAN, TAX and FA, it was high as expected for theses groups in our sample. Similarly, because the academic users were chosen from the academics in commerce and management

faculties, as expected they indicated fairly a high level of accounting knowledge at academic and/or professional levels. However. since accounting knowledge is not a requirement for every manager or investor, a high level of accounting knowledge was not expected for EXE and INV groups but surprisingly 97% of EXE and 81% of INV had studied accounting at some stage. As a result, all user groups in this survey happened to be literate in accounting.

5.5.3 Work Experience

In order to gain an understanding of the work experience of respondents, they were asked to indicate how long they have been in the current profession. The results are summarised in Table 5-6 below.

Table 5-6

Work Experiences of the Users

Work Experience	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL
< 5 years	22.0	25.7	15.6	25.0	54.5	33.3	26.2	26.9
5- 20 years	64.0	66.2	68.8	75.0	36.4	50.0	45.2	59.2
> 20 years	14.0	8.1	15.6	0.0	9.1	16.7	28.6	13.8
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Respondents	50	74	32	16	22	24	42	260

Notes
ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors.

In addition to having a high level of education and accounting knowledge, the majority of respondents also have a high level of working experience in their respective professions. Overall, 73.1 per cent of the respondents had over five years working experience while 13.8 per cent had over 20 years of similar experience. The academic group consists of least experience people as 54.5 per cent of them had less than 5 years working experience while all the other groups with less than 5 years experience varied

only from 15.6 to 33.3 per cent. The respondents with over 20 years experience varied from 8.1 to 16.7 per cent in five of the seven groups, except TAX and INV groups. While there was no one in the TAX group with more than 20 years working experience, 28.6 per cent in the INV group belonged to this category. One of the reasons for having a higher percentage of highly experienced people in the investor category is that many retirees in Sri Lanka engage themselves in buying and selling shares.

5.5.4 Share Holdings

In addition to the education level and the accounting knowledge and experience of the respondents, the information on shareholdings of the responders was also sought. The results are summarised in Table 5-7.

Table 5-7

Share Holdings of the Users

Share Holdings	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL
None	22.6	24.6	6.5	18.8	44.4	9.1	0.0	17.5
< 5 Companies	34.0	30.4	41.9	31.3	33.3	9.1	23.3	29.8
6-20 companies	35.8	23.2	35.5	50.0	22.2	59.1	39.5	34.9
Over 20 companies	7.5	21.7	16.1	0.0	0.0	22.7	37.2	17.9
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Respondents	53	69	31	16	18	22	43	252

Notes
ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors; ALL= Overall.

As shown in the above table, 82.5 per cent of the respondents own shares in one or more companies with 17.9 per cent of them investing in more than 20 companies. The academic group had the least interest in investing in shares as 44.4 per cent had no share holdings. None of the academics had shareholdings in the over-20 companies' category. As expected, the INV group had the highest percentage of people (37.2%) holding shares in more than 20

companies.

Overall, the demographics of the respondents show that they are well educated, knowledgeable in accounting, well experienced and interested in investments in company shares.

5.6 Analysis of the Survey Results

This section provides an analysis of the formulation of the hypotheses developed for addressing the research questions shown early in this chapter (Section 5.2) and the testing of those hypotheses through the survey data.

5.6.1 Purpose of using annual reports

Company annual reports may be used by several different parties to obtain information for various purposes such as investing, lending, administrative, research, and academic. In order to examine whether there would be any significant difference between the 7 user groups with regard to the purposes of using annual reports, the following null hypothesis was formulated:

H_1: *There is no significant difference between user groups in terms of their purposes of using annual reports.*

For obtaining information to test this hypothesis statistically, the respondents were asked to indicate their major purpose/purposes of using company annual reports. Eight probable purposes were listed in the questionnaire with a request to choose one or more appropriate items from the list. Additional space was also provided for indicating any other purpose/purposes[40]. Table 5-8 shows the summarised results of the responses to

[40] Since only a very few respondent had ticked the "other" box of this question and none of

Footnote continued on the next page...

this question. In this table, the percentage of responses applicable to each purpose is shown under individual groups and all groups. In addition, based on the percentage of use, each purpose has been ranked within the user groups to show the mostly used purpose as "1" and the leased used purpose as "8". As for testing the hypothesis (H_1), a Kruskal-Wallis one way ANOVA was carried out for all the eight purposes listed in the questionnaire to see whether there would be a significant difference between the user groups with regard to each purpose. The results obtained from this test are also shown in Table 5-8.

Table 5-8

The Purposes of Using Annual Reports (%)

Purpose	Percentage of responses and their ranks								Statistics	
	ACC (%)	EXE (%)	BAN (%)	TAX (%)	ACA (%)	FA (%)	INV (%)	Total (%)	X^2	P
Buy, hold or sell shares	39.6 [1]	35.1 [3]	43.8 [2]	50.0 [2]	27.3 [2]	66.7 [1]	81.4 [1]	47.7 [1]	32.89	0.00**
Grant a loan/credit	3.8 [7]	14.9 [5]	53.1 [1]	0.0	0.0	0.0	0.0	11.4 [6]	72.53	0.00**
Advise a client	24.5 [4]	5.4 [6]	15.6 [4]	0.0	0.0	58.3 [2]	9.3 [3]	15.2 [5]	51.64	0.00**
Make decisions for clients	28.3 [3]	16.2 [4]	12.5 [6]	0.0	0.0	50.0 [3]	7.0 [5]	17.4 [4]	33.83	0.00**
Evaluate income tax liability	15.1 [6]	5.4 [6]	0.0	75.0 [1]	0.0	0.0	0.0	9.1 [7]	99.35	0.00**
Make decisions in managing the company	20.8 [5]	43.2 [1]	15.6 [4]	0.0	0.0	41.7 [4]	7.0 [5]	23.1 [3]	40.28	0.00**
General review/ academic purposes	37.7 [2]	39.2 [2]	34.4 [3]	50.0 [2]	90.9 [1]	33.3 [5]	11.6 [2]	38.3 [2]	39.99	0.00**
Total Respondents	53	74	32	16	22	24	43	264		

Notes
(1) ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors.
(2) ** =Significant at 1%, *, Significant at 5%.

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those respondents has specified the other purpose for which annual reports are used by those respondents, the response to this section was omitted from the data analysis.

As shown in Table 5-8, obtaining information to buy, hold or sell shares has been identified as the major purpose of using corporate annual reports with 47.7 per cent of the respondents showing it as the mostly used purpose. When analysed by the user groups, it is seen that three user groups (ACC, FA, INV) have indicated it as the mostly used purpose while three other groups (BAN, TAX, ACA) viewed it as the second mostly used purpose. The other group (EXE) used annual reports for making decisions in managing the company and general review purposes more than for buying, holding or selling shares. The selection of this purpose as the mostly used purposc across many user groups may be attributable to the fact that most of the users are interested in share investments.

With 38.3 per cent of use, 'general review' can be identified as the second mostly used purpose. While it was ranked second in four of the seven user groups (ACC, EXE, TAX, INV), three other groups (BAN, ACA, FA) ranked it third, first and fifth respectively. The wide use of annual reports for general review purposes is understandable given the fact that annual report is very often the only source of information available to a user in Sri Lanka to know about the affairs of a company.

In order to test the hypothesis (H_1) that *there is no significant difference between user groups in terms of their purposes of using annual reports,* a Kruskal-Wallis was carried out for each of the 7 purposes listed in the questionnaire, using the user groups as the grouping variable. Since the differences between the user groups with regard to their purposes of using annual reports were significant at the 1% level for all the seven purposes listed in the questionnaire, the above mentioned null hypothesis was rejected. Thus, it

can be concluded that the purposes for which annual reports are used vary significantly across different user groups.

5.6.2 Sources of information

In addition to the annual reports, there are several other sources from which one can obtain information on the performance and financial strength of a company. Stock brokers' advice, investment advisory services of accounting firms, and news paper reports are some examples of these other sources. Based on this aspect, the following null hypothesis was formed to test whether there would be any significant difference between user groups in relation to the importance of various sources of information.

H_2: *There is no significant difference between user groups in relation to their perceived importance of various sources of information.*

For the purpose of obtaining information to test this hypothesis, the respondents were provided with 10 possible sources of information that they could use to gather information on the operating performance and financial position of a company and they were asked to indicate the perceived importance of those sources of information on a likert scale ranging from one (least important) to five (most important). The mean score received for each source along with its rank in individual user groups and all groups is shown in Table 5-9. The ranking ranged from the highest mean score of 1 to the lowest mean score of 10. To test the hypothesis (H_2), a Kruskal-Wallis one way ANOVA test was carried out for each source by taking user groups as the grouping variable. The calculated chi-square and *p* values are also shown in Table 5-9.

Table 5-9

The importance of various sources of information

Source	Percentage of responses and their ranks								Statistics	
	ACC	EXE	BAN	TAX	ACA	FA	INV	Total	X^2	P
Advice of friends	1.87 [10]	2.74 [9]	2.41 [10]	3 [4]	2.41 [9]	2.75 [8]	1.79 [10]	2.36 [10]	39.06	0.00**
Stockbrokers' advice	3.13 [7]	3.24 [7]	2.78 [9]	2.5 [8]	3.32 [6]	3.08 [7]	3.53 [6]	3.16 [6]	13.62	0.03*
Advisory services of accounting firms	3.62 [4]	3.26 [6]	3.06 [7]	2.75 [7]	2.91 [8]	2.67 [9]	2.7 [9]	3.1 [7]	20.99	0.00**
Communication with company management	3.28 [6]	3.35 [4]	3.28 [6]	3.63 [2]	3.32 [7]	3.58 [4]	3.79 [5]	3.44 [4]	10.12	0.12
News paper reports and other media reviews	3.55 [5]	3.34 [5]	3.38 [4]	2.31 [9]	3.41 [4]	3.42 [5]	3.81 [4]	3.41 [5]	26.04	0.00**
Company annual reports	4.19 [2]	4.42 [1]	4.44 [1]	3.25 [3]	4.36 [1]	4.29 [2]	4.49 [1]	4.3 [1]	18.35	0.01**
Stock market publications	3.89 [3]	3.65 [3]	4.13 [2]	3.00 [4]	4.27 [2]	3.75 [3]	4.12 [2]	3.85 [3]	20.05	0.00**
Tips and rumours	2.72 [9]	1.96 [10]	3.06 [7]	3.00 [4]	1.73 [10]	3.42 [5]	2.72 [8]	2.55 [9]	47.86	0.00**
Personal information and Knowledge about the company	4.38 [1]	4.05 [2]	3.91 [3]	3.75 [1]	3.64 [3]	4.5 [1]	3.86 [3]	4.06 [2]	21.53	0.00**
Information provided on the internet	3.09 [8]	2.92 [8]	3.31 [5]	1.75 [10]	3.41 [5]	1.5 [10]	2.79 [7]	2.82 [8]	55.63	0.00**

Notes
(1) ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors; ALL= Overall.
(2) Ranks are shown within parenthesis.
(3) ** =Significant at 1%, *, Significant at 5%.

Table 5-9 shows that four of the seven user groups (EXE, BAN, ACA, INV) ranked annual reports as their primary source of information, with 'ACC' and 'FA' rating them second while indicating 'personal information and knowledge about the company' as their primary source. Only one user group (TAX) ranked two other sources ahead of annual reports as their primary sources, selecting annual report as the third primary source of information. Overall, annual reports have been cited as the primary source of information with a mean value across user groups ranging from 3.25 to 4.49 making an overall mean value of 4.30. Apart from

annual reports, 'personal information and knowledge about the company' was considered as the primary source of information on overall rankings with a mean value of 4.06. In addition to three user groups (ACC, TAX, FA). which have cited this as the primary source, the other four groups also ranked it within the top three primary sources of information. While the 'stock market publications' and 'communication with the company management' enjoyed third and fourth rankings with mean values of 3.85 and 3.44, respectively, 'advice of friends' and 'tip and rumours' were indicated as the least used sources with the mean values of 2.36 and 2.55 respectively. Another observation that can be made from the rankings is that despite the increased number of companies disclosing more and more information on the internet it is still seen as a relatively less important source for many users. Similarly, 'newspaper reports and other media reviews' were also not seen as very useful despite recent efforts taken by SEC to provide periodic information on company affairs through this media.

When the hypothesis (H_2) that *there is no significant difference between user groups in relation to their perceived importance of various sources of information* was tested using Kruskal-Wallis test, statistically significant differences were found between user groups in respect of 9 of the 10 sources listed in the questionnaire. The differences with regards to eight of the sources listed in the question were significant at the 1% level ($p<01$) while the difference between user groups with regard to the "stockbrokers' advice" as a source of information was significant at the 5% level ($p<0.05$). Therefore, the null hypothesis (H_2) was rejected with regard to these nine sources of information, suggesting that the importance attached by the seven user groups to these items varied significantly across user groups. Since there was no evidence ($p>0.05$) to reject the null

hypothesis with regard to the information source 'communication with company management' the null hypothesis was accepted. Accordingly, it can be concluded that users' perception on the importance of nine sources listed in the question number 8 of the questionnaire significantly varied across seven user groups.

5.6.3 Adequacy of Information in Annual Reports

Annual reports are designed to provide information for all interested parties. However, the information that annual reports provide may or may not be sufficient for some users of such information. In order to examine whether there would be a significant difference between the user groups with regard to their opinion on the adequacy of information available in the annual reports for their purposes, the following null hypothesis was formed:

H_3: *There is no significant difference between user groups in relation to their opinion on the adequacy of information contained in annual reports.*

In order to test the above hypothesis, the respondents were asked to indicate whether the annual reports they used contained adequate information to serve their purpose by choosing either "adequate", "not adequate" or "partially adequate" as the correct response. The summarised results are shown in Table 5.10.

Table 5-10

Adequacy of Information Included in Annual Reports

Extent of adequacy	Percentage of responses							
	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL
Information is adequate	33.4	22.2	34.4	25.0	0.0	25.0	27.9	25.4
Information is not adequate	7.8	12.5	0.0	0.0	0.0	0.0	14.0	7.3
Information is partially adequate	58.8	65.3	65.6	75.0	100.0	75.0	58.1	67.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors; ALL= Overall.

The data given in Table 5-10 shows that only 25.4 per cent of all respondents viewed that the information provided in annual reports is adequate while the majority of respondents (74.6%) thought that information is either partially adequate or not adequate at all. The group-wise responses were also very similar to the overall view with the exception of ACAs who viewed information provided in annual reports is only partially adequate. The percentage of users who viewed that the amount of information provided in annual reports is completely inadequate varied from 0 to 14 per cent across all user groups with an overall average of 7.3 per cent.

The responses were then tested using the Kruskal-Wallis method to see whether there was any significant difference between the opinions of different users. The results (X^2 =, df = 6, p = 0.03) showed that the differences between the seven user groups were significant at the 5% level. Thus, the null hypothesis that *there is no significant difference between user groups in relation to their opinion on the adequacy of information contained in annual reports* was rejected. However, when the Kruskal-Wallis test was carried out seven times excluding a user group at a time in order to identify which group was having an opinion significantly different from that of other groups, it was found that there were no statistically significant differences of opinion with regard to this issue only when the "Academic (ACC)" groups was excluded from the sample. This suggests that all groups, except ACC, hold a similar view, on the adequacy of information content in an annual report.

In order to examine this issue further, another Kruskal-Wallis test was carried out with a new variable created combining the original responses. For this purpose, the original three choices ("adequate", "not adequate" or "partially

adequate') were reduced to two ("adequate" and "not adequate") by combining "partially adequate" with "not adequate."[41] The test results (X^2=11.036, df=6, p= 0.09) showed no significant differences among the seven user groups suggesting that majority of users are of the opinion that the information content in annual reports is not adequate.

5.6.4 Importance of Different Parts of Annual Reports

Information is presented in annual reports under different sections. While some sections such as profit and loss account and balance sheet are mandatory, other sections such as chairman's report, and value added statements are voluntary for an annual report. Also, while some sections present quantitative data, others provide only qualitative information. The importance of each section may vary significantly among user groups. Thus, in order to test whether there would be a significant difference between users in terms of the importance attached to different parts of an annual report, the following null hypothesis was formulated:

> H_4: *There is no significant difference between user groups in relation to their perceived importance attached to various sections of annual reports.*

For testing the above hypothesis (H_4), information was sought from the respondents in respect of their perceived importance on 11 sections that are usually found in annual reports. They were requested to indicate their degree of importance to each section on a 5-point likert scale ranging from the least important section (1) to the most important section (5). A Kruskal-Wallis test was utilised for testing the above hypothesis to see whether there would be any

[41] The 'recode' procedure of the SPSS was used for this purpose.

significant difference between user groups in terms of their perceived importance of each section. The results are summarised in Table 5-11.

Table 5-11

Importance of Different Parts of an Annual Report

Section	Mean of responses and ranks								Statistics	
	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL	X^2	p
Balance sheet	4.89 [1]	4.28 [3]	4.38 [2]	4.19 [1]	4.64 [1]	4.58 [2]	4.56 [2]	4.51 [1]	25.63	0.00**
Profit and loss account	4.43 [2]	4.54 [1]	4.47 [1]	4.13 [2]	4.41 [2]	4.67 [1]	4.63 [1]	4.50 [2]	3.74	0.71
Cash flow statement	4.25 [3]	4.42 [2]	4.06 [4]	2.25 [11]	4.23 [3]	4.33 [3]	4.02 [4]	4.12 [3]	47.48	0.00**
Accounting policies	3.87 [6]	3.18 [6]	3.78 [6]	3.63 [6	3.82 [8]	3.50 [6]	3.58 [7]	3.56 [7]	10.91	0.09
Notes to accounts	4.06 [4]	3.09 [7]	4.25 [3]	4.13 [3	4.09 [4]	4.08 [4]	3.81 [5]	3.78 [5]	30.73	0.00**
Movement in share holders' funds	3.49 [8]	3.86 [5]	3.75 [7]	2.75 [8]	3.91 [6]	3.21 [7]	3.67 [6]	3.62 [6]	15.03	0.02*
Auditor's report	3.81 [7]	2.59 [9]	3.94 [5]	3.88 [4]	3.82 [8]	3.08 [9]	3.05 [9]	3.30 [8]	35.24	0.00**
Chairman's report	1.96 [11]	2.45 [10]	2.81 [11]	2.75 [8]	2.09 [11]	3.17 [8]	2.74 [11]	2.50 [11]	24.03	0.00**
Director's report	2.15 [10]	2.30 [11]	2.94 [10]	3.75 [5]	2.23 [10]	2.17 [11]	2.86 [10]	2.51 [10]	29.74	0.00**
Value added statement	3.09 [9]	2.76 [8]	3.09 [9]	3.50 [7]	4.00 [5]	2.50 [10]	3.09 [8]	3.05 [9]	22.00	0.00**
Statistical data/ summary of operations/ historical data	4.02 [5]	3.89 [4]	3.47 [8]	2.50 [10]	3.91 [6]	3.64 [5]	4.44 [3]	3.85 [4]	44.60	0.00**

Notes
(1) ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors; ALL= Overall.
(2) Ranks are shown within parenthesis.
(3) ** =Significant at 1%, *, Significant at 5% .

As indicated in Table 5-11, the balance sheet and the profit and loss account were perceived to be the most important parts of an annual report, both having almost similar mean scores of 4.51 and 4.50 respectively on the overall rankings. While six of the seven user groups ranked these two statements as the

most important, the other user group (EXE), while ranking profit and loss account as the most important section, chose the cash flow statement as the second most important section. Most of the studies conducted in developed markets (i.e. Chang and Most 1981; Anderson 1998; Anderson and Epstein 1995; Ho and Wong 2001) and emerging markets (i.e. Karim 1995; Abu-Nassar and Rutherford 1996) have also revealed that both the balance sheet and the profit and loss account are considered as the most important sections of annual reports. Thus, the above findings of this study are consistent with those of prior studies.

The Kruskal-Wallis test results (See Table 5-11 above) showed that the differences between user groups were significant at 1% ($p<0.01$) with regard to 8 of the 11 sections listed in the question number 11 of the questionnaire. The differences between user groups were also significant at 5% ($p<0.05$) in respect of the section on "movement in shareholders' funds". Therefore, null hypothesis was rejected with regard to these 9 items. These results suggest that the importance attached by the seven user groups to 9 sections of an annual report significantly vary from one group to another. Since the calculated *p values* of the Kruskal-Wallis for two sections of an annual report (Profit and Loss account and Accounting Policies) were greater than 5% ($p>0.05$) the null hypothesis was accepted with regard to those two items. This suggests that there is no significant difference, in statistical terms, between the user groups in respect of importance attached to these two sections of an annual report.

5.6.5 Frequency of Using Annual Reports

The degree of use of annual reports may vary between users. While some individuals or organisations use company annual reports quite frequently, others

may use them occasionally. Thus, in order to investigate whether there would be a significant difference between users with regard to the degree of use of annual reports, the following null hypothesis was formulated:

> H_5: *There is no significant difference between user groups in relation to the degree of use of annual reports for their purposes.*

In order to find out whether the information given in annual reports is used for making decisions such as whether to buy sell or hold shares, or grant a loan for a company, the respondents were asked to indicate the frequency of using annual reports for taking such decisions by ticking one of the five possible frequencies given in the questionnaire. The responses were summarised in Table 5-12.

Table 5-12

Frequency of the Use of Annual Reports

Level of frequency	Percentage of responses							
	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL
Never	9.4	8.1	6.7	25.0	20.0	0.0	12.5	10.1
Rarely	17.0	23.0	10.0	25.0	10.0	8.3	5.0	15.2
Sometimes	34.0	35.1	40.0	25.0	30.0	16.7	40.0	33.5
Usually	30.2	24.3	26.7	25.0	30.0	16.7	20.0	24.9
Always	9.4	9.5	16.6	0.0	10.0	58.3	22.5	16.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

As Table 5-12 indicates, the percentage of respondents who used annual reports very frequently (usually/ always) amounted to 41.2 per cent. Conversely, the less frequent users (rarely/ sometimes) amounted to 48.7 per cent, making the total users of annual reports as high as 89.9 per cent. When these figures were analysed by user groups, it was found that financial analysts were the most frequent users of annual reports. All of them have indicated the

use of these reports but with varying frequencies. This suggests that annual report analysis is an indispensable tool for financial analysts in Sri Lanka. although 'personal information and knowledge' is seen as the primary source of information for decision-making. On the other hand, in line with the lower ranking given by tax authorities for the annual reports as a source of information for their decision making, they were found to be the least frequent group of users among the respondents.

The responses were analysed statistically using the Kruskal-Wallis method to test the hypothesis (H_5) whether the frequency of use of annual reports would be different among users. The results of the test (X2=26.47, df =6, p=0.00) showed that the frequency of using annual reports was significantly different among users. Therefore, null hypothesis (H_5) was rejected and an alternative hypothesis that the seven user groups use annual reports in different frequencies was accepted.

5.6.6 Factors Restricting the Use of Annual Reports

Although the main purpose of issuing annual reports is to satisfy most of the information needs of users, in reality, however, several factors restrict their use. The delay in publishing annual reports, the difficulty of obtaining them, and the lack of reliability in the information provided are some of these factors. In order to examine whether there would be a significant difference between users in relation to the problems that restrict the use of annual reports, the following null hypothesis was formulated:

H_6: *There is no significant difference between user groups in relation to the problems that restrict the use of annual reports.*

To obtain information about the opinions of users on this aspect, a question was included in the questionnaire. As the answer to this question, the respondents had to indicate whether one or more of the five factors listed in the questionnaire restricted their use of annual reports. The responses received were analysed through a percentile analysis as shown in Table 5-13.

Table 5-13

Factors Restricting the Use of Annual Reports

Factor	Percentages of responses and ranks								Statistics	
	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL	X^2	p
Difficulty of obtaining annual reports	47.2 [4]	56.9 [1]	50.0 [3]	25.0 [3]	45.5 [2]	81.8 [1]	90.7 [1]	58.8 [2]	3.43	0.75
Delay in publishing annual reports	92.5 [1]	54.2 [2]	75.0 [1]	75.0 [1]	63.6 [1]	80.0 [2]	72.1 [2]	71.7 [1]	9.23	0.16
Lack of financial information in annual reports	62.3 [3]	33.3 [4]	53.1 [2]	50.0 [2]	45.5 [2]	60.0 [3]	48.8 [3]	48.4 [3]	7.13	0.31
Lack of reliable information in annual reports	66.0 [2]	34.7 [3]	34.4 [5]	75.0 [1]	36.4 [5]	30.0 [5]	30.2 [4]	42.6 [4]	12.22	0.06
lack of simplicity in the contents and presentation of information	45.3 [5]	31.9 [5]	37.5 [4]	25.0 [3]	45.5 [2]	10.0 [6]	20.9 [5]	32.6 [5]	9.94	0.13

Notes
(1) ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors; ALL= Overall.
(2) Ranks are shown within parenthesis.
(3) ** =Significant at 1%, *, Significant at 5%.

According to the information shown in Table 5-13, delay in publishing annual reports has been viewed by a large majority of respondents (71.7%) as the prime factor that restricts the use of annual reports in Sri Lanka. The fact that four user groups ranked this as the major limiting factor and other three groups as the second major limiting factor with percentages ranging from 54.2 to 92.5 shows the overall agreement of users on the seriousness of this

limitation. Apart from the delay in publishing annual reports, the use of annual reports has been constrained by the apparent difficulty of obtaining annual reports with 58.8 per cent of overall respondents indicating it as the second major limiting factor. Financial analysts and investors, in particular, viewed this as a more serious limitation than the 'delay in publishing' with percentages of 81.8 and 90.7 respectively.

As for testing the hypothesis (H_6) that *there is no significant difference between user groups in relation to the problems that restrict the use of annual reports*, a separate Kruskal-Wallis test was carried out on each factor. Since the test results showed *p*-values greater than 5% ($p>.05$) for all the five factors, the null hypothesis was rejected. This result suggests that there is no significant difference of opinion between user groups with regard to the factors that limit their use of annual reports.

5.6.7 Time Lag of Publishing Annual Reports

One of the major problems confronting the users of financial information is the time lag between the end of an accounting period and the date of publishing an annual report. Because of this time lag many users find the information provided in annual reports as out dated. Thus, in order to examine whether there would be a significant difference between users in relation to their opinions on the reduction or avoidance of this time lag, the following null hypothesis was formulated:

H_7: *There is no significant difference between user groups in relation to their opinions on the delay in publishing the annual reports.*

To examine the views of users about the delay in publishing annual reports, they were asked to indicate their personal observations on this matter by

stating whether the time lag would be unavoidable or it could be reduced. The responses received were summarised in Table 5-14.

Table 5-14

Time Lag of Annual Reports

Response	Percentage of responses							
	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL
Time lag is unavoidable	18.9	2.7	3.3	50.0	0.0	8.3	9.3	10.3
Time lag can be reduced	81.1	97.3	96.7	50.0	100.0	91.7	90.7	89.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total respondents	53	74	30	16	22	24	43	262

Notes
(1) ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors; ALL= Overall.

As shown in Table 5-14, an overwhelming majority (89.7) of respondents thought that the existing time lag could be reduced. This view was equally shared by all the user groups with the exception of tax authorities. When the responses were statistically analysed using Kruskal-Wallis in order to test the above hypothesis (H_7), it was found (x^2=40.20, df =6, p=0.00) that the opinions with regard to this aspect differ significantly among the user groups.

5.6.8 Importance of Information Items in Annual Reports

In the preceding sections from 5.6.1 to 5.6.7, an attempt was made to analyse the responses received for Part I of the questionnaire on the usage pattern of annual reports. This section aims to present an analysis of the responses received for Part II on the information items that should or could appear in annual reports.

Since the purpose of using information contained in annual reports is different from user to user, the importance attached to each information item

may also vary among them. Therefore, in order to examine whether such a difference existed, the following hypothesis was formulated:

H_8: *There is no significant difference between user groups in relation to the importance of information items included in the questionnaire.*

For the purpose of obtaining information to test the above hypothesis, Part II of the questionnaire provided the respondents with 79 information items that should or could appear in annual reports in Sri Lanka. These items were chosen on the basis of the criteria explained in Section 5.3.2. The respondents were requested to indicate the level of importance they would attach to each item on a five point likert scale with "one" indicating the least important item and "five" indicating the most important item. In addition to the 79 information items included in the Part II of the questionnaire, there were another 7 items which were selected to be included in this section but were excluded from the list of information items included in the Part II of the questionnaire to avoid repetition as the importance of those items was already considered in the Part I of the questionnaire. Therefore, it was decided to exclude these 7 items from Part II of the questionnaire but to incorporate the responses received on them in this section when analysing the results. Accordingly, the total number of information items considered was 86.

Before testing the above hypothesis (H_8) statistically, the responses received were analysed by calculating the mean score for each information item and ranking them within user groups based on the mean score. Accordingly, information items were ranked from the most important item (Ranked 1) to the least important item (Ranked 86). Thereafter, Kuuskal-Wallis was carried for

each item of information by taking the user groups as the grouping variable to examine whether the mean score of each user group would be significantly different. The mean score of each item of information, the respective rank of the information item with user groups, and *p* values obtained on the Kruskal-Wallis test are shown in Table 5-15. The information items are listed according to their overall mean ranking.

Table 5-15

Importance Attached to Information items by User Groups

Rank	Information item	ACC Mean	EXE Mean	BAN Mean	TAX Mean	ACA Mean	FA Mean	INV Mean	ALL Mean	Statistics p	
1	Cash flow statement	4.25	4.42	4.06	2.25	4.23	4.33	4	4.35	0.00	**
		8	1	16	57	12	11	35			
2	Total assets including breakdown into fixed and current assets	4.81	3.86	4.19	4.19	4.18	4.75	4.3	4.30	0.00	**
		1	17	6	1	13	1	11			
3	Financial objectives for the next year	4.43	4.2	4.26	3.69	4.27	4.33	4.3	4.26	0.57	
		3	2	2	12	7	11	13			
4	cash projection for the next year	4.34	4.09	4.19	3.56	4.45	4.42	4.1	4.22	0.28	
		6	7	6	13	3	5	27			
5	Disclosure of future plans and targets	4.25	4.14	4.1	3.63	4.09	4.17	4.9	4.21	0.00	**
		8	3	11	13	19	23	1			
6	Earnings per share and the basis of calculation	4.08	4.13	4.26	2.5	4.55	4.08	4.5	4.21	0.00	**
		21	5	2	42	1	30	6			
7	Total revenue and breakdown of various sources	4.37	4.13	4.1	3.75	4.27	4.67	4.3	4.20	0.09	
		5	4	12	7	7	2	15			
8	Rate of growth per earning per share	3.96	3.93	4.23	3.75	4.55	4	4.3	4.17	0.02	*
		28	12	4	7	1	34	11			
9	Capital expenditure for the next year	4.09	4.04	4.06	3.44	4.09	4.42	4.3	4.14	0.10	
		20	8	14	18	19	5	13			
10	Operating income before abnormal and extra ordinary items	4.15	4.1	4.06	3.5	4.36	4.33	4.1	4.14	0.52	
		14	6	14	16	6	11	31			
11	Cost and breakdown of securities and investments	4.23	3.67	4.03	3	4.18	4.33	4.5	4.12	0.00	**
		10	37	19	25	13	11	5			
12	Dividend per share	3.94	3.79	3.97	3.75	4.27	4.17	4.8	4.11	0.00	**
		31	24	24	7	7	23	3			

Rank	Information Item	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL	Statistics	
13	Industry trend, country and company information	3.87	4	4.23	3.06	4.18	4.25	4.3	4.09	0.00	**
		39	9	4	24	13	18	10			
14	Total and breakdown of long term borrowings	4.04	3.97	4.03	2	4.27	4.42	4.4	4.06	0.00	**
		23	10	19	62	7	5	9			
15	Factors which will influence future results	4.11	3.79	4.13	3.38	3.91	4.25	4.5	4.05	0.00	**
		18	26	10	19	29	18	4			
16	Comparative financial statements	4.66	3.97	4.19	2.5	4.1	3.92	4.1	4.05	0.00	**
		2	10	6	42	17	40	24			
17	Market value and breakdown of securities and investments	4.38	3.81	4.03	2.5	3.91	4.42	4.8	4.04	0.00	**
		4	22	18	42	29	5	2			
18	Summary data for 5 years	4.17	3.93	4.03	2	4.27	4.33	4.2	3.98	0.00	**
		13	12	17	62	7	11	20			
19	Market share and competitive position of the company	3.76	3.86	4.14	3.31	4.45	4.25	4.4	3.97	0.00	**
		49	17	9	20	3	18	8			
20	Bad debts and provision for bad debts	3.96	3.85	4.29	2.94	3.82	4	4.4	3.96	0.00	**
		28	19	1	26	36	34	7			
21	Total and breakdown of current liabilities	3.96	3.83	3.97	2.81	3.64	4.42	4	3.94	0.00	**
		28	21	24	28	47	5	34			
22	Breakdown of operating expenses	4.15	3.81	4.1	2.44	4	4.33	4.1	3.90	0.00	**
		14	22	12	45	24	11	32			
23	Foreign currency transactions	4.11	3.79	3.7	2.75	3.82	3.92	4	3.89	0.01	*
		18	26	48	30	36	40	36			
24	Structure of share ownership	3.92	3.64	3.87	4.19	4.09	3.92	4.1	3.88	0.05	
		34	42	30	1	19	40	30			
25	Shareholder's' equity and number of shares outstanding	4.02	3.73	3.97	2.88	4.18	4	4.2	3.87	0.00	**
		24	31	24	27	13	34	19			
26	Total interest including breakdown of short term and long term	4.15	3.67	3.97	1.81	4.09	4.25	3.9	3.87	0.00	**
		14	37	27	72	19	18	45			
27	Discussion of the firm's result for previous year with reasons	3.85	3.74	3.81	2.44	3.64	4.17	4.1	3.86	0.00	**
		41	29	38	45	47	23	23			
28	Market price of company's share	3.89	3.69	3.87	3.19	4.45	3.75	4	3.84	0.01	**
		37	35	34	23	3	55	33			
29	Share held by directors	3.83	3.6	3.87	4.13	4.1	3.83	4.1	3.84	0.08	
		42	48	30	3	17	51	28			
30	Cost of goods sold	4.08	3.66	4.03	2.75	3.6	4.33	3.9	3.82	0.00	**
		21	40	19	30	51	11	39			
31	Details of new product and services	3.77	3.75	3.79	3.25	3.82	4.45	4.1	3.79	0.01	**

Rank	Information item	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL	Statistics	
		48	28	41	21	36	4	22			
32	Method used for marketable securities and investments	4.15	3.6	3.84	2.44	4	4.17	3.8	3.79	0.00	**
		14	48	35	45	24	23	47			
33	Details of contingent liabilities	3.92	3.67	3.71	1.75	3.82	4.08	4.1	3.79	0.00	**
		34	37	46	77	36	30	29			
34	Annual report parts: Movement in shareholders' funds	3.49	3.86	3.75	2.75	3.91	3.21	3.7	3.78	0.02	*
		66	16	44	30	29	79	59			
35	Aggregate amount of dividend paid	3.89	3.62	3.68	2	4.09	4.42	4.1	3.78	0.00	**
		37	44	49	62	19	5	25			
36	Reserves, provisions and their breakdowns	3.72	3.56	3.65	2.69	3.82	4.17	3.8	3.78	0.03	*
		53	54	50	35	36	23	53			
37	statement of dividend policies	3.82	3.64	3.81	2.75	3.91	4.17	4.2	3.76	0.00	**
		43	42	38	30	29	23	18			
38	Income tax and provision therein	3.81	3.74	3.87	2.44	3.64	3.75	4	3.73	0.00	**
		44	29	30	45	47	55	38			
38	Production capacity and actual output	3.51	3.93	3.73	2.38	3.55	4.5	3.8	3.73	0.00	**
		63	14	45	50	53	3	51			
40	Taxation policies	4.02	3.87	3.61	1.75	3.55	4	3.7	3.73	0.00	**
		25	15	57	77	53	34	55			
41	Method used to determine cost of inventories	4.3	3.47	3.52	2.69	3.55	3.83	3.7	3.72	0.00	**
		7	59	60	35	53	51	56			
42	Date of maturity, interest rates, securities of LT borrowings	3.94	3.84	3.9	1.75	4	4.09	4.2	3.72	0.00	**
		33	20	29	77	24	29	21			
43	Accounting policies	3.87	3.18	3.78	3.63	3.82	3.5	3.6	3.70	0.09	
		39	71	42	13	36	67	66			
44	Method and rates of depreciation	4.23	3.5	3.65	2.69	3.73	3.92	3.7	3.67	0.00	**
		10	57	50	35	43	40	60			
45	Cost and breakdown of inventories	3.92	3.59	3.61	2.69	3.18	4	3.9	3.66	0.00	**
		34	51	57	35	68	34	40			
46	Discussion of the impact on inflation on the financial results	3.51	3.71	3.87	2.44	3.91	3.67	4	3.65	0.00	**
		63	32	30	45	29	62	36			
47	Acquisition/ disposal of property, plant and equipment	3.75	3.7	3.65	1.81	3.45	3.92	3.9	3.62	0.00	**
		50	34	50	72	59	40	46			
48	Statement of directors' responsibility	3.94	3.54	3.65	3.75	3.64	3.25	3.6	3.61	0.15	
		31	56	50	7	47	77	61			
49	Total and breakdown of advances, deposits and prepayments	3.62	3.65	4	2.31	3	4.25	3.7	3.59	0.00	**
		57	41	22	52	76	18	57			

Rank	Information item	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL	Statistics	
50	Statement of company share option/bonus plan	3.08	3.39	3.71	4.06	3.55	3.5	4.3	3.59	0.00	**
		69	61	46	4	53	67	17			
51	Wages and executive salaries	3.26	3.62	3.45	2.31	3.18	3.92	3.9	3.57	0.00	**
		67	44	65	52	68	40	41			
52	Total non-recurring gains or loss	3.62	3.62	3.65	2.31	3.36	3.92	3.7	3.57	0.00	**
		57	44	50	52	63	40	54			
53	Directors' remuneration	3.75	3.79	3.61	2.38	3.45	3.67	3.9	3.56	0.00	**
		50	25	59	50	59	62	42			
54	Amount of depreciation	3.57	3.57	3.81	2.63	3.1	3.75	3.9	3.56	0.02	*
		61	52	38	39	74	55	43			
55	Segmental results	4.18	3.61	3.52	1.81	3.7	4.08	3	3.55	0.00	**
		12	47	60	72	45	30	76			
56	Ageing schedule of the debtors	3.58	3.5	4	2	3.55	3.75	3.6	3.53	0.00	**
		59	57	22	62	53	55	61			
57	Details of company directors	3.72	2.88	3.83	4	3.55	3.58	4.3	3.52	0.00	**
		53	78	37	5	53	65	16			
58	Breakdown of expenses into fixed and variable	3.81	3.68	3.77	1.94	3	4	3.6	3.48	0.00	**
		44	36	43	68	76	34	65			
59	Total research and development expenses	3.57	3.59	3.45	2.31	3.91	3.5	3.4	3.48	0.01	**
		61	50	65	52	29	67	68			
60	Goodwill and other intangible written off	3.81	3.36	3.52	2	3.56	3.92	3.8	3.47	0.00	**
		44	64	60	62	52	40	47			
61	Annual report parts: Auditor's report	3.81	2.59	3.94	3.88	3.82	3.08	3	3.46	0.00	**
		44	82	28	6	36	81	75			
62	Total tax and differed tax liability	3.64	3.56	3.63	1.75	3	3.75	3.8	3.45	0.00	**
		56	54	56	77	76	55	50			
63	Amortisation of intangible assets	3.98	3.06	3.42	2.31	3.73	3.67	3.7	3.43	0.00	**
		27	75	67	52	43	62	57			
64	Summary data for 10 years	3.66	2.97	2.65	2.81	3.9	3.83	3.8	3.30	0.00	**
		55	77	81	28	35	51	52			
65	Details of company's social Iresponsibility programs	3.75	2.8	2.97	2.63	4	3.42	3.3	3.29	0.00	**
		50	80	74	39	24	71	70			
66	Outstanding gratuity/ pension obligations	3.58	3.56	3.4	1.38	3.18	3.58	3.1	3.28	0.00	**
		59	53	69	85	68	65	74			
67	Total accumulated depreciation on P&E	2.87	3.09	3.84	1.75	3.4	3.83	4.1	3.27	0.00	**
		70	73	35	77	62	51	26			
68	Details of finished goods exported	2.64	3.11	3.23	3.25	3.36	4.08	3.8	3.20	0.00	**
		73	72	70	21	63	30	47			
69	Sundry debtors less allowances	4.02	3.19	3.42	1.25	3.18	3.42	2.8	3.20	0.00	**
		25	69	67	86	68	71	81			

Rank	Information item	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL	Statistics	
70	Value added statements	3.09	2.76	3.09	3.5	4	2.5	3.1	3.17	0.00	**
		68	81	72	16	24	84	72			
71	Book value of goodwill and other intangible assets	3.51	2.84	2.67	1.81	3.36	3.75	3.9	3.15	0.00	**
		63	79	80	72	63	55	44			
72	Description of marketing network for finished goods	2.34	3.23	3.65	2.56	3.18	3.92	3.3	3.08	0.00	**
		78	68	50	41	68	40	69			
73	Indication of employee morale	2.78	3.71	2.71	2.25	3.18	3.25	3.1	3.04	0.00	**
		72	33	79	57	68	77	73			
74	Description of major plants, warehouse and their locations	2.64	3.01	3.13	1.75	3.27	3.5	3.5	3.03	0.00	**
		73	76	71	77	67	67	67			
75	Total advertising and publicity expenses	2.58	3.27	3.48	2	3.45	3.42	2.8	3.02	0.00	**
		75	65	63	62	59	71	80			
76	History and development of the company	2.11	3.41	2.9	2.25	2.91	3.75	3.6	2.98	0.00	**
		81	60	76	57	82	55	61			
77	Raw material consumed and their breakdown	2.4	3.37	3	2.25	3	3.92	3.1	2.96	0.00	**
		77	63	73	57	76	40	71			
78	Details of post balance sheet events	2.28	3.39	2.61	2.25	3.3	3	3.6	2.95	0.00	**
		79	61	82	57	66	82	61			
79	Amount and breakdown of staff welfare	2.55	3.24	2.45	1.94	3.7	3.33	2.9	2.93	0.00	**
		76	67	84	68	45	76	78			
80	Information on managers and staff	2.11	3.26	3.48	1.81	3.09	3.42	2.9	2.89	0.00	**
		81	66	63	72	75	71	77			
81	Details of raw material imported and local raw material content of raw materials	2	3.19	2.81	1.94	2.73	3.92	2.7	2.81	0.00	**
		83	69	78	68	84	40	83			
82	Maintenance and repair expenses	2.81	3.06	2.55	1.69	3	3.42	1.9	2.71	0.00	**
		71	74	83	83	76	71	85			
83	Chairman's report	1.96	2.45	2.81	2.75	2.09	3.17	2.7	2.62	0.00	**
		84	83	77	30	86	80	82			
84	Directors' report	2.15	2.3	2.94	3.75	2.23	2.17	2.9	2.61	0.00	**
		80	86	75	7	85	85	79			
85	Auditor's remuneration	1.85	2.31	2.26	1.94	2.91	2.58	2.6	2.34	0.00	**
		85	85	85	68	82	83	84			
86	Contributions and donations	1.77	2.35	2.03	1.63	3	1.33	1.3	1.99	0.00	**
		86	84	86	84	76	86	86			

Notes

(1) ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors

(2) Ranks according to mean are shown within parenthesis

(3) Significant at 1% = **, Significant at 5% = *

According to the overall mean score, the 'cash flow statement' with the mean score of 4.35 was perceived to be the most important information item followed by the 'total assets with breakdown into fixed and current assets' (4.30), 'financial objectives for the next year' (4.26) and 'cash projection for the next year' (4.22). The least important items perceived by the respondents were 'contribution and donation' (1.99) and 'auditor's remuneration' (2.34).

Before analysing the results any further, it is important to note that despite the attempt made to rank each item on its mean score, as shown in the above table, an emphasis of our analysis is more on a group of information items such as very important items, least important items rather than on individual ranking of each item. Our inclination to follow this approach is based on the fact that the difference between mean scores of two items is very small and the responses to each item were measured on an ordinal scale[42]. Thus, the ranking of information items should be viewed with caution.

As Table 5-15 shows, 17 items (19.8%) scored between 4-5 (extremely important), 58 items (67.4%) scored between 3-4 (important), 10 items (11.6%) scored between 2-3 (less important) and 1 item (1.2%) scored less than 2 (least important). When the most important items (Score 4-5) were classified under 5 sections of an annual report, it was found that 7 of the top 17 items (41.2%) were in the 'other information" section. The remaining 10 items spread over three sections—profit and loss account (3 items), balance sheet (5 items) and other components (2 items).

This is an interesting outcome given the fact that in Part I of the

[42] If ordinal scale is used, the data values represent categories with some intrinsic order such as strongly agree, agree, disagree, strongly disagree and, therefore, possess less arithmetic

Footnote continued on the next page...

questionnaire (Q-11) respondents have identified the profit and loss account and the balance sheet as the most important sections of an annual report. On this basis, one would expect respondents to pick more information items from those two sections if they were asked to name the most important items for their use. However, since the nature of questions in the two parts of the questionnaire is different[43], it may not be realistic to compare the results of Part II questions with those of Part 1 questions. Therefore, in order to identify the degree of importance of each section, as reflected by user responses on the disaggregated information item, the mean scores of the 86 information items were summarised under five major sections of an annual report. These results are summarised in Table 5-16.

Table 5-16

Importance of Different Sections of the Annual Report

Section	ACC	EXE	BAN	TAX	ACA	FA	INV	ALL	X^2	P
Profit and loss account	3.49	3.56	3.57	2.41	3.61	3.89	3.66	3.52	39.75	0.00**
	[3]	[3]	[3]	[4]	[4]	[2]	[4]	[4]		
Balance sheet	3.8	3.6	3.72	2.30	3.64	4.02	3.94	3.67	43.03	0.00**
	[2]	[2]	[1]	[5]	[3]	[1]	[1]	[2]		
Other components	4.11	3.67	3.73	2.51	3.83	3.87	3.73	3.79	48.79	0.00**
	[1]	[1]	[2]	[3]	[1]	[3]	[2]	[1]		
Statutory reports	3.18	2.9	3.40	3.35	3.43	3.03	3.30	3.19	26.81	0.00**
	[5]	[5]	[5]	[1]	[5]	[5]	[5]	[5]		
Other information	3.44	3.55	3.62	2.97	3.76	3.85	3.85	3.60	23.23	0.00**
	[4]	[4]	[4]	[2]	[2]	[4]	[3]	[3]		

Notes

1. ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors; ALL= Overall.
2. Rank are shown within parenthesis
3. Significant at 1%= **, Significant at 5%= *

qualities in comparison to data values of interval/ratio scale.

43 In part 1 (Q-11) respondents were asked to rank 11 sections of a company annual report according to their importance. In part 2, of the questionnaire, respondents were asked to identify the importance of disaggregated information items (Q-15~Q 93) which were broadly categorised by the researcher under 5 major sections of an annual report, not 11 sections as in the case of part 1. Simply, the coverage of question 11 in part 1 of the questionnaire was broad base (macro), questions in part 2 of the questionnaire were specific (micro).

As indicated in Table 5-16, the most important section of an annual report is the other components which include cash flow statement, accounting policies, and explanatory notes with a mean score of 3.79 followed by balance sheet with a mean score of 3.67. The other information with a mean score of 3.60 was ranked third. The profit and loss account, which was expected to receive a higher rank, occupied the fourth place and while the statutory reports (mean score = 3.19) ranked last. Since mean score of each section was calculated on the basis of a large number of items applicable to each section, the overall mean score between sections ranged only from 3.19 (statutory reports) to 3.97 (other components).

When the above data were analysed by groups, information relating to 'other components' of an annual report received the top ranking from 3 of the 7 user groups (ACC, EXE, and ACA) while the BAN and INV groups and TAX and FA groups ranked second and third respectively. Also, except TAX and ACA groups, all other groups identified the balance sheet as the first or second important section of an annual report. Moreover, all groups except TAX, considered statutory reports as the least important section. Although there were similarities in ranking between some user groups, the Kruskal-Wallis test results showed significant differences ($p<0.01$) in the mean scores of user groups for all the five sections.

After having examined the importance attached by user groups in relation to the five sections of an annual report, we will now focus our attention to the importance of individual items. As mentioned earlier, of 86 items 17 were identified by the respondents as the most important items in an annual report (see table 5-15 above). A closer look at these items reveals that the responders

have placed higher importance on the items relating to financial status, including cash position; present and future earnings including cash generation; and comparative status of the company.

When these 17 items were analysed group wise, it was found that fairly a large number of these items was within the top 17 items of each user groups. More specifically, the user groups and the number of items identified as very important within the top 17 items were as follows:

- TAX group —8 items (47%)
- ACC and FA groups — 10 items (59%)
- EXE, BAN and INV groups —13 items (76%)
- ACA groups—14 items (82%)

This indicates that there is a general agreement between respondents with regard to the importance of these items. However, in order to examine whether such agreement exists statistically between users, in relation to these 17 items as well as to the remaining 69 information items, a separate Kruskal-wallis test was carried out for each of the 86 information items. Accordingly, the hypothesis (H_8) *that there is no significant difference between user groups in relation to the importance of information items included in the questionnaire* was tested. The calculated chi-square values as well as p-values of this test for each item are shown in the last two columns of Table 5-15. The importance attached to each information item by users was significantly different for 77 items (significant at 1% for 72 items and significant at 5% for 5 items). Therefore, the above mentioned null hypothesis was rejected for 77 items (90%). Since *p-values* with regard to the remaining 9 items were greater than 5%, the null hypothesis that there is no difference between the user groups in relation to the importance they attach to each of the nine items was accepted.

These items are listed below:

1 Total revenue and breakdown of various sources
2 Operating income before abnormal and extra ordinary items
3 Structure of share ownership
4 Share held by directors
5 Statement of directors' responsibility
6 Capital expenditure for the next year
7 Cash projection for the next year
8 Financial objectives for the next year
9 Accounting policies

Another statistical analysis was carried out to find out the user group which differs mostly from others among the seven groups. In order to achieve this objective, Kruskal-Wallis test was carried out seven times for each information item by taking grouping variable as six user groups instead of seven (i.e. excluding one user group each time). Table 15-17 below summarises the results of this test.

Table 5-17

Significant Differences in Perceptions on 86 Information items when one user group is excluded from the seven user groups

Six user groups	No of items with SS	No. of items with SNS	% of items with SNS	Rank
EXE/ BAN/ TAX/ ACA/ FA/ INV (i.e. excluding ACC)	75	11	12.8	3
ACC/ BAN/ TAX/ ACA/ FA/ INV (i.e. excluding EXE)	75	11	12.8	3
EXE/ ACC/ TAX/ ACA/ FA/ INV (i.e. excluding BAN)	79	7	8.1	7
EXE/ BAN/ ACC/ ACA/ FA/ INV (i.e. excluding TAX)	53	33	38.4	1
EXE/ BAN/ TAX/ ACC/ FA/ INV (i.e. excluding ACA)	76	10	11.6	6
EXE/ BAN/ TAX/ ACA/ ACC/ INV (i.e. excluding FA)	75	11	12.8	3
EXE/ BAN/ TAX/ ACA/ FA/ ACC (i.e. excluding INV)	73	13	15.1	2

Notes
1. ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors
2. SS= Statistically significant, SNS = Statistically Not Significant

Table 15-17 shows the number of items with and without statistically significant differences when one user groups is excluded from the sample. It

also shows the percentage of items found to be statistically not significant. Higher this percentage is, higher the level of consensus between users. Therefore, the combination of 6 user groups that gives the highest percentage of statistically non-significant items is ranked as one to indicate the combination of groups that has less disagreement in respect of the importance of 86 information items. As per able 15-17, the highest level of agreement (i.e. lowest number of items with statistically significant differences) is shown when the TAX group is excluded from the sample. In other words, when the TAX group is included in the sample, there will be an increase of statistically significant differences. Thus, it can be concluded that the TAX group is the most different from the other user groups.

Finally, the differences in perceptions between two user groups were examined by carrying out the Mann-Whitney test for 21 possible combinations of groups. The 21 groups and the number of information items with significant differences for each fair are shown in Table 15-18.

Table 5-18

Significant Differences in Perceptions between User Groups

FA & INV (12)					
ACA & FA (26)	ACA & INV (23)				
TAX & ACA (55)	TAX & FA (62)	TAX & INV (62)			
BAN & TAX (51)	BAN & ACA (16)	BAN & FA (24)	BAN & INV (22)		
EXE & BAN (10)	EXE & TAX (60)	EXE & ACA (18)	EXE & FA (36)	EXE & INV (42)	
ACC & EXE (34)	ACC & BAN (26)	ACC & TAX (54)	ACC & ACA (29)	ACC & FA (29)	ACC & INV (38)

Notes

(1) ACC= Accountants; EXE=Executives/Managers; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors.

(2) Number of statistically significant differences in the perception of a pair of users is shown within parenthesis.

As shown in Table 15-18, the combination of executives and bankers had the number of disagreements with only 10 items (12%) with significant differences. Financial analysts and investors were found to be the next most homogeneous pair with 12 (14%) significant differences. This is followed by the combinations of bankers and academics and that of executives and academics with statistically differences of 16 (19%) and 18 (21%) respectively. On the other hand, the combination of tax officers and financial analysts showed the highest number of disagreements with 62 items (72%) showing significant differences. As a matter of fact, the six combinations involving tax officers had a very high level of disagreements with very significant differences ranging from 51 items (59%) to 62 items (72%). From the above analysis, it is evident that the executives and bank officers are the most homogeneous in their perceptions about the questionnaire items.

5.7 Summary

The major objective of this chapter was to examine the user perceptions on various aspects of corporate annual reports in Sri Lanka covering a wider spectrum of user groups. This was achieved by examining the perceptions of seven user groups through a questionnaire survey of 264 users of corporate annual reports. In this process, eight hypotheses were formulated to test whether there would be significant differences between user groups in relation to the matters examined. These hypotheses were tested using the Kruskal-Wallis and Mann-Whitney U tests.

The findings of this study revealed that various users of corporate annual reports in Sri Lanka use them mainly to obtain information for the purpose of buying, holding or selling company shares. Moreover, these users

have viewed annual reports as the prime source of information although information provided in these reports is perceived to be inadequate. The examination of the importance attached to various sections of the annual report revealed that both the balance sheet and the profit and loss account are perceived by the overwhelming majority of users as the most important sections of annual reports. It was also found that the majority of respondents have used annual reports frequently, indicating the important role it plays in their decision making process. As for the factors limiting the use of annual reports in Sri Lanka, they have identified the publication delay as the major obstacle for using annual reports. The majority of users seem to hold the view that the existing time lag can be reduced substantially. Overall, despite the inadequacy of information provided, corporate annual reports are recognised as a very useful tool for decision making by most of the users in Sri Lanka.

When the user perceptions with regard to 86 specific items of information were examined, seventeen information items were identified to be the most useful for all the users. On the mean score, cash flow, total assets and financial objectives for the next year were ranked the most important three items while contributions and donation and also auditor's remuneration were ranked the least important information items. When the importance of various sections of annual report was examined through mean values of information items relating to 5 sections of an annual report, it was found that users attach high importance to "other components' and "balance sheet'. However, the differences of opinion between users with regard to their perceptions on the importance of the five sections were found to be statistically significant. The results of an item by item examination showed significant differences among user groups on 77

information items (90% of all items). A further analysis indicated that 'tax officers' had the most disagreements with other groups. This finding was confirmed by another analysis carried out to examine the homogeneity of combined users. Any, user group combined with tax officers were produced the highest number of disagreement. Accordingly, it was found that the 'executives' and 'bankers' represented the most homogeneous combination of groups with disagreement level of 12 per cent. Comparatively, the 'tax officers' and 'financial analysts' represented the least homogeneous combination with a disagreement level of 72 per cent.

Chapter 6

The Extent of Corporate Financial Disclosure in Sri Lanka: An Analysis of Annual Reports of Public Listed Companies

6.1 INTRODUCTION

Annual reports are key communication vehicles between a firm's management and its stakeholders, and are primary sources of financial and operating information about the firm (Needles et al., 1999). The role that annual report plays in communicating and shaping the reality of the organisation in the public mind is indispensable although how this reality is perceived depends in part on the extent and quality of information provided in the annual report (Coy and Pratt, 1998). Therefore, ideally the annual report of a company should provide quality information tailored for all of its potential users. Although every company is expected to provide sufficient information in its annual report, the amount of information disclosed varies considerably among companies due to various reasons such as the lack of guidelines as to which information should be disclosed and the reluctance of some companies to disclose certain information.

While there is no limit to the extent of information that a company can provide, regulations such as Company Law and Accounting Standards have been put in place in most countries to ensure that companies provide at least the minimum amount of information required by users. Although companies are not obligated to disclose information more than what is required by legislation, the lack of disclosure may have serious repercussions not only on the companies'

financial and operating performances but also on the development of financial markets through improved investor confidence. According to the theory of efficient markets, which suggests that the current prices of securities fully reflect the public knowledge about companies, financial markets require substantial information disclosure if they are to be a most effective part of an efficient economic system (Gray,1976, p.56). Therefore, the improvement of corporate disclosure is very important not only for the companies concerned but also for the country's economic development. However, before any measures are taken to improve the level of disclosure, it is very important to understand the extent of disclosure and the relative strengths and weaknesses of the existing disclosure practices. The major objective of this chapter is to make such an assessment.

As an attempt to achieve the stated objective, the annual reports of 65 public listed companies in Sri Lanka were analysed in detail by placing emphasis on the extent of disclosure and the degree of consensus between the actual disclosure and the information needs of users. Detailed discussion on the analysis of annual reports is presented in this chapter in seven sections. Accordingly, the remainder of the chapter is organised as follows: After presenting the research questions in sec. 6-2, the method used for selecting sample companies and a profile of the sample companies are provided in sec. 6-3. This is followed by a discussion on methodology used for analysing the annual reports in sec. 6-4. The results of the analysis are presented in sec. 6-5 while the forming and testing of the hypotheses are dealt with in sec. 6-6. The final section, sec. 6-7, provides a summary.

6.2 RESEARCH QUESTIONS

As for the purpose of obtaining a proper assessment of the level of disclosure in the annual reports of public listed companies in Sri Lanka, this chapter is designed to address the following two specific research questions.

(1) Is there a difference in the extent of financial disclosure between the groups of sample companies?

(2) Is there an association between the actual disclosure and the information needs of various users?

Two hypotheses formed from the above research questions and testing of those hypotheses through the data obtained from the annual report analysis are presented in section 6.6 of this chapter.

6.3 THE SAMPLE

The sample for the analysis of annual reports was drawn from the public limited companies listed on the Colombo Stock Exchange (CSE). The annual publication of the CSE entitled *Handbook of Listed Companies -1998* reported 235 such companies under following 16 broad business sector categories:

1. Banks, finance and insurance
2. Beverage, food and tobacco
3. Chemicals and pharmaceuticals
4. Construction and engineering
5. Diversified
6. Footwear and textiles
7. Hotels and travels
8. Investment trust
9. Land and property
10. Manufacturing
11. Motors
12. Oil palm
13. Plantation
14. Services
15. Stores and supplies
16. Trading

Before selecting the sample for this study, due to some pragmatic reasons, some of the above mentioned business sectors were reclassified and omitted from the population in the following manner:

(1) Since the disclosure requirements of 3 business categories, namely banks, finance and insurance sector (1); construction and engineering sector (4); and investment trust sector (8) were significantly different to other sectors, these three business categories which consist of 31 companies were excluded from the total population.

(2) Five other companies belonging to another business sector, Oil Palm (12), were also excluded from the population due to the non-availability of their annual reports.

(3) Several business sectors classified by CSE were combined to make a fewer number of groups. Accordingly, three business sectors classified by CSE as beverage, food and tobacco [2]; chemicals and pharmaceuticals [3]; and footwear and textiles [6] were combined with other manufacturing [10] to make a new business sector named "manufacturing." Similarly, the trading sector was combined with the stores and supplies sector to make a new sector called 'trading, stores, and supplies'.

As a result of the above mentioned exclusions and reclassifications, the total number of companies from which the sample companies were drawn decreased from 235 to 194 while the business categories under which these companies were listed decreased from 16 to 8 (see Table 6-1).

The collecting of annual reports was found to be one of the most arduous tasks in many disclosure studies, specially those focusing on emerging markets. For example, Nicholls and Ahmed (1993), Karim (1995), Mirshekary (1999), Xiao (1999) encountered numerous difficulties in collecting annual reports for their samples. The attempt to collect annual reports for this study started with a written request made directly to 40 randomly selected companies asking for a copy of their annual reports. Since only a few companies responded to the request, it was decided to make a similar request through the Postgraduate Institute of Management (PIM), which had close contacts through its

management training programs with the business community in Sri Lanka[44]. In response to the letter sent by its Director, 102 companies sent their latest annual reports to the PIM. Subsequently, they were collected by the author. In addition to the annual reports obtained through PIM, another 21 annual reports were collected through other sources, making a total of 123 annual reports available for the study. However, since the annual reports collected were under over represented in some business sectors, it was decided to have a sample size of 30% for each business sector. Table 6-1 shows the distribution of the sample companies by business sectors.

Table 6-1

Distribution of Sample Companies by Business Sector

Business Sector		Companies in CSE		Sample size		% of the sample
		Number	%	Number	%	%
1.	Diversified	8	4.1	3	4.6	37.5
2.	Hotels and travel	41	21.1	13	20.0	31.7
3.	Land & property	19	9.8	6	9.2	31.6
4.	Manufacturing	78	40.2	27	41.5	34.6
5.	Motors	8	4.1	3	4.6	37.5
6.	Plantation	12	6.2	4	6.2	33.3
7.	Service	8	4.1	3	4.6	37.5
8.	Trading, stores and supplies	20	10.4	6	9.3	30.0
		194	100.0	65	100.0	33.5

As shown in Table 6-1, the majority of companies (61.3 %) in the population was in the manufacturing, and hotels and travel sectors. The remaining 6 sectors represented only 38.7 per cent of the total population with

[44] Both the author and the supervisor personally sought the cooperation of the Director of PIM in this regard briefing him the importance and the potential benefits of this research to the country. The director responded positively and sent a letter to all 235 pubic listed companies in Sri Lanka asking for a copy of their annual report for the use of PIM. The annual reports received were kept in the PIM library and the author was authorized to borrow the required reports to be used in this study.

each business sector ranging from 4.1 per cent to 10.4 per cent. Accordingly, the sample selected also had a similar representation. Although, the expectation was to take 30% of companies as the sample for each sector, the actual sample taken ranged from 30 to 37.5 per cent because of the very small population of some sectors. Overall, the sample size of the companies selected for the annual report analysis accounted for 33.5 per cent of the total population. Detailed profiles of the sample companies are shown in Appendix-4 while a summary is shown in the following table:

Table 6-2

The Profiles of the Sample Companies

Age	Firms	%	Capital Employed (Rs. Millions)	Firms	%
1-25 year	40	61.5	<100	8	12.3
26-50 years	15	23.1	100 - 500	22	33.8
51-75 year	7	10.8	500 - 1000	15	23.1
76-100 years	2	3.1	1000 - 5000	17	26.2
> 100 years	1	1.5	>5000	3	4.6
All firms	65	100.0	Total	65	100.0
Profit /(loss) before tax (Rs. Millions)	**Firms**	**%**	**Sales (Rs. millions)**	**Firms**	**%**
> (100)	4	6.2	< 100	9	13.9
(100) – 0	6	9.2	100 - 1000	33	50.8
0 -10	9	13.9	1000 -10000	20	30.7
10 - 100	30	46.1	> 10000	3	4.6
100 - 1000	14	21.5			
> 1000 million	2	3.1			
All firms	65	100.0	Total	65	100. 0

As shown in Table 6-2, the sample companies consisted of both young and old companies with the age of companies ranging from 4 to 106 years. Although the average age of the 65 companies was 28 years, the majority of companies in the sample (61.5%) were less than 25 years old and almost 85 per

cent of companies were less than 50 years old. On the other hand, companies aged over 50 years were limited to 15 per cent of the sample.

As for the profit level of companies, once again there was a wide disparity. While 85 per cent of sample companies were having profits the remaining 15 per cent were in red with losses of 4 companies (6%) exceeding Rs. 100 million. Although the majority of companies (60%) were earning less than million rupees, the average profit of the 65 companies amounted to 95 million rupees. The high average profit was due to the impact of very high profits earned by 16 companies (25%), the profit level of two of which exceeded 1000 million rupees.

The sales of sample companies ranged from 6 to 23,541 million with average sales of 1,805 million rupees, showing a huge disparity between sample companies in terms of sales. Although the average sales amounted 1,805 million rupees, the sales of 65 per cent of companies (42 companies) were less than 1,000 million rupees. Moreover, the three largest companies in the sample had sales exceeding 10,000 million rupees.

When the size of companies was analysed in terms of capital employed it was found that the capital of sample companies ranged from 19 to 11,017 million rupees with average capital amounting to 1,094 million rupees. However, the majority of companies (69%) had employed less than 1,000 million rupees while the average capital employed by the remaining 31 per cent of companies amounted to 2,749 million rupees.

According to Appendix-4, the largest company, measured in terms of capital employed, in the sample was John Keels Holding Limited with capital employed amounting to 110,165 million rupees. It has also topped the

companies in Sri Lanka in terms of its 11.8% market capitalisation. This company was rated by the Fortune magazine in December 1998 as one of the ten best investible companies in Asia. Hayleys Limited, which came second in terms of size with its employed capital of 72,588 million rupees, is another leading company in the country. It has also gained a high reputation for the quality of its annual reports. It has won the "Best Annual Report Award" for 1996/97 and 1997/98 at the competition conducted by ICASL. Its annual report for 1996/97 also won the second highest place in the "non-financial category" at a competition organised by the South Asian Federation of Accountants for companies in South Asia. Thus, the annual report of Hayleys included in our sample can be considered as one representing the highest level of corporate disclosures in Sri Lanka

As the financial year of Sri Lankan companies ends on 31 December or 31 March and the annual reports for this study were collected from July to September 2000, the latest annual reports applicable were either for the year 1999 (for companies ending financial year on 31 December) or for the year 1999/2000 (for those ending their financial year on 31 March). Therefore, annual reports representing both of these years were used for the analysis as much as possible. However, for companies whose annual reports for the latest financial year had not been published or not available, those covering the year 1998 or 1998/1999 were used[45]. All of the annual reports used in this study had been published in English. However, some public listed companies in Sri Lanka publish their annual reports only in their native languages (Singhalese or Tamil).

[45] In a similar situation Karim (1995) also made use of 1991 or 1992 annual reports when the annual reports for the year 1993 was not published.

6.4 THE METHODOLOGY

The annual reports selected for the study were analysed on the basis of a disclosure index, which has been a research instrument widely used in previous disclosure studies. The primary aim of a disclosure index is to show the level of disclosure in an annual report. It can be used to show the compliance with regulations and the level of disclosure. In addition, it can include a mixture of both required and voluntary items (Marston and Shrives, 1991). The use of these indexes for the evaluation of the extent of disclosure and the quality of annual reports has become a norm in disclosure studies. According to Cooke and Wallace (1989), the quality of financial disclosure is an abstract term and cannot be measured directly because it does not possess the inherent characteristics by which one can determine its intensity or capacity. However, calculating an index for a particular company can give a measure of the extent of disclosure although it does not necessarily measure the quality of disclosure (Marston and Shrives, 1991).

With regard to developing a disclosure index, a number of different approaches has been taken by previous researchers. The typical methodology employed in this study was to construct a country-relevant disclosure index. Depending on the research objective and the country being examined, the index comprises voluntary information items and/or mandatory items. Disclosure measurement may be either weighted or unweighted (Ahmed and Courits, 1999). Although many of the previous studies have employed weighted indexes for assessing the extent of disclosure (Singhvi and Desai, 1971; Barrett, 1976; Firth, 1979, Chow and Wong-Boren, 1987), the methods used for determining the weights of items have been criticised as being subjective. An alternative

approach is to assume all items included in the index as equally important and use an unweighted index in which an item scores one if it is disclosed and a zero if it is not disclosed. Since this dichotomous procedure avoids the subjectivity in assigning weights to items, it has gained wide acceptance among annual report studies (see for example, Wallace, 1988; Cooke, 1989, 1991; Ahmed and Nicholls, 1994). Thus, an unweighted index was used in this study.

Having decided on the type of index to be used, the next major task was to develop a list of information items that could be used in annual reports. Since annual reports not only include mandatory financial information specified by the regulations but also include a variety of voluntary information, quantitative and qualitative, the information items that may be included in an annual report could be very large, if not infinite. As a result, items chosen for the index are likely to be a fairly small sub set of the population of all the items that could be disclosed in an annual report.

Therefore, the usefulness of the disclosure index as a measure of disclosure is critically dependent on the selection of items to be included in the index (Marston and Shrives, 1991, p.195). Although there is no general theory on item selection (Wallace, 1988), two main approaches to this process can be observed from the past research, namely, (1) to use disclosure items that have been included in a questionnaire with some inclusions or exclusions based on the responses to the questionnaire and the researcher's own criterion, and (2) to use the disclosure items employed in other studies with suitable modifications to suit the objectives of the study and the requirements of the country.

Since some researchers have focused on the information provided to specific user groups such as investors or one type of information such as

mandatory or voluntary information, the indexes used by them were confined to those specific aspects of information. However, since one of the major objectives of this study was to assess the extent of both mandatory and voluntary information disclosed to all users of financial reports, development of an all-inclusive list (not an exclusive list of items applicable to a particular user group) was needed to achieve that objective. Moreover, another major objective of this study was to examine the consensus between the users' information requirements and the actual disclosure. In order to achieve this objective, the information items included in the questionnaire and the disclosure index had to be similar so that a meaningful comparison could be made. Therefore, when selecting items for the disclosure index, it was decided to follow the first approach mentioned in the preceding paragraph, i.e. to include the 86 information items used in the questionnaire in the disclosure index as well, and to assess the relative intensity of disclosure by extensive disaggregation[46] of the information items where possible.

Therefore, after a careful examination of the 86 information items included in the questionnaire along with their possible disaggregation, they were disaggregated into 318 information items for calculating the disclosure index. These 318 disaggregated information items were also separated into mandatory and voluntary information items. While the mandatory information items refer to the information items required to be disclosed by legislation, the voluntary information items refer to the information provided by companies at their discretion. In order to determine whether an item was mandatory or voluntary,

[46] Ahmed (1993) has provided an example as to how this disaggregation can be done. For example, a company that has disclosed earnings per share along with the related computations is awarded more points than a company that has disclosed only the earnings per share.

all the disclosure requirements prescribed by the Companies Act. the SLASs. the listing rules of CSE, and the Securities and Exchange Commission Act were carefully examined. Accordingly, 131 of the 318 items were identified as mandatary information items. The following table provides a summary of the information items classified as mandatary and voluntary under five major sections of an annual report:

Table 6-3

Breakdown of Information Items into Disclosure Index Items

Information Items	Major Sections of an Annual Report	Mandatory Information Items	Voluntary Information Items	Overall
22	Profit and Loss Account	28	27	55
20	Balance Sheet	49	69	118
11	Other Components of FS	35	18	53
6	Statutory Reports	13	9	22
27	Other Information	6	64	70
86	Total	131	187	318

The 86 information items shown in the first column have been disaggregated into 131 mandatary items and 187 voluntary items, increasing the overall disclosure index items to 318. A list of information items with details on all classifications and identification numbers is given in Appendix-5. Also, a list of mandatory information items and a list giving the details of disaggregation in relation to 86 information items are shown in Appendixes 6 and 7 respectively.

After having disaggregated the information items, a score sheet was prepared for recording the disclosure items. A copy of the score sheet is shown in Appendix-8. The procedure followed for recording information in the score sheet is as follows:

(1) Read the annual report thoroughly to understand the contents, especially to check the relevance of items to the company concerned,

(2) Record 1 (= disclosed) when the information item is disclosed in the report,

(3) Record 0 (= not disclosed) when the information item is not disclosed in the report,

(4) Record 99 (= not applicable) when an item is not disclosed because it is not relevant to the company concerned[47].

After recording the data in the score sheet following the above procedure, they were transferred from the score sheet to a SPSS data sheet. While a column in the data sheet contained the data in relation to one information item, a row contained the data on all information items in relation to a company. The total disclosure (TD) for a company was additive and could be calculated as follows:

$$TD = \sum_{i=1}^{m} d_i$$

Where d_i = 1 if the i th item is disclosed and 0 if the i th item is not disclosed

$m \leq n$ The maximum score a company can earn (Total index items – irrelevant items)

The disclosure index, which is a ratio of the actual scores awarded to a company to the scores that company is expected to earn, is calculated dividing

[47] There have been different opinions among previous researchers regarding the treatment of non-relevant items. In some cases, this problem has been eliminated by ensuring that all disclosure items are relevant to all companies in the sample (Buzby, 1974). When this is not possible or desirable, index scores can be converted by dividing the actual score by the maximum score possible for that company as done by Buzby (1975). Since it is not very clear whether a non-disclosed item is relevant or not, Cooke (1989a) suggested to read the whole of the annual report and make a suitable judgment as to whether an item is either not disclosed or irrelevant to the company. However, this method has also been criticised because it would increase the chances of a systematic overstatement bias in the scoring process, particularly if non-disclosure is interpreted to mean lack of relevance (Craig and Diga, 1998). The method suggested by Cook was used in this study considering its wider acceptance.

total disclosure (TD) by the maximum score (M) a company can earn[48]. M is calculated as follows:

$$M = \sum_{i=1}^{n} d_i$$

Where d = Expected item of disclosure
n = The number of items that the company is expected to disclose. ($n \leq 318$)

Following this method, three disclosure indexes were prepared: (1) Overall Disclosure Index—[ODI] for the disclosure index calculated on the basis of all 318 items, (2) Mandatary Disclosure Index [MDI] for the disclosure index calculated on the basis of 131 mandatary items, and (3) Voluntary Disclosure Index [VDI] for the disclosure index calculated on the basis of 187 voluntary items.

6.5 ANALYSIS OF THE RESULTS

This section presents the results obtained from the analysis of annual reports using the three disclosure indexes discussed above. Then, the next section (6.6) deals with the formation and testing of hypotheses based on the research questions presented in Section 6.2.

6.5.1 Contents of the annual reports

Prior to the examination of specific information items disclosed in annual reports, it was considered important first to gain an understating of the overall contents of annual reports published in Sri Lanka. For this purpose, the major headings under which information has been presented in annual reports were

[48] For example, if a company has disclosed 225 information items and 18 of 318 information items are not applicable to the company, the maximum score this company can earn is 300 (318-18). Therefore, the disclosure index is calculated by dividing 225 by 300, which gives a disclosure level of 75 (75%) for that company.

analysed (see Appendix-9 for company wise details). Table 6-4 summarises the results of this analysis.

Table 6-4

Contents of Annual Reports

No.	Contents	Percentage
1	Corporate information	100.0
2	Table of contents	95.4
3	Mission and goals of the company	40.0
4	Summary of results for the financial year	61.5
5	Review by the chairman and chief executive	100.0
6	Business profile/Review of operations	50.8
7	Financial review	26.2
8	Human resource development and social responsibility	41.5
9	Company history	43.1
10	Company performance and financial status of the past periods	67.7
11	International relationships/Global focus	55.3
12	Share information	96.9
13	Statement of value added	61.5
14	Country report	12.3
15	Report of the directors	100.0
16	Audit committee report	4.6
17	Statement of directors' responsibility	32.3
18	Report of the auditors	100.0
19	Profit and loss account	100.0
20	Balance sheet	100.0
21	Cash flow statement	100.0
22	Statement of changes in equity	47.7
23	Accounting policies	100.0
24	Notes to the accounts	100.0
25	Market value of real estate	20.0
26	Glossary of financial terms	30.8
27	Name and management of group companies/associates	82.4
28	Notice of meeting	95.4
29	Details of board of directors and executives	93.8
30	Photos	52.3
31	Graphs and charts	67.7
32	Comments sheet for suggestions for improvements of the annual report	6.3

From this table, it is seen that information has been presented under 32 major categories. Since 9 of these categories were found in all annual reports, they could be regarded as the standard items of information presented in Sri Lankan annual reports. These items comprise a complete set of financial statements, report of the directors, report of the auditors, corporate information, share information section and a summery of results for the financial year. Other commonly included sections were associated with the information on company and management structure such as details of directors and executives (94%), name and management of group companies (82.4%), other corporate information (95%). On the other hand, the least included sections were audit committee report (5%), comments sheet for suggestions to improve the annual report (6%), country report (12%), market value of real estate (20%) and business profile and review of operations (26%).

The annual report of Hayleys Limited comprised 31 of the 32 sections examined while Upali Investment Holdings comprised only 12 of the 32 sections. Further, 34 (52.3%) and 44 (67.7%) companies in the sample have made use of graphs, charts and photos for clear presentation of information. The average size of the annual report was 41 pages with smallest being 16 (Serwndib Land Ltd.) and the longest being 106 (John keels) followed by 105 (Hayleys Ltd.).

Another noticeable feature was the preparation of a value-added statement by 40 (61.5%) of the 65 companies. This feature appeared to be impressive when compared with the findings of a study by Craig and Diga (1998) on the corporate accounting disclosures in ASEAN countries. According to their study, of the 145 sample companies in five ASEAN countries, the value

added statements were found only in the annual reports of only 14 Singaporean companies.

Before concluding this section, a word of caution seems warranted regarding the above analysis on the contents of annual reports. Since the method of presenting information has varied substantially from company to company, the higher numbers of information categories do not necessarily mean that they provide more information. For example, while one company provides country-specific information under a separate section, another company has chosen to give the same information under the chairman's review. Numerically, the former may look better in terms of the contents of information because it includes country information as well as chairman's review. In reality, however, it may not be the case.

6.5.2 Extent of Overall Disclosure

6.5.2.1 Distribution and descriptive statistics

Following the method described in Section 6.4, the overall disclosure was calculated for 65 public listed companies in Sri Lanka. Since various parts of the financial statements may provide more meaningful information on the quality of financial reporting in a country (Wallace, 1988), overall disclosure was analysed under five parts of an annual report. Table 6-5 summarises the overall disclosure index and the distribution of sectional indexes for the year 1999-2000. The overall disclosure index and sectional indexes for each company are shown in Appendix-10.

Table 6-5

Distribution of Overall Disclosure Index

Disclosure Index	Profit and Loss Account	Balance Sheet	Other Components of Financial St.	Statutory Reports	Other Information	Overall	
	Number of Companies					No	%
90-100%		4	20	57			
80-90%	1	37	33	7	4	8	12.3
70-80%	13	19	11	1	5	24	36.9
60-70%	25	4	1		8	24	36.9
50-60%	19	1			9	7	10.8
40-50%	6				10	2	3.1
30-40%	1				11		
20-30%					10		
10-20%					6		
0-10%					2		
Total	**65**	**65**	**65**	**65**	**65**	**65**	**100**
Highest (%)	82.7	93.0	100.0	100.0	85.7	89.0	
Lowest (%)	39.5	51.4	61.3	75.0	7.1	44.5	
Average (%)	62.2	81.4	86.2	95.4	44.3	69.8	
STD	9.8	7.6	7.6	5.2	20.6	9.5	

According to Table 6-5, the overall disclosure for the 65 sample companies ranged from 44.5 per cent to 89 per cent with an average of 69.8 per cent. Overall, fifty six companies (86.1%) achieved a disclosure level above 60 per cent, suggesting a reasonably high level of disclosure by sample companies. However, the fact that only 8 of the 65 companies (12.3%) had a disclosure level above 80 per cent indicates that there is ample room for further improvement. Moreover, the disclosure level of 9 companies was below 50% indicating a very low level of disclosure by a considerable number of sample companies (13.9%). The sectional analysis provided in the above table shows that the disclosure level, in general, is higher for the balance sheet, other components of financial statements, and statutory reports than the profit and loss account and other

information sections. The disclosure level of the 'other information' section was the lowest among all sections.

Since the balance sheet, other components of financial statements and statutory reports consist of fairly standard type of information, mostly mandatory, with generally accepted presentations, it is understandable that the disclosure level of these three sections have a higher disclosure level. On the other hand, in the absence of such formats or standards for most of the items in the 'other information section,' it is not surprising that its disclosure level is fairy low in comparison to that of other sections. As a matter of fact, the majority of information in the 'other information' section is voluntary in nature. However, the surprising result that came out from the above analysis is the relatively low level of disclosure in the profit and loss account. From the data in the above table it is apparent that 40 per cent of sample companies had a disclosure level of below 50 per cent with regard to profit and loss items. Since the profit and loss account, just like other conventional financial statements such as balance sheet, has an accepted format with generally known set of information, many of which are mandatory, the general expectation is that it has a higher disclosure level. Since the reason for the reluctance of companies to disclose some information is not known, further examination of this matter is worthwhile.

6.5.2.2 Comparison with some selected countries

In order to see whether this level of disclosure is high or low in comparison to the corporate disclosures in ASIAN countries, it is useful to compare it with the relevant indexes used in previous studies involving other Asian countries. Table 6-6 presents the overall disclosure indexes of ten Asian Countries. As seen from this table, the overall disclosure level of other Asian countries ranges from 50.9 per cent in Indonesia to 78.3 per cent in Hong Kong. Accordingly, the overall

disclosure index of 69.8 % for Sri Lanka can be ranked highly among these 10 countries as it is second only to the disclosure level of Hong Kong. In view of the comparative indexes cited above, the level of corporate disclosures in Sri Lanka seems to be considerably high.

Table 6-6

Overall disclosure indexes of selected countries in Asia

Authors (Sources)	Country	Sample Size	No of Items	Disclosure Index
Tai et al, (1990)	Hong Kong	76	10	78 3%
Naser (1998)	Jordan	54	74	63.0%
Mirshekary (1999)	Iran	62	154	62.0%
Craig and Diga (1998)	Singapore	30	270	61.3%
Craig and Diga (1998)	Malaysia	30	270	58.7%
Nicholls and Ahmed (1995)	Bangladesh	63	244	56.3%
Cooke (1992)	Japan	35	165	55.8%
Craig and Diga (1998)	Thailand	25	270	56.4%
Craig and Diga (1998)	Philippines	30	270	55.2%
Craig and Diga (1998)	Indonesia	30	270	50.9%

6.5.3 Disclosure and Company Characteristics

As shown in the previous section, the disclosure scores of individual companies showed considerable variations. As expected, Hayles Ltd, which was expected to receive the highest score given its high reputation for producing quality annual reports, recorded the highest score of 89 per cent while Lanka Cement Ltd scored the lowest score of 44.5 per cent. Table 6-7 shows the 5 top ranking companies and 5 lowest ranking companies as extracted from Appendix-10. This table also shows the relative ranking of each company in terms of its age and size which was measured by capital employed.

Table 6-7

5 top and lowest ranking companies

TOP RANKED COMPANIES				
Name of company	**Overall Disclosure Index (ODI)**	**Company Rank By ODI**	**Company Rank By age**	**Company Rank By Capital**
Hayles Ltd	89.0	1	12	2
Dipped Product Ltd	85.6	2	27	6
Tangerine Beach Hotel	85.2	3	34	15
Aitken Spence Hotel Holdings Ltd.	83.4	4	28	11
Ceylon Cold Stores Ltd	83.3	5	1	14
LOWEST RANKED COMPANIES				
Name of company	**Overall Disclosure Index (ODI)**	**Company Rank By ODI**	**Company Rank By age**	**Company Rank By Capital**
Lanka Cement Ltd	44.5	65	38	18
Serendib Land Ltd.	44.7	64	34	63
Upali Investment Holdings Ltd.	53.0	63	4	31
Mikechris Industries Ltd	54.0	62	31	65
Associated Property Development Ltd.	56.0	61	43	64

According to Table 6-7, two of the 5 top ranking companies were relatively old companies (ranked 1 and 12 by age) and other 3 companies were middle-age companies (ranked 27, 28, & 34) . By size, all 5 top ranking companies were relatively large companies as all of them were among the top 15 companies when the companies were ranked by size. By contrast, among the lowest ranked companies, four companies were middle-age companies. Three of the lowest 5 companies were relatively small in size. Accordingly it appears that there is a relationship between the age and size of Sri Lankan companies and the level of disclosure.

In order to examine whether there is a statistically significant relationship between these two company characteristics (age and size) and the disclosure level, a Spearman correlation analysis was carried out. The results (Correlation Coefficient [r]= 0.274, p=0.027*) showed that the association

between the company disclosure level and the age of companies was statistically significant at the 5% significance level ($p<0.05$). Similarly, when the correlation coefficient between the size (measured by capital employed) and the level of disclosure was computed, the results ($r=.346$. $p=0.005$**) showed positive association between the two variables. This association was significant at the 1% significance level ($p<0.01$). Similar result was obtained when the association between the disclosure level and the size was examined by measuring the size in terms of sales rather than capital employed. The results ($r=0.434$, $p=0.00$**) showed a much stronger statistically significant relationship between the two variables. On the results of this analysis, it can be concluded that large and old companies in Sri Lanka disclose more information in their annual reports than small and young companies.

6.5.4 Disclosure by Index Items

Table 6-8 shows the distribution of item-by-item disclosure by the sampled companies during the fiscal year 1999-2000 for the 318 disclosure index items. This distribution was derived form the figures shown in Appendix-11.

Table 6-8

Distribution of Disclosure Scores by Number of Disclosure Index Items

Proportion of companies	Items disclosed	
	Number	%
90-100%	136	42.8
80-90%	33	10.4
70-80%	25	7.9
60-70%	16	5.0
50-60%	17	5.3
40-50%	26	8.2
30-40%	21	6.6
20-30%	14	4.4
10-20%	8	2.5
0-10%	16	5.0
0	6	1.9
Total	318	100.0

According to Table 6-8, one hundred and thirty six items were disclosed by more than 90 per cent of companies and 6 items were not disclosed by any of the companies. The items not disclosed by any of the companies were: local raw material content of finished goods; market price per share for each quarter; price level adjusted balance sheet, income statement, and other data; discussion on the impact on inflation on the financial results; cash projection for the next year; and financial objectives for the next year.

6.5.5 Disclosure of Mandatory Items

As previously outlined, the 318 items used to compute disclosure indexes comprised 131 mandatory items chosen mainly from the requirements of Companies Act and Sri Lanka Accounting Standards. Appendix 6 shows all the mandatary items with their respective legal requirements. The computed mandatary disclosure indexes of each company are shown in Appendix-10 and a summary of its distribution is given in Table 6-9.

Table 6-9

Mandatory Disclosure according to Number of Companies

Disclosure Range	Mandatory Index (MDI)	
	Number of Companies	%
90-100%	11	16.9
80-90%	40	61.5
70-80%	10	15.4
60-70%	4	6.2
< 60%	0	0.0
Total number of companies	**65**	**100.0**
Highest (%)	97.5	
Lowest (%)	64.0	
Average (%)	84.6	

According to the results shown in Table 6-9, the mandatory items indicate a high level of disclosure with 51 of 65 companies (78%) disclosing more than 80 per cent of the 131 mandatory items, and 11 companies (16.9%) with more than 90 per cent. The disclosure level of companies ranged from 64 to 97.5 per cent with an average of 84.6 per cent.

In order to examine the compliance with statutory requirements, an item-by- item examination was carried out. The results of this examination are shown in Table 6-10 below.

Table 6-10

Disclosure of Mandatory Items according to Proportion of Companies

Proportion of companies	Mandatory Items Disclosed	
	No. of Items	%
90-100%	80	61.1
80-90%	16	12.2
70-80%	3	2.3
60-70%	2	1.5
50-60%	8	6.1
40-50%	10	7.6
30-40%	6	4.6
20-30%	3	2.3
<20%	3	2.3
Total	131	100

As shown in Table 6-10, a relatively high level of compliance can be observed as 80 of the 131 items (61.1%) were disclosed by more than 90 per cent of companies. On the other hand, the items disclosed by less than 50 per cent of companies were limited to 22 items (16.8%). The details relating to these 22 items are shown in Table 6-11.

Table 6-11

List of Mandatory Items Disclosed by Less Than 50% of Companies

Item Name	Disclosed	Not Disclosed	Not Applicable	%
The rights, preferences and restrictions attached to ordinary shares [SLAS3.74.a.v]	4	61	0	6.2
Income from investments distinguishing between quoted and unquoted [ActSch5.12.1.g].	5	42	18	10.6
The actuarial present value of promised retirement benefit [SLAS 16.50.e]	8	57	0	12.3
The rights, preferences and restrictions attached to preference shares [SLAS3.74.a.v]	2	7	56	22.2
Research and development costs recognised as an expense in the period [SLAS 11.29.b]	5	13	47	27.8
Liabilities of each major segment [SLAS 28.56]	6	15	44	28.6
Statement of directors' responsibility	20	45	0	30.8
Revenue from external sales [SLAS 28.51]	7	14	44	33.3
Depreciation of segmental assets [SLAS 28.58]	7	14	44	33.3
The amount used as a numerator in calculating EPS [SLAS 34.52.a]	24	41	0	36.9
The weighted average number of ordinary shares used as a denominator [SLAS 34.52.b]	25	40	0	38.5
Analysis of all expenses by their function (eg. Administrative, selling etc) [SLAS3.77]	26	39	0	40.0
Market value of quoted investments in subsidiaries [SLAS 22.49.b.c]	12	15	38	44.4
Market value of quoted investments in associates [SLAS 22.49.b.c]	5	6	54	45.5
The general description of the gratuity plan, including employee groups covered [SLAS 16.50.a]	30	35	0	46.2
Details and methods of funding of the gratuity liability [SLAS 16.50]	30	35	0	46.2
Provisions shown on the face of the balance sheet [SLAS3.66.j]	30	33	2	47.6
Revenue from inter segment sales [SLAS 28.51]	10	11	44	47.6
Statement of changes in equity [SLAS3.86]	31	34	0	47.7
Number of employees at the end of the period or the average for the period [SLAS3.102.d]	31	34	0	47.7
Accounting policy for cash and cash equivalents [SLAS 3.99.r]	32	33	0	49.2
Earning per share before and after extra ordinary items [SLAS 34. 50]	1	1	63	50.0

6.5.6 Disclosure of Voluntary Items

From the 318 items used in the disclosure index, 187 items comprised voluntary items. These items are shown in Appendix-5, which includes all the mandatory and voluntary items, denoting "VOL". The voluntary disclosure index for each company is shown in Appendix-10 and a summary of its distribution is shown in Table 6-12.

Table 6-12

Voluntary Disclosure according to Number of Companies

Disclosure Range	Voluntary Disclosure Index (VDI)	
	Number of Companies	%
90-100%		
80-90%	2	3.1
70-80%	15	23.1
60-70%	15	23.1
50-60%	20	30.8
40-50%	9	13.8
30-40%	4	6.1
< 30%	0	0.0
Total number of companies	**65**	**100.0**
Highest (%)	83.3	
Lowest (%)	30.5	
Average (%)	60.0	

Table 6-12 shows that the voluntary disclosure by sample companies varied from a low level of 30.5 per cent to a high level of 83.3 per cent with an overall average of 60 per cent. Overall, 32 companies (49.3%) have disclosed more than 60 per cent of the voluntary items, while the disclosure level of remaining 33 companies (50.7%) ranged from 30 to 60 per cent. When the voluntary disclosure levels were analysed by items, the results shown in Table 6-13 were obtained.

Table 6-13

Disclosure of Voluntary Items According to Proportion of Companies

Proportion of companies	Voluntary Items Disclosed	
	No. of Items	%
90-100%	56	29.9
80-90%	17	9.1
70-80%	22	11.8
60-70%	14	7.5
50-60%	9	4.8
40-50%	16	8.6
30-40%	15	8.0
20-30%	11	5.9
10-20%	6	3.2
< 10%	21	11.2
Total	187	100

As shown in the above table, 56 items were disclosed by more than 90 per cent of companies. Unlike mandatary items, the distribution of voluntary items was fairly wide spread and the level of disclosure was relatively low in comparison to that of mandatory items. Overall, 118 items (63.1%) were disclosed by more than 50 per cent of companies. There were 21 items disclosed only by less than 10 per cent of companies while 6 of those items were not disclosed by any of the companies. Table 6-14 shows the list of these 21 items with the actual figures observed.

Table 6-14

List of Voluntary Items Disclosed by Less Than 10% of Companies

Item Name	Disclosed	Not Disclosed	Not Applicable	%
Local raw material content of finished goods	0	41	24	0.0
The market price per share for each quarter	0	64	1	0.0
Price level adjusted balance sheet, Income statement, and other data	0	65	0	0.0
Discussion on the impact on inflation on the financial results	0	65	0	0.0
Cash projection for the next year	0	65	0	0.0
Financial objectives for the next year	0	65	0	0.0

Analysis of expenses into fixed and variable cost	1	64	0	1.5
Age schedule of the debtors	1	64	0	1.5
Total market value of inventories	1	58	6	1.7
Raw Material consumed	1	41	23	2.4
Breakdown of raw materials consumed	1	41	23	2.4
Indication of employee morale such as rate of absenteeism, frequency of labour disputes.	2	63	0	3.1
Advertisement and publicity expenses	2	62	1	3.1
Comparison of actual performance and operating objectives	3	62	0	4.6
Return on capital for main product areas	3	58	4	4.9
Breakdown of cost of sales	3	56	6	5.1
Total Expenses	5	60	0	7.7
Breakdown of wages and salaries under expenses categories	5	60	0	7.7
Details of raw materials imported	3	35	27	7.9
Rate of growth of earning per share	6	59	0	9.2
Statement of company share option/ bonus/dividends plans (History of share options/ dividends/ bonus)	6	54	5	10.0

6.5.7 Disclosure by Information Items

The disclosure scores discussed in Section 6.5.4 and the figures shown in Appendix-11 were related to the 318 disaggregated information items. As stated before, these items were derived from 86 information items included in the questionnaire survey used in this study. Therefore, in order to determine the extent to which user information needs have been catered by annual reports,[49] it was necessary to calculate the level of disclosure for each of these 86 items by aggregating the disclosure scores of the 318 index items. The summarised results of this analysis are discussed in this section.

The first step of this analysis was to aggregate the scores of 318 index items into 86 information items. Since the index items were originally derived from the 86 information items, this aggregation was done by looking at their source. As shown in Appendix-7, 47 of 86 items were originally disaggregated

[49] See Section 6.6.2 for the comparison between the actual disclosure of 86 information items and the importance attached by users to those items.

into 279 index items with one information item disaggregating into two or more index items. Therefore, the disclosure index for each of these items was calculated by adding scores across companies and dividing the total score by the number of companies. The other 39 items were self-contained, requiring no disaggregation. Therefore, the disclosure for each of these items was calculated by adding the number of companies disclosing the item and dividing it by the number of companies applicable. Table 6-15 shows the percentages of companies which disclosed the 86 information items. The actual disclosure score for each of the information item is shown in Appendix-12.

Table 6-15

Distribution of Disclosure Scores by Number of Information Items

Proportion of companies	Items disclosed	
	Number	%
90-100%	27	31.4
80-90%	8	9.3
70-80%	9	10.4
60-70%	6	7.0
50-60%	6	7.0
40-50%	7	8.1
30-40%	8	9.3
20-30%	4	4.7
10-20%	1	1.2
< 10%	10	11.6
Total	86	100.0

According to the above table, 27 information items (31.4%) were disclosed by more than 90 per cent of companies in the sample while 10 items were disclosed by less than 10 per cent of companies. Two of these 10 items were not disclosed by any of the companies. These two items were: discussion of the impact of inflation on the financial results and cash projection for the next year.

6.6 HYPOTHESES

This section presents an analysis of consensus on disclosure by business sectors and a comparison between the extent of disclosure and users' information needs. In this regard, two hypotheses based on two research questions as outlined in Section 6.2 were formed and tested under Sections 6.6.1 and 6.6.2 using the data presented and analysed in the preceding section.

6.6.1 Consensus on disclosure by business sectors

According to the analysis of annual reports presented in the previous section, the disclosure level between companies ranged from 44.5 to 89 per cent, showing a considerable difference of consensus on disclosure by sample companies. Since every company is different from another in some way, it is not surprising to observe such differences of consensus among companies. However, it is important to examine whether these differences are visible across all business sectors or they are confined to some business sectors due to some specific characteristics. In other words, it is important to know whether the disclosure level of one business sector is significantly different from that of another. If there is a difference of consensus on disclosure between business sectors, there is a need to examine the reasons for such a difference as it may help to improve the disclosure level of the business sector with lower disclosure. In order to examine this aspect, the following null hypothesis was formulated:

H_9: *There is no significant difference between business sectors in respect of the extent of disclosure in annual reports.*

For obtaining information to test this hypothesis statistically, the mean scores of ODI for each business sector were computed. A Kruskal-Wallis one way ANOVA was also carried to see whether the differences of mean scores

between business sectors would be statistically significant. The computed mean scores for each business sector and the results of the statistical test are shown in Table 6-16.

Table 6-16

Disclosure by Business Sector

Business Sector		Overall Disclosure Index	Number of Companies	Rank by the Index
1.	Diversified	73.7	3	4
2.	Hotels and travel sector	74.1	13	3
3.	Land & property	59.8	6	9
4.	Manufacturing	66.5	27	8
5.	Motors	78.2	3	1
6.	Plantation	71.1	4	6
7.	Service	71.2	3	5
8.	Trading, stores and supplies	77.4	6	2
Total		69.8	65	
Kruskal-Wallis Test Results: Chi Square = 20.33, df= 7, *P Value* = 0.00				

According to the Kruskal-Wallis test results, the differences of disclosure levels between the business sections were statistically significant at 1%, suggesting that disclosure levels vary across business sectors. An inspection of the *mean ranks* for the eight business sectors presented in the output table of the Kruskal-Wallis test suggests that the motors sector had the highest disclosure levels, with the land and property sector reporting the lowest. Also, one-way ANOVA test was carried out with Tukey's post-hoc test to identify which business sector would be different from which other group. The ANOVA test results (F =3.492, df=7, *p-value*=0.003) also showed that the disclosure score differences between business sectors were statistically significant at the 1% level ($p<0.01$). According to Tukey's post-hoc test, the disclosure score for business sector 3 (Land and Property) was significantly different (at the 0.05 level) from the disclosure scores of business sector 2 (Hotel and Travel) and business sector 8 (Trading, Store and Supplies). On the basis of this result, the null hypothesis

(H_9) that *there is no significant difference between business sectors in respect of the extent of disclosure in annual reports* is rejected and the alternative hypophysis that there is a significant difference between business sectors in respect of the extent of disclosure in annual report is accepted.

6.6.2 Actual disclosures versus users' information needs

Examining the association (consensus) between the actual disclosures made by companies in their annual reports and the information needs of users was one of the major objectives of this study. Therefore, based on the second research question cited in Section 6.2, the following null hypothesis was formulated to examine this issue:

H_{10}: *There is no significant difference between the information needs of users of annual reports and actual disclosure of information in annual report.*

A number of methods have been used by previous researchers for making this comparison. For example, Firth (1979a) and McNally et al. (1982) counted the number of companies disclosing each of the selected items and then calculated the average score for all companies by multiplying the user determined score for an item by the proportion of the companies that disclosed the item. Wallace (1987) utilised a sector-by-sector procedure making use of the summary of disclosure scores on information items to make a judgement on the degree of consensus between the sample companies and the surveyed users. Both Firer and Meth, (1986) and Ahmed (1993) examined this association by correlating the actual disclosure levels with the mean score of information items through Spearman rank correlation coefficients.

The procedure followed by this study for preparing the data set and testing the above hypothesis (H_{10}) is as follows:

(1) From the data obtained through the questionnaire, the individual scores assigned by user groups for the importance of disclosing each item of information were combined together to obtain a single average score for each of the 86 information items[50]. A SPSS data file was prepared to record the perception scores for the seven user groups and the overall (shown in the columns) in relation to 86 information items (shown in the rows).

(2) From the data obtained from the annual report analysis, a disclosure index was calculated for each of the 86 information items, taking into account their disaggregated values[51]. These scores were recorded in a single column of the same SPSS data file mentioned in step 1 above.

(3) Association between actual disclosure and user information needs was examined on the basis of Spearman Correlation Coefficient, which ranked the values of each of the variables from smallest to largest for all cases, and then the Pearson correlation coefficient was computed on the ranks. The Hypothesis (H_{10}) was tested on this test.

Table 6-14 below shows the association between the actual disclosure and the user perceptions as revealed by the computed correlation coefficients.

Table 6-17

Degree of association between actual disclosure and user perceptions

Disclosure/ User groups	Spearman Rank Correlation Coefficient
Actual disclosure/ ACC	0.184
Actual disclosure/ MAN	-0.046
Actual disclosure/ BAN	0.025
Actual disclosure/ TAX	0.017
Actual disclosure/ ACA	0.012
Actual disclosure/ FA	0.018
Actual disclosure/ INV	0.099
Actual disclosure/ ALL	0.085

Notes: (1) ACC= Accountants; MAN= Managers/Executives; BAN= Bankers; TAX= Assessors/ Tax Officers; ACA= Academics; FA= Financial Analysts; INV= Investors; ALL= Overall

According to the results shown in Table 6-17, there was no association between the actual disclosure of information items and the rankings of any of the seven user groups. This result indicates that all the user groups which perceived the importance of information items were not reflected in the actual

[50] These scores have already been calculated for the analysis in Chapter 5 and are shown in Table 5-15.

disclosure practices of companies. This apparent gap between the information needs of users and the company disclosure practices exists because the information items perceived by various users as important are not disclosed by any company or disclosed by a few companies. On the basis of the results of this analysis, the null hypothesis (H_{10}) *that there is no significant difference between the information needs of users of annual reports and actual disclosure of information in annual report* is rejected. Accordingly, the alternative hypothesis that there is a significant difference between the information needs of users of annual reports and actual disclosure of information is accepted.

With reference to a similar divergence between users' expectations and company disclosure practices found in one of the other emerging markets, Bangladesh, Ahmed (1993) pointed out some possible reasons for the occurrence of such a gap. One such reason was the companies' reluctance to disclose some sensitive information because of the feeling that such disclosure may cause a competitive disadvantage. Another reason was the existence of small listed companies (mostly funded by family members, operated and controlled by family members) with less obligation to disclose information in the annual reports to outsiders. The high cost of disclosure without associated benefits was also seen as a reason for the companies' inability to keep meeting the growing information needs of various users.

[51] The disclosure index for each of the 86 information items was calculated in Section 6.5.7 and individual disclosure scores are shown in Appendix-12.

6.7 Summary

This chapter empirically examined the disclosure practices of Sri Lankan listed companies by analysing 65 corporate annual reports using a disclosure index developed by disaggregating 86 information items into 318 disclosure index items that included both mandatory and voluntary items. The sample of 65 companies represented 34 per cent of the total population that consisted of eight broadly categorised business sectors. Nine commonly found categories were identified in the sample annual reports with the average size of annual report being 40 pages long. The calculated disclosure index ranged from 44.5 to 89.0 per cent with an average of 69.8 per cent, showing a fairly high level of overall disclosure by companies especially in comparison to the disclosure levels of other emerging markets. Also, the age and size of companies in Sri Lanka was found to have positive association with high disclosure, suggesting that old and large companies disclose more information than vice versa. Item-wise analysis showed that 42.8 per cent of items were disclosed by more than 90 per cent of companies although 6 items were not disclosed by any company in the sample. While relatively high compliance with mandatory disclosure requirements was observed (average being 84.6%), the voluntary discloser was considerably low across board. The differences of disclosure were observed between the eight business sectors with the motors sector showing the highest level of disclosure and the land and property sector recording the lowest. These differences were statistically significant at the 1 per cent level. Finally, it was found that the information needs of the seven user groups in this study were not catered by the information disclosed in the annual reports of Sri Lankan companies.

Chapter 7

Summary, Findings and Conclusions

7.1 Introduction

Previous studies on corporate disclosure in EMs as well as DMs showed that the annual report of a company is one of the most important sources of information for its stakeholders. The annual report as a source of information is particularly important for EMs as very often many other information sources are not accessible to general public in these markets. However, despite the importance of annual reports for EMs, systematic studies on the usefulness of such reports to their users are sparse in EMs. Sri Lanka, being an emerging market, is not an exception. Although there has been criticism on the existing corporate disclosure practices in Sri Lanka that they have not been able to produce adequate and reliable information to the satisfaction of various stakeholders of companies, no systematic research had been done to examine the validity of this criticism. Therefore, the major objective of the present study was to fill this gap by examining the information needs of annual report users and the extent of disclosure in annual reports in Sri Lanka.

The study began with a statement of the research problems, the purposes of the study and the research design together with its limitations and expected contribution (Chapter 1). This was followed by an examination of the major features of EMs such as their economic, business, and accounting environments together with a discussion on the state of Sri Lanka in the context of other EMs (Chapter 2). After having examined the market-specific characteristics, a comprehensive literature review was carried out in Chapter 3

to get an insight into the works of other researchers who have examined corporate disclosure issues in both EMs and DMs. In addition to reviewing the previous disclosure studies, this chapter also identified their shortcomings. Then, to place the study in proper context, an overview of the corporate disclosure practices in Sri Lanka and the historical development of disclosure requirements together with the legal and institutional framework were presented in Chapter 4. On the basis of data obtained from the questionnaire survey, Chapter 5 provided an analysis of the information needs of annual report users in Sri Lanka. Eight hypotheses formulated on the basis of research questions were also tested in this chapter using non-parametric statistical tests. Finally, Chapter 6 presented the results of an analysis of disclosure in corporate annual reports by using three disclosure indexes. Two hypotheses formulated on the basis of research questions were also tested here on the basis of non-parametric statistical tests. The main purpose of this final chapter is to discuss the findings on the basis of both the analysis of survey results and the annual reports together with other information and data analysed in previous chapters and to present the conclusions of the study. In light of the findings and conclusions, this chapter also attempts to make some recommendations for improving the corporate disclosure practices in Sri Lanka.

7.2 Findings

7.2.1 Information needs of users

One of the objectives of this study was to examine the views of various users on the usefulness of annual reports of public listed companies in Sri Lanka. This objective was achieved through an analysis made on the data collected from a questionnaire survey conducted in Sri Lanka in late 2000. Five hundred and

seventy five questionnaires were distributed to annual report users classified into 7 major user groups namely, ACCs (150), EXEs (100), BANs (50), TAXs (35), ACAs (50) FAs, and INVs (150). The respondents were asked to answer 93 questions included in the questionnaire which consisted of 2 parts (part I and II). While Part I dealt with questions on the user profile and usage patterns of annual reports, Part II dealt with questions on items that should or could appear in annual reports. Two hundred and sixty four usable responses were received with an overall response rate of 45.9 per cent. The tests conducted to investigate the non-response bias indicated that there was no such bias. Therefore, the results could be generalised to represent the whole population. When the profile of the respondents was analysed, it was revealed that the majority of respondents had high level of education (82% with tertiary education), accounting knowledge (96% studied accounting at some stage), working experience (73% with over five years working experience) and, share holdings (53% invested in more than five companies). Therefore, according to the demographics, the respondents of the survey were well educated, accounting literate and experienced people with a high interest in investing in company shares.

This analysis addressed eight research questions designed on the issues pertaining to the usefulness of annual reports for users. Eight hypotheses formed on the basis of these research questions were tested using the data obtained from the questionnaire survey. Following are the major findings of this analysis:

(1) The results of the hypothesis one showed that the purposes for which annual reports are used vary significantly across different user groups. Obtaining information to buy, hold or sell shares was found to be the major purpose of using corporate annual reports. The selection of this

purpose as the mostly used purpose across many user groups may be attributable to the fact that most of the users are interested in share investments. The use of annual reports for 'general review' was identified as the second mostly used purpose. The possible reason for this selection may be that annual report is very often the only source of information available to a user in Sri Lanka to know about the affairs of a company.

(2) When the second hypothesis aimed at examining whether there was a significant difference between user groups in relation to their perceived importance of various sources of information was tested, it was found that the degree of importance attached by the seven user groups with regard to 9 of the 10 sources listed in the questionnaire varied significantly across user groups. However, there was a consensus between user groups with regard to the importance of the information source of 'communication with company management'. According to the results, annual report was found to be the primary source of information while 'personal information and knowledge about the company' and 'stock market publications' received second and third rankings. The least important sources were found to be 'advice of friends' and 'tip and rumours'. Despite the increased number of companies disclosing more and more information on the internet, it was still seen as a relatively less important source for many users. Similarly, 'newspaper reports and other media reviews' were also not seen as very useful despite the recent efforts taken by SEC to provide periodic information on company affairs through this media.

(3) The results of the hypothesis three showed that there was a significant difference between user groups in relation to their opinion on the adequacy

of information contained in annual reports. While 25 per cent of all respondents viewed that the information provided in annual reports was adequate, the majority of respondents (75%) thought that information was either partially adequate or not adequate at all. The group-wise responses were also very similar to the overall view with the exception of ACA who viewed information provided in annual reports was only partially adequate. The statistical test carried on the sample showed that with regard to the adequacy of information in annual reports there was no difference of opinions between user groups, excluding ACA. Furthermore, according to the results of a similar test carried out after combining 'partially adequate' with 'not adequate' there was no significant difference among the seven user groups, suggesting that the majority of users are of the opinion that the information content in annual reports is not adequate.

(4) Hypothesis four was concerned with assessing whether there was significant difference between user groups in relation to their perceived importance attached to various sections of annual reports. From the Kruskal-Wallis test carried out, it was found that there were significant differences between user groups with regard to 9 of the 11 sections listed in the question. Both the balance sheet and the profit and loss account were perceived to be the most important parts of an annual report with almost similar mean scores. This result is consistent with those of previous disclosure studies done in both DMs and EMs. Next to these two statements, in order of importance were the cash flow statement, statistical data summary and historical data sections. One of the surprising findings was that the chairman's and directors' reports, which were identified as

fairly important in previous studies, were ranked as the least important sections by the Sri Lankan annual report users.

(5) Whether there was a significant difference between user groups in relation to the degree of use of annual reports for their purposes was examined by hypothesis five. The results found that the frequency of usage was significantly different among users. Forty one per cent of respondents were found to be using annual reports frequently. Among the user groups, FA was found to be the most frequent users of annual reports, suggesting that that annual report analysis is an indispensable tool for financial analysts in Sri Lanka, although 'personal information and knowledge' was seen as the primary source of information for decision-making. Conversely, in line with the lower ranking given by tax authorities for the annual reports as a source of information for their decision making, they were found to be the least frequent group of users among the respondents.

(6) Hypothesis six examined whether there was a significant difference between user groups in relation to the problems associated with the use of annual reports. The Kruskal-Wallis test results showed that there was no significant difference of opinion between user groups with regard to the factors that limit their use of annual reports. The majority of respondents (72%) viewed the delay in publishing annual reports as the prime factor that restricts the use of annual reports in Sri Lanka. The difficulty of obtaining annual reports was seen as the other major limitation. Particularly, FA and INV groups viewed this as a more serious limitation than the 'delay in publishing'. Apart from these two limitations, the lack of information in annual reports was also seen as a major limitation.

(7) When hypothesis seven was tested to examine whether there was any significant difference between user groups in relation to their opinions on the delay in publishing the annual reports in Sri Lanka, it was found that there were significant differences of opinion. However, an overwhelming majority (90%) of respondents thought that the existing time lag could be reduced.

(8) Hypothesis eight was concerned with examining whether there was significant difference between user groups in relation to the importance of 86 information items included in the questionnaire. Statistical test results showed that the respondents' opinions on the importance of information items varied significantly among user groups with regard to 77 of the 86 items considered.

(9) There was a consensus among user groups with regard to the importance of following nine items: (a) Total revenue and breakdown of various sources, (b) Operating income before abnormal and extra ordinary items, (c) Structure of share ownership, (d) Shares held by directors, (e) Statement of directors' responsibility, (f) Capital expenditure for the next year, (g) Cash projection for the next year, (h) Financial objectives for the next year, (i) Accounting policies.

(10) Overall 'cash flow statement' (4.35), 'total assets with breakdown into fixed and current assets'(4.30), 'financial objectives for the next year' (4.26) and 'cash projection for the next year' (4.22) were perceived to be the most important information items. The least important items perceived by the respondents were 'contribution and donation' (1.99) and 'auditor's remuneration' (2.34).

(11) When the 86 information items were classified according to the range of importance attached by users, it was found that 17 items (19.8%) scored between 4-5 (extremely important), 58 items (67.4%) scored between 3-4 (important), 10 items (11.6%) scored between 2-3 (less important) and 1 item (1.2%) scored less than 2 (least important).

(12) Out of 17 most important items (Score 4-5), 7 (41.2%) were in the 'other information" section. The remaining 10 items spread over three sections—profit and loss account (3 items), balance sheet (5 items) and other components (2 items). Further analysis of these 17 items showed that the responders have placed higher importance on the items relating to financial status, including cash position; present and future earnings including cash generation; and comparative status of the company.

(13) When the mean scores of the 86 information items were summarised under five major sections of an annual report, it was found that the most important section of an annual report was the 'other components' which included cash flow statement, accounting policies, and explanatory notes followed by 'balance sheet'. The 'other information' was ranked third. The 'profit and loss account', which was expected to receive a higher rank, occupied the fourth place while the statutory reports ranked last.

(14) A statistical analysis carried out to find out the user group which differed mostly from others among the seven groups revealed that TAX was the most different group.

(15) An analysis of the differences in perceptions between two user groups revealed that EXE and BAN comprised the most homogeneous pair

followed by FIN and INV. In contrast, the pair of TAX and FA showed the highest number of disagreements making it the least homogeneous pair. In fact, the six combinations involving tax officers had a very high level of disagreement.

7.2.2 Extent of information disclosure in annual reports

The major objective of the annual report analysis was to measure the extent of disclosure in corporate annual reports in Sri Lanka and to examine whether there was a consensus between users and prepares. Sixty five annual reports (33.5 % of the total population) representing eight business sectors were selected for the analysis. Sample companies consisted of both young and old companies as well as small and large companies making them representative of the total population. The extent of disclosure was measured by three unweighted disclosure indexes: the voluntary disclosure index, the mandatory disclosure index and the overall disclosure which comprised both the voluntary and mandatory items. Eighty six information items included in the questionnaire were used for this analysis after disaggregating them into 318 index items (131 mandatory items and 187 voluntary items) to measure the overall disclosure level. The 318 index items were also classified into the profit and loss account (55 items), balance sheet (118 items), other component of financial statements (53 items), statutory report (22 items) and other information (70 items). The contents of annual reports (section-wise) were also analysed. Overall, the annual report analysis addressed two research questions designed on the extent of disclosure and the association between the actual disclosure and the information needs of users. Two hypotheses (H_9 and H_{10}) formed on the basis of these two

research questions were tested using the data obtained from the annual report analysis. Following are the major findings of this analysis:

(1) The information has been presented in annual reports under 32 major categories. Nine of which were found in all annual reports, suggesting that they could be regarded as the standard sections of Sri Lankan annual reports. The nine sections are: financial statements, report of the directors, report of the auditors, corporate information, share information section and a summery of results for the financial year.

(2) Other commonly included sections were found to be those associated with the information on company and management structure such as details of directors and executives (94%), name and management of group companies (82.4%), other corporate information (95%). Conversely, the least included sections were audit committee report (5%), comments sheet for suggestions to improve the annual report (6%), country report (12%), market value of real estate (20%) and business profile and review of operations (26%).

(3) Value-added statement, which is not a common section of annual reports in EMs, appeared in annual reports of 40 (61.5%) companies.

(4) Overall disclosure for the 65 sample companies were found to be ranging from 44.5 per cent to 89 per cent with an average of 69.8 per cent. This, along with the fact that 56 companies (86.1%) achieved a disclosure level above 60 per cent, indicates a reasonably high level of disclosure.

(5) The fact that only 8 companies (12.3%) had a disclosure level above 80% and the disclosure level of 9 companies (13.9%) was below 50% indicate that there is ample room for further improvement.

(6) The disclosure level, in general, was found to be higher for the balance sheet, other components of financial statements, and statutory reports in comparison to the profit and loss account and other information sections. The disclosure level of 'other information' was the lowest among all sections. Since the majority of information in the 'other information' section is voluntary in nature, it shows a considerable degree of reluctance in the part of management to disclose voluntary information.

(7) Surprisingly, 40 per cent of sample companies had a disclosure level below 50 per cent with regard to profit and loss items. Given the fact that the profit and loss account, like the balance sheet, is a conventional financial statement with an accepted format and a generally known set of information, many of which are mandatory, it is usually expected to have a higher disclosure level.

(8) A comparison of the calculated disclosure index with the relevant indexes used in previous studies involving other 10 Asian countries indicated that the disclosure level of Sri Lanka was only second to that of Hong Kong. Thus, the level of corporate disclosures in Sri Lanka could be considered considerably high in comparison to the disclosure levels in many other Asian countries.

(9) The statistical analysis carried out to examine whether there was a significant relationship between two company characteristics (age and

size) and the disclosures revealed that the age and size of companies in Sri Lanka were positively associated with disclosure, suggesting that old and large companies disclose more information than vice versa.

(10) Item-by-item analysis of 318 disclosure index (disaggregated) items showed that 136 items (43%) were disclosed by more than 90% of companies and 6 items were not disclosed by any of the companies. The items not disclosed by any of the companies were: local raw material content of finished goods; market price per share for each quarter; price level adjusted balance sheet, income statement, and other data; discussion on the impact of inflation on the financial results; cash projection for the next year; and financial objectives for the next year.

(11) Item-by-item analysis of 86 (aggregated) information items showed that 27 of them (31.4%) were disclosed by more than 90 per cent of companies in the sample while two items were not disclosed by any of the companies. These two items were: discussion of the impact of inflation on the financial results and cash projection for the next year.

(12) Mandatory disclosure index showed that the level of compliance with regulation ranged from 64 to 97.5 per cent with an average of 84.6 per cent, showing a fairly high level of compliance. Item-wise, 80 of the 131 items (61.1%) were disclosed by more than 90 per cent of companies. In contrast, 22 items (16.8%) were disclosed only by less than 50 per cent of companies.

(13) The voluntary disclosure of sample companies varied from a low level of 30.5 per cent to a high level of 83.3 per cent with an overall average of 60

per cent. In contrast to mandatary items, the distribution of voluntary items was fairly wide spread and the level of disclosure was relatively low. Overall, 118 items (63.1%) were disclosed by more than 50 per cent of companies. There were 21 items disclosed only by less than 10 per cent of companies while 6 of those items were not disclosed by any of the companies.

(14) The purpose of first hypothesis tested in this section (H_9) was to examine whether there was a significant difference between business sectors in respect of the extent of disclosure in annual reports. The results of the Kruskal-Wallis tests suggested that disclosure levels varied across business sectors. While the motors sector had the highest disclosure levels, the land and property sector reported the lowest.

(15) The second hypothesis tested in this section (H_{10}) was to examine whether there was a significant difference between the information needs of users of annual reports and the actual disclosure of information in annual report. The results showed that there was no association between the actual disclosure of information items and the rankings of any of the seven user groups, indicating that all the user groups which perceived the importance of information items were not reflected in the actual disclosure practices of companies.

7.3 Conclusions and Recommendations

At the beginning of the thesis (Chapter 1) it was mentioned that this study aimed at seeking answers to five major research questions. Based on an analysis of the existing literature and the results of the questionnaire survey and the annual

report analysis, our conclusions and the recommendations in the form of answers to these five research questions are presented below.

(1) What is the historical development and current status of corporate disclosure practices in Sri Lanka?

With the introduction of open economic policies in 1977, Sri Lanka has been showing a steady economic growth despite the existence of a prolonged civil war in the country. The foremost objective of the new policies was to progress towards increased private sector–led economic transformation in a very liberal business environment. As part of this process, the CSE was reorganised in 1980s. Consequently, number of listed companies in the country increased from 77 in 1976 to 235 in 2002. With the development of CSE, the corporate financing in the country started to change from traditional borrowing from banks or private sources to the issue of stocks and shares to the general public. In line with the development of CSE, the accounting practices in the country, including corporate disclosure practices also showed a significant improvement. Among the major changes were the enactment of a new Companies Act in 1982, the establishment of SEC in 1987, and the legalisation of SLASs in 1995 in the form of an Act of Parliament, making the compliance with SLASs compulsory for SBEs including listed companies. This Act also established a monitoring board (SLAASMB) to examine whether SBEs are complying with the regulations. In 2000, the merit based listing rules of the exchange used by CSE were also replaced by a new disclosure based approach. Furthermore, since 1990s, country's premier accounting body, ICASL, has been very active in introducing and revising SLASs to meet

the changing needs of the business environment. It is expected that SLASs will be on par with the International Accounting Standards by the end of 2003, keeping Sri Lanka well ahead of South East Asian countries in terms of adopting accounting standards. In view of the current regulatory set up in Sri Lanka, it can be concluded that Sri Lanka has a well-established regulatory framework and a monitoring process for corporate disclosures.

A review of the historical development of accounting practices reveals that a great deal has been done in recent years for improving the regulatory environment. However, the effects of those changes have just started to yield results. For example, although the SLAASMB has been monitoring disclosure practices of listed companies for a long time, it was only in year 2002 that it decided to announce the names of companies that have not followed proper accounting procedures. Therefore, while continuing to improve the existing laws and rules, the regulatory body should make the users aware of the changes being made and their impact on the disclosure practices.

According to the CSE rules financial statements should be made available to the public within six months from the end of financial year. However, the majority of respondents of our questionnaire viewed the delay in publishing annual reports and the difficulty of obtaining annual reports were major factors that restrict the use of annual reports in Sri Lanka. Therefore, in order to increase the use of annual reports, the CSE must take appropriate actions to make annual reports available for all interested parties without delay. Considering the importance of this aspect,

the authorities should consider imposing increased penalty for undue delays.

The steps taken by the government to revise the Securities Act is commendable. A similar attention is needed to be given to the existing company law which is surprisingly based on the English Companies Act of 1948. Considering the enormous changes that have taken place in the corporate environment in the world in general and in Sri Lanka in particular, it is necessary to revise the existing company law in Sri Lanka to strengthen the legal framework of companies in the country.

(2) Do the current corporate disclosure practices in Sri Lanka satisfy the users' needs?

The results of the survey found that the majority of users were of the view that information disclosed in annual reports was not adequate. When the degree of divergence between the perceived information needs of users and the actual disclosure of companies in Sri Lanka was examined it was found that users' information needs were not reflected in the actual disclosure practices of companies. On the basis of this finding, it can be concluded that preparers have failed to satisfy the information needs of annual report users in Sri Lanka. Since the major purpose of an annual report is to provide information required by users, the finding that users are not satisfied with the current status of disclosure should be taken seriously by the preparers. The findings of our questionnaire survey highlighted the information needs of seven user groups. The preparers of annual reports needs to consider these findings and should attempt to include them in their annual reports. The regulators, the accounting profession and the other related parties also should undertake similar

surveys from time to time covering all types of users to get an understanding of the information needs of various users. The finding of these studies should be made available to the preparers of annual reports.

(3) To what extent do the listed companies in Sri Lanka disclose information in their annual reports?

One of the major objectives of this study was to measure the extent to which information was disclosed in annual reports. Since an annual report is a general purpose financial report, theoretically it should include all the information that might be required by the users of such reports in making judgement about the company. Therefore, ideally a company should disclose all material information, mandatory or otherwise, about the company which are not available to users from other sources. When the extent of disclosure in Sri Lanka was measured through an overall disclosure index which consisted of 318 items, it was found that the overall disclosure level was 69.8 per cent with voluntary and mandatory disclosure levels being 84.6 and 60 per cent respectively. Thus, in comparison to the disclosure levels of many EMs, it can be concluded that Sri Lanka has a fairly high level of corporate disclosure.

One of the questions that may arise regarding disclosure levels is that why companies are unable to achieve 100 per cent disclosure level. Since companies do not have a choice with regard to mandatory disclosure, it is generally the voluntary disclosures that create huge differences among disclosure levels of companies. One explanation as to why companies are reluctant to disclose certain information would be that they usually suspect that such disclosures would harm their business or

give their rivals a leading edge. Another explanation would be that companies do not know exactly what information, other than mandatory information, to disclose. Whatever their reason would be, companies should be aware that given the recent corporate scandals such as Enron and WorldCom which were caused mainly by lack of correct disclosure, users' are now generally sceptical about companies with low disclosure levels. In general, users' perception is that well managed firms with nothing to hide should not mind being transparent as possible. Therefore, by being fully transparent, companies can gain more by winning the trust of their stakeholders, specially the investors. Hence, for the best interest of companies as well as the market, companies should follow the fundamental principle in capital markets that it is the responsibility of companies themselves to commit to more and better communication with the market.

The institutions such as ICASL, SEC, and CSE and, however, need to study the information needs of users regularly and provide specific guidelines to companies as to what information are sought by the users. At present, the best annual report competition conducted by the ICASL undoubtedly encourages companies in Sri Lanka to improve the information contents in their annual reports. However, the ICASL needs to take appropriate actions to increase participation in this competition and to publish the detailed guidelines used for evaluating the best annual reports with the detailed scores that each company scored.

(4) To what extent do the listed companies in Sri Lanka comply with the statutory disclosure requirements?

According to the mandatory disclosure index scores, which show the extent of compliance with regulations by listed companies in Sri Lanka, the level of compliance of 65 sample companies ranged from 64 to 97.5 per cent with an average of 84.6 per cent. Considering the lack of compliance reported in some disclosure studies in EMs (for example, Wallace, 1988b; Tai et al., 1990; Nicholls and Ahmed, 1995), it can be concluded that the level of compliance in Sri Lanka is considerably high.

Because of the special characteristics including the cultural orientation of EMs, the government and other regulatory authorities in EMs tend to improve corporate disclosures through laws and regulations. This is especially important because the users in EMs are generally unsophisticated and their capacity to interpret and use information is limited (Perera, 1985). Given their unsophistication and perception that companies dress themselves up and present themselves in the best possible light in their annual reports, users tend to be suspicious about the information presented by the management. Therefore, as a measure of building the user confidence, Sri Lanka legalised the SLASs in 1995 making the compliance with them mandatory to all SBE. Accordingly, the auditor of a SBE is required to confirm that financial statements are prepared and presented to the shareholders in accordance with the SLASs. If there is non compliance then it has to be reported by the auditor. Given this strict regulation, every single listed company in Sri Lanka is legally bound to make 100 per cent compliance with the standards. Therefore, although the level of compliance that we observed in this study is high in

comparison to the situation in other countries, according to the Sri Lankan law, any compliance below 100 per cent is not acceptable. However, doubts have been raised by some professional accountants at the time of introducing this law about achieving such a high level of compliance, especially given the vagueness of some of the standards. Moreover, the ability of the regulators and monitoring bodies, such as SEC and SLAASMB, to discover non-compliance and also to take appropriate actions was questionable.

In our examination, we found a number of areas where standards have not been fully followed. A list of mandatory items that were disclosed by less than 50% of sample companies is given in Table 6-11. In general, non disclosure was observed in relation to the following areas: (1) retirement benefit cost, (2) depreciation on non-current assets, (3) segmental information, (4) accounting policies, (5) related party transactions, (6) accounting for investments, (7) inventories, (7) cash flow statement, (7) market information such as market values of share prices, accounting ratios, etc, and (8) consolidated financial statements.

The examinations of annual reports conducted by SEC and SLAASMB have also found deviations from regulations. According to the SLAASMB reports, significant deviations that were observed in 2000 were 17 per cent and in 2001 it dropped to about 9 per cent. However, no action has been taken against any of the companies that did not comply with standards on the grounds of materiality. Although the SLAASMB is responsible for monitoring the compliance with standards since its inception in 1995, it was only in 2002 that it decided to publish the names

of companies that have not followed proper accounting standards in preparing their financial statements. Once again, no action has been taken against any of those companies. The auditors of these companies have also failed to discover the deviations. As such, users' in Sri Lanka seem to feel that some companies are not maintaining proper accounts and the auditors cannot be relied upon. If the users, specially the investors, lose their faith in the stock market from which companies raise cheap funds, it will create a very unhealthy situation for the further development of the stock market.

In order to improve the level of compliance there are a number of areas where actions need to be taken. Firstly, the auditing profession needs to be regulated to a certain degree. The SLAASAct does not seem to regulate the auditing profession and has not set up machinery to monitor the work of the auditors. Although some regard the auditing profession as one that can regulate itself, until now there seem to be many areas where large variations are visible between audit firms with regard to the way audit is conducted and reports are prepared. The long association between auditors and management also casts suspicion among the general public and is perceived to create a sort of 'cohabitation' arrangement. Thus, as a solution regulators need to fix the auditors tenure for a period of 2-3 years and create a mechanism to rotate auditors.

Secondly, clear instructions need to be given to preparers not to follow the industry practices if they contravene with the SLASs. One of the major reasons for deviating from the SLASs is that companies continue to follow the industry accounting practices that have been in use for many years without paying much attention to the accounting treatment

recommended by the SLASs. However, since such practices have been in use for years before the standards were drawn up, companies should be given time to comply with them. The regulators should study this type of practices and educate the preparers on the existence such incorrect accounting treatments and the corrective actions that need to be taken.

Another area where companies find it difficult to comply with SLASs is the vagueness of some of the standards. This is specially related to the alternative treatments suggested by some SLASs. However, since only a small number of SLASs have allowed such alternative options, the explanations given by some preparers and auditors that they interpreted a standard differently cannot be considered a valid reason for non-compliance. If preparers or auditors find any SLASs unclear or vague, they should seek advice from 'Urgent Issues Task Force' which consists of a panel of leading accounting professionals to give an interpretation to a standard which is ambiguus.

Given the cultural orientation of Sri Lanka, it is very unlikely that many companies voluntarily take action to increase the level of compliance. Therefore, it is important that regulators take strict actions against companies that do no not comply with regulations. Currently, when a deviation is discovered regulators inform company concerned with the expectation of voluntary corrections in its accounts. Since various users may take decisions based on financial statements which have not been prepared in accordance with regulations, deviations should be disclosed to the public. Also, strict penalties must be imposed against companies that do not comply with accounting standards.

Finally, irrespective of the fact that companies are legally bound to comply with accounting standards and disclose the stipulated information, companies should be made to understand that disclosure of information is a social responsibility of companies rather than a burden saddled on them. Therefore, in order to fulfil this responsibility, companies should create appropriate mechanisms to ensure that all regulations are complied with.

(5) What additional information is required to satisfy the needs of users?

On the basis of the responses received from the members of the seven user groups, 86 information items were ranked according to the importance of each item to individual user group. These 86 items were also ranked on the basis of importance attached to each item by all user groups.

In general, the information items that have been ranked highly in terms of importance but not frequently disclosed in annual reports included the following: (1) future operating activities and plans (2) future financial commitments, (3) financial objectives and cash projection for the next year, (4) market prices of non-current assets, breakdown of expenses, (5) details of human resources, and (6) details of return on capital and growth of earnings. Considering the high degree of importance attached to these items, it is necessary that companies take steps to include them in their annual reports.

Another important area on which information is sought by users is corporate governance. As mentioned before, owing to a number of corporate scandals and recent unfavourable media reports about the way in which some companies have been managed in DMs, there is great deal of

scepticism about corporate governance even in EMs. The recently reported allegation by the former Chairman of the Ceylon Chamber of Commerce that the business community in Sri Lanka was corrupt, unethical, and not transparent is an indication of this situation (Mendis, 2003). Given this background, it is realistic that the users have now become much more interested in corporate governance issues. In view of this situation, the SLACA recently launched a competition for the award of the Best Corporate Governance disclosures for companies listed on CSE with the aim of helping companies to build investor confidence at a time when post-Enron concerns still continue to linger. In fact, many surveys across the world have shown that investors pay more for shares of companies which have good corporate governance practices.

Finally, it must be noted that while continuing to increase both the quantity and quality of information, companies should make special attempt to increase the reliability and credibility of the information provided in annual reports. Considering the unsophisticated nature of users, it is also important for companies to use simple and plain language with less technical explanations in their annual reports. Companies should also be encouraged to use graphs, charts, photos etc whenever possible to present information in a manner easy to understand. While encouraging companies to make these improvements in their annual reports, the regulators should play an additional role in educating the users on how the information in annual reports is read, understood and interpreted. This can be achieved through seminars and workshops as well as television and other mass media. Taking the above steps by both the companies and the

regulators is necessary for increasing the usefulness and use of annual reports in Sri Lanka.

7.4 Future research

Prior to this study, no research had made any attempt to examine the information needs of annual report users and the corporate disclosure practices in Sri Lanka. Therefore, this study is a stepping stone for future research in this area. Mentioned below are some aspects of this area that deserve future research.

(1) Since the scope of this study was limited to an examination of the financial disclosure in corporate annual reports which constitute the main type of reports used in periodic disclosures, no attempt was made in this study to examine the other two types of financial disclosure, namely, initial disclosure and ad-hoc disclosure or to examine the other reports used in periodic disclosures. Therefore, further research should expand this scope to cover other areas of disclosure as well.

(2) Due to the vast differences in disclosure requirements and the lack of availability of annual reports in some business sectors such as banking, finance, insurance and investment trust, they had to be excluded from the annual report analysis of this study. Also, the sample companies were limited to listed public companies in Sri Lanka. Therefore, attempt should be made in the future to cover all business sectors as well as other business enteritis such as unlisted companies.

(3) In this study, the extent of disclosure by Sri Lankan companies was measured in relation to only one financial year (cross sectional). In order to gain more complete understanding of the state of disclosure with

relevant changes in the disclosure environment, it is useful to examine the level of disclosure for a period of time (Longitudinal). Therefore, future researchers should attempt to evaluate how the level of disclosure changes over the years by conducting a longitudinal study as well.

(4) The relationship between disclosure and company specific characteristics was examined in this study only in relation to two variables—age and size. Since there are many other company-specific characteristics such as profitability, liquidity, size of audit firm, etc. that can explain this relationship, it may be useful to examine the association between disclosure and company specific-characteristics in detail with more explanatory variables using a multi regression analysis.

(5) It is also important to compare the results of this study with those of similar studies done in both DMs and EMs. However, such comparison is not meaningful, if the same research methodology is not employed by all studies. Most of the previous disclosure studies have utilised a disclosure index that has not been used in another study, making their results incomparable with those of other studies. Therefore, attempt should be made to replicate this study in other countries so that a meaningful insight can be gained through comparison.

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Appendixes

Appendix-1

CLASSIFICATION OF ECONOMIES BY INCOME AND REGION-1999

No	Income Group	Sub-Group	Region	Country Name
1	Low Income		East and Southern Africa	Angola
2	Low Income		East and Southern Africa	Burundi
3	Low Income		East and Southern Africa	Comoros
4	Low Income		East and Southern Africa	Congo Democratic Republic
5	Low Income		East and Southern Africa	Eritrea
6	Low Income		East and Southern Africa	Ethiopia
7	Low Income		East and Southern Africa	Kenya
8	Low Income		East and Southern Africa	Lesotho
9	Low Income		East and Southern Africa	Madagascar
10	Low Income		East and Southern Africa	Malawi
11	Low Income		East and Southern Africa	Mozambique
12	Low Income		East and Southern Africa	Rwanda
13	Low Income		East and Southern Africa	Somalia
14	Low Income		East and Southern Africa	Sudan
15	Low Income		East and Southern Africa	Tanzania
16	Low Income		East and Southern Africa	Uganda
17	Low Income		East and Southern Africa	Zambia
18	Low Income		East and Southern Africa	Zimbabwe
19	Low Income		West Africa	Benin
20	Low Income		West Africa	Burkina Faso
21	Low Income		West Africa	Cameroon
22	Low Income		West Africa	Central African Republic
23	Low Income		West Africa	Chad
24	Low Income		West Africa	Congo Republic
25	Low Income		West Africa	Cote d' Ivoire
26	Low Income		West Africa	Gambia
27	Low Income		West Africa	Ghana
28	Low Income		West Africa	Guinea
29	Low Income		West Africa	Guinea-Bissaue
30	Low Income		West Africa	Liberia
31	Low Income		West Africa	Mali
32	Low Income		West Africa	Mauritania
33	Low Income		West Africa	Niger
34	Low Income		West Africa	Nigeria
35	Low Income		West Africa	Sao Tome and Principe
36	Low Income		West Africa	Senegal
37	Low Income		West Africa	Sierra Leone
38	Low Income		West Africa	Togo
39	Low Income		East Asia and Pacific	Cambodia
40	Low Income		East Asia and Pacific	China

No	Income Group	Sub-Group	Region	Country Name
41	Low Income		East Asia and Pacific	Indonesia
42	Low Income		East Asia and Pacific	Korea Democratic Republic
43	Low Income		East Asia and Pacific	Lao PDR
44	Low Income		East Asia and Pacific	Mongolia
45	Low Income		East Asia and Pacific	Myanmar
46	Low Income		East Asia and Pacific	Solomon Islands
47	Low Income		East Asia and Pacific	Vietnam
48	Low Income		South Asia	Afghanistan
49	Low Income		South Asia	Bangladesh
50	Low Income		South Asia	Bhutan
51	Low Income		South Asia	India
52	Low Income		South Asia	Nepal
53	Low Income		South Asia	Pakistan
54	Low Income		Eastern Europe and Central Asia	Armenia
55	Low Income		Eastern Europe and Central Asia	Azebaijan
56	Low Income		Eastern Europe and Central Asia	Kyrgyz Republic
57	Low Income		Eastern Europe and Central Asia	Moldova
58	Low Income		Eastern Europe and Central Asia	Tajikistan
59	Low Income		Eastern Europe and Central Asia	Turkmenistan
60	Low Income		Middle East	Yemen Republic
61	Low Income		Americas	Haiti
62	Low Income		Americas	Honduras
63	Low Income		Americas	Nicaragua
64	Middle Income	Lower	East and Southern Africa	Djibouti
65	Middle Income	Lower	East and Southern Africa	Namibia
66	Middle Income	Lower	East and Southern Africa	South Africa
67	Middle Income	Lower	East and Southern Africa	Swaziland
68	Middle Income	Lower	West Africa	Cape Verde
69	Middle Income	Lower	West Africa	Equatorial Guinea
70	Middle Income	Lower	East Asia and Pacific	Fiji
71	Middle Income	Lower	East Asia and Pacific	Kiribati
72	Middle Income	Lower	East Asia and Pacific	Marshall Islands
73	Middle Income	Lower	East Asia and Pacific	Micronesia, Federal State
74	Middle Income	Lower	East Asia and Pacific	Papua New Guinea
75	Middle Income	Lower	East Asia and Pacific	Philippines
76	Middle Income	Lower	East Asia and Pacific	Samoa
77	Middle Income	Lower	East Asia and Pacific	Thailand
78	Middle Income	Lower	East Asia and Pacific	Tonga
79	Middle Income	Lower	East Asia and Pacific	Vanuatu
80	Middle Income	Lower	South Asia	Maldives
81	Middle Income	Lower	South Asia	Sri Lanka

No	Income Group	Sub-Group	Region	Country Name
82	Middle Income	Lower	Eastern Europe and Central Asia	Albania
83	Middle Income	Lower	Eastern Europe and Central Asia	Belarus
84	Middle Income	Lower	Eastern Europe and Central Asia	Bosnia and Herzegovina
85	Middle Income	Lower	Eastern Europe and Central Asia	Bulgaria
86	Middle Income	Lower	Eastern Europe and Central Asia	Georgia
87	Middle Income	Lower	Eastern Europe and Central Asia	Kazakhstan
88	Middle Income	Lower	Eastern Europe and Central Asia	Latvia
89	Middle Income	Lower	Eastern Europe and Central Asia	Lithuania
90	Middle Income	Lower	Eastern Europe and Central Asia	Macedonia FYR
91	Middle Income	Lower	Eastern Europe and Central Asia	Romania
92	Middle Income	Lower	Eastern Europe and Central Asia	Russian Federation
93	Middle Income	Lower	Eastern Europe and Central Asia	Ukraine
94	Middle Income	Lower	Eastern Europe and Central Asia	Uzbekistan
95	Middle Income	Lower	Eastern Europe and Central Asia	Yugoslavia Federal Republic
96	Middle Income	Lower	Middle East	Iran, Islamic Republic
97	Middle Income	Lower	Middle East	Iraq
98	Middle Income	Lower	Middle East	Jordan
99	Middle Income	Lower	Middle East	Syrian Arab Republic
100	Middle Income	Lower	Middle East	West Bank and Gaza
101	Middle Income	Lower	North Africa	Algeria
102	Middle Income	Lower	North Africa	Egypt, Arab Republic
103	Middle Income	Lower	North Africa	Morocco
104	Middle Income	Lower	North Africa	Tunisia
105	Middle Income	Lower	Americas	Belize
106	Middle Income	Lower	Americas	Bolivia
107	Middle Income	Lower	Americas	Colombia
108	Middle Income	Lower	Americas	Costa Rica
109	Middle Income	Lower	Americas	Cuba
110	Middle Income	Lower	Americas	Dominica
111	Middle Income	Lower	Americas	Dominican Republic
112	Middle Income	Lower	Americas	Ecuador
113	Middle Income	Lower	Americas	El Salvador
114	Middle Income	Lower	Americas	Guatemala
115	Middle Income	Lower	Americas	Guyana
116	Middle Income	Lower	Americas	Jamaica
117	Middle Income	Lower	Americas	Paraguay
118	Middle Income	Lower	Americas	Peru
119	Middle Income	Lower	Americas	St. Vincent and the Grenadines
120	Middle Income	Lower	Americas	Suriname
121	Middle Income	Upper	East and Southern Africa	Botswana
122	Middle Income	Upper	East and Southern Africa	Mauritius

No	Income Group	Sub-Group	Region	Country Name
123	Middle Income	Upper	East and Southern Africa	Mayotte
124	Middle Income	Upper	East and Southern Africa	Seychelles
125	Middle Income	Upper	West Africa	Gabon
126	Middle Income	Upper	East Asia and Pacific	American Samoa
127	Middle Income	Upper	East Asia and Pacific	Korea Republic
128	Middle Income	Upper	East Asia and Pacific	Malaysia
129	Middle Income	Upper	East Asia and Pacific	Palau
130	Middle Income	Upper	Eastern Europe and Central Asia	Croatia
131	Middle Income	Upper	Eastern Europe and Central Asia	Czech Republic
132	Middle Income	Upper	Eastern Europe and Central Asia	Estonia
133	Middle Income	Upper	Eastern Europe and Central Asia	Hungary
134	Middle Income	Upper	Eastern Europe and Central Asia	Poland
135	Middle Income	Upper	Eastern Europe and Central Asia	Slovak Republic
136	Middle Income	Upper	Rest of Europe	Isle of Man
137	Middle Income	Upper	Rest of Europe	Turkey
138	Middle Income	Upper	Middle East	Bahrain
139	Middle Income	Upper	Middle East	Lebanon
140	Middle Income	Upper	Middle East	Oman
141	Middle Income	Upper	Middle East	Saudi Arabia
142	Middle Income	Upper	North Africa	Libya
143	Middle Income	Upper	Americas	Antigua and Barbuda
144	Middle Income	Upper	Americas	Argentina
145	Middle Income	Upper	Americas	Barbados
146	Middle Income	Upper	Americas	Brazil
147	Middle Income	Upper	Americas	Chile
148	Middle Income	Upper	Americas	Grenada
149	Middle Income	Upper	Americas	Guadeloupe
150	Middle Income	Upper	Americas	Mexico
151	Middle Income	Upper	Americas	Panama
152	Middle Income	Upper	Americas	Puerto Rico
153	Middle Income	Upper	Americas	St. Kitts and Nevis
154	Middle Income	Upper	Americas	St. Lucia
155	Middle Income	Upper	Americas	Trinidad and Tobago
156	Middle Income	Upper	Americas	Uruguay
157	Middle Income	Upper	Americas	Venezuela
158	High Income	OECD	East Asia and Pacific	Australia
159	High Income	OECD	East Asia and Pacific	Japan
160	High Income	OECD	East Asia and Pacific	New Zealand
161	High Income	OECD	Rest of Europe	Austria
162	High Income	OECD	Rest of Europe	Belgium
163	High Income	OECD	Rest of Europe	Denmark

No	Income Group	Sub-Group	Region	Country Name
164	High Income	OECD	Rest of Europe	Finland
165	High Income	OECD	Rest of Europe	France
166	High Income	OECD	Rest of Europe	Germany
167	High Income	OECD	Rest of Europe	Greece
168	High Income	OECD	Rest of Europe	Iceland
169	High Income	OECD	Rest of Europe	Ireland
170	High Income	OECD	Rest of Europe	Italy
171	High Income	OECD	Rest of Europe	Luxembourg
172	High Income	OECD	Rest of Europe	Netherlands
173	High Income	OECD	Rest of Europe	Norway
174	High Income	OECD	Rest of Europe	Portugal
175	High Income	OECD	Rest of Europe	Spain
176	High Income	OECD	Rest of Europe	Sweden
177	High Income	OECD	Rest of Europe	Switzerland
178	High Income	OECD	Rest of Europe	United Kingdom
179	High Income	OECD	Americas	Canada
180	High Income	OECD	Americas	United States
181	High Income	Non-OECD	East and Southern Africa	Reunion
182	High Income	Non-OECD	East Asia and Pacific	Brunei
183	High Income	Non-OECD	East Asia and Pacific	French Polynesia
184	High Income	Non-OECD	East Asia and Pacific	Guam
185	High Income	Non-OECD	East Asia and Pacific	Hong Kong, China
186	High Income	Non-OECD	East Asia and Pacific	Macao
187	High Income	Non-OECD	East Asia and Pacific	New Caledonia
188	High Income	Non-OECD	East Asia and Pacific	N. Mariana Islands
189	High Income	Non-OECD	East Asia and Pacific	Singapore
190	High Income	Non-OECD	East Asia and Pacific	Taiwan, China
191	High Income	Non-OECD	Eastern Europe and Central Asia	Slovenia
192	High Income	Non-OECD	Rest of Europe	Andorra
193	High Income	Non-OECD	Rest of Europe	Channel Islands
194	High Income	Non-OECD	Rest of Europe	Cyprus
195	High Income	Non-OECD	Rest of Europe	Faeroe Islands
196	High Income	Non-OECD	Rest of Europe	Greenland
197	High Income	Non-OECD	Rest of Europe	Liechtenstein
198	High Income	Non-OECD	Rest of Europe	Monaco
199	High Income	Non-OECD	Middle East	Israel
200	High Income	Non-OECD	Middle East	Kuwait
201	High Income	Non-OECD	Middle East	Qatar
202	High Income	Non-OECD	Middle East	United Arab Emirates
203	High Income	Non-OECD	North Africa	Malta
204	High Income	Non-OECD	Americas	Aruba

No	Income Group	Sub-Group	Region	Country Name
205	High Income	Non-OECD	Americas	Bahamas, The
206	High Income	Non-OECD	Americas	Bermuda
207	High Income	Non-OECD	Americas	Cayman Islands
208	High Income	Non-OECD	Americas	French Guiana
209	High Income	Non-OECD	Americas	Martinique
210	High Income	Non-OECD	Americas	Netherlands Antilles
211	High Income	Non-OECD	Americas	Virgin Islands (U.S)

Source: World Development Report, 1999/2000

Anura De Zoysa (Bcom, MEc, ACA, CMA)

University of Wollongong

Mr. T.C.T. Jayaweera
61, Modara Road, Egodauyana
Moratuwa

Dear Mr. Jayaweera

The purpose of this letter is to seek your kind help for a research study on the corporate financial disclosure practices in Sri Lanka. As you may be well aware there has been a great deal of discussion on the importance of improving corporate financial disclosures for the development of stock markets particularly in emerging economies such as Sri Lanka. As a part of a major study on this aspect, the enclosed questionnaire is being sent to various users of company annual reports in Sri Lanka for the purpose of obtaining their views on some aspects of financial disclosure.

The major objectives of this questionnaire are to determine the information needs of various types of users and to measure the extent of importance of some selected item of information included in company annual reports. The questionnaire is divided into two sections. The first section deals the usage patterns of annual reports. The second section deals with items that should or could appear in corporate annual reports.

However, the success of this research will largely depend on the extent of responses received from the various types of users of corporate annual reports, such as accountants, share brokers, bankers and investors. Therefore, your responses will be very important for the success of this research. All responses to this questionnaire will be treated with the strictest confidence and will be used for research purposes only.

Considering the importance of the subject matter and the lack of previous research in this area, I would earnestly request you to complete the enclosed questionnaire and return it to me by mailing it to the Sri Lankan address given on the reply-paid envelope provided.

Your kind cooperation and help in this research study will be greatly appreciated.

Thank you in advance for your cooperation and help.

Yours sincerely,

Anura De Zoysa
PhD student, Department of Accounting & Finance
University of Wollongong, Australia.

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Appendix-3: QUESTIONNAIRE

A QUESTIONNAIRE SURVEY

ACCOUNTING DISCLOSURES IN ANNUAL REPORTS OF PUBLIC COMPANIES IN SRI LANKA

1. **Please indicate [✓] your occupation.**

- ☐ Partner/ Accountant in an audit firm
- ☐ Accountant in a company
- ☐ Manager/Executive in a company
- ☐ Manager/Executive in the Govt.
- ☐ Employee of a company/ Govt.
- ☐ Banker
- ☐ Assessor/ Tax officer
- ☐ Lecturer / Researcher
- ☐ Financial analysts/ consultant
- ☐ Stock broker
- ☐ Other (please specify) :...........................

2. **Highest Educational qualification**
(Please tick only one box.)

- ☐ Primary
- ☐ G.C.E (Ordinary level)
- ☐ G.C.E (Advanced level)
- ☐ Diploma
- ☐ Bachelor's Degree
- ☐ Master's Degree
- ☐ Doctor's Degree
- ☐ Other (Please specify) :..............

3. **Accounting Knowledge / Qualifications**
(Please tick appropriate box or boxes.)

- ☐ None
- ☐ G.C.E (Ordinary level) / (Advanced level)
- ☐ Diploma
- ☐ Bachelor's Degree
- ☐ ICA / CIMA parts, MAAT/SAT
- ☐ Master's Degree/ Doctoral Degree
- ☐ ICMA/ CIMA / ACCA membership
- ☐ ICA membership
- ☐ Other (Please specify):...........................

4. **How long have you been in your present profession ?**
(Please tick only one box.)

- ☐ Less than one year
- ☐ 1 – 5 years
- ☐ 5 – 10 years
- ☐ 10 – 15 years
- ☐ 15 - 20 years
- ☐ Over 20 years

5. **In how many companies have you purchased shares?**
(Please tick only one box.)

- ☐ None
- ☐ One company
- ☐ 2 – 5 companies
- ☐ 6 – 10 companies
- ☐ 11 - 20 companies
- ☐ Over 20 companies

6. **Do you use information given in company annual reports for making a decision?** [Decision may be to buy, sell, or hold shares; to approve a loan to a company; to advise a client; to evaluate the performance of a company, etc.] (Please tick only one box.)

☐ Never ☐ Rarely ☐ Sometimes ☐ Usually ☐ Always

7. **For what purpose(s) do you use company annual reports?**
(Please tick appropriate box or boxes.)

- ☐ to decide whether to buy, hold or sell shares
- ☐ to grant a loan / trade credit to a company
- ☐ to advise a client
- ☐ to make decisions for a client or employer
- ☐ to evaluate income tax liability
- ☐ to make decisions in managing the company
- ☐ to know about the company for academic purposes
- ☐ Other (Please specify):.......................................

8. To know about the financial position and operating performance of a company, how important, in your opinion, are the following sources of information?

	Least important	[Please circle only one.]			Most important
Advice of friends	1	2	3	4	5
Stockbrokers' advice	1	2	3	4	5
Advisory cervices of accounting firms	1	2	3	4	5
Communication with company management	1	2	3	4	5
News paper reports and other media reviews	1	2	3	4	5
Company annual reports	1	2	3	4	5
Stock market publications	1	2	3	4	5
Tips and rumours	1	2	3	4	5
Personal knowledge about the company	1	2	3	4	5
Information provided on the Internet	1	2	3	4	5
Other (Please specify)...	1	2	3	4	5

9. Do you think that the company annul report(s) that you use contain adequate information necessary to serve your purpose of using them? (Please tick only one box.)

☐ Yes ☐ No ☐ Partially adequate

10. If your answer to the above question is "no" or "partially adequate", please mention what information you think necessary but not provided in the annual reports.

____

____

11. What ranking of importance would you give to the following parts of a company annual report?

	Least important	[Please circle only one.]			Most important
Balance sheet	1	2	3	4	5
Profit and Loss Account	1	2	3	4	5
Cash flow statement	1	2	3	4	5
Accounting polices	1	2	3	4	5
Notes to accounts	1	2	3	4	5
Movement in shareholder's funds	1	2	3	4	5
Auditors' Report	1	2	3	4	5
Chairman's Report	1	2	3	4	5
Directors' Report	1	2	3	4	5
Value added statements	1	2	3	4	5
Statistical data/ summary of operations/ historical data	1	2	3	4	5

12. As a user of company annual reports, in your opinion what problems restrict their use?
(Please tick appropriate box or boxes.)

☐ Difficulty of obtaining annual reports
☐ Delay in publishing annul reports
☐ Lack of adequate financial information in annual reports
☐ Lack of reliable information in annul reports
☐ Lack of simplicity in the contents and presentation of information
☐ Other (Please specify):..

13. There is a time lag between the end of an accounting period and the date of publishing an annul report. What is your personal observation of this time lag? (Please tick only one box)

☐ This time lag is unavoidable. ☐ This time lag can be reduced

14. How important are the following for the improvement of corporate disclosures in Sri Lanka in terms of their quality and quantity?

	Least important	[Please circle only one.]			Most important
Corporate disclosure regulations of Colombo Stock Exchange	1	2	3	4	5
Disclosure requirements of the Securities and Exchange Commission	1	2	3	4	5
Sri Lanka Accounting and Auditing Standards	1	2	3	4	5
Existing Companies Act (No 17 of 1982)	1	2	3	4	5
Introduction of a new Companies Act	1	2	3	4	5
Best Annual Report competition conducted by ICASL	1	2	3	4	5
Graphical presentations	1	2	3	4	5

PART II

This part of the questionnaire includes a list of selected items of information that could be provided in the annual reports of companies in Sri Lanka. Hence, you are requested to indicate the importance of each item on the seven-point scale provided. Your frame of reference of judging the items should be that of a person using the annual report as a supporting tool for making decisions about a company. The decisions may be to buy, sell, or hold shares; to approve a loan to a company; to advice a client; or to evaluate the performance of a company, etc.

	Information Item	Least important	[Please circle only one.]			Most important
15.	Total revenue and breakdown of various sources of revenue	1	2	3	4	5
16.	Operating profit before abnormal and extraordinary items	1	2	3	4	5
17.	Breakdown of operating expenses	1	2	3	4	5
18.	Cost of goods sold	1	2	3	4	5
19.	Breakdown of expenses into fixed and variable components	1	2	3	4	5
20.	Amount of depreciation	1	2	3	4	5
21.	Goodwill and other intangible assets written off	1	2	3	4	5
22.	Total non-recurring gains or losses reported	1	2	3	4	5
23.	Total advertising and publicity expenses	1	2	3	4	5
24.	Total research and development expenses	1	2	3	4	5
25.	Raw materials consumed and their breakdown	1	2	3	4	5
26.	Wages and salaries	1	2	3	4	5
27.	Directors' emoluments	1	2	3	4	5
28.	Maintenance and repair expenses	1	2	3	4	5
29.	Income tax and provision therein	1	2	3	4	5
30.	Bad debts written off and provision for bad debts	1	2	3	4	5
31.	Total interest including breakdown of long & short term loans	1	2	3	4	5
32.	Amount and breakdown of staff welfare	1	2	3	4	5
33.	Aggregate amount of dividends paid	1	2	3	4	5
34.	Contributions and donations	1	2	3	4	5

		Least important	[Please circle only one]			Most important
35.	Auditor's remuneration/ fees	1	2	3	4	5
36.	Total assets including breakdown into fixed and current assets	1	2	3	4	5
37.	Cost and breakdown of securities and investments	1	2	3	4	5
38.	Market value of securities and investments	1	2	3	4	5
39.	Cost and breakdown of inventories (Raw materials, W-I-P, etc)	1	2	3	4	5
40.	Book value of goodwill and other intangible assets	1	2	3	4	5
41.	Total and breakdown of current liabilities	1	2	3	4	5
42.	Total and breakdown of advances, deposits and prepayments	1	2	3	4	5
43.	Total tax and differed tax liability	1	2	3	4	5
44.	Acquisition or disposal of property, plant and equipment during the year	1	2	3	4	5
45.	Total accumulated depreciation on property, plant and equipment	1	2	3	4	5
46.	Shareholders' equity and number of shares outstanding	1	2	3	4	5
47.	Total and breakdown of long term borrowings	1	2	3	4	5
48.	Date of maturity, interest rates, and extent of securities of long term borrowings	1	2	3	4	5
49.	Details of contingent liabilities	1	2	3	4	5
50.	Outstanding gratuity/ pension obligations	1	2	3	4	5
51.	Sundry debtors less allowances	1	2	3	4	5
52.	Reserves, provisions and their breakdown	1	2	3	4	5
53.	Method used to determine cost of inventories eg., FIFO, LIFO	1	2	3	4	5
54.	Method and rates of depreciation	1	2	3	4	5
55.	Foreign currency transactions	1	2	3	4	5
56.	Amortisation of intangible assets	1	2	3	4	5
57.	Method used for marketable securities and investments	1	2	3	4	5
58.	Taxation polices	1	2	3	4	5
59.	Comparative financial statements	1	2	3	4	5
60.	Summary of important operating and financial data for the last 5 years	1	2	3	4	5
61.	Summary of important operating and financial data for the last 10 years	1	2	3	4	5
62.	Earnings per share and the basis of calculation	1	2	3	4	5
63.	Rate of growth of earning per share	1	2	3	4	5
64.	Dividend per share	1	2	3	4	5
65.	Breakdown of results by segments (products, customer classes, etc.)	1	2	3	4	5
66.	Production capacity and actual output	1	2	3	4	5
67.	Details of major products/ services including information on new and potentially new products	1	2	3	4	5
68.	Details of raw materials imported and local raw material contents of the finished goods.	1	2	3	4	5

		Least important	[Please circle only one.]			Most important
69.	Details of finished goods exported	1	2	3	4	5
70.	History and development of the company	1	2	3	4	5
71.	Description of marketing network for finished goods	1	2	3	4	5
72.	Market share and competitive position of the company	1	2	3	4	5
73.	Market price of company's share	1	2	3	4	5
74.	Description of major plants, warehouses and offices and their locations	1	2	3	4	5
75.	Ageing schedule of the debtors	1	2	3	4	5
76.	Information on managers and staff (Eg. Number of employees in the company)	1	2	3	4	5
77.	Indication of employee morale such as the rate of absenteeism, turnover and frequency of labour disputes.	1	2	3	4	5
78.	Details of post balance sheet events	1	2	3	4	5
79.	Discussion of the firm's results for previous years with reasons for changes	1	2	3	4	5
80.	Factors which will influence future results	1	2	3	4	5
81.	Industry trend, country and company information	1	2	3	4	5
82.	Discussion of the impact on inflation on the financial results	1	2	3	4	5
83.	Statement of dividend polices	1	2	3	4	5
84.	Details of corporate "social responsibility" polices and programs	1	2	3	4	5
85.	Statement of company share option/ bonus plan	1	2	3	4	5
86.	Names and address of the company's directors, functional responsibilities and major outside affiliations	1	2	3	4	5
87.	Structure of share ownership (individuals, institutions, etc)	1	2	3	4	5
88.	Shares held by directors	1	2	3	4	5
89.	Statement of directors' responsibility	1	2	3	4	5
90.	Disclosure of future plans and targets	1	2	3	4	5
91.	Capital expenditure for the next year	1	2	3	4	5
92.	Cash projection for the next year.	1	2	3	4	5
93.	Financial objectives for the next year	1	2	3	4	5

THANK YOU FOR COMPLETING THE QUESTIONNAIRE.

Appendix-4

DETAILED PROFILE OF SAMPLE COMPANIES

NAME OF THE COMPANY	TYPE	YEAR OF ESTAB	Financial Status and Operating Performance (Rs. Millions)			
			PROFIT BEFORE TAX	SALES	CAPITAL EMPLOYED	EQUITY CAPITAL
ACL CABLES	Manufacturing	1962	1658	12646	1003	914
ACL PLASTICS	Manufacturing	1991	163	1744	1925	1806
ACME PRINTING	Manufacturing	1949	72	3529	2959	1258
AGALAWATTE PLANTATIONS LTD.	Plantation	1992	509	7935	12340	4704
AITKEN SPENCE HOTEL OLDINGS LTD.	Hotel	1978	2137	12709	21017	18691
ASIAN COTTON MILLS LTD	Footwear & Textile	1967	-242	818	2131	831
ASIRI HOSPITAL LTD.	Services	1980	1328	4520	4232	3642
ASSOCIATED MOTORWAYS LTD.	Motors	1949	1055	17689	8631	7167
ASSOCIATED PROPERTY DEVELOPMENT LTD.	Land	1983	66	89	327	295
BATA SHOE COMPANY OF CEYLON LTD.	Footwear & Textile	1950	-729	11323	5727	4871
BLUE DIOMAND JEWELLERY	Manufacturing	1990	-1387	672	4421	3515
BOGALA GRAPHITE	Manufacturing	1991	-1198	1125	747	52
C.W.MACKIE & CO. LTD.	Trading	1923	-3865	19920	5539	3751
CARGILLS CEYLON LTD.	Stores	1946	468	22532	3614	3312
CENTRAL INDUSTRIES LTD	Manufacturing	1984	78	2812	2723	2204
CEYLINCO SEYLAN DEVELOPMENT LTD.	Land	1992	51	662	23527	18591
CEYLON COLD STORES LTD	Beverage	1894	2204	19601	15867	14086
CEYLON GLASS CO.	Manufacturing	1956	218	6901	8291	6785
CEYLON GRAIN ELAVATORS	Manufacturing	1982	177	38761	21835	19821
CEYLON HOLIDAY RESORTS LTD.	Hotel	1966	-185	2187	10106	8399
CEYLON TOBACCO CO.	Beverage	1932	12302	235406	22258	20566
DANKOTUWA PORCELAIN LT	Manufacturing	1984	540	6772	6145	5641
DIESEL & MOTOR ENGINEERING COMPANY LTD.	Motors	1945	1151	14949	5148	4528
DIPPED PRODUCT	Manufacturing	1976	1779	22210	25320	13391
ELASTOMERIC ENGINEERING CO.LTD	Manufacturing	1983	833	3391	5943	5407
EQUITY TWO LTD.	Land	1990	28	170	2071	1722
GLAXO WELCOME CEYLON LTD	Chemicals	1956	566	7495	2861	2570
HABARANA LODGE LTD.	Hotel	1978	439	1397	2178	1910
HABARANA WALK INN LTD.	Hotel	1973	578	1276	1165	1132
HAYLES LTD	Diversified	1952	8539	90003	72588	52135
HAYLEYS PHOTO PRINTED LTD.	Services	1982	171	4100	611	555

NAME OF THE COMPANY	TYPE	YEAR OF ESTAB	Financial Status and Operating Performance (Rs. Millions)			
			PROFIT BEFORE TAX	SALES	CAPITAL EMPLOYED	EQUITY CAPITAL
HAYTECH MARKETING LTD.	Trading	1987	147	2853	532	372
HORANA PLANTATIONS LTD.	Plantation	1992	145	6799	5987	368
HOTEL REEFCOMBER LTD.	Hotel	1973	3	2212	939	860
INTERNATIONAL TOURS HOTLIERS LTD.	Hotel	1973	225	1040	1594	1507
JAMES FINLEY & CO.(COLOMBO)LTD.	Trading	1974	2179	36393	50238	32699
JOHN KEELIS HOLDINGS	Diversified	1979	14696	116712	110165	89327
JOHN KEELLS LTD.	Services	1960	705	2365	6292	5898
KANDY WALK INN LTD.	Hotel	1979	263	1239	1938	1820
KEGALLE PLANTATION LTD.	Plantation	1992	389	6085	12688	5119
LANKA CEMENT LTD	Manufacturing	1981	-1932	616	11480	1986
LANKA CERAMIC LTD	Manufacturing	1991	1758	43265	33180	21328
LANKA MILK FOODS	Beverage	1981	918	203125	4899	4375
LANKA QALUMINIUM INDUSTRIES LTD	Manufacturing	1983	587	3849	2162	1930
LANKA TILES LTD	Manufacturing	1983	830	1262	6124	5726
LANKA WALLTILE LTD	Manufacturing	1975	2188	25390	23250	12837
LANKEM CEYLON LTD	Chemicals	1964	-372	33983	26671	5899
MAHAWELLI REACH HOTEL LTD.	Hotel	1973	-114	1743	4070	1116
MASKELIYA PLANTATIONS LTD.	Plantation	1992	1394	12712	16595	6861
METAL PACKAGING LTD	Manufacturing	1983	59	2583	2313	2074
MIKECHRIS INDUSTRIES LTD	Manufacturing	1979	-139	1034	193	90
MILLERS LTD.	Stores	1921	955	37354	6796	6403
PROPERTY DEVELOPMENT LTD.	Land	1980	2299	1926	11413	9377
RICHARD PIERI 'S EXPORTS LTD.	Trading	1983	495	7052	5120	4804
ROYAL PALM BEACH HOTEL	Hotel		504	1903	7817	7690
SERENDIB LAND LTD.	Land	1980	55	67	390	374
SIGIRIYA VILLAGE HOTEL	Hotel	1978	130	957	1068	857
STAFFORD HOTELS LTD.	Hotel	1981	280	1214	3968	3713
TANGERINE BEACH HOTEL	Hotel	1980	785	3469	12993	12269
THE LIGHTHOUSE LTD.	Hotel	1994	298	1185	4861	4855
THE LION BREVERY CEYLON LTD	Beverage	1965	741	11328	16356	14348
UNION CARBIDE LANKA LTD	Chemicals	1988	125	1318	677	628
UNITED MOTORS LANKA LTD.	Motors	1945	1737	11842	7831	7700
UPALI INVESTMENT HOLDINGS LTD.	Diversified	1927	82	12852	5771	3254
YORK ARCADE HOLDINGS LTD.	Land	1983	125	292	1749	1489

Appendix-5

LIST OF DISCLOSURE INDEX ITEMS

DI-No	Var-No	Item Name	Q-No
DINO1	PLMAN1	Revenue (Turnover) on the face of the Profit and Loss account	15
DINO2	PLVOL1	Breakdown of the revenue	15
DINO3	PLVOL2	Revenue (Turnover) from export sales	69
DINO4	PLVOL3	Turnover tax & national security levy	15
DINO5	PLVOL4	Net turnover	15
DINO6	PLVOL5	Total cost of sales	18
DINO7	PLVOL6	Breakdown of cost of sales	18
DINO8	PLVOL7	Raw Material consumed	25
DINO9	PLVOL8	Breakdown of raw materials consumed	25
DINO10	PLVOL9	Changes in inventories (finished goods and work in progress)	18
DINO11	PLVOL10	Gross profit	16
DINO12	PLVOL11	Total other income	15
DINO13	PLVOL12	Breakdown of other income	15
DINO14	PLMAN2	Interest, royalties, dividends and rentals on long-term and current investments	15
DINO15	PLMAN3	Income from investments distinguishing between quoted and unquoted	15
DINO16	PLVOL13	Profit/Loss on disposal of current investment	15
DINO17	PLVOL14	Profit/Loss on disposal of fixed assets	15
DINO18	PLVOL15	Total Expenses	17
DINO19	PLMAN4	Analysis of all expenses by nature of expenses (eg. Wages, depreciation etc)	17
DINO20	PLMAN5	Analysis of all expenses by their function (eg. Administrative, selling etc)	17
DINO21	PLVOL16	Analysis of expenses into fixed and variable cost	19
DINO22	PLMAN6	Depreciation	20
DINO23	PLMAN7	Goodwill and other intangibles written off	21
DINO24	PLVOL17	Advertisement and publicity expenses	23
DINO25	PLVOL18	Wages and salaries	26
DINO26	PLVOL19	Executive wages and salaries	26
DINO27	PLVOL20	Breakdown of wages and salaries under expenses categories	26
DINO28	PLMAN8	Directors' emoluments	27
DINO29	PLMAN9	Auditors' remuneration	35
DINO30	PLVOL21	Bad debts written off	30
DINO31	PLVOL22	Provision for doubtful debts	30

DI-No	Var-No	Item Name	Q-No
DINO32	PLVOL23	Maintenance and repairs expenses	28
DINO33	PLVOL24	Retirement benefit expense	32
DINO34	PLMAN10	Research and development costs recognised as an expense in the period	24
DINO35	PLMAN11	Operating profit shown on the face of Profit and Loss Account	16
DINO36	PLMAN12	Interest (Finance costs) on debentures and other fixed loans shown on the face of Profit and Loss Account	31
DINO37	PLMAN13	Breakdown of Interest on debentures and other fixed loans	31
DINO38	PLMAN14	Share of profits/losses of associate companies shown on the face of Profit and Loss Account	15
DINO39	PLVOL25	Breakdown of the share of associate companies' profits	15
DINO40	PLMAN15	Profit before tax (Profit from ordinary activities before tax)	16
DINO41	PLMAN16	Total tax expense shown on the face of Profit and Loss Account	29
DINO42	PLVOL26	Breakdown of total tax expense	29
DINO43	PLMAN17	Basis of computing income tax	29
DINO44	PLMAN18	Profit from ordinary activities after tax and before extra ordinary activities	16
DINO45	PLMAN19	Extraordinary items shown on the face of Profit and Loss Account	22
DINO46	PLMAN20	Net profit for the year (Profit attributable to ordinary share holders/ profit after extraordinary items)	16
DINO47	PLMAN21	Aggregate net dividends paid and proposed	33
DINO48	PLMAN22	Dividends by classes of shares and dividend rates	33
DINO49	PLMAN23	Earning per share shown in the Profit and Loss Account or in notes	62
DINO50	PLVOL27	Method of computation of earning per share	62
DINO51	PLMAN24	Amount used as a numerator in calculating earning per share	62
DINO52	PLMAN25	Weighted average number of ordinary shares used as a denominator	62
DINO53	PLMAN26	Earning per share, before and after extra ordinary items	62
DINO54	PLMAN27	Dividend per share shown in the P/L or in notes	60
DINO55	PLMAN28	Comparative figures-Profit and Loss account of the previous year	59
DINO56	BSVOL1	Total fixed assets	36
DINO57	BSVOL2	Total fixed assets for the group and the company	36
DINO58	BSVOL3	Detailed break down of fixed assets	36
DINO59	BSMAN1	Property, plant and equipment shown on the face of Balance sheet	36
DINO60	BSMAN2	Total depreciation allocated for the period on property, plant and equipments	45
DINO61	BSVOL4	Total depreciation on property, plant and equipment allocated for the period for the group and the company	45
DINO62	BSMAN3	Accumulated depreciation on property, pant and equipments	45
DINO63	BSVOL5	Accumulated depreciation on property, plant and equipments for the group and the company	45

DI-No	Var-No	Item Name	Q-No
DINO64	BSVOL6	Net value of property, plant and equipments	36
DINO65	BSVOL7	Acquisition or disposal of property, plant and equipments	44
DINO66	BSVOL8	Total investments in subsidiaries at cost	37
DINO67	BSVOL9	Breakdown of total investments in subsidiaries at cost	37
DINO68	BSVOL10	Investments in subsidiaries distinguish between quoted/unquoted	37
DINO69	BSMAN4	Market value of quoted investments in subsidiaries	38
DINO70	BSVOL11	Listing and description of investments in subsidiaries	37
DINO71	BSVOL12	Ownership interest of the company in subsidiaries	37
DINO72	BSMAN5	Investments in associates accounted for using cost or equity method	37
DINO73	BSVOL13	Breakdown of investments in associates at cost	37
DINO74	BSVOL14	Investments in associates at equity method	37
DINO75	BSVOL15	Investments in associates distinguish between quoted/unquoted	37
DINO76	BSMAN6	Market value of quoted investments in associates	38
DINO77	BSMAN7	Listing and description of significant associates	37
DINO78	BSMAN8	Ownership interest of significant associates	37
DINO79	BSVOL16	Other investments at cost	37
DINO80	BSVOL17	Breakdown of other investments at cost	37
DINO81	BSVOL18	Other investments distinguish between quoted/unquoted	37
DINO82	BSMAN9	Market value of quoted investments in other investments	38
DINO83	BSVOL19	Other non-current assets	36
DINO84	BSVOL20	Breakdown of other non-current assets	36
DINO85	BSVOL21	Additions and recoveries of other non-current assets during the year	36
DINO86	BSVOL22	Opening net book amount of intangible assets	40
DINO87	BSVOL23	Amortisation of intangible assets	40
DINO88	BSVOL24	Closing net book amount of intangible assets	40
DINO89	BSMAN10	Amount of intangible assets is shown on the face of the Balance Sheet	40
DINO90	BSMAN11	Total amount of current assets	36
DINO91	BSVOL25	Breakdown of current assets value	36
DINO92	BSMAN12	Total value of inventories	39
DINO93	BSMAN13	Amount of inventories shown on the face of the Balance Sheet	39
DINO94	BSMAN14	Breakdown of inventories at cost	39
DINO95	BSVOL26	Total market value of inventories	39
DINO96	BSVOL27	Short term investments at cost	37

DI-No	Var-No	Item Name	Q-No
DINO97	BSVOL28	Breakdown of short term investments at cost	37
DINO98	BSVOL29	Market value of short term investments	38
DINO99	BSVOL30	Amount due from related companies	36
DINO100	BSVOL31	Breakdown of amount due from related companies	36
DINO101	BSMAN15	Trade and other receivables shown on the face of the balance sheet	36
DINO102	BSVOL32	Breakdown of trade and other receivables	36
DINO103	BSVOL33	Sundry debtors	51
DINO104	BSVOL34	Age schedule of the debtors	75
DINO105	BSVOL35	Provision for doubtful debts at end of the period	51
DINO106	BSVOL36	Advances, deposits and prepayments	42
DINO107	BSVOL37	Breakdown of advances, deposits and prepayments	42
DINO108	BSMAN16	Bank/cash balance	36
DINO109	BSMAN17	Cash and cash equivalents shown on the face of the balance sheet	36
DINO110	BSVOL38	Breakdown of cash/bank balances	36
DINO111	BSMAN18	Number of ordinary shares authorised	46
DINO112	BSMAN19	Number of ordinary shares issued and fully paid, and issued but not fully paid	46
DINO113	BSMAN20	Par value of an ordinary share	46
DINO114	BSMAN21	Rights, preferences and restrictions attached to ordinary shares	46
DINO115	BSMAN22	Ordinary shares reserved for issuance under options and sales contracts	46
DINO116	BSVOL39	Ordinary share capital for the company and the group	46
DINO117	BSMAN23	Issued ordinary share capital shown on the face of the balance sheet	46
DINO118	BSMAN24	Number of preference shares authorised	47
DINO119	BSMAN25	Number of preference shares issued and fully paid, and issued but not fully paid	47
DINO120	BSMAN26	Par value of a preference share	47
DINO121	BSMAN27	Rights, preferences and restrictions attached to preference shares	47
DINO122	BSVOL40	Preference share capital for the company and the group	47
DINO123	BSMAN28	Issued preference share capital shown on the face of the balance sheet	47
DINO124	BSMAN29	Total reserves shown on the face of the balance sheet	52
DINO125	BSMAN30	Breakdown of reserves into capital reserve and revenue reserve	52
DINO126	BSMAN31	All movements of reserves, including balance B/F; transfers, etc.	52
DINO127	BSMAN32	Share premium	52
DINO128	BSVOL41	Breakdown of share premium	52
DINO129	BSVOL42	Share premium for the company and the group	52

DI-No	Var-No	Item Name	Q-No
DINO130	BSVOL43	Retained profit at the beginning and end of the year	52
DINO131	BSVOL44	Changes in retained profit during the year	52
DINO132	BSVOL45	Minority interest at the beginning of the year	47
DINO133	BSVOL46	Changes to minority of interest during the year	47
DINO134	BSVOL47	Minority interest at the end of the year	47
DINO135	BSMAN33	Minority interest shown on the face of the balance sheet	47
DINO136	BSMAN34	Non current interest bearing liabilities shown on the face of balance sheet	47
DINO137	BSVOL48	Breakdown of long term borrowings	47
DINO138	BSVOL49	Extent of security on long term borrowings	48
DINO139	BSVOL50	Sources of finance (Lending Institution) of long term borrowings	48
DINO140	BSVOL51	Interest rates applicable for long term borrowings	48
DINO141	BSVOL52	Information about repayment of long term borrowings	48
DINO142	BSVOL53	Long term loans repayable after one year	47
DINO143	BSMAN35	Deferred tax balance at the beginning of the year	43
DINO144	BSMAN36	Transfers to/ from deferred tax during the year	43
DINO145	BSMAN37	Deferred tax balance at the end of the year	43
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DINO147	BSVOL55	Provision for gratuity during the year	50
DINO148	BSVOL56	Payments for gratuity during the year	50
DINO149	BSVOL57	Provision for gratuity at the end of the year	50
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DINO151	BSMAN39	Details and methods of funding of the gratuity liability	50
DINO152	BSMAN40	The actuarial present value of promised retirement benefit	50
DINO153	BSMAN41	Total current liabilities	41
DINO154	BSVOL58	Breakdown of current liabilities	41
DINO155	BSMAN42	Trade and other payables shown on the face of the balance sheet	41
DINO156	BSVOL59	Trade creditors	41
DINO157	BSVOL60	Long term loans repayable within one year	41
DINO158	BSMAN43	Tax liabilities shown on the face of the balance sheet	43
DINO159	BSVOL61	Amount due to related companies	41
DINO160	BSVOL62	Breakdown of amount due to related companies	41
DINO161	BSMAN44	Provisions shown on the face of the balance sheet	41
DINO162	BSVOL63	Provision for falling value of investments	37

DI-No	Var-No	Item Name	Q-No
DINO163	BSMAN45	Dividends proposed	41
DINO164	BSMAN46	Aggregate amount of bank loans and overdrafts	41
DINO165	BSVOL64	Amount of contingent liabilities	49
DINO166	BSVOL65	Description / Breakdown by nature of contingent liabilities	49
DINO167	BSMAN47	Comparative figures-Balance sheet of the previous year	59
DINO168	BSVOL66	Net current assets / (liabilities) [Working Capital]	60
DINO169	BSVOL67	Net assets [total assets-current liabilities]	60
DINO170	BSVOL68	Details of related party transactions	41
DINO171	BSMAN48	Capital expenditure commitments	91
DINO172	BSMAN49	Amount-Material post balance sheet events	78
DINO173	BSVOL69	Description / Breakdown by nature of post balance sheet events	78
DINO174	OCVOL1	Cash flow statement Included as an integral part of the financial statements	11.3
DINO175	OCMAN1	Cash flows from operating activities of the company shown in the cash flow statement	11.3
DINO176	OCVOL2	Breakdown of cash generated from operations shown in the cash flow statement	11.3
DINO177	OCMAN2	Cash flows from investing activities of the company shown in the cash flow statement	11.3
DINO178	OCVOL3	Breakdown of cash generated from investments shown in the cash flow statement	11.3
DINO179	OCMAN3	Cash flows from financing activities of the company shown in the cash flow statement	11.3
DINO180	OCVOL4	Breakdown of cash generated from financial activities shown in the cash flow statement	11.3
DINO181	OCMAN4	Cash flows associated with extraordinary items shown separately in the CFS	11.3
DINO182	OCMAN5	Cash flows from interest and dividends received and paid shown in the CFS	11.3
DINO183	OCMAN6	Cash flows arising from taxes on income shown in the cash flow statement	11.3
DINO184	OCVOL5	Cash and cash equivalents at the beginning of the year shown in the cash flow statement	11.3
DINO185	OCVOL6	Cash and cash equivalents at the end of the year shown in the cash flow statement	11.3
DINO186	OCVOL7	Breakdown of the cash and cash equivalents at the end of the year shown in the cash flow statement	11.3
DINO187	OCVOL8	Net increase/ (decrease) in cash and cash equivalents shown in the cash flow statement	11.3
DINO188	OCMAN7	Comparative figures-Cash Flow Statement of the previous year	59
DINO189	OCMAN8	Statement of changes in equity	11.6
DINO190	OCVOL9	Total Revenue for major segments of the company	65
DINO191	OCMAN9	Revenue from external sales	65
DINO192	OCMAN10	Revenue from inter segment sales	65

DI-No	Var-No	Item Name	Q-No
DINO193	OCVOL10	Turnover based taxes for each major segment	65
DINO194	OCVOL11	Net turnover for each major segment	65
DINO195	OCMAN11	Profit of each major segment	65
DINO196	OCMAN12	Assets of each major segment	65
DINO197	OCMAN13	Liabllities of each major segment	65
DINO198	OCMAN14	Depreciation of segmental assets	65
DINO199	OCVOL12	Capital expenditure of segments	65
DINO200	OCMAN15	Accounting polices are disclosed in one place as an integral part of financial statements	11.4
DINO201	OCMAN16	Basis of accounting (Accounting convention)	11.4
DINO202	OCMAN17	Accounting policy for consolidation	11.4
DINO203	OCMAN18	Accounting policy for conversion of foreign exchange	55
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DI-No	Var-No	Item Name	Q-No
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DINO244	SRMAN9	Auditor's report states the opinion of the auditor on company's keeping proper books of account	11.7
DINO245	SRMAN10	Auditor's report states whether financial statements are in agreement with the books of account	11.7
DINO246	SRMAN11	Auditor's report states whether financial statements give a true and fair view	11.7
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DI-No	Var-No	Item Name	Q-No
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DINO258	OIVOL7	Value added per employee	77
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DINO261	OIVOL10	Description of marketing network for finished goods	71
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DINO263	OIVOL12	Details of major products/services including new and potentially new products	67
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DINO265	OIVOL14	Future plans and targets for the development of the business	90
DINO266	OIVOL15	Factors which will influence future results of the company.	80
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DINO284	OIVOL33	Key accounting ratios for the last 5 years	60
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DINO287	OIVOL35	Earnings/ (loss) per share for the last 5 years	60
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DI-No	Var-No	Item Name	Q-No
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DINO291	OIVOL38	Dividend per share for the last 5 years	60
DINO292	OIVOL39	Dividend per share for the last 10 years	61
DINO293	OIVOL40	Net assets per share for this year and previous year	60
DINO294	OIVOL41	Net assets per share for the last 5 years	60
DINO295	OIVOL42	Net assets per share for the last 10 years	61
DINO296	OIVOL43	Interest cover for this year and previous year	60
DINO297	OIVOL44	Interest cover for the last 5 years	60
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DINO299	OIVOL46	Price Earnings Ratio for this year and previous year	60
DINO300	OIVOL47	Price Earnings Ratio for the last 5 years	60
DINO301	OIVOL48	Price Earnings Ratio for the last 10 years	61
DINO302	OIVOL49	Current ratio for this year and previous year	60
DINO303	OIVOL50	Current ratio for the last 5 years	60
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DINO305	OIVOL52	Debt equity ratio for this year and previous year	60
DINO306	OIVOL53	Debt equity ratio for last 5 years	60
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DINO308	OIVOL55	Return on capital for the company	60
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DINO310	OIVOL57	Statement of company share option/ bonus/dividends plans (History of such offers)	85
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Appendix-6

LIST OF MANDATORY INFORMATION ITEMS

S.No.	Item Name	Var-No	DI-No
1	Revenue (Turnover) on the face of the P/L [SLAS 3.75.a]	PLMAN1	DINO1
2	Interest, royalties, dividends and rentals on long-term and current investments [SLAS 22.49.l]	PLMAN2	DINO14
3	Income from investments distinguishing between quoted and unquoted [ActSch5.12.1.g].	PLMAN3	DINO15
4	Analysis of all expenses by nature of expenses (eg. Wages, depreciation etc) [SLAS3.77]	PLMAN4	DINO19
5	Analysis of all expenses by their function (eg. Administrative, selling etc) [SLAS3.77]	PLMAN5	DINO20
6	Depreciation [Act.Sch.5.12.1.a] and [SLAS3.83]	PLMAN6	DINO22
7	Goodwill and other intangibles written off [SLAS3.83]	PLMAN7	DINO23
8	Directors' emoluments [ActS200SS1].	PLMAN8	DINO28
9	Auditors' remuneration [ActSch5.13].	PLMAN9	DINO29
10	Research and development costs recognised as an expense in the period [SLAS 11.29.b]	PLMAN10	DINO34
11	Operating profit shown on the face of P/L [SLAS 3.75.b]	PLMAN11	DINO35
12	Interest (Finance costs) on debentures and other fixed loans shown on the face of P/L [SLAS3.75.c]	PLMAN12	DINO36
13	Breakdown of Interest on debentures and other fixed loans [ActSch.5.12.b].	PLMAN13	DINO37
14	Share of profits/losses of associate companies shown on the face of P/L [SLAS3.75.d]	PLMAN14	DINO38
15	Profit before tax (Profit from ordinary activities before tax) [SLAS3.75.f] & [SLAS10.9.a]	PLMAN15	DINO40
16	Total tax expense shown on the face of P/L [SLAS3.75.e] and [Act.Sch.5.12.1.c].	PLMAN16	DINO41
17	Basis of computing income tax [Act.Sch.5.14.3].	PLMAN17	DINO43
18	Profit from ordinary activities after tax and before extra ordinary activities [SLAS3.75.f] & [SLAS10.9.a]	PLMAN18	DINO44
19	Extraordinary items shown on the face of P/L [SLAS3.75.g] & [SLAS10.9.b]	PLMAN19	DINO45
20	Net profit for the year (Profit attributable to ordinary share holders/ profit after extraordinary items) [SLAS 3.75.l]	PLMAN20	DINO46
21	Aggregate net dividends paid and proposed [ActSch5.12.1.h].	PLMAN21	DINO47
22	Dividends by classes of shares and dividend rates [ActSch5.12.4].	PLMAN22	DINO48
23	Earning per share shown in the P/L or in notes [SLAS 3.85]	PLMAN23	DINO49
24	Amount used as a numerator in calculating EPS [SLAS 34.52.a]	PLMAN24	DINO51
25	The weighted average number of ordinary shares used as a denominator [SLAS 34.52.b]	PLMAN25	DINO52
26	Earning per share, before and after extra ordinary items [SLAS 34. 50]	PLMAN26	DINO53
27	Dividend per share shown in the P/L or in notes [SLAS 3.85]	PLMAN27	DINO54

S.No.	Item Name	Var-No	DI-No
28	Comparative figures-Profit and Loss account of the previous year [ActSch.5.14.5] & [SLAS 3.38]	PLMAN28	DINO55
29	Property, plant and equipment shown on the face of Balance sheet [SLAS3.66.a])	BSMAN1	DINO59
30	Total depreciation allocated for the period on property, plant and equipments [SLAS 8:15.c].	BSMAN2	DINO60
31	The accumulated depreciation on property, pant and equipments [SLAS 8:15.d].	BSMAN3	DINO62
32	Market value of quoted investments in subsidiaries [SLAS 22.49.b.c]	BSMAN4	DINO69
33	Investments in associates accounted for using cost or equity method [SLAS 27.13.a]	BSMAN5	DINO72
34	Market value of quoted investments in associates [SLAS 22.49.b.c]	BSMAN6	DINO76
35	Listing and description of significant associates [SLAS 27.26]	BSMAN7	DINO77
36	Ownership interest of significant associates [SLAS 27.26]	BSMAN8	DINO78
37	Market value of quoted investments in other investments [SLAS 22.49.b.c]	BSMAN9	DINO82
38	Amount of intangible assets is shown on the face of the Balance Sheet [SLAS3.66.b]	BSMAN10	DINO89
39	Total amount of current assets [SLAS 15.19]	BSMAN11	DINO90
40	Total value of inventories [SLAS5.33.b].	BSMAN12	DINO92
41	Amount of inventories shown on the face of the Balance Sheet [SLAS3.66.e]	BSMAN13	DINO93
42	Breakdown of inventories at cost [SLAS 3.73.c]	BSMAN14	DINO94
43	Trade and other receivables shown on the face of the balance sheet [SLAS3.66.f]	BSMAN15	DINO101
44	Bank/cash balance [SLAS 3.66.g]	BSMAN16	DINO108
45	Cash and cash equivalents shown on the face of the balance sheet [SLAS3.66.g]	BSMAN17	DINO109
46	Number of ordinary shares authorised [SLAS3.74a.I].	BSMAN18	DINO111
47	Number of ordinary shares issued and fully paid, and issued but not fully paid[SLAS3.74a.ii].	BSMAN19	DINO112
48	Par value of an ordinary share [SLAS3.74a.iii].	BSMAN20	DINO113
49	Rights, preferences and restrictions attached to ordinary shares [SLAS3.74.a.v]	BSMAN21	DINO114
50	Ordinary shares reserved for issuance under options and sales contracts [SLAS3.74.a.vii]	BSMAN22	DINO115
51	Issued ordinary share capital shown on the face of the balance sheet [SLAS3.66.m]	BSMAN23	DINO117
52	Number of preference shares authorised [SLAS3.74a.I].	BSMAN24	DINO118
53	Number of preference shares issued and fully paid, and issued but not fully paid[SLAS3.74a.ii].	BSMAN25	DINO119
54	Par value of a preference share [SLAS3.74a.iii].	BSMAN26	DINO120
55	Rights, preferences and restrictions attached to preference shares [SLAS3.74.a.v]	BSMAN27	DINO121

S.No.	Item Name	Var-No	DI-No
56	Issued preference share capital shown on the face of the balance sheet [SLAS3.66.m]	BSMAN28	DINO123
57	Total reserves shown on the face of the balance sheet [SLAS3.66.m]	BSMAN29	DINO124
58	Breakdown of reserves into capital reserve and revenue reserve [SLAS 3.73]	BSMAN30	DINO125
59	All movements of reserves, including balance B/F; transfers, etc. [Act.Sch.5.7.1].	BSMAN31	DINO126
60	Share premium [Act.Sch.5.2.c].	BSMAN32	DINO127
61	Minority interest shown on the face of the balance sheet [SLAS3.66.j]	BSMAN33	DINO135
62	Non current interest bearing liabilities shown on the face of balance sheet [SLAS3.66.k]	BSMAN34	DINO136
63	Deferred tax balance at the beginning of the year [SLAS 14.15]	BSMAN35	DINO143
64	Transfers to/ from deferred tax during the year [SLAS 14.15]	BSMAN36	DINO144
65	Deferred tax balance at the end of the year [SLAS14.15]	BSMAN37	DINO145
66	General description of the gratuity plan, including employee groups covered [SLAS 16.50.a]	BSMAN38	DINO150
67	Details and methods of funding of the gratuity liability [SLAS 16.50]	BSMAN39	DINO151
68	Actuarial present value of promised retirement benefit [SLAS 16.50.e]	BSMAN40	DINO152
69	Total current liabilities [SLAS 15.19]	BSMAN41	DINO153
70	Trade and other payables shown on the face of the balance sheet [SLAS3.66.h]	BSMAN42	DINO155
71	Tax liabilities shown on the face of the balance sheet [SLAS.66.l]	BSMAN43	DINO158
72	Provisions shown on the face of the balance sheet [SLAS3.66.j]	BSMAN44	DINO161
73	Dividends proposed [SLAS3.74.c]	BSMAN45	DINO163
74	Aggregate amount of bank loans and overdrafts [Act.Sch.5.8.1.d]	BSMAN46	DINO164
75	Comparative figures-Balance sheet of the previous year [ActSch.5.11.11] & [SLAS 3.38]	BSMAN47	DINO167
76	Capital expenditure commitments [SLAS 3.94.d.i]	BSMAN48	DINO171
77	Amount-Material post balance sheet events [SLAS12:33].	BSMAN49	DINO172
78	Cash flows from operating activities of the company shown in the cash flow statement [SLAS 9.9].	OCMAN1	DINO175
79	Cash flows from investing activities of the company shown in the cash flow statement [SLAS 9.9].	OCMAN2	DINO177
80	Cash flows from financing activities of the company shown in the cash flow statement [SLAS 9.9].	OCMAN3	DINO179
81	Cash flows associated with extraordinary items shown separately in the cash flow statement [SLAS 9.28].	OCMAN4	DINO181
82	Cash flows from interest and dividends received and paid shown in the cash flow statement [SLAS 9.30].	OCMAN5	DINO182
83	Cash flows arising from taxes on income shown in the cash flow statement [SLAS 9.34].	OCMAN6	DINO183
84	Comparative figures-Cash Flow Statement of the previous year [SLAS3.38].	OCMAN7	DINO188

S.No.	Item Name	Var-No	DI-No
85	Statement of changes in equity [SLAS3.86]	OCMAN8	DINO189
86	Revenue from external sales [SLAS 28.51]	OCMAN9	DINO191
87	Revenue from inter segment sales [SLAS 28.51]	OCMAN10	DINO192
88	Profit of each major segment [SLAS 28.52]	OCMAN11	DINO195
89	Assets of each major segment [SLAS 28.55]	OCMAN12	DINO196
90	Liabilities of each major segment [SLAS 28.56]	OCMAN13	DINO197
91	Depreciation of segmental assets [SLAS 28.58]	OCMAN14	DINO198
92	Accounting polices are disclosed in one place as an integral part of financial statements [SLAS 3.7.e].	OCMAN15	DINO200
93	Basis of accounting (Accounting convention) [SLAS 3.97.a]	OCMAN16	DINO201
94	Accounting policy for consolidation [SLAS 3.99.b]	OCMAN17	DINO202
95	Accounting policy for conversion of foreign exchange [SLAS 3.99.p]	OCMAN18	DINO203
96	Accounting policy for taxation [SLAS 3.99.m]	OCMAN19	DINO204
97	Accounting policy for deferred taxation [SLAS 3.99.m]	OCMAN20	DINO205
98	The valuation bases used for determining the amounts of depreciable assets [SLAS8.14]	OCMAN21	DINO206
99	Depreciation methods used for property, plant and equipments [SLAS 8:15.a].	OCMAN22	DINO207
100	Depreciation rates used for property, plants and equipments [SLAS 8:15.b].	OCMAN23	DINO208
101	Accounting policy for intangible assets [SLAS 3.99.e]	OCMAN24	DINO209
102	Accounting policy for segmental reporting [SLAS 3.99.q]	OCMAN25	DINO211
103	Accounting policy for investments [SLAS 22.49]	OCMAN26	DINO212
104	Accounting policy for property, plant & equipment [SLAS 18.66]	OCMAN27	DINO214
105	Accounting policy for lease, hire purchase, or instalment transactions, and related interest [SLAS 3.99.j]	OCMAN28	DINO215
106	Accounting policy for inventories [SLAS3.99.l] & [SLAS5.33.a]	OCMAN29	DINO216
107	Accounting policy for cash and cash equivalents [SLAS 3.99.r]	OCMAN30	DINO217
108	Accounting policy for employee benefit costs (gratuity) [SLAS 3.99.o] & [SLAS 16.50.b]	OCMAN31	DINO220
109	Accounting policy for revenue recognition [SLAS 3.99.a] & [SLAS 29.a]	OCMAN32	DINO222
110	Accounting policy for research and development costs [SLAS 3.99.k] & [SLAS11.29.a]	OCMAN33	DINO223
111	Accounting policy for capital commitment and contingencies [SLAS 3.99.u]	OCMAN34	DINO225
112	Accounting policy for borrowing costs [SLAS 20.28.a]	OCMAN35	DINO226
113	Directors' report [1982 S152 SS1]	SRMAN1	DINO227
114	Principal activities and business review shown in the directors' report [SLAS 3.102.b]	SRMAN2	DINO228
115	State of the company's affairs shown in the director's report [ActS152SS1].	SRMAN3	DINO229

S.No.	Item Name	Var-No	DI-No
116	Amount proposed to transfer to reserves shown in the directors' report [ActS152SS1].	SRMAN4	DINO230
117	Amount recommend to be paid as dividends shown in the director's report [ActS152SS1].	SRMAN5	DINO232
118	Directors' direct or indirect interest in a contract with the company [ActSch5.14.7].	SRMAN6	DINO239
119	Auditor's report [Act 159]	SRMAN7	DINO242
120	Auditor's report states whether all the information and explanations necessary have been obtained[ActSch.7.1].	SRMAN8	DINO243
121	Auditor's report states the opinion of the auditor on company's keeping proper books of account [ActSch.7.2].	SRMAN9	DINO244
122	Auditor's report states whether financial statements are in agreement with the books of account [ActSch.7.3.1].	SRMAN10	DINO245
123	Auditor's report states whether financial statements give a true and fair view [ActSch.7.3.2].	SRMAN11	DINO246
124	Auditor's report states whether the financial statements give the information required by the Act [ActSch.7.3.2].	SRMAN12	DINO247
125	Auditor's report states whether the company directors are interested in a contract with the co. [ActSch.7.5].	SRMAN13	DINO248
126	Name, legal form, country of incorporation, address of the registered office [SLAS3.102.a]	OIMAN1	DINO249
127	History and developments of the company(SLAS3.8)	OIMAN2	DINO253
128	Number of employees at the end of the period or the average for the period [SLAS3.102.d]	OIMAN3	DINO257
129	Earnings/ (loss) per share for this year and previous year[SLAS 3.85]	OIMAN4	DINO286
130	Dividend per share this year and previous year [SLAS 3.85]	OIMAN5	DINO290
131	Statement of directors' responsibility	OIMAN6	DINO314

Appendix-7

DETAILS OF DISAGREGATION OF INFORMATION ITEMS

S.No.	Information Name	Q.No.	Disclosure Index Item Numbers	Count
1	Total revenue and breakdown of various sources of revenue	15	1, 2, 4, 5, 12, 13, 14, 15, 16, 17, 38, 39	12
2	Operating profit before abnormal and extraordinary items	16	11, 35, 40, 44, 46	5
3	Breakdown of operating expenses	17	18, 19, 20	3
4	Cost of goods sold	18	6, 7, 10	3
5	Breakdown of expenses into fixed and variable components	19	21	1
6	Amount of depreciation	20	22	1
7	Goodwill and other tangible assets written off	21	23	1
8	Total non-recurring gains or losses reported	22	45	1
9	Total advertising and publicity expenses	23	24	1
10	Total research and development expenses	24	34	1
11	Raw materials consumed and their breakdown	25	8, 9	2
12	Wages and salaries	26	25, 26, 27	3
13	Directors' emoluments	27	28	1
14	Maintenance and repair expenses	28	32	1
15	Income tax and provision therein	29	41, 42, 43	3
16	Bad debts written off and provision for bad debts	30	30, 31	2
17	Total interest including breakdown of long & short term loans	31	36, 37	2
18	Amount and breakdown of staff welfare benefits	32	33	1
19	Aggregate amount of dividends paid	33	47, 48	2
20	Contributions and donations	34	240	1
21	Auditor's remuneration/ fees	35	29	1
22	Total assets including breakdown into fixed and current assets	36	56, 57, 58, 59, 64, 83, 84, 85, 90, 91, 99, 100, 101, 102, 108, 109, 110	17
23	Cost and breakdown of securities and investments	37	66, 67,68, 70, 71, 72, 73, 74, 75, 77, 78, 79, 80, 81, 96, 97, 162	17
24	Market value of securities and investments	38	69, 76, 82, 98	4
25	Cost and breakdown of inventories (Raw materials, W-I-P, etc)	39	92, 93, 94, 95	4
26	Book value of goodwill and other intangible assets	40	86, 87, 88, 89	4
27	Total and breakdown of current liabilities	41	153, 154, 155, 156, 157, 159, 160, 161, 163, 164, 170	11

S.No.	Information Name	Q.No.	Disclosure Index Item Numbers	Count
28	Total and breakdown of advances, deposits and prepayments	42	106, 107	2
29	Total tax and differed tax liability	43	143, 144, 145, 158	4
30	Acquisition or disposal of property, plant and equipment during the year	44	65	1
31	Total accumulated depreciation on property, plant and equipment	45	60, 61, 62, 63	4
32	Shareholders' equity and number of shares outstanding	46	111, 112, 113, 114, 115, 116, 117	7
33	Total and breakdown of long term borrowings	47	118, 119, 120, 121, 122, 123, 132, 133, 134, 135, 136, 137, 142	13
34	Date of maturity, interest rates, and extent of securities of long term borrowings	48	138, 139, 140, 141	4
35	Details of contingent liabilities	49	165, 166	2
36	Outstanding gratuity/ pension obligations	50	146, 147, 148, 149, 150, 151, 152	7
37	Sundry debtors less allowances	51	103, 105	2
38	Reserves and their breakdown	52	124, 125, 126, 127, 128, 129, 130, 131	8
39	Method used to determine cost of inventories eg., FIFO, LIFO	53	216	1
40	Method and rates of depreciation	54	206, 207, 208	3
41	Foreign currency transactions	55	203	1
42	Amortisation of intangible assets	56	209	1
43	Method used for marketable securities and investments	57	212	1
44	Taxation polices	58	204	1
45	Comparative financial statements	59	55, 167, 188	3
46	Summary of important operating and financial data for the last 5 years	60	54, 168, 169, 279, 281, 283, 284, 287, 291, 293, 294, 296, 297, 299, 300, 302, 303, 305, 306, 308, 309	
47	Summary of important operating and financial data for the last 10 years	61	280, 282, 285, 288, 292, 295, 298, 301, 304, 307	10
48	Earnings per share and the basis of calculation	62	49, 50, 51, 52, 53, 286	6
49	Rate of growth of earning per share	63	289	1
50	Dividend per share	64	290	1
51	Breakdown of results by segments	65	190, 191, 192, 193, 194, 195, 196, 197, 198 199	10
52	Production capacity and actual output	66	269	1
53	Details of major products/ services including information on new and potentially new products	67	263	1
54	Details of raw materials imported and local raw materials content of the finished goods	68	270	1
55	Details of finished goods exported	69	3	1
56	History and development of the company	70	253, 271	2

S.No.	Information Name	Q.No.	Disclosure Index Item Numbers	Count
57	Description of marketing network for finished goods	71	261	1
58	Market share and competitive position of the company	72	262	1
59	Market price of company's share	73	275, 276, 277, 278	4
60	Description of major plants, warehouses and offices and their locations	74	267, 268	2
61	Ageing schedule of the debtors	75	104	1
62	Information on managers and staff (eg. Number of employees in the company)	76	255, 256, 257	3
63	Indication of employee morale such as the rate of absenteeism, turnover and frequency of labour disputes.	77	258, 259	2
64	Details of post balance sheet events	78	172, 173	2
65	Discussion of the firm's results for previous years with reasons for changes	79	260, 264, 318	3
66	Factors which will influence future results	80	266	1
67	Industry trend, country and company information	81	249, 250, 251, 252	4
68	Discussion of the impact on inflation on the financial results	82	312, 313	2
69	Statement of dividend polices	83	231	1
70	Details of corporate "social responsibility" polices and programs	84	315	1
71	Statement of company share option/ bonus plan	85	310	1
72	Names and address of the company's directors, functional responsibilities and major outside affiliations	86	235, 236	2
73	Structure of share ownership (individuals, institutions, etc)	87	272, 273, 274	3
74	Shares held by directors	88	238	1
75	Statement of directors' responsibility	89	314	1
76	Disclosure of future plans and targets	90	265	1
77	Capital expenditure for the next year	91	171	1
78	Cash projection for the next year.	92	317	1
79	Financial objectives for the next year	93	316	1
80	Cash flow statement	11.3	174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187	14
81	Accounting polices	11.4	200, 201, 202, 205, 210, 211, 213, 214, 215, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226	
82	Movement in share holders' funds	11.6	189	1
83	Auditors report	11.7	242, 243, 244, 245, 246, 247, 248	7
84	Chairman's report	11.8	254	1
85	Directors' report	11.9	227, 228, 229, 230, 232, 233, 234, 237, 239, 241	10

S.No.	Information Name	Q.No.	Disclosure Index Item Numbers	Count
86	Value added statements	11 10	311	1
	Item count	86		318

S.No.	Section	CODE	question Numbers	Count
1	Profit and Loss account	PL	15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 35, 62, 69	22
2	Balance sheet	BS	36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 75, 78, 91	20
3	Other Components of FS	OC	11.3, 11.4, 11.6, , 53, 54, 55, 56, 57, 58, 59, 65	11
4	Statuary Report	SR	11.7, 11.9, 34, 83 86 88	6
5	Other Information	OI	11 1, 11.8, 60 61, 63, 64 66, 67 68 70, 71, 72, 73, 74, 76, 77, 79, 80, 81, 82, 84, 85, 87 89 90 92, 93	27
Total Number Items				86

Appendix-8

DISCLOSURE INDEX SCORE SHEET

Company Name.....................................

Year............

1 Profit and loss account [PL] [CODES: Disclosed =1; Not disclosed =0; Not applicable = 99]

Profit and loss account [SLAS 3.7]

	DI NO	Var-No.	QNO	TICK
Turnover				
Revenue (Turnover) on the face of the P/L [SLAS 3.75.a]	1	PLMAN1	15	
Breakdown of the revenue	2	PLVOL1	15	
Revenue (Turnover) from export sales	3	PLVOL2	69	
Turnover tax & national security levy	4	PLVOL3	15	
Net turnover	5	PLVOL4	15	
Less: Cost of sales				
Total cost of sales	6	PLVOL5	18	
Breakdown of cost of sales	7	PLVOL6	18	
Raw Material consumed	8	PLVOL7	25	
Breakdown of raw materials consumed	9	PLVOL8	25	
Changes in inventories (finished goods and work in progress)	10	PLVOL9	18	
Gross Profit				
Total amount	11	PLVOL10	16	
Other Income				
Total other income	12	PLVOL11	15	
Breakdown of other income	13	PLVOL12	15	
Interest, royalties, dividends and rentals on long-term and current investments [SLAS 22.49.l]	14	PLMAN2	15	
Income from investments distinguishing between quoted and unquoted [ActSch 5.12.1.g].	15	PLMAN3	15	
Profit/Loss on disposal of current investment	16	PLVOL13	15	
Profit/Loss on disposal of fixed assets	17	PLVOL14	15	
Expenses (OE)				
Total Expenses	18	PLVOL15	17	
Analysis of all expenses by nature of expenses (eg. Wages, depreciation etc) [SLAS 3.77]	19	PLMAN4	17	
Analysis of all expenses by their function (eg. Administrative, selling etc) [SLAS3.77]	20	PLMAN5	17	
Analysis of expenses into fixed and variable cost	21	PLVOL16	19	

Depreciation [Act.Sch.5.12.1.a] and [SLAS3.83]	22	PLMAN6	20	
Goodwill and other intangibles written off [SLAS3.83]	23	PLMAN7	21	
Advertisement and publicity expenses	24	PLVOL17	23	
Wages and salaries	25	PLVOL18	26	
Executive wages and salaries	26	PLVOL19	26	
Breakdown of wages and salaries under expenses categories	27	PLVOL20	26	
Directors' emoluments [ActS200SS1].	28	PLMAN8	27	
Auditors' remuneration [ActSch5.13].	29	PLMAN9	35	
Bad debts written off	30	PLVOL21	30	
Provision for doubtful debts	31	PLVOL22	30	
Maintenance and repairs expenses	32	PLVOL23	28	
Retirement benefit expense	33	PLVOL24	32	
Research and development costs recognised as an expense in the period [SLAS 11.29.b]	34	PLMAN10	24	
Operating profit				
Total on the face of P/L [SLAS 3.75.b]	35	PLMAN11	16	
Less: Finance cost				
Interest (Finance cost) on the face of P/L [SLAS3.75.c]	36	PLMAN12	31	
Breakdown of Interest on debentures and other fixed loans [ActSch.5.12.b].	37	PLMAN13	31	
Add: Income from associates				
Share of profits/losses of associate companies shown on the face of P/L [SLAS3.75.d]	38	PLMAN14	15	
Breakdown of the share of associate companies' profits	39	PLVOL25	15	
Profit before tax				
Amount-Profit from ordinary activities before tax [SLAS3.75.f] & [SLAS10.9.a]	40	PLMAN15	16	
Less: Tax expenses				
Total tax expense shown on the face of P/L [SLAS3.75.e] and [Act.Sch.5.12.1.c].	41	PLMAN16	29	
Breakdown of total tax expense	42	PLVOL26	29	
The basis of computing income tax [Act.Sch.5.14.3].	43	PLMAN17	29	
Profit after tax				
Profit from ordinary activities after tax and before extraordinary items[SLAS3.75.f] & [SLAS10.9.a]	44	PLMAN18	16	
Less: Extraordinary items				
Extraordinary items shown on the face of P/L [SLAS3.75.g] & [SLAS10.9.b]	45	PLMAN19	22	
Net Profit (attributable to ordinary share holders)				
Net profit for the year (Profit after extraordinary items) [SLAS 3.75.l]	46	PLMAN20	16	

Dividends

Aggregate net dividends paid and proposed [ActSch5.12.1.h].	47	PLMAN2'	33	
Dividends by classes of shares and dividend rates [ActSch5.12.4].	48	PLMAN22	33	

Other Related information

Earning per share shown in the P/L or in notes [SLAS 3.85]	49	PLMAN23	62	
Method of computation of earning per share	50	PLVOL27	62	
The amount used as a numerator in calculating EPS [SLAS 34.52.a]	51	PLMAN24	62	
The weighted average number of ordinary shares used as a denominator [SLAS 34.52.b]	52	PLMAN25	62	
Earning per share, before and after extra ordinary items [SLAS 34. 50]	53	PLMAN26	62	
Dividend per share shown in the P/L or in notes [SLAS 3.85]	54	PLMAN27	60	
Comparative figures-Profit and Loss account of the previous year [ActSch.5.14.5].	55	PLMAN28	59	

2 Balance Sheet [BS] **[CODES: Disclosed =1; Not disclosed =0; Not applicable = 99]**

Balance sheet [SLAS 3.7]

ASSETS

Fixed Assets/ Long-term Assets /Non-current Assets

Total fixed assets	56	BSVOL1	36	
Total fixed assets for the group and the company	57	BSVOL2	36	
Detailed break down of fixed assets	58	BSVOL3	36	

Property, Plant and Equipment

Amount shown on the face of Balance sheet [SLAS3.66.a])	59	BSMAN1	36	
Total depreciation allocated for the period [SLAS 8:15.c].	60	BSMAN2	45	
Total depreciation allocated for the period for the group and the company	61	BSVOL4	45	
The accumulated depreciation on property, plant and equipment [SLAS 8:15.d].	62	BSMAN3	45	
The accumulated depreciation for the group and the company	63	BSVOL5	45	
Net value of property, plant and equipment	64	BSVOL6	36	
Acquisition or disposal of property, plant and equipment	65	BSVOL7	44	

Investments in subsidiaries

Total at cost	66	BSVOL8	37	
Breakdown at cost	67	BSVOL9	37	
Distinguish between quoted/unquoted	68	BSVOL10	37	
Market value of quoted investments [SLAS 22.49.b.c]	69	BSMAN4	38	
Listing and description of subsidiaries	70	BSVOL11	37	
Ownership interest of the subsidiaries	71	BSVOL12	37	

Investments in Associates

Investments in associates accounted for using cost or equity method [SLAS 27.13.a]	72	BSMAN5	37	
Breakdown at cost	73	BSVOL13	37	
Breakdown at equity method	74	BSVOL14	37	
Distinguish between quoted/unquoted	75	BSVOL15	37	
Market value of quoted investments [SLAS 22.49.b.c]	76	BSMAN6	38	
Listing and description of significant associates [SLAS 27.26]	77	BSMAN7	37	
Ownership interest of significant associates [SLAS 27.26]	78	BSMAN8	37	

Other Investments

Total at cost	79	BSVOL16	37	
Breakdown at cost	80	BSVOL17	37	
Distinguish between quoted/unquoted	81	BSVOL18	37	
Market value of quoted investments [SLAS 22.49.b.c]	82	BSMAN9	38	

Other Fixed Assets/ Long-term Assets /Non-current Assets

Total	83	BSVOL19	36	
Breakdown	84	BSVOL20	36	
Additions and recoveries during the year	85	BSVOL21	36	

Goodwill and other Intangible Assets

Opening net book amount	86	BSVOL22	40	
Amortisation	87	BSVOL23	40	
closing net book amount	88	BSVOL24	40	
Amount is shown on the face of the Balance Sheet [SLAS3.66.b]	89	BSMAN10	40	

Current Assets

Total amount of current assets [SLAS 15.19]	90	BSMAN11	36	
Breakdown of current assets value	91	BSVOL25	36	

Inventories

Total value of inventories [SLAS 5.33.b].	92	BSMAN12	39	
Amount of inventories is shown on the face of the Balance Sheet [SLAS 3.66.e]	93	BSMAN13	39	
Breakdown of inventories at cost [SLAS 3.73.c]	94	BSMAN14	39	
Total market value of inventories	95	BSVOL26	39	

Short-term Investment

Total at cost	96	BSVOL27	37	
Breakdown	97	BSVOL28	37	
Market value of short term investments	98	BSVOL29	38	

Related companies

Amount due from related companies	99	BSVOL30	36
Breakdown of amount due from related companies	100	BSVOL31	36

Trade receivables

Trade and other receivables is shown on the face of the balance sheet [SLAS3.66.f]	101	BSMAN15	36
Breakdown of trade and other receivables	102	BSVOL32	36
Sundry debtors	103	BSVOL33	51
Age schedule of the debtors	104	BSVOL34	75
Provision for doubtful debts at end of the period	105	BSVOL35	51

Other receivables

Deposits, prepayments and advances	106	BSVOL36	42
Breakdown of deposits, prepayment and advances	107	BSVOL37	42

Cash

Bank/cash balance [SLAS 3.66.g]	108	BSMAN16	36
Cash and cash equivalents shown on the face of the balance sheet [SLAS3.66.g]	109	BSMAN17	36
Breakdown of cash/bank balances	110	BSVOL38	36

EQUITY AND LIABILITIES

Ordinary Shares

Number of shares authorised [SLAS3.74a.I].	111	BSMAN18	46
Number shares issued and fully paid, and issued but not fully paid[SLAS3.74a.ii].	112	BSMAN19	46
Par value per share [SLAS3.74a.iii].	113	BSMAN20	46
The rights, preferences and restrictions attached [SLAS3.74.a.v]	114	BSMAN21	46
Shares reserved for issuance under options and sales contracts [SLAS3.74.a.vii]	115	BSMAN22	46
Share capital for the company and the group	116	BSVOL39	46
Issued capital shown on the face of the balance sheet [SLAS3.66.m]	117	BSMAN23	46

Preference shares

Number of shares authorised [SLAS3.74a.I].	118	BSMAN24	47
Number shares issued and fully paid, and issued but not fully paid[SLAS3.74a.ii].	119	BSMAN25	47
Par value per share [SLAS3.74a.iii].	120	BSMAN26	47
The rights, preferences and restrictions attached [SLAS3.74.a.v]	121	BSMAN27	47
Share capital for the company and the group	122	BSVOL40	47
Issued capital shown on the face of the balance sheet [SLAS3.66.m]	123	BSMAN28	47

Reserves

Reserves shown on the face of the balance sheet [SLAS3.66.m]	124	BSMAN29	52	
Breakdown of reserves into capital reserve and revenue reserve [SLAS 3.73]	125	BSMAN30	52	
All movements of reserves, including balance B/F; transfers, etc. [Act.Sch.5.7.1].	126	BSMAN31	52	
Share premium [Act.Sch.5.2.c].	127	BSMAN32	52	
Breakdown of share premium	128	BSVOL41	52	
Share premium for the company and the group	129	BSVOL42	52	
Retained profit at the beginning and end of the year	130	BSVOL43	52	
Changes in retained profit during the year	131	BSVOL44	52	

Minority Interest

Beginning balance	132	BSVOL45	47	
Changes for the year	133	BSVOL46	47	
Ending balance	134	BSVOL47	47	
Minority interest shown on the face of the balance sheet [SLAS3.66.j]	135	BSMAN33	47	

Long Term Liabilities/ Non-current Liabilities

Non current interest bearing liabilities shown on the face of balance sheet [SLAS3.66.k]	136	BSMAN34	47	
Breakdown of long term borrowings	137	BSVOL48	47	
Extent of security of long term borrowings	138	BSVOL49	48	
Sources of finance (Lending Institution) of long term borrowings	139	BSVOL50	48	
Interest rate applicable for long term borrowings	140	BSVOL51	48	
information about repayment of long term borrowings	141	BSVOL52	48	
Long term loans repayable after one year	142	BSVOL53	47	

Deferred Taxation

At the beginning of the year [SLAS 14.15]	143	BSMAN35	43	
Charge for the year [SLAS 14.15]	144	BSMAN36	43	
At the end of the year [SLAS 14.15]	145	BSMAN37	43	

Retirement Benefit

Provision for gratuity at the beginning of the year	146	BSVOL54	50	
Provision for gratuity during the year	147	BSVOL55	50	
Payments of gratuity during the year	148	BSVOL56	50	
Provision for gratuity at the end of the year	149	BSVOL57	50	
The general description of the plan, including employee groups covered [SLAS 16.50.a]	150	BSMAN38	50	
Details and methods of funding [SLAS 16.50]	151	BSMAN39	50	
The actuarial present value of promised retirement benefit [SLAS 16.50.e]	152	BSMAN40	50	

Current Liabilities

Total current liabilities [SLAS 15.19]	153	BSMAN41	41	
Breakdown of current liabilities	154	BSVOL58	41	
Trade and other payables shown on the face of the balance sheet [SLAS3.66.h]	155	BSMAN42	41	
Trade creditors	156	BSVOL59	41	
Long term loans repayable within one year	157	BSVOL60	41	
Tax liabilities shown on the face of the balance sheet [SLAS3.66.l]	158	BSMAN43	43	
Amount due to related companies	159	BSVOL61	41	
Breakdown of amount due to related companies	160	BSVOL62	41	
Provisions shown on the face of the balance sheet [SLAS3.66.j]	161	BSMAN44	41	
Provision for falling value of investments	162	BSVOL63	37	
Dividends proposed [SLAS3.74.c]	163	BSMAN45	41	
The aggregate amount of bank loans and overdrafts [Act.Sch.5.8.1.d]	164	BSMAN46	41	

Contingent Liabilities

Amount	165	BSVOL64	49	
Description / Breakdown by nature	166	BSVOL65	49	

Other

Comparative figures-Balance sheet of the previous year [ActSch.5.11.11] & [SLAS 3.38]	167	BSMAN47	59	
Net current assets / (liabilities) [Working Capital]	168	BSVOL66	60	
Net assets [total assets-current liabilities]	169	BSVOL67	60	
Related party transactions	170	BSVOL68	41	
Capital expenditure commitments [SLAS 3.94.d.i]	171	BSMAN48	91	
Amount-Material post balance sheet events [SLAS12:33].	172	BSMAN49	78	
Description / Breakdown by nature of post balance sheet events	173	BSVOL69	78	

3 Other Components of Financial Statements [OC] [CODES: Disclosed =1; Not disclosed =0; Not applicable = 99]

Cash Flow Statement

Included as an integral part of the financial statements using direct/indirect method	174	OCVOL1	11.3	
Cash flows from operating activities of the company [SLAS 9.9]	175	OCMAN1	11.3	
Breakdown of cash generated from operations	176	OCVOL2	11.3	
Cash flows from investing activities of the company [SLAS 9.9].	177	OCMAN2	11.3	
Breakdown of cash generated from investments	178	OCVOL3	11.3	
Cash flows from financing activities of the company [SLAS 9.9].	179	OCMAN3	11.3	
Breakdown of cash generated from financial activities	180	OCVOL4	11.3	

Extraordinary items [SLAS 9.28].	181	OCMAN4	11.3	
Cash flows from interest and dividends received and paid [SLAS 9.30].	182	OCMAN5	11.3	
Cash flows arising from taxes on income [SLAS 9.34].	183	OCMAN6	11.3	
Cash and cash equivalents at the beginning of the year	184	OCVOL5	11.3	
Cash and cash equivalents at the end of the year	185	OCVOL6	11.3	
Breakdown of the cash and cash equivalents at the end of the year	186	OCVOL7	11.3	
Net increase/ (decrease) in cash and cash equivalents	187	OCVOL8	11.3	
Comparative figures-Cash Flow Statement of the previous year [SLAS3.38].	188	OCMAN7	59	

Changes in Equity

Statement of changes in equity [SLAS3.86]	189	OCMAN8	11.6	

Segmental Reporting

Total Revenue for segment	190	OCVOL9	65	
Revenue from external sales [SLAS 28.51]	191	OCMAN9	65	
Revenue from inter segment sales [SLAS 28.51]	192	OCMAN10	65	
Turnover based taxes	193	OCVOL10	65	
Net turnover	194	OCVOL11	65	
Segment results (Profits) [SLAS 28.52]	195	OCMAN11	65	
Segment Assets [SLAS 28.55]	196	OCMAN12	65	
Segment liabilities [SLAS 28.56]	197	OCMAN13	65	
Depreciation of segment assets [SLAS 28.58]	198	OCMAN14	65	
Capital expenditure	199	OCVOL12	65	

Accounting Principles and Polices

Disclosed in one place as an integral part of financial statements [SLAS 3.7.e].	200	OCMAN15	11.4	
Basis of accounting (Accounting convention) [SLAS 3.97.a]	201	OCMAN16	11.4	
Consolidation policy (only for group companies) [SLAS 3.99.b]	202	OCMAN17	11.4	
Conversion of foreign exchange (Only if relevant) [SLAS 3.99.p]	203	OCMAN18	55	
Taxation [SLAS 3.99.m]	204	OCMAN19	58	
Deferred taxation [SLAS 3.99.m]	205	OCMAN20	11.4	
The valuation bases used for determining the amounts of depreciable assets [SLAS8.14]	206	OCMAN21	54	
The depreciation methods used [SLAS 8:15.a].	207	OCMAN22	54	
The depreciation rates used [SLAS 8:15.b].	208	OCMAN23	54	
Intangible assets [SLAS 3.99.e]	209	OCMAN24	56	
Discontinued operations	210	OCVOL13	11.4	
Segment reporting [SLAS 3.99.q]	211	OCMAN25	11.4	
Investments [SLAS 22.49]	212	OCMAN26	57	

Post balance sheet events	213	OCVOL14	11.4	
Property, plant & equipment [SLAS 18.66]	214	OCMAN27	11.4	
Lease, hire purchase, or instalment transactions, and related interest [SLAS 3.99.j]	215	OCMAN28	11.4	
Inventories [SLAS3.99.l] & [SLAS5.33.a]	216	OCMAN29	53	
Cash and cash equivalents [SLAS 3.99.r]	217	OCMAN30	11.4	
Trade and other receivables	218	OCVOL15	11.4	
Liabilities	219	OCVOL16	11.4	
Employee benefit costs [SLAS 3.99.o] & [SLAS 16.50.b]	220	OCMAN31	11.4	
Expenditure	221	OCVOL17	11.4	
Revenue Recognition [SLAS 3.99.a] & [SLAS 29.a]	222	OCMAN32	11.4	
Research and development [SLAS 3.99.k] & [SLAS11.29.a]	223	OCMAN33	11.4	
Comparative figures	224	OCVOL18	11.4	
Capital commitment and contingencies [SLAS 3.99.u]	225	OCMAN34	11.4	
Borrowing costs [SLAS 20.28.a]	226	OCMAN35	11.4	

4 Statutory Reports [SR] **[CODES: Disclosed =1; Not disclosed =0; Not applicable = 99]**

Directors' Report [Act S152 SS1]	227	SRMAN1	11.9	
General				
Principal activities and business review [SLAS 3.102.b]	228	SRMAN2	11.9	
State of the company's affairs (Profits) [ActS152SS1].	229	SRMAN3	11.9	
Dividends and reserves				
Amount proposed to transfer to reserves [ActS152SS1].	230	SRMAN4	11.9	
Description on payments of dividends	231	SRVOL1	83	
Amount recommend to be paid as dividends [ActS152SS1].	232	SRMAN5	11.9	
Shares				
Movements in shares and share capital (share issuing and listing) during the year	233	SRVOL2	11.9	
A statement of persons holding substantial part of the share capital [RBAP]	234	SRVOL3	11.9	
Management				
Names of the directors [RBAP]	235	SRVOL4	86	
Detailed information such as gender, ages, positions, etc about directors	236	SRVOL5	86	
Changes in the director board during the year	237	SRVOL6	11.9	
Directors' interest in shares or debentures [RBAP]	238	SRVOL7	88	
Directors' direct or indirect interest in a contract with the company [ActSch5.14.7].	239	SRMAN6	11.9	
Other				

Contributions and donations	240	SRVOL8	34	
Reference to the resolution to reappoint the auditors [RBAP]	241	SRVOL9	11.9	

Auditors Report [Act 159]	242	SRMAN7	11.7	
State whether auditors have obtained all the information and explanations [ActSch.7.1].	243	SRMAN8	11.7	
State their opinion on keeping proper books of account [ActSch.7.2].	244	SRMAN9	11.7	
State whether books of account are in agreement with the books of account [ActSch.7.3.1].	245	SRMAN10	11.7	
State whether financial statements give a true and fair view [ActSch.7.3.2].	246	SRMAN11	11.7	
State whether the financial statements give the information required by the Acts [ActSch.7.3.2].	247	SRMAN12	11.7	
State whether the company directors are interested in a contract with the co. [ActSch.7.5].	248	SRMAN13	11.7	

5 Other Information [OI] **[CODES: Disclosed =1; Not disclosed =0; Not applicable = 99]**

General

The name, legal form, country of incorporation, address of the registered office [SLAS3.102.a]	249	OIMAN1	81	
Brief economic review of the country	250	OIVOL1	81	
A brief description of the nature of the industry and its trends	251	OIVOL2	81	
Company structure	252	OIVOL3	81	
History and developments of the company(SLAS3.8)	253	OIMAN2	70	

Chairman's report	254	OIVOL4	11.8	

Managers & Employees

Information such as Names, positions of the senior management (Executives).	255	OIVOL5	76	
Age analysis of the executives	256	OIVOL6	76	
Number of employees at the end of the period or the average for the period [SLAS3.102.d]	257	OIMAN3	76	
Value added per employee	258	OIVOL7	77	
Indication of employee morale such as rate of absenteeism, frequency of labour disputes.	259	OIVOL8	77	

Company Situation

A fair review of the company results during the year and in the previous years.	260	OIVOL9	79	
Description of marketing network for finished goods	261	OIVOL10	71	
Company's position in the industry (Eg.. Rank)/ share of market in major product areas	262	OIVOL11	72	
Details of major products/services including new and potentially new products	263	OIVOL12	67	
Technology improvement and upgrade	264	OIVOL13	79	

Future plans and targets for the development of the business	265	OIVOL14	90	
Factors which will influence future results of the company	266	OIVOL15	80	

Assets & Capacity

Description of major plants, warehouses, offices and their locations	267	OIVOL16	74	
The difference between market value and book value of land and buildings [RBAP]	268	OIVOL17	74	
Production capacity and actual level of out put	269	OIVOL18	66	
Details of raw materials imported	270	OIVOL19	68	
Local raw material content of finished goods	271	OIVOL20	70	
Breakdown of total shareholdings into number of share groups	272	OIVOL21	87	
Categories of shareholders as individual and institutional	273	OIVOL22	87	
Categories of shareholders as resident and non-resident	274	OIVOL23	87	
The market price per share at the balance sheet date	275	OIVOL24	73	
The market price per share for each quarter	276	OIVOL25	73	
The highest and lowest price during the year	277	OIVOL26	73	
Market price per share at the last year	278	OIVOL27	73	

Ratio and Statistics

Main profit and loss account items for the last 5 years	279	OIVOL28	60	
Main profit and loss account items for over the last 10 years	280	OIVOL29	61	
Main balance sheet items for the last 5 years	281	OIVOL30	60	
Main balance sheet items for over the last 10 years	282	OIVOL31	61	
Key accounting ratios for this year and previous year	283	OIVOL32	60	
Key accounting ratios for the last 5 years	284	OIVOL33	60	
Key accounting ratios for the last 10 years	285	OIVOL34	61	
Earnings/ (loss) per share for this year and previous year [SLAS 3.85]	286	OIMAN4	62	
Earnings/ (loss) per share for the last 5 years	287	OIVOL35	60	
Earnings/ (loss) per share for the last 10 years	288	OIVOL36	61	
Rate of growth of earning per share	289	OIVOL37	63	
Dividend per share for this year and previous year [SLAS 3.85]	290	OIMAN5	64	
Dividend per share for the last 5 years	291	OIVOL38	60	
Dividend per share for the last 10 years	292	OIVOL39	61	
Net assets per share for this year and previous year	293	OIVOL40	60	
Net assets per share for the last 5 years	294	OIVOL41	60	
Net assets per share for the last 10 years	295	OIVOL42	61	
Interest cover for this year and previous year	296	OIVOL43	60	
Interest cover for the last 5 years	297	OIVOL44	60	
Interest cover for the last 10 years	298	OIVOL45	61	

Price Earnings Ratio for this year and previous year	299	OIVOL46	60	
Price Earnings Ratio for the last 5 years	300	OIVOL47	60	
Price Earnings Ratio for the last 10 years	301	OIVOL48	61	
Current ratio for this year and previous year	302	OIVOL49	60	
Current ratio for the last 5 years	303	OIVOL50	60	
Current ratio for the last 10 years	304	OIVOL51	61	
Debt equity ratio for this year and previous year	305	OIVOL52	60	
Debt equity ratio for last 5 years	306	OIVOL53	60	
Debt equity ratio for last 10 years	307	OIVOL54	61	
Return on capital for the company.	308	OIVOL55	60	
Return on capital for main product areas	309	OIVOL56	60	
Statement of company share option/ bonus/dividends plans	310	OIVOL57	85	
Value added statement				
Statement in any form	311	OIVOL58	11.10	
Price level adjusted statements				
Price level adjusted balance sheet, Income statement, and other data	312	OIVOL59	82	
Discussion on the impact on inflation on the financial results	313	OIVOL60	82	
Statement of directors' responsibility [SLAS 3.6]	314	OIMAN6	89	
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Details of corporate social responsibility polices and programs	315	OIVOL61	84	
Comparison of actual performance and operating objectives	316	OIVOL62	93	
Cash projection for the next year	317	OIVOL63	92	
Financial objectives for the next year	318	OIVOL64	79	

Appendix-9

ANNUAL REPORTS CONTENT-COMPANY WISE ANALYSIS

Company Name	Sections Available	Sections Applicable	Index	Number of Pages
Acl Cables	18	32	56.3	39
Acl Plastics	12	31	38.7	21
Acme Printing	17	31	54.8	25
Agalawatte Plantations Ltd.	20	29	69.0	37
Aitken Spence Hotel Oldings Ltd.	25	31	80.6	73
Asian Cotton Mills Ltd	15	32	46.9	18
Asiri Hospital Ltd.	13	30	43.3	34
Associated Motorways Ltd.	19	32	59.4	40
Associated Property Development Ltd.	15	30	50.0	19
BATA Shoe Company Of Ceylon Ltd.	17	31	54.8	26
Blue Diomand Jewellery	19	32	59.4	32
Bogala Graphite	19	31	61.3	32
C.W.Mackie & Co.Ltd.	23	32	71.9	54
Cargills Ceylon Ltd.	22	31	71.0	57
Central Industries Ltd	18	31	58.1	27
Ceylinco Seylan Development Ltd.	14	30	46.7	24
Ceylon Cold Stores Ltd	27	32	84.4	55
Ceylon Glass Co.	17	31	54.8	24
Ceylon Grain Elavators	24	32	75.0	60
Ceylon Holiday Resorts Ltd.	25	31	80.6	56
Ceylon Tobacco Co.	24	32	75.0	77
Dankotuwa Porcelain Lt	24	32	75.0	37
Diesel & Motor Engineering Company Ltd.	27	32	84.4	56
Dipped Products Ltd	25	32	78.1	73
Elastomeric Engineering Co. Ltd	14	32	43.8	24
Equity Two Ltd.	20	30	66.7	28
Glaxo Welcome Ceylon Ltd	15	31	48.4	28
Habarana Lodge Ltd.	23	30	76.7	34
Habarana Walk Inn Ltd.	24	31	77.4	31
Hayles Ltd	31	32	96.9	105
Hayleys Photo Printed Ltd.	27	30	90.0	58
Haytech Marketing Ltd.	27	32	84.4	40
Horana Plantations Ltd.	15	29	51.7	33
Hotel Reefcomber Ltd.	17	31	54.8	24
International Tours Hotliers Ltd.	21	30	70.0	34
James Finley & Co.(Colombo)Ltd.	27	32	84.4	65
John Keelis Holdings	28	32	87.5	106
John Keells Ltd.	25	31	80.6	52

Company Name	Sections Available	Sections Applicable	Index	Number of Pages
Kandy Walk Inn Ltd.	26	30	86.7	40
Kegalle Plantation Ltd.	26	30	86.7	68
Lanka Cement Ltd	13	31	41.9	17
Lanka Ceramic Ltd	20	32	62.5	43
Lanka Milk Foods	17	32	53.1	32
Lanka Qaluminium Industries Ltd	14	32	43.8	22
Lanka Tiles Ltd	22	32	68.8	41
Lanka Walltile Ltd	21	32	65.6	47
Lankem Ceylon Ltd	23	32	71.9	49
Mahawelli Beach Hotel Ltd.	18	30	60.0	24
Maskeliya Plantations Ltd.	26	30	86.7	53
Metal Packaging Ltd	20	32	62.5	31
Mikechris Industries Ltd	14	32	43.8	23
Millers Ltd.	23	31	74.2	47
Property Development Ltd.	14	30	46.7	57
Richard Pieri 'S Exports Ltd.	24	32	75.0	47
Royal Palm Beach Hotel	22	30	73.3	41
Serendib Land Ltd.	13	30	43.3	16
Sigiriya Village Hotel	16	30	53.3	24
Stafford Hotels Ltd.	17	30	56.7	28
Tangerine Beach Hotel	26	31	83.9	53
The Lighthouse Ltd.	15	30	50.0	24
The Lion Brevery Ceylon Ltd	19	31	61.3	36
Union Carbide Lanka Ltd	16	31	51.6	19
United Motors Lanka Ltd.	30	32	93.8	61
Upali Investment Holdings Ltd.	12	32	37.5	38
York Arcade Holdings Ltd.	15	30	50.0	19

Note

Index for each company is calculated as a percentage of the number of sections available in an annual report of a company to the number of sections that a company is expected to include in its annual report. A list of all 32 sections considered in this study is shown in Table 6-4.

Appendix-10

COMPANY-WISE DISCLOSURE INDEXES

COMPANY NAME	PL	BS	OC	SR	OI	ODI	*Rank*	MDI	VDI
ACL CABLES	51.0	89.1	89.5	90.9	24.3	**65.7**	*43*	86.5	52.7
ACL PLASTICS	48.9	80.0	91.7	90.5	18.6	**58.1**	*59*	85.1	40.0
ACME PRINTING	63.8	84.6	94.6	86.4	40.6	**70.4**	*32*	88.9	58.4
AGALAWATTE PLANTATIONS LTD.	51.2	65.8	76.6	89.5	38.8	**60.1**	*56*	76.5	49.0
AITKEN SPENCE HOTEL HOLDINGS LTD.	76.6	84.7	86.0	95.5	80.0	**83.4**	*4*	89.3	79.2
ASIAN COTTON MILLS LTD	52.3	76.5	71.8	94.7	20.3	**56.5**	*60*	78.7	42.1
ASIRI HOSPITAL LTD.	72.9	72.4	84.6	85.0	14.3	**59.8**	*57*	75.0	50.0
ASSOCIATED MOTORWAYS LTD.	64.7	93.0	76.5	95.2	41.4	**73.0**	*27*	85.6	64.6
ASSOCIATED PROPERTY DEVELOPMENT LTD.	47.1	68.9	83.3	90.5	22.7	**56.0**	*61*	82.0	38.0
BATA SHOE COMPANY OF CEYLON LTD.	55.3	79.7	89.7	94.4	47.1	**68.5**	*35*	83.2	59.5
BLUE DIOMAND JEWELLERY	60.9	77.6	97.2	100.0	36.8	**67.6**	*38*	87.0	55.9
BOGALA GRAPHITE	65.9	83.8	83.8	100.0	16.9	**63.6**	*52*	87.0	49.0
C.W.MACKIE & CO.LTD.	68.0	86.7	97.5	95.2	57.1	**78.1**	*13*	92.4	69.5
CARGILLS CEYLON LTD.	65.3	90.4	88.1	100.0	52.9	**76.9**	*18*	87.7	70.2
CENTRAL INDUSTRIES	59.6	81.6	77.1	100.0	30.0	**65.1**	*46*	79.8	55.2
CEYLINCO SEYLAN DEVELOPMENT LTD.	44.4	74.6	82.9	100.0	25.0	**58.6**	*58*	79.1	44.9
CEYLON COLD STORES LTD	73.5	87.1	97.4	94.7	74.3	**83.3**	*5*	93.4	76.7
CEYLON GLASS CO.	52.4	84.5	97.3	100.0	45.7	**70.5**	*31*	84.4	61.9
CEYLON GRAIN ELAVATOR	67.3	83.2	90.2	100.0	48.6	**74.7**	*24*	89.1	64.7
CEYLON HOLIDAY RESORTS LTD.	65.9	86.9	94.7	85.0	59.1	**77.0**	*17*	87.0	70.4
CEYLON TOBACCO CO.	62.0	78.4	82.4	95.2	27.1	**64.6**	*48*	85.7	50.6
DANKOTUWA PORCELAIN LTD	59.6	76.2	91.7	95.0	43.5	**67.2**	*39*	85.4	54.7
DIESEL & MOTOR ENGINEERING COMPANY LTD.	74.0	80.0	84.0	100.0	71.0	**78.9**	*11*	86.7	73.8
DIPPED PRODUCT LTD	72.0	85.7	94.1	95.5	85.7	**85.6**	*2*	93.9	80.1
ELASTOMERIC ENGINEERING CO.LTD.	57.1	71.9	82.1	85.7	34.3	**61.9**	*53*	75.5	53.1
EQUITY TWO LTD.	63.4	83.3	88.6	100.0	52.9	**73.3**	*26*	90.3	61.9
GLAXO WELCOME CEYLON LTD	67.4	83.9	75.5	95.2	25.7	**63.7**	*51*	85.7	47.6
HABARANA LODGE LTD.	67.4	81.4	85.7	95.2	69.7	**77.4**	*15*	84.2	72.9
HABARANA WALK INN LTD.	70.2	89.9	89.5	95.2	60.6	**79.7**	*9*	89.2	73.1
HAYLES LTD	82.7	91.3	96.2	100.0	81.4	**89.0**	*1*	97.5	83.3
HAYLEYS PHOTO PRINTED LTD.	69.4	79.7	85.4	100.0	70.0	**77.8**	*14*	87.9	70.3
HAYTECH MARKETING LTD.	69.4	75.7	85.7	100.0	60.0	**74.1**	*25*	89.6	63.7
HORANA PLANTATIONS LTD.	52.3	88.8	89.7	100.0	23.9	**65.9**	*42*	86.3	53.2
HOTEL REEFCOMBER LTD.	56.4	79.7	88.2	94.4	39.4	**66.1**	*41*	77.0	59.0
INTERNATIONAL TOURS HOTELIERS LTD.	71.1	84.3	83.3	95.2	60.0	**75.9**	*22*	87.8	67.6
JAMES FINLEY & CO.(COLOMBO)LTD.	66.7	89.7	80.8	100.0	55.7	**77.1**	*16*	88.2	69.8
JOHN KEELIS HOLDINGS	56.6	89.6	86.5	100.0	68.6	**79.2**	*10*	87.6	73.6
JOHN KEELLS LTD.	74.0	78.5	94.9	100.0	56.5	**76.1**	*20*	92.5	65.5
KANDY WALK INN LTD.	68.9	85.5	89.2	90.5	68.7	**78.7**	*12*	87.1	72.5
KEGALLE PLANTATION LTD.	66.7	84.4	73.9	100.0	68.1	**76.4**	*19*	82.1	72.5
LANKA CEMENT LTD	39.5	51.4	77.1	75.0	15.7	**44.5**	*65*	64.0	32.9
LANKA CERAMIC LTD	62.7	82.4	85.0	100.0	22.9	**65.6**	*44*	83.6	54.1
LANKA MILK FOODS	55.3	85.7	95.1	95.2	39.1	**69.8**	*33*	85.4	59.2
LANKA ALUMINIUM INDUSTRIES LTD	59.6	75.6	83.8	100.0	42.9	**66.9**	*40*	84.8	55.7

COMPANY NAME	PL	BS	OC	SR	OI	ODI	*Rank*	MDI	VDI
LANKA TILES LTD	78.0	84.0	87.2	95.2	32.9	**71.2**	*28*	86.9	59.6
LANKA WALLTILE LTD	68.0	89.6	80.0	95.2	31.4	**70.7**	*30*	82.6	62.8
LANKEM CEYLON LTD	58.0	82.4	76.9	100.0	50.0	**70.7**	*29*	84.7	61.4
MAHAWELLI BEACH HOTEL LTD.	46.2	67.7	85.7	94.4	42.4	**61.4**	*55*	67.8	57.1
MASKELIYA PLANTATIONS LTD	70.7	80.3	91.7	100.0	80.6	**82.1**	*8*	88.2	78.2
METAL PACKAGING LTD	50.0	72.7	86.5	95.2	40.6	**63.9**	*50*	82.4	52.2
MIKECHRIS INDUSTRIES LTD	47.9	76.0	80.6	85.7	11.4	**54.0**	*62*	72.2	42.5
MILLERS LTD.	62.7	88.5	78.4	95.5	56.5	**75.4**	*23*	85.7	68.5
PROPERTY DEVELOPMENT LTD.	65.9	80.0	83.3	90.5	19.1	**61.8**	*54*	78.9	50.7
RICHARD PIERI 'S EXPORTS LTD.	77.4	93.0	84.6	100.0	65.2	**82.8**	*6*	90.8	77.4
ROYAL PALM BEACH HOTEL	67.5	79.7	100.0	100.0	56.9	**76.1**	*21*	93.7	64.0
SERENDIB LAND LTD.	41.0	62.1	61.3	100.0	7.5	**44.7**	*64*	65.5	30.5
SIGIRIYA VILLAGE HOTEL	63.6	88.0	91.7	95.2	30.3	**69.8**	*34*	81.8	60.1
STAFFORD HOTELS LTD.	54.8	83.1	83.3	95.0	43.9	**68.5**	*36*	75.3	64.2
TANGERINE BEACH HOTEL	76.6	88.2	94.6	100.0	76.9	**85.2**	*3*	93.2	80.0
THE LIGHTHOUSE LTD.	59.5	79.7	91.4	95.0	29.2	**64.9**	*47*	83.2	52.2
THE LION BREWERY CEYLON LTD	50.0	88.8	94.7	100.0	32.9	**68.4**	*37*	91.3	52.7
UNION CARBIDE LANKA LTD	66.0	84.4	79.2	90.5	30.0	**65.2**	*45*	87.5	49.3
UNITED MOTORS LANKA LTD.	75.5	85.1	96.0	100.0	70.0	**82.6**	*7*	97.2	72.4
UPALI INVESTMENT HOLDINGS LTD.	50.0	72.0	71.2	85.0	7.1	**53.0**	*63*	68.2	43.2
YORK ARCADE HOLDINGS LTD.	65.1	78.7	86.5	94.4	27.9	**64.3**	*49*	83.5	51.4
TOTAL	62.2	81.4	86.2	95.4	44.3	**69.8**		84.6	60.0

Appendix-11

ITEMWISE DISCLOSURE

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
OIVOL20	Local raw material content of finished goods	0	41	24	0.0
OIVOL25	Market price per share for each quarter	0	64	1	0.0
OIVOL59	Price level adjusted balance sheet, income statement and other data	0	65	0	0.0
OIVOL60	Discussion on the impact on inflation on the financial results	0	65	0	0.0
OIVOL63	Cash projection for the next year	0	65	0	0.0
OIVOL64	Financial objectives for the next year	0	65	0	0.0
PLVOL16	Analysis of expenses into fixed and variable cost	1	64	0	1.5
BSVOL34	Age schedule of the debtors	1	64	0	1.5
BSVOL26	Total market value of inventories	1	58	6	1.7
PLVOL7	Raw Material consumed	1	41	23	2.4
PLVOL8	Breakdown of raw materials consumed	1	41	23	2.4
OIVOL8	Indication of employee morale such as rate of absenteeism, frequency of labour disputes.	2	63	0	3.1
PLVOL17	Advertisement and publicity expenses	2	62	1	3.1
OIVOL62	Comparison of actual performance and operating objectives	3	62	0	4.6
OIVOL56	Return on capital for main product areas	3	58	4	4.9
PLVOL6	Breakdown of cost of sales	3	56	6	5.1
BSMAN21	Rights, preferences and restrictions attached to ordinary shares	4	61	0	6.2
PLVOL15	Total Expenses	5	60	0	7.7
PLVOL20	Breakdown of wages and salaries under expenses categories	5	60	0	7.7
OIVOL19	Details of raw materials imported	3	35	27	7.9
OIVOL37	Rate of growth of earning per share	6	59	0	9.2
OIVOL57	Statement of company share option/ bonus/dividends plans (History of share options/ dividends/ bonus)	6	54	5	10.0
PLMAN3	Income from investments distinguishing between quoted and unquoted	5	42	18	10.6
BSMAN40	Actuarial present value of promised retirement benefit	8	57	0	12.3
PLVOL9	Changes in inventories (finished goods and work in progress)	7	49	9	12.5
OIVOL17	Difference between market value and book value of land and buildings	9	56	0	13.8
PLVOL23	Maintenance and repairs expenses	9	55	1	14.1
BSVOL63	Provision for falling value of investments	8	42	15	16.0

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
PLVOL18	Wages and salaries	12	53	0	18.5
OIVOL3	Company structure	13	52	0	20.0
OIVOL45	Interest cover for the last 10 years	14	51	0	21.5
BSMAN27	Rights, preferences and restrictions attached to preference shares	2	7	56	22.2
OIVOL39	Dividend per share for the last 10 years	15	50	0	23.1
OIVOL43	Interest cover for this year and previous year	15	50	0	23.1
OIVOL44	Interest cover for the last 5 years	15	50	0	23.1
OIVOL54	Debt equity ratio for last 10 years	15	50	0	23.1
OCVOL12	Capital expenditure of segments	5	16	44	23.8
OCVOL13	Accounting policy for discontinued operations	8	25	32	24.2
OIVOL6	Age analysis of the executives	16	49	0	24.6
OIVOL48	Price Earnings Ratio for the last 10 years	16	49	0	24.6
OIVOL51	Current ratio for the last 10 years	17	48	0	26.2
PLMAN10	Research and development costs recognised as an expense in the period	5	13	47	27.8
OIVOL42	Net assets per share for the last 10 years	18	46	1	28.1
OCMAN13	Liabilities of each major segment	6	15	44	28.6
PLVOL22	Provision for doubtful debts	19	46	0	29.2
OIMAN6	Statement of directors' responsibility	20	45	0	30.8
OIVOL36	Earnings/ (loss) per share for the last 10 years	20	45	0	30.8
OCVOL10	Turnover based taxes for each major segment	6	13	46	31.6
OIVOL29	Main profit and loss account items for over the last 10 years	21	44	0	32.3
OCMAN9	Revenue from external sales	7	14	44	33.3
OCMAN14	Depreciation of segmental assets	7	14	44	33.3
OIVOL1	Brief economic review of the country	22	43	0	33.8
OIVOL31	Main balance sheet items for over the last 10 years	22	43	0	33.8
OIVOL34	Key accounting ratios for the last 10 years	22	43	0	33.8
OCVOL11	Net turnover for each major segment	7	13	45	35.0
OIVOL53	Debt equity ratio for last 5 years	23	42	0	35.4
OIVOL55	Return on capital for the company	23	42	0	35.4
OIVOL61	Details of corporate social responsibility polices and programs	23	42	0	35.4
PLMAN24	Amount used as a numerator in calculating EPS	24	41	0	36.9
PLMAN25	Weighted average number of ordinary shares used as a denominator	25	40	0	38.5
OIVOL11	Company's position in the industry (Eg.. Rank)/ share of market in major product	25	40	0	38.5

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
	areas				
OIVOL18	Production capacity and actual level of out put	25	40	0	38.5
PLMAN5	Analysis of all expenses by their function (eg. Administrative, selling etc)	26	39	0	40.0
PLVOL19	Executive wages and salaries	26	39	0	40.0
BSVOL35	Provision for doubtful debts at end of the period	26	39	0	40.0
OIVOL52	Debt equity ratio for this year and previous year	26	39	0	40.0
OIVOL47	Price Earnings Ratio for the last 5 years	27	38	0	41.5
OIVOL50	Current ratio for the last 5 years	27	38	0	41.5
BSVOL29	Market value of short term investments	5	7	53	41.7
BSVOL38	Breakdown of cash/bank balances	28	37	0	43.1
PLVOL25	Breakdown of the share of associate companies' profits	7	9	49	43.8
BSMAN4	Market value of quoted investments in subsidiaries	12	15	38	44.4
OIVOL38	Dividend per share for the last 5 years	29	36	0	44.6
PLVOL10	Gross profit	26	32	7	44.8
BSMAN6	Market value of quoted investments in associates	5	6	54	45.5
BSMAN38	General description of the gratuity plan, including employee groups covered	30	35	0	46.2
BSMAN39	Details and methods of funding of the gratuity liability	30	35	0	46.2
OIVOL15	Factors which will influence future results of the company.	30	35	0	46.2
OIVOL46	Price Earnings Ratio for this year and previous year	30	35	0	46.2
BSMAN44	Provisions shown on the face of the balance sheet	30	33	2	47.6
OCMAN10	Revenue from inter segment sales	10	11	44	47.6
BSVOL67	Net assets [total assets-current liabilities]	31	34	0	47.7
OCMAN8	Statement of changes in equity	31	34	0	47.7
OIMAN3	Number of employees at the end of the period or the average for the period	31	34	0	47.7
OIVOL49	Current ratio for this year and previous year	31	34	0	47.7
PLVOL21	Bad debts written off	32	33	0	49.2
OCMAN30	Accounting policy for cash and cash equivalents	32	33	0	49.2
PLMAN26	Earning per share, before and after extra ordinary items	1	1	63	50.0
BSVOL14	Investments in associates at equity method	2	2	61	50.0

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
OIVOL7	Value added per employee	32	32	1	50.0
OIVOL10	Description of marketing network for finished goods	26	26	13	50.0
BSVOL33	Sundry debtors	33	32	0	50.8
PLVOL2	Revenue (Turnover) from export sales	15	14	36	51.7
PLVOL13	Profit/Loss on disposal of current investment	12	11	42	52.2
OCMAN35	Accounting policy for borrowing costs	34	31	0	52.3
OCMAN33	Accounting policy for research and development costs	9	8	48	52.9
OCMAN34	Accounting policy for capital commitment and contingencies	35	30	0	53.8
OIVOL58	Value added statements of any form	36	29	0	55.4
BSMAN30	Breakdown of reserves into capital reserve and revenue reserve	35	28	2	55.6
PLMAN27	Dividend per share shown in the P/L or in notes	35	27	3	56.5
OCMAN25	Accounting policy for segmental reporting	13	10	42	56.5
OIVOL13	Technology improvement and upgrade	37	27	1	57.8
BSMAN49	Amount-Material post balance sheet events	11	8	46	57.9
OIVOL23	Categories of shareholders as resident and non-resident	36	26	3	58.1
BSVOL28	Breakdown of short term investments at cost	7	5	53	58.3
OIMAN2	History and developments of the company	38	27	0	58.5
BSVOL66	Net current assets / (liabilities) [Working Capital]	39	26	0	60.0
OIVOL16	Description of major plants, warehouses, offices and their locations	39	26	0	60.0
BSVOL10	Investments in subsidiaries distinguish between quoted/unquoted	22	14	29	61.1
OIVOL41	Net assets per share for the last 5 years	40	25	0	61.5
OIVOL35	Earnings/ (loss) per share for the last 5 years	41	24	0	63.1
BSVOL52	Information about repayment of long term borrowings	33	19	13	63.5
OIVOL33	Key accounting ratios for the last 5 years	41	23	1	64.1
BSVOL51	Interest rates applicable for long term borrowings	34	18	13	65.4
BSVOL49	Extent of security on long term borrowings	35	18	12	66.0
OIVOL32	Key accounting ratios for this year and previous year	43	22	0	66.2
BSVOL15	Investments in associates distinguish between quoted/unquoted	12	6	47	66.7
BSVOL37	Breakdown of advances, deposits and prepayments	42	21	2	66.7
OCMAN12	Assets of each major segment	14	7	44	66.7

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
OIVOL14	Future plans and targets for the development of the business	44	21	0	67.7
OIVOL2	A brief description of the nature of the industry and its trends	45	20	0	69.2
OIVOL30	Main balance sheet items for the last 5 years	45	20	0	69.2
SRVOL8	Contributions and Donations	43	19	3	69.4
OIMAN5	Dividend per share this year and previous year	44	19	2	69.8
OCVOL18	Accounting policy for comparative figures	45	19	1	70.3
BSVOL62	Breakdown of amount due to related companies	36	15	14	70.6
BSVOL59	Trade creditors	46	19	0	70.8
OIVOL22	Categories of shareholders as individual and institutional	46	19	0	70.8
PLVOL24	Retirement benefit expense	47	17	1	73.4
PLVOL27	Method of computation of earning per share	48	17	0	73.8
BSVOL21	Additions and recoveries of other non-current assets during the year	12	4	49	75.0
OCVOL16	Accounting policy for liabilities	48	16	1	75.0
OIVOL28	Main profit and loss account items for the last 5 years	48	16	1	75.0
OIVOL27	`Market price per share at the last year	49	16	0	75.4
BSMAN9	Market value of quoted investments in other investments	22	7	36	75.9
BSVOL31	Breakdown of amount due from related companies	39	12	14	76.5
OIVOL12	Details of major products/services including new and potentially new products	39	12	14	76.5
PLMAN17	Basis of computing income tax	46	14	5	76.7
PLVOL4	Net turnover	50	15	0	76.9
OCVOL17	Accounting policy for expenditure	50	15	0	76.9
SRVOL3	A statement of persons holding substantial part of the share capital	50	15	0	76.9
BSVOL46	Changes to minority of interest during the year	17	5	43	77.3
PLVOL5	Total cost of sales	46	13	6	78.0
OIVOL26	Highest and lowest price during the year	51	14	0	78.5
OIVOL40	Net assets per share for this year and previous year	51	14	0	78.5
SRMAN4	Amount proposed to transfer to reserves shown in the directors' report	37	10	18	78.7
PLVOL3	Turnover tax & national security levy	48	12	5	80.0
BSVOL41	Breakdown of share premium	8	2	55	80.0
OIVOL5	Information such as Names, positions of the senior management (Executives).	52	13	0	80.0

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	Disclosure
BSVOL18	Other investments distinguish between quoted/unquoted	26	6	33	81.3
PLMAN2	Interest, royalties, dividends and rentals on long-term and current investments	44	10	11	81.5
OCVOL14	Accounting policy for post balance sheet events	53	12	0	81.5
BSMAN46	Aggregate amount of bank loans and overdrafts	46	10	9	82.1
PLVOL11	Total other income	53	11	1	82.8
OCVOL7	Breakdown of the cash and cash equivalents at the end of the year shown in the cash flow statement	54	11	0	83.1
PLMAN14	Share of profits/losses of associate companies shown on the face of P/L	15	3	47	83.3
PLVOL26	Breakdown of total tax expense	40	8	17	83.3
BSVOL20	Breakdown of other non-current assets	16	3	46	84.2
PLMAN13	Breakdown of Interest on debentures and other fixed loans	54	10	1	84.4
PLVOL12	Breakdown of other income	54	10	1	84.4
BSVOL53	Long term loans repayable after one year	44	8	13	84.6
BSMAN31	All movements of reserves, including balance B/F; transfers, etc.	48	8	9	85.7
OCMAN24	Accounting policy for intangible assets	24	4	37	85.7
BSVOL55	Provision for gratuity during the year	55	9	1	85.9
PLVOL14	Profit/Loss on disposal of fixed assets	49	8	8	86.0
PLMAN4	Analysis of all expenses by nature of expenses (eg. Wages, depreciation etc)	56	9	0	86.2
PLVOL1	Breakdown of the revenue	56	9	0	86.2
PLMAN7	Goodwill and other intangibles written off	25	4	36	86.2
BSVOL64	Amount of contingent liabilities	33	5	27	86.8
BSMAN48	Capital expenditure commitments	56	8	1	87.5
BSVOL56	Payments for gratuity during the year	56	8	1	87.5
BSMAN43	Tax liabilities shown on the face of the balance sheet	44	6	15	88.0
SRVOL2	Movements in shares and share capital (share issuing and listing) during the year	15	2	48	88.2
BSVOL50	Sources of finance (Lending Institution) of long term borrowings	46	6	13	88.5
BSVOL12	Ownership interest of the company in subsidiaries	32	4	29	88.9
SRMAN5	Amount recommend to be paid as dividends shown in the director's report	41	5	19	89.1
PLMAN23	Earning per share shown in the P/L or in notes	58	7	0	89.2
BSMAN42	Trade and other payables shown on the face of the balance sheet	58	7	0	89.2

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
BSVOL65	Description / Breakdown by nature of contingent liabilities	58	7	0	89.2
OCMAN28	Accounting policy for lease, hire purchase, or instalment transactions, and related interest	42	5	18	89.4
PLMAN22	Dividends by classes of shares and dividend rates	44	5	16	89.8
BSMAN24	Number of preference shares authorised	9	1	55	90.0
OCVOL9	Total Revenue for major segments of the company	19	2	44	90.5
BSVOL60	Long term loans repayable within one year	48	5	12	90.6
BSVOL61	Amount due to related companies	48	5	12	90.6
OIVOL24	Market price per share at the balance sheet date	59	6	0	90.8
SRVOL1	Description on payment of dividends.	54	5	6	91.5
PLMAN21	Aggregate net dividends paid and proposed	45	4	16	91.8
BSVOL27	Short term investments at cost	12	1	52	92.3
BSVOL32	Breakdown of trade and other receivables	60	5	0	92.3
BSVOL54	Provision for gratuity at the beginning of the year	60	5	0	92.3
BSVOL57	Provision for gratuity at the end of the year	60	5	0	92.3
BSVOL68	Details of related party transactions	56	4	5	93.3
BSVOL69	Description / Breakdown by nature of post balance sheet events	60	4	1	93.8
OCVOL15	Accounting policy for trade and other receivables	60	4	1	93.8
BSMAN17	Cash and cash equivalents shown on the face of the balance sheet	61	4	0	93.8
BSMAN20	Par value of an ordinary share	61	4	0	93.8
OIMAN4	Earnings/ (loss) per share for this year and previous year	61	4	0	93.8
OIVOL4	Chairman's report	61	4	0	93.8
BSMAN35	Deferred tax balance at the beginning of the year	46	3	16	93.9
BSMAN36	Transfers to/ from deferred tax during the year	46	3	16	93.9
BSVOL11	Listing and description of investments in subsidiaries	31	2	32	93.9
BSMAN8	Ownership interest of significant associates	17	1	47	94.4
BSMAN13	Amount of inventories shown on the face of the Balance Sheet	56	3	6	94.9
OCMAN11	Profit of each major segment	20	1	44	95.2
BSMAN15	Trade and other receivables shown on the face of the balance sheet	62	3	0	95.4
OCMAN31	Accounting policy for employee benefit costs (gratuity)	62	3	0	95.4

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
OCMAN32	Accounting policy for revenue recognition	62	3	0	95.4
SRMAN2	Principal activities and business review shown in the directors' report	62	3	0	95.4
BSVOL45	Minority interest at the beginning of the year	21	1	43	95.5
BSMAN10	Amount of intangible assets is shown on the face of the Balance Sheet	23	1	41	95.8
BSVOL23	Amortisation of intangible assets	23	1	41	95.8
BSVOL42	Share premium for the company and the group	23	1	41	95.8
BSMAN45	Dividends proposed	48	2	15	96.0
BSMAN37	Deferred tax balance at the end of the year	49	2	14	96.1
OCMAN26	Accounting policy for investments	51	2	12	96.2
OCMAN19	Accounting policy for taxation	61	2	2	96.8
BSVOL39	Ordinary share capital for the company and the group	31	1	33	96.9
OCMAN20	Accounting policy for deferred taxation	62	2	1	96.9
PLMAN8	Directors' emoluments	63	2	0	96.9
BSVOL6	Net value of property, plant and equipments	63	2	0	96.9
BSVOL9	Breakdown of total investments in subsidiaries at cost	32	1	32	97.0
BSMAN32	Share premium	44	1	20	97.8
BSVOL30	Amount due from related companies	49	1	15	98.0
OCMAN18	Accounting policy for conversion of foreign exchange	52	1	12	98.1
BSVOL48	Breakdown of long term borrowings	56	1	8	98.2
BSMAN14	Breakdown of inventories at cost	58	1	6	98.3
PLMAN12	Interest (Finance costs) on debentures and other fixed loans shown on the face of P/L	62	1	2	98.4
SRVOL7	Directors' interest in shares or debentures	63	1	1	98.4
PLMAN9	Auditors' remuneration	64	1	0	98.5
BSMAN2	Total depreciation allocated for the period on property, plant and equipments	64	1	0	98.5
BSMAN3	Accumulated depreciation on property, pant and equipments	64	1	0	98.5
BSVOL36	Advances, deposits and prepayments	64	1	0	98.5
OCMAN23	Depreciation rates used for property, plants and equipments	64	1	0	98.5
SRVOL5	Detailed information such as gender, ages, positions, etc about directors	64	1	0	98.5
OIVOL9	A fair review of the company results during the year and in the previous years.	64	1	0	98.5
PLMAN1	Revenue (Turnover) on the face of the P/L	65	0	0	100.0
PLMAN6	Depreciation	65	0	0	100.0

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
PLMAN11	Operating profit shown on the face of P/L	65	0	0	100.0
PLMAN15	Profit before tax (Profit from ordinary activities before tax)	65	0	0	100.0
PLMAN16	Total tax expense shown on the face of P/L	51	0	14	100.0
PLMAN18	Profit from ordinary activities after tax and before extra ordinary activities	65	0	0	100.0
PLMAN19	Extraordinary items shown on the face of P/L	1	0	64	100.0
PLMAN20	Net profit for the year (Profit attributable to ordinary share holders/ profit after extraordinary items)	65	0	0	100.0
PLMAN28	Comparative figures-Profit and Loss account of the previous year	65	0	0	100.0
BSMAN1	Property, plant and equipment shown on the face of Balance sheet	65	0	0	100.0
BSMAN5	Investments in associates accounted for using cost or equity method	18	0	47	100.0
BSMAN7	Listing and description of significant associates	17	0	48	100.0
BSMAN11	Total amount of current assets	65	0	0	100.0
BSMAN12	Total value of inventories	59	0	6	100.0
BSMAN16	Bank/cash balance	65	0	0	100.0
BSMAN18	Number of ordinary shares authorised	65	0	0	100.0
BSMAN19	Number of ordinary shares issued and fully paid, and issued but not fully paid	65	0	0	100.0
BSMAN22	Ordinary shares reserved for issuance under options and sales contracts	3	0	62	100.0
BSMAN23	Issued ordinary share capital shown on the face of the balance sheet	65	0	0	100.0
BSMAN25	Number of preference shares issued and fully paid, and issued but not fully paid	7	0	58	100.0
BSMAN26	Par value of a preference share	9	0	56	100.0
BSMAN28	Issued preference share capital shown on the face of the balance sheet	7	0	58	100.0
BSMAN29	Total reserves shown on the face of the balance sheet	65	0	0	100.0
BSMAN33	Minority interest shown on the face of the balance sheet	22	0	43	100.0
BSMAN34	Non current interest bearing liabilities shown on the face of balance sheet	58	0	7	100.0
BSMAN41	Total current liabilities	65	0	0	100.0
BSMAN47	Comparative figures-Balance sheet of the previous year	65	0	0	100.0
BSVOL1	Total fixed assets	65	0	0	100.0
BSVOL2	Total fixed assets for the group and the company	37	0	28	100.0

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
BSVOL3	Detailed break down of fixed assets	65	0	0	100.0
BSVOL4	Total depreciation on property, plant and equipment allocated for the period for the group and the company	34	0	31	100.0
BSVOL5	Accumulated depreciation on property, plant and equipments for the group and the company	33	0	32	100.0
BSVOL7	Acquisition or disposal of property, plant and equipments	63	0	2	100.0
BSVOL8	Total investments in subsidiaries at cost	36	0	29	100.0
BSVOL13	Breakdown of investments in associates at cost	18	0	47	100.0
BSVOL16	Other investments at cost	32	0	33	100.0
BSVOL17	Breakdown of other investments at cost	32	0	33	100.0
BSVOL19	Other non-current assets	19	0	46	100.0
BSVOL22	Opening net book amount of intangible assets	24	0	41	100.0
BSVOL24	Closing net book amount of intangible assets	24	0	41	100.0
BSVOL25	Breakdown of current assets value	65	0	0	100.0
BSVOL40	Preference share capital for the company and the group	3	0	62	100.0
BSVOL43	Retained profit at the beginning and end of the year	65	0	0	100.0
BSVOL44	Changes in retained profit during the year	65	0	0	100.0
BSVOL47	Minority interest at the end of the year	22	0	43	100.0
BSVOL58	Breakdown of current liabilities	65	0	0	100.0
OCMAN1	Cash flows from operating activities of the company shown in the cash flow statement	65	0	0	100.0
OCMAN2	Cash flows from investing activities of the company shown in the cash flow statement	64	0	1	100.0
OCMAN3	Cash flows from financing activities of the company shown in the cash flow statement	65	0	0	100.0
OCMAN4	Cash flows associated with extraordinary items shown separately in the cash flow statement	3	0	62	100.0
OCMAN5	Cash flows from interest and dividends received and paid shown in the cash flow statement	65	0	0	100.0
OCMAN6	Cash flows arising from taxes on income shown in the cash flow statement	53	0	12	100.0
OCMAN7	Comparative figures-Cash Flow Statement of the previous year	65	0	0	100.0
OCMAN15	Accounting polices are disclosed in one place as an integral part of financial statements	65	0	0	100.0
OCMAN16	Basis of accounting (Accounting convention)	65	0	0	100.0

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
OCMAN17	Accounting policy for consolidation	35	0	30	100.0
OCMAN21	Valuation bases used for determining the amounts of depreciable assets	65	0	0	100.0
OCMAN22	Depreciation methods used for property, plant and equipments	65	0	0	100.0
OCMAN27	Accounting policy for property, plant & equipment	65	0	0	100.0
OCMAN29	Accounting policy for inventories	59	0	6	100.0
OCVOL1	Cash flow statement Included as an integral part of the financial statements	65	0	0	100.0
OCVOL2	Breakdown of cash generated from operations shown in the cash flow statement	65	0	0	100.0
OCVOL3	Breakdown of cash generated from investments shown in the cash flow statement	64	0	1	100.0
OCVOL4	Breakdown of cash generated from financial activities shown in the cash flow statement	65	0	0	100.0
OCVOL5	Cash and cash equivalents at the beginning of the year shown in the cash flow statement	65	0	0	100.0
OCVOL6	Cash and cash equivalents at the end of the year shown in the cash flow statement	65	0	0	100.0
OCVOL8	Net increase/ (decrease) in cash and cash equivalents shown in the cash flow statement	65	0	0	100.0
SRMAN1	Directors' report	65	0	0	100.0
SRMAN3	State of the company's affairs shown in the director's report	65	0	0	100.0
SRMAN6	Directors' direct or indirect interest in a contract with the company	65	0	0	100.0
SRMAN7	Auditor's report	65	0	0	100.0
SRMAN8	Auditor's report states whether all the information and explanations necessary have been obtained	65	0	0	100.0
SRMAN9	Auditor's report states the opinion of the auditor on company's keeping proper books of account	65	0	0	100.0
SRMAN10	Auditor's report states whether financial statements are in agreement with the books of account	65	0	0	100.0
SRMAN11	Auditor's report states whether financial statements give a true and fair view	65	0	0	100.0
SRMAN12	Auditor's report states whether the financial statements give the information required by the Act	64	0	1	100.0
SRMAN13	Auditor's report states whether the company directors are interested in a contract with the co.	65	0	0	100.0

Variable Number	Item Name	Disclosed	Not Disclosed	Not Applicable	% Disclosure
SRVOL4	Names of the directors	64	0	1	100.0
SRVOL6	Changes in the director board during the year	65	0	0	100.0
SRVOL9	Reference to the resolution to reappoint the auditors	65	0	0	100.0
OIMAN1	The name, legal form, country of incorporation, address of the registered office	65	0	0	100.0
OIVOL21	Breakdown of total shareholdings into number of share groups	65	0	0	100.0

Appendix-12

LEVEL DISCLOSURE BY INFORMATION ITEM

Q-NO	Information Item	% Disclosure
82	Discussion of the impact on inflation on the financial results	0.0
92	Cash projection for the next year.	0.0
19	Breakdown of expenses into fixed and variable components	1.5
75	Ageing schedule of the debtors	1.5
25	Raw materials consumed and their breakdown	2.4
23	Total advertising and publicity expenses	3.1
93	Financial objectives for the next year	4.6
68	Details of raw materials imported and local raw materials content of the finished goods	7.9
63	Rate of growth of earning per share	9.2
85	Statement of company share option/ bonus plan	10.0
28	Maintenance and repair expenses	14.1
26	Wages and salaries	22.1
77	Indication of employee morale such as the rate of absenteeism, turnover and frequency of labour disputes.	26.2
24	Total research and development expenses	27.8
61	Summary of important operating and financial data for the last 10 years	29.2
89	Statement of directors' responsibility	30.8
18	Cost of goods sold	32.5
84	Details of corporate "social responsibility" polices and programs	35.4
74	Description of major plants, warehouses and offices and their locations	36.9
66	Production capacity and actual output	38.5
72	Market share and competitive position of the company	38.5
30	Bad debts written off and provision for bad debts	39.2
70	History and development of the company	39.2
17	Breakdown of operating expenses	44.6
51	Sundry debtors less allowances	45.4
80	Factors which will influence future results	46.2
11-6	Movement in share holders' funds	47.7
65	Breakdown of results by segments	48.5
60	Summary of important operating and financial data for the last 5 years	48.9
71	Description of marketing network for finished goods	50.0
76	Information on managers and staff (eg. Number of employees in the company)	50.8
69	Details of finished goods exported	51.7
79	Discussion of the firm's results for previous years with reasons for changes	52.1
11-10	Value added statements	55.4

Q-NO	Information Item	% Disclosure
81	Industry trend, country and company information	55.8
38	Market value of securities and investments	57.1
73	Market price of company's share	61.5
50	Outstanding gratuity/ pension obligations	66.1
62	Earnings per share and the basis of calculation	66.6
90	Disclosure of future plans and targets	67.7
34	Contributions and donations	69.4
64	Dividend per share	69.8
48	Date of maturity, interest rates, and extent of securities of long term borrowings	70.4
32	Amount and breakdown of staff welfare benefits	73.4
39	Cost and breakdown of inventories (Raw materials, W-I-P, etc)	73.7
15	Total revenue and breakdown of various sources of revenue	76.0
67	Details of major products/ services including information on new and potentially new products	76.5
87	Structure of share ownership (individuals, institutions, etc)	76.9
37	Cost and breakdown of securities and investments	77.5
11-4	Accounting polices	79.4
41	Total and breakdown of current liabilities	79.7
46	Shareholders' equity and number of shares outstanding	81.4
42	Total and breakdown of advances, deposits and prepayments	82.3
29	Income tax and provision therein	84.7
56	Amortisation of intangible assets	85.7
21	Goodwill and other tangible assets written off	86.2
91	Capital expenditure for the next year	87.5
49	Details of contingent liabilities	89.2
52	Reserves and their breakdown	89.5
78	Details of post balance sheet events	90.6
33	Aggregate amount of dividends paid	90.8
31	Total interest including breakdown of long & short term loans	91.4
83	Statement of dividend polices	91.5
36	Total assets including breakdown into fixed and current assets	92.1
43	Total tax and differed tax liability	93.1
47	Total and breakdown of long term borrowings	93.3
11-9	Directors' report	93.6
11-8	Chairman's report	93.8
57	Method used for marketable securities and investments	96.2
16	Operating profit before abnormal and extraordinary items	96.6
58	Taxation polices	96.8
27	Directors' emoluments	96.9
40	Book value of goodwill and other intangible assets	97.9

Q-NO	Information Item	% Disclosure
55	Foreign currency transactions	98.1
88	Shares held by directors	98.4
35	Auditor's remuneration/ fees	98.5
11-3	Cash flow statement	98.7
45	Total accumulated depreciation on property, plant and equipment	98.7
86	Names and address of the company's directors, functional responsibilities and major outside affiliations	99.2
54	Method and rates of depreciation	99.5
11-7	Auditors report	100.0
20	Amount of depreciation	100.0
22	Total non-recurring gains or losses reported	100.0
44	Acquisition or disposal of property, plant and equipment during the year	100.0
53	Method used to determine cost of inventories eg., FIFO, LIFO	100.0
59	Comparative financial statements	100.0