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THE AUSTRALIAN CORPORATE ANNUAL REPORTS:
Some Factors Contributing to Low Readability Scores

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ABSTRACT

This thesis examines the discourse of the Chairpersons' and the Review of Activities narratives of the Corporate Business Annual Reports.

The most obvious problem is readability of these prose sections, and a readability analysis through the use of the Flesch (1948) Readability Formula revealed that they are difficult to read. The t-test results of the mean reading ease scores for the two kinds of narratives did not attain statistical significant difference at 0.05 level - thereby revealing the equivalence of the narratives with respect to their difficulty in reading. Similar findings were obtained for average sentence and word lengths.

An analysis of some of the problems that contribute to difficulty in comprehension was then made - sentence length, occurrences of passives and factors inherent in the style of writing which contribute to sentence complexity. Implications and suggestions from the findings as to how readability of the narratives could be improved were made.

The thesis concludes with an "Application of Rhetoric to the Discourse of Business Annual Reports". A number of implications are drawn in this chapter which have pertinence for the writers of annual reports or the corporations as a whole. The corporations will have to take action to improve readability of the reports not only for the betterment of their image but above all, to enable investors to make informed decisions.

DECLARATION

I hereby declare that this thesis, intended for submission to the Department of Education in the Faculty of Arts of the University of Adelaide in fulfilment of the requirements for the degree of Doctor of Philosophy, contains no material which has been accepted for any other degree or diploma in any other University.

To the best of my knowledge, this thesis contains no material previously published or written by another person **except** where due reference is made in the text of the thesis.

I, further, consent to the thesis being made available for photocopying and loan if accepted for the award of the degree.

Betty Mkwinda-Nyasulu

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CHAPTER 1: INTRODUCTION

1.1 AIM OF STUDY

This thesis examines the discourse of the prose sections of corporate annual reports.

Major companies present financial information in income statements and balance sheets, and a variety of specialised charts, graphs and tables. Other information is presented as verbal material, sometimes with pictures and multicoloured printing used to create an attractive visually appealing report. It is these verbal written materials which this thesis analyses. Specifically, it analyses the optional parts - those sections which companies include in order to communicate directly to shareholders, creditors, etc. These sections are, the Chairpersons' narratives and the Management Discussion and Analysis (MD & A) or Review of Activities of the corporate annual reports.

The objectives of the study are:

- (1) to determine the readability (the level of difficulty in reading) of these sections;

- (2) to find out if there is a correlation between occurrence of passives and readability, on the argument that passive constructions tend to obscure information;
- (3) to find out if there is a correlation between factors inherent in the style of writing (which contribute towards sentence complexity) and readability; and
- (4) to make recommendations as regards the findings in 1, 2, and 3, in order to facilitate ease of reading and comprehension.

Readability and, therefore, comprehension of the financial information in the chairpersons' and the review of activities (management discussion and analysis) narrative sections of the annual reports are very important. Several studies suggest that these narratives are the most widely read part of the corporate report (Courtis, 1977; Lee and Tweedie, 1975). In addition, the chairpersons' general narrative in the annual reports is written in continuous prose, and thus suitable for readability testing and analysis of the syntactic forms and structures.

The management discussion and analysis (Review of Activities) was chosen because of its increasing importance to current and potential investors (Securities Act Release 33-6231), especially in the 1990s (Sever and Boisclair, 1990, 40). Furthermore, this section is also mainly written in continuous prose, and therefore well suited for this study.

1.2 RATIONALE OF STUDY

Although communication style in Australian Corporate Annual Reports has improved over the last few decades - mainly in terms of quality of layout, colour, photography and print, unintelligibility (of the information) still seems to be one of the major problems (Mackeon, 1976). Mackeon argues that the problem of unintelligibility of the information by the users is because those who write fail to do so in a clear, coherent style (7). Similarly, Standish (1972) argues that financial communication is still obscure, inadequate, and unclear, thereby making the task of investment decision-making impossible for the investor.

The situation is aggravated by the fact that "more than 50% of shareholders have no bookkeeping experience, and

that the level of education required to comprehend everything in Annual Reports is beyond the attainment of three-quarters of the general population" (The Account's Journal, July, 1977). In this regard, Healy, (1977), and Schroeder and Gibson (1990) argue that the current problem, which is crucial, is not so much the dearth of information in the reports, but rather that of its unintelligibility. It is from this perspective that Standish (1972) calls for comprehensive research practices among practitioners or academics in the quality of effective communication in corporate annual reports.

In a study conducted in the U. K. in December, 1974 (reported in the "Journal of Accounting and Business Research" for Autumn, 1975), the chairpersons' narrative was singled out as the most studied section of the annual report by almost all shareholders. According to this study, it appears the chairpersons' address is accorded superior attention by shareholders because:

- (a) The shareholders with little knowledge of accounting escape from the possibly confusing figures of the accounting statements and tend to look at the more general prose sections;

- (b) The shareholders suspect that certain information that is essential for their decision making purposes is not revealed in the profit and loss statement but, rather, in the chairpersons' address.

Similarly, a study done in Australia to find out if annual reports are read revealed that shareholders relied a lot on the non-financial information, such as the chairpersons' address, for decision-making purposes because of their lack of accounting experiences ("The Australian Accountant, June, 1968).

The study done by Courtis (1977) also revealed that despite the shareholders' confidence in the profit and loss statements of corporate annual reports, they mainly read the chairpersons' review because of their lack of accounting knowledge. Similarly, the results of the study conducted by Lee and Tweedie (1975) showed that shareholders read the chairpersons' report more thoroughly than the profit and loss statements.

On the whole, these studies conclude that corporate annual reporting is based on an academic, scientific style which

the unsophisticated readers, who make up the majority of users, generally find difficult to read. Consequently, they turn to the non-financial parts, mainly the chairpersons' narrative, for their decision making purposes.

Runser (1977), of the Signal Companies Inc., bemoans the shortcomings of communication in financial reports. He finds it ironic that while, on the one hand, there is a lot of emphasis in providing the investors and creditors with financial information, on the other, assessment of their needs to ascertain the usefulness and adequacy of the information is totally ignored.

He therefore calls for a pragmatic approach to financial communication. For him, the important information needed by investors is *not* in the formal financial statements such as balance sheets, profit and loss statement, funds statement, etc., but in the narrative parts of reporting documents.

As he puts it:

..... the most useful information that investors and creditors seek is *not*, *cannot*, and *should not* be found in the formal financial statements
(15). [my emphasis].

Readability and understandability of the Chairpersons' and the Management and Discussion Analysis.

Although some studies, as those stated above, indicate that the chairpersons' narrative is generally the most preferred section by readers or users of the annual reports, other studies have shown that the chairpersons' narratives are difficult to read and, therefore, difficult to understand. One such study is a longitudinal study of the readability of the chairpersons' reports of a U.K. company which revealed that of the 32 narratives, 20 were difficult to read, 9 fairly difficult and 3 of standard difficult (Jones, 1988, 301).

Another study done in the U.K. in 1971, analysed the chairpersons' narratives of 50 company reports published over a period of two months. This study revealed that most chairpersons' narratives were likely to be difficult or even impossible to understand by most of the employees (Still, 1972). Still argues, in addition, that it was quite possible that some of the annual reports were likely to be difficult to comprehend, in spite of their high reading ease scores. The reason for that, he argues, were other aspects of the texts like poor grammatical construction, faulty punctuation and poor organisation of

information (165). Furthermore, Still recommends considerable simplification of the majority of British chairpersons' narratives if they are to be comprehensible to the employees (166). He also asserts (though out of context) that if the remarks of the chairpersons are largely unintelligible, they "could prove very damaging to labour relations in the organisations concerned: exploited by the militant, [and] their effect could be disastrous" (166).

Studies of U. S. A. corporate reports indicate that the chairpersons' reviews are also very difficult to comprehend. One such study done by Smith and Smith (1971) revealed that most of them were still very difficult to read - just like the reports analysed in early research of Pashalian and Crissy (1952).

It is against such a background that this study aims to analyse the narrative parts of the discourse and to suggest ways for their improvement in terms of intelligibility.

Just like the Chairpersons' Reports, it appears the Management Discussion and Analysis section deserves equal attention in terms of its intelligibility. In the United

States of America, The Securities and Exchange Commission (SEC) has specifically stressed the importance of intelligibility to investors of the Management Discussion and Analysis (M D & A) in corporate annual reports (Securities Act Release 33-6231, September, 1980). It was therefore decided to amend the disclosure of M D & A. The expressed concern, and the consequent amendment and adoption of readability of disclosure of the M D & A, was because this section focuses on matters concerning, for instance, liquidity, capital resources, and operating results of the firm, which are fundamental for decision making purposes of the users.

Furthermore, it seems the M D & A section deserves more attention in terms of readability and therefore its understandability because, as Sever and Boisclair argue, it might increasingly become an important section of corporate reporting for financial statement in the 1990s. They argue that in the 1990s, there might be an increased need for the M D & A to focus more on "real trends, nonrecurring charges, fluctuations due to market value changes, effects of tax legislation and the effect of the mechanical application of the liability method" (Sever and Boisclair, 1990, 40).

The Importance of Readability

It hardly needs emphasis that effective communication is vital to business enterprises. Business enterprises, or any social situation for that matter, cannot survive without effective communication. As Clark and Clark (1977) argue, "language is the basic ingredient in every situation and communication permeates all these activities" (3). It is only logical that when communication breaks down we should look for what is wrong - beginning with the basic ingredient which is language.

Ease of understanding is one of the important features of effective annual financial reporting (Jones, 1988, 297; Lee and Tweedie, 1975; Courtis, 1977; Pashalian and Crissy, 1952; Soper and Dolphin, 1964). According to Smith and Smith (1971), "effective communication occurs only if the selected messages possess utility to the destination" (553). In other words, communication can be viewed as effective if the transmission of the messages to the intended user is in an accurate and comprehensible form. If the message is not understood by the user, there is a breakdown in communication, thereby making the information useless, and in corporate annual reports, useless for decision making purposes.

If one of the objectives in constructing the corporate annual report is to make it as readable and understandable as possible, what then makes the chairpersons' narratives and the management discussion and analysis difficult to understand? What are the features of the language of these sections that make it difficult for recipients, such as shareholders, to understand? To put it differently, we are looking at the suitability of language - appropriateness and effectiveness of the language of the chairpersons' and the M D & A . In other words, we are looking at the rhetoric of the language of the Chairpersons' and the Management Discussion and Analysis sections of the corporate annual reports. How do writers write? Why do some people have difficulty in comprehending texts? What are some of the linguistic factors that affect the rhetoric of the language of the chairpersons' address and the M D & A, in the business annual reports? Or what is the textual rhetoric (to use Leech's, 1983 term) and the constraints of these two sections?

It is from such questions that the impetus of this study developed and finally came to rest as an investigation of the language barriers of communication in the chairpersons' narratives and the M D & A - the sections which are especially designed to appeal to the reader (Securities Institute of South Australia, 1990).

1.3 BASIC ASSUMPTIONS OF THE STUDY.

It will be assumed in this study that:

- a. Any discourse which is difficult to read is difficult to comprehend, and the discourse of the Australian annual report is of this nature.
- b. The aim of the chairpersons' address and the management discussion and analysis sections of the Australian corporate annual reports is to influence their recipients in one way or another. Put rhetorically, the aim of the discourse of the chairpersons' address and the management discussion and analysis parts of annual reports is to win the compliance of shareholders, creditors, etc.
- c. If (a) is true, that the discourse of the chairpersons' address and the management discussion and analysis parts of annual reports is difficult to read and, therefore, to understand, then the aim of the writers - winning the compliance of the audience or users' is not achieved. It also follows that communication in these parts of the annual reports is not effective.

Literature Review.

A preliminary search indicated that no previous studies of analysis of the discourse of the optional parts of annual reports of this sort has been done, at least in Australia. Most studies done have concentrated on financial statements, and their interpretation. This category appears to be the preserve of financial analysts - who earn their living by recasting these statements to investors and even professional accountants in order to determine the "real" financial situation of a company.

CHAPTER 2: A LITERATURE REVIEW

2.1 THE ROLE OF CORPORATE ANNUAL REPORTS

It hardly needs emphasising that the aims and objectives of what we do give us a sense of direction and sense of purpose so that we are not side-tracked and lose sight of ultimate goals.

There is little in the literature or in legislation which defines the aims or objectives of annual reports (Olsson, 1980). It is, therefore, ironic that companies go through a lot of anguish and spend vast amounts of money to prepare annual reports. As Meyer (1981) points out, some companies start preparing the annual reports six months before publication. Moreover, some companies in the U. S. A. spend up to millions of dollars to write, print and distribute the corporate annual reports.

It is surprising, therefore, that a popular document which involves "so much anguish [in preparation] , and so much pride of authorship" (Meyer, 1981, 3), such as the annual report, could have no legislative aims and objectives, considering the implied amount of work involved in preparing it.

It is interesting to note, however, that most annual reports have the aims and objectives of the organisations they represent stated in the front pages. Nevertheless, these objectives and aims of organisations do not in any way compensate for legislative aims. Consequently, on the whole, we might say that corporate annual report writers are left groping in the dark because they are left to their own discretion.

Despite the fact that there is little documentation in literature about the aims of annual reports, the little there is indicates that they are prepared for a specific purpose: to communicate information to users to assist them in the decision making processes, which are mainly economic ones (Smith and Smith, 1971, 552; Healy, 1978, 219).

Communication of accounting information has been long recognised as a function of corporate reporting:

It is noteworthy that the tool of analysis we call accounting has always had communication as an objective (Littleton and Zimmerman, 1962, 26).

However, communication in financial or corporate reporting will only occur if the user translates the information in a manner intended by the writer. To put it another way, the user has to interpret the message in a way intended by the writer.

2.2 HISTORICAL BACKGROUND

Historically, the objective underlying annual reports was to inform the owners on the stewardship of management (Carsberg, Hope and Scapens, 1974). In other words, the annual accounts of business entities developed as a summary of the book-keeping entries for the financial year - in the first place, as a by-product of the balancing process (Lee, 1976). This implies that attention was focused on the balance sheets, just as attention is focused on the gold, and not on the silver, in the production of gold.

In the 19th Century, business enterprises grew steadily, leading to the inevitable divorcing of the functions of ownership and management (Lee, 85). The owners of the business began to employ other people or appointed directors to run their business or parts of their business for them. Consequently, Lee (1976) argues that the final

accounts became essentially the main means by which the directors explained their stewardship to the owners - the shareholders. Lee further argues that the governing objective of the annual accounts was to avoid overstatement of the net profit - an indicator of future dividends.

Courtis (1978) argues that, over the past 20 years, a number of changes have occurred in corporate annual reporting "from an elementary set of financial statements to a comprehensive and complex document" (269). He argues that the change has mainly been in terms of the amount of disclosure so that in addition to the traditional financial statements, there is an inclusion of "a director's report, auditors' report, funds statement, statistical highlights, chairman's address, photographs and graphs, details of personnel, proxy information and other 'odds and ends'" (269).

Although the changes in disclosure can be attributed to many other factors, Olsson (1980) argues that, in the Australian context, the public is now more vigilant, and he calls on all business organisations, whether private or public, to be more socially responsible. This implies that

the public in general, or groups in Australian society, expect business organisations to have much more disclosure. The Australian public demand that business organisations be more answerable to the public interest. Furthermore, Olsson (1980) observes that business corporations, as social organisations, are increasingly being used by political parties to achieve their objectives. This, he argues, is probably because corporate reporting is a simpler channel of communication than the normal government channel (29).

In 1976, Mackeon had observed that although communication through the annual reports had generally improved over the previous five years, there is still plenty of room for improvement (Mackeon, 1976, 420). With increased disclosure of more complex financial statements, a greater focus on its readability to a wider audience might be required. As Dolphin and Wagley (1977) argue, "a generalisation of the overall effectiveness of communication, " that corporate reporting has improved is probably incorrect (20). He argues that this is because readability of annual reports has not improved.

There is no dispute about the basic purpose of annual reports in the literature. The general consensus is that

reports serve as a means of communicating information to shareholders. However, the contemporary annual report is a multipurpose document (Securities Institute of South Australia, 1990). This is because of the dramatic changes over the years as a result of a complex network of social, political and economic forces, both on national and international levels. For instance, inflation, takeover and mergers, and changes in company law have had a big impact on the development of the annual reports (Farmer, 1981).

One of the differences is that the user group is much wider. More people from not only different backgrounds, but also with various utility intentions, are interested in reading the reports. The users include the present and potential shareholders, employees, trade unions, government agencies, customers and suppliers (Meyer, 1981).

It seems appropriate in contemporary Australia for corporate reporting to look into the question of whether or not the user groups are homogeneous. If the user groups are heterogeneous, it is necessary for the reports to accommodate this diversity. It might be necessary to

examine the users' proficiency in reading and understanding the information, to assess their needs appropriately. However, that is beyond the scope of this thesis and probably of corporate philosophies.

2.3 RECIPIENTS OF CORPORATE ANNUAL REPORTS.

The problems associated with readability and, therefore comprehension of corporate annual reports, could be identified within the context of user groups. This is because different user groups have different information requirements for their decision making purposes. They also have varying economic experiences or technical competence (Adelberg, 1979, 14). The situation seems to be aggravated by the fact that:

..... the level of education required to comprehend everything in annual reports is beyond the attainment of three quarters of the general population. (*The Accounts' Journal*, 1977, 44).

As stated above, corporate annual reports are a major means by which business enterprises communicate information about the past of the enterprises, present and

future social and economic events and activities (Adelberg, 14; Naughton, 1980, 10; Dolphin and Wagley, 1977, 20). Corporate information is communicated to user groups that include, for instance, "current and potential shareholders, short and long term creditors, labour unions, suppliers, customers, government taxing and regulatory agencies, pension plans, insurance companies, financial analysts, bank loan officers, investment counsellors, stock exchanges, environmentalists, and the general public" (Adelberg, 14). This list of users does not just indicate heterogeneous user classes but also implies the use of the same information for various reasons within the context of decision making purposes.

The concept of heterogeneous user groups in contemporary Australia can also be identified from the aim of the Australian Annual Report Award. At the 27th Australian Annual Report Award, it was stated that:

The aim of the Annual Report Award is to encourage the presentation of information vitally needed by investors in private business enterprises; by taxpayers in respect of Government enterprises and authorities and public administrative bodies; by members and supporters of charitable, welfare,

sporting and community organisations. Particularly interested are employees and creditors of all these bodies, whilst indirectly affected are the families of employees and the members of the general public who are concerned with the environmental implications of the policies and operations of such enterprises and bodies (1) (Australian Institute of Management, May, 1978).

It would appear from the aim of the Annual Report Award that the challenge is one of presenting information to satisfy the needs of the different user group classes in a meaningful manner. This, in turn, offers a challenge to write an informative account of the year's operations in a readable, and therefore, comprehensible manner.

2.4 UNINTELLIGIBILITY OF THE DISCOURSE OF ANNUAL REPORT.

One of the main problems related to the heterogeneous user classes is that of unintelligibility of financial information. Mackeon argues that more often than not, this happens because the information is not reported in a clear articulate manner (Mackeon, 1976). On this issue, Mackeon cites N. S. W. Corporate Affairs Commissioner,

Frank Ryan who suggests that disclosure legislation should recognise the various degrees of comprehension and technical competence by reporting at more than one level of difficulty. He recommends bare statements for the average investors and more detailed disclosure for the competent ones.

Other authoritative statements have been made with respect to the identity and requirements of users. For instance, The Trueblood Report refers to users in general terms and states that financial reports should not serve special needs of specific users but rather, the general needs of all users (Sorter and Gans, 1974, 6-8). Such statements might imply that preparation of corporate reports should be based on the underlying principle of communicating with a mass audience of differing needs, interests, degrees of comprehension and technical competence. The differing degrees of comprehension and technical competence of the user group classes might in turn imply the need for financial report writers to take into account the reporting style and content so as to accommodate all user groups.

Perhaps, then, the presentation of corporate information in a clear, articulate manner for comprehension of a wide audience requires, as Parker (1982) maintains:

- a. "The development of a rationale for serving a mass audience which is amorphous and heterogeneous in its composition.
- b. The adoption of communication patterns appropriate to the mass audience" (280) .

Literature abounds with some suggestions in regard to the level of user competence as the basis for financial report writing. It appears these suggestions are based on the point of view that ease of reading [and therefore, understanding] is one of the essential factors to be considered for effective corporate reporting or communication.

For instance, Cowen (1968) insists that annual report writing should firstly do a needs analysis of those users with the least degree of technical comprehension - individuals or groups of individuals with limited skills:

In my view, the primary need is that of that of the primary addressee, the shareholder. To concentrate on his needs is more likely to lead to a clear statement of accounting objectives, and in turn to a clearer basis for the establishment

of the rules. The other groups.....are....secondary beneficiaries" (99).

Gilchrist and Taylor (1979) remind us that the purpose of communicating information in the annual report "is to enable the public at large, and shareholders in particular, to form a judgement regarding stewardship of the directors and the performance of the managers" (37).

As stated earlier, the public is not a homogeneous group, and some of the investors are not educated enough to understand the prose sections of the annual report.

If it is true that our social existence is determined by the language we habitually use, then the authors of the annual report, by using language which is not understandable to the average citizen, implicitly refuse to acknowledge not only the presence, but existence of the ordinary man.

Similarly, Jones (1971) argues that financial reporting should be such that a layman-investor can comprehend what management has accomplished or failed to accomplish as a steward of his investment. Burton and Reiling (1972) also argue that financial reporting should not primarily be

concerned with the more professional audience as it would be most unfair to inform the competent audience but fail to make the information understandable to other people who may wish to make investment decisions (47). These suggestions are consistent with those of Lee and Tweedie (1976):

If the provider of financial information wishes to communicate effectively to all private shareholders, it may be necessary to present less complex data to encourage those with no accounting background to read financial reports more thoroughly.

In Buzby's (1975) view, each user group can also be divided into several sub-groups with different abilities related to ability to interpret the financial information. For instance, Buzby argues that the sub-group, "current shareholders" is composed of people with varying readability levels so that the financial information may be adequate to some shareholders and inadequate to others (46). The implication is that the problem of communication in annual reports is a complex one. To advocate addressing, for instance, users with the least degree of readability competence is not a simple issue because they too vary in their abilities in comprehension.

There are therefore, conflicting views about solving the communication problem in annual reports.

Some critiques have even suggested stratified disclosure, in terms of linguistic sophistication, so that the different accounting ability sub-groups are satisfied by the separate disclosure. For example, the Securities and Exchange Commission seems to recommend stratification by separate disclosures tailored to its own unique interpretive capacities (Accounting Series Releases 148 and 149). Similarly, the N. S. W. Corporate Commissioner, F. J. O. Ryan suggests that an equilibrium could be reached if disclosure legislation acknowledges the varying comprehension levels and technical competence of recipients. He argues that writing simple statements for the 'average' reader and more detailed statements for competent readers would be a means of reaching this equilibrium (cited in Mackeon, 6-7).

However, not everyone seems to agree with the suggestion of stratifying financial disclosure to address the needs of both the average and the sophisticated user. For instance, Norby (1972) argues that contemporary corporations are too complex to be represented by overly-

simplified financial statements that are understandable to an average user (42). He further argues that in the process of simplifying the statements a lot of information might be lost.

Conflicting opinions, therefore, exist in regard to the degree of complexity of financial statements required for effective communication.

Two Australian studies reveal that private shareholders see corporate annual reports as the most important source of information (Courtis, 1978, 270). If of information (Cour then it is crucial for report writers to reflect this attitude. As things are, it seems not all companies do so. For instance, Anderson (1979) found that most investors find the financial statements difficult to comprehend inspite of the view that they are considered as an important source of information essential for their decision making purpose.

A study done in New Zealand to find out the readability of the footnotes to financial statements showed that the footnotes are understandable by only 20% of the general population. In addition, it was revealed that there is, generally, a tendency by large rather than small companies

to include complex footnotes which were difficult to comprehend (Healy, 1977). This implies that the majority of the general population are prevented from gaining valuable information which is important for their decision making purposes. Similar findings in the U. S. A. are reported by Smith and Smith (1971).

In another study in the U. S. A. it was found that annual reports contained language which was beyond the language experience and fluent intelligibility of almost 75% of the adult population. Consequently, one of the recommendations was that the construction of annual reports should consider a wider application, with special consideration for the majority of the population which has no or little accounting background (Pashalian and Crissy, 1952).

What is more perplexing is the concern expressed by Mackeon (1976) that reporting is of little assistance even to the experts, the financial analysts, who are expected to provide professional advice to the clients. Similarly, in a study done by Adelberg (1977) to find out the comprehension ability of sophisticated users on narrative disclosures of annual reports, he revealed varying degrees of comprehension.

Perhaps the most interesting study on readability is that conducted by Soper and Dolphin (1964). This study is fascinating in that it involved subjects who were experts, professionals in financial issues, and novices. Those people in group 1 had finance training and were stockholders. Group 2 consisted of those who had finance training but were not stockholders. Group 3 consisted of those who had no finance training but were stockholders. The last group, group 4, were laymen - those who had no training whatsoever in finance and were not stockholders. Soper and Dolphin had , for their study, three objectives in mind: To find out whether or not

- (a) communication, specifically, readability of corporate annual reports had improved over a thirteen year period from 1948 to 1961;
- (b) the new Flesch readability formula really provided a useful rating of reading ease, based on the evaluation by independent judges. That is, to find out the validity of the Flesch formula,
- (c) there existed a correlation between reading ease and the level of comprehension of test material.

Soper and Dolphin found that communication in annual reports had not improved over time. What is of pertinence to my study is that the subjects used in their study were professionals in financial matters yet their understanding of the narrative parts of the annual reports was minimal. The study, in addition, revealed that reading ease and comprehension of material are related and that the Flesch readability formula provides a useful rating of reading ease for the narrative parts of corporate annual reports. They concluded that reading is a crucial factor in facilitating comprehension of corporate annual reports in readers.

It would appear that what remains crucial in financial reporting is effective communication to the heterogeneous user groups. Perhaps financial statements could be more widely read and understood if their language and style accommodated the comprehension abilities of the general population.

Complexity of content

If we accept that the majority of users are unable to comprehend the financial information, then it is up to the

communicators to present material in a clear, comprehensible manner. It is worth noting that information that is not understood is neither communicated nor useful. At worst, it is a waste of resources.

Research done by Swanson (1974) and Zmud (1978) suggests that, basically, user perception of information has four dimensions:

- a. Significance, usefulness and helpfulness of information;
- b. Accuracy, factualness and timeliness of information;
- c. Format quality and readability of information;
- d. Meaningfulness or reasonableness of information.

However, when Larcker and Vessig (1980) performed a further analysis on the same data, they showed that there are two distinct components on to which the above stated sub-components belong:

- a. Perceived importance (encompassing significance, informativeness and helpfulness); and

- b. Perceived usability (encompassing clarity, non-ambiguity and readability).

From these findings, it appears that effective communication in annual reports depends on the content presentation, among other factors. From this perspective, users of financial reports are unable to comprehend the financial statements because of the complexity of aspects of the language used to explain them.

In retrospect, it is of interest to note the findings of the study by Lee and Tweedie (1977). Their results suggest that narrative disclosures, such as the chairpersons' statements, are widely read. However, they are not as widely read as second-hand financial press reports which are easier to read and understand. These findings seem to support the calls for greater attention to be placed on the readability or understandability of narrative discourse in annual reports.

In this thesis I recognise the importance of presentation for effective communication of the information in annual reports. Consequently, an analysis of the language on style of writing will be made with an aim of suggesting ways by which readability and, therefore, intelligibility could be improved.

2.5 READABILITY ANALYSIS AND RATIONALE FOR CHOICE OF READABILITY FORMULA.

a. Readability and comprehension

The reader might have noticed that readability and understandability are treated interchangeably. This is because the terms readability and understandability have generally been seen as very closely related (Jones, 1988, 297; Smith and Smith, 1971, 554).

In fact, when we tell someone that we have read something, the general assumption is that we have understood it. Although this is not always the case, the implication, generally, is that we have understood what we say we have read. Consequently, reading without understanding a text renders the readers' and writers' efforts and resources a waste. In view of this, it is imperative for the annual reports to effectively communicate by having the quality of 'readability'.

As Lesikar and Lyons (1986) put it, readability is "that quality in writing which results in quick and easy communication. Readable writing communicates precisely with a single reading" (21). In other words, readability is a text's legibility and ease of understanding.

While Lesikar and Lyons (1986) perceive "comprehension" as inherent in "readability", Harrison (1980) perceives them as different concepts. For Harrison, a combination of the two enables us to determine at which level a narrative can be read and understood, although they are different concepts (33).

Similarly, Still (1972) argues that 'readability' of a narrative is a measure of the difficulty likely to be encountered by the readers (37). Klare (1963) also views readability of annual reports as an objective measure of their intelligibility (1).

In view of this, the implication is that readability is concerned with the study of effective communication. This includes studying the dilemma of equating the reader and text, and reviewing the ease with which the narrative could be read and understood.

Therefore, noncomprehension entails difficulty in reading the discourse in question. In other words, difficulty in reading the optional parts of the annual reports will have adverse effects on the comprehension of that information by users. For this reason, in this study, readability will be treated synonymously as understandability.

b. Readability formulae

If readability is a measure of difficulty likely to be encountered by readers (Still, 1972), then a readability formula is a "quantitative method of predicting whether prose passages are likely to be readable by a target audience" (Courtis, 1986, 285). A readability formula, therefore, is an instrument which measures how comprehensible a narrative might be.

Just like other instruments designed to measure aspects of human performance, readability formulae have their disadvantages and flaws. Readability formulae are said to supply kinds of information about ease of comprehension similar to the type a writer would have to consider through experience and feedback from readers (Courtis, 1985, 285). In other words, instead of the writer going back and forth between the reader and his/her texts in order to adjust the text to suit the audience, he/she could obtain that information through application of the readability formulae to his/her written material. In this way, he/she would predict whether or not the target audience will understand the texts without directly involving the readers.

The benefit of this needs no emphasis, of course, on the assumption that the writer is interested in his/her message getting across to the target audience.

On the one hand, Courtis (1986) warns us that a readability formula is of no use if it does not measure the elements which could arise from the content of the texts. Still (1972), on the other, reminds us that most of these readability formulas are based on measurement of elements in the written material which arise from content and are known to be linked to ease of comprehension, for instance, the effects of linguistic form (37).

The typical characteristics or 'difficulty factors' in linguistics might include prepositional phrases, sentence length, syllables per 100 words and the number of different words in a text (Still, 37). Still also informs us that these are not the only factors which affect readability of a narrative. Among others, the layout of the passages, the style of type employed and other characteristics associated with printed material also affect readability.

c. Readability Formulae and Readability Tests.

A person faced with a readability task, that is, to find

how readable or understandable a narrative is, is inevitably faced with a choice between using a readability formula or doing a readability test.

If a readability formula is chosen, as stated above, then the researcher does not have to involve any readers. If, on the other hand, one chooses to do a readability test, subjects have to be involved. A crucial point is that a heterogeneous group has to be chosen so that the results could indicate which subjects in the group understands the narrative. The user of the test would then have to work backwards to find out the conceptual background of the group, for example, level of education.

As Klare (1974-75) puts it, in readability tests, readers are needed to determine the degree of difficulty of written material (64). Schwartz, Sparkman, and Deese (1970) and Wang (1970) argue that, in some situations, involvement of readers has provided more valuable or reliable information on the readability of sentences than in the use of formulas. Carver (1970) also argues that the "reading scale" which he developed for specially selected and trained individuals could judge readability levels of prose sections of written material more validly than readability formulas.

Although it appears that readability tests are more reliable and valid than readability formulas, Klare (1974-75) argues that these questions, on the reliability and validity of readability tests, and judgements become questionable as the tasks become more complex (65). Klare also raises questions of time and effort to be devoted to the test by the user (65).

On the same issue of the potential weaknesses of readability tests, Harrison (1980) brings to our attention some questions. He argues that we should scrutinize the factors that make comprehension questions difficult. He argues that the user has to find out whether it is due to the difficulty of the passage or the question itself. He also argues that the user has to ascertain that the readability of the questions and the passage are at the same level (39).

However, readability formulas have their own flaws. For instance, Harrison (1980) argues that readability formulae are unable to measure text difficulty itself. His view is that formulas use the generally established links between certain discourse factors and actual difficulty as a means of predicting difficulty in other narratives. He further argues that no test constructor could claim the

existence of a perfect correlation between the formula measures and actual difficulty (44). Despite this, he, asserts that this argument does not invalidate the use of formulas in some circumstances (44).

Irwin and Davis (1980) and McConnell (1982) argue that readability formulas fail to examine the link between the conceptual background of the reader and the conceptual load in the narrative. Furthermore, the use of formulas does not consider the motivational effect of the texts (Courtis, 1986). Also, the formulas do not include factors that relate to syntax and complexity of sentences. As Dreyer (1984) sees it, the positioning of sentence components or clauses and the number of dependent clauses are not examined in the formulas (335-6). He further argues that formulas do not assess the textual factors of word frequency, concept density, level of abstraction, coherence and the logical presentation of ideas.

Inspite of the above limitations, readability formulae do provide an easy, objective and reliable method of predicting readability of texts. For this reason, there is a large number of predictive readability formulae. Harrison (1980) claims there are hundreds of them. For instance, there is the "Powers-Sumner-Kearl formula"

(1958), the "Spache formula" (1953), the "Mugford chart" (1970), the "Fry graph" (1977), the "Dale-Chall formula" (1948), the "Flesch formula" (1948), Gunning's Fog formula" (1952) and the "Forecast formula (1973).

In fact, most of these formulae are designed for specific purposes and also for a variety of groups. This is hardly a surprise considering the diversity of the developers: psychologists, researchers in various fields and classroom teachers.

For instance, some formulae are designed to assess comprehension differences between narratives. For example, Swanson and Fox (1953) used readability indices to forecast differences in comprehension between various versions of employee newspapers. Some, like the Poers-Summer-Kearl (1958) formula are specifically designed for primary school and is therefore suitable for neither secondary school books nor corporate annual reports.

For this research, the 'Flesch Readability Formula' was chosen, among other factors because it combines 'difficult factors': sentence length and syllables per hundred words, to yield scores that bear a close relationship to ease of comprehension.

As Zipf's (1935) principle states, there is an inverse relationship between word length and the frequency of occurrence of that word in the language. In other words, the longer a word is, that is the more syllables it has, the less often it is used in that language. On account of Zipf's law, word length is related to familiarity and meaningfullness. Put differently, the longer a word is, the less it is used and the less familiar users of that language are with it and the less likely that they would know its meaning and the less likely that they would understand it.

The word count as determined by the Thorndike-Lodge formula has also been found to reveal critical correlations between frequency of use of a word in the language and meaningfullness in the sense of Noble's (1952) *m* measure. Corresponding correlations have also been found to the effect that the more often a word is used, the more familiar it is and the more meaningfull it is to the users of that language and the more likely that they will understand it.

However, average word length alone does not predict the difficulty of a passage. This is because, apart from reflecting the individual words, it also reflects the syntactic structure of sentences.

The fact that short sentences are rarely complex, while long sentences usually are, needs no emphasis. For instance, the studies by McMahon, (1963) and Gough (1965) reveal that the more complex a syntactic structure is, the slower the rate of comprehension. Other studies, for instance, reveal that subjects recall the syntactic construction of active more than the passive (Coleman, 1965; Savin and Perchonock, 1965; Gibson and Levin, 1975).

Schelesinger (1968) argues that readability formulae fall short of theoretical orientation partly because they were originally developed specifically for an applied purpose of corresponding written communication to the educational level. This criticism does not apply here. This is because the whole essence of this thesis is arguing for a pragmatic approach to the writing of the Australian business annual report. Furthermore, as already mentioned in Chapter 2, one of the reasons for calling for a pragmatic approach to the writing of annual reports is that most of the shareholders (more than 50%), for whom these reports are written, did not go very far with their education and have no bookkeeping experience. They therefore find it difficult to understand the prose sections of the annual reports. Moreover, as Soper and Dolphin found in their study, even the so called experts

in the fields like financial analysts and accountants, find these sections difficult to understand.

Underwood and Schulz (1960) reveal that both short-term and long-term retention are affected by word familiarity and meaningfulness under time controlled conditions.

Although the readers of annual reports could be said that they do not read these reports in circumstances where time is controlled, nevertheless, that could also apply to them. This is owing to the unpragmatic nature of conducting studies under conditions which are not controlled.

The Flesch new readability formula also uses, apart from word length, sentence length (average number of words per sentence). At the time this study was being carried out, there was no suitable Australian developed formula to measure readability for corporate annual reports. For instance, the Australian instruments, such as the Australian Second Language Proficiency Ratings (ASLPR) is specially designed to measure the proficiency in English as a second language (ESL) of adult migrants in Australia (Studies in Adult Migrant Education, 1984, 1).

The other reason is that the Flesch formula has frequently been used in other similar studies overseas. For instance, the following used the Flesch formula in the studies on readability of corporate annual reports: Jones (1988) in the UK, Pashalian and Crissy (1949; 1952) in the US, Soper and Dolphin (1964) in the US, Smith and Smith (1971) in the US, Healy (1977) in New Zealand, and Still (1972) in the United Kingdom. According to Soper and Dolphin (1964), the Flesch formula is popular in studies on the readability of the prose sections of annual reports because it facilitates comparability and interpretability (358-62). Consequently, it appears the Flesch formula is one of the best-known readability measures as regards predicting readability and understandability of corporate annual reports.

This, of course, does not imply that past popularity is an indication of the superiority of the measure, but it is also essential to base this study upon Flesch formula so that findings are related to previous research on the Australian corporate annual reports. The formula then, will act as a constant.

Furthermore, the Flesch formula has been found to be straightforward and simple to apply since it comprises

only two variables, sentence length and the number of syllables per 100 words (Flesch, 1948).

Although the Flesch formula was originally developed to assess elementary reading abilities, research has shown that it is valid for adult material also (Swanson and Fox, 1953). This has been viable because Flesch included an index which was not restricted to school grade levels (Harrison, 1980, 77). In fact, the Flesch index uses a numerical scale, from 0 to 100 (Flesch, 1948).

Another reason for choosing the Flesch formula is that it is a well accepted method for predicting readability of financial narratives (Jones, 1988, 298). Soper and Dolphin (1964) concluded that the Flesch readability formula gives a beneficial rating of reading ease for corporate annual reports (362).

In addition, the Flesch formula has been found to possess reliability and validity (Chall, 1958; Klare, 1974). The use of this formula in evaluating the ease of comprehension of corporate annual reports has been validated to some extent in the United States of America (Soper and Dolphin, 1964; Swanson and Fox, 1953). This is in line with the argument that a good formula has to have validity (Harrison (1980, 51).

It is for the reasons stated above that the 'new Flesch' readability formula was employed in this study.

d. Formulation of the Flesch formula

In designing the Flesch formula, Flesch (1948) used 363 passages of known difficulty level. The ease of comprehension of each was established. The basis was the grade levels of children who could correctly answer 75 per cent of the questions concerning the passage.

To do this, Flesch took measurements of average sentence length and word length and came up with an equation which merged the two factors to yield the best estimate of the connection between the grade levels and each passage. Instead of predicting an index giving the grade levels, the equation was then transformed to give reading ease scores ranging from 0 (most difficult) to 100 (least difficult). 100 is a level of difficult which can be read by the barely literate population.

The Flesch formula for reading ease is:

$$206.835 - 0.846wl - 1.015sl, \text{ where}$$

wl equals the number of syllables per 100 words and,

sl equals the average sentence length.

The pattern of reading ease measures suggested by Flesch (1948) is shown in Table A below. The ratings in Table A compare the predetermined levels against reading ease scores and thereby determine whether or not, for instance, the prose sections of the corporate annual reports would be understandable to readers. As seen in the Table, a score of 50 and above assumes that the narrative is written in such a manner that is comprehensible to the majority of readers. However, if the score is below 50, the prediction is that the narrative is understandable to a population which has at least attained university education. In other words, a score closer to zero would be more comprehensible to a smaller audience.

TABLE 1A: Pattern of Reading Ease Ratings

Reading Ease Style Rating	Description of Style	Educational Attainment Level	Typical of Magazine
0-30	Very Difficult	Postgraduate	Scientific
30-50	Difficult	Undergraduate	Academic
50-60	Fairly Difficult	Grades 10-12	Quality
60-70	Standard	Grades 8-9	Digests
70-80	Fairly Easy	Grade 7	Slick fiction
80-90	Easy	Grade 6	Pulp fiction
90-100	Very Easy	Grade 5	Comics

Through the use of the Flesch formula, the writer hopes to determine the readability and understandability of the optional prose sections of the corporate annual reports.

e. Flesch Readability Formula: United States and Australian Educational Attainment Levels.

Flesch (1948) established the level of comprehension of the 363 passages (out of McCall Crabs 'Standard test lessons in reading') of known difficulty level on the basis of the grade levels of children in the United States of America. The equation he came up with yielded the best estimate of the grade levels corresponding to the passages. The formula was later found to be valid for adult material (Swanson and Fox, 1953). The use of this formula in assessing the ease of comprehension of corporate reports has been validated in the United States of America (Soper and Dolphin, 1964, 358-62).

In other words, Flesch (1948) based his categorisation of educational attainment levels on the U. S. A. distribution of years of schooling of the population. We have the right to assume that a comparison of the distribution of years of schooling of the population in Australian to that of the US, apart from other factors relating to education,

would give an indication of whether the formula is valid for the Australian annual reports. In other words, some similarities would enable the writer to suggest the corresponding proportion of the Australian adults likely to comprehend the chairpersons' and the review of activities narratives of the corporate annual reports.

In Australia, primary or elementary school education runs for seven years and high school education runs for five years, that is, from year eight through to twelve (Boyd and Smart, 1987). However, in United States of America, elementary school education runs from grade one through eight; high school education includes grades nine through twelve (Statistical Abstract of the United States, 1991). Hence, the total duration of primary and high school education levels for both countries is twelve years. On this basis, it seems both Australia and United States of America are similar in the distribution of the number of years of schooling.

Moreover, as Wirt (1987) argues, the two countries are so alike in many respects that it is possible for one to conceive each nation as a 'policy laboratory' for the other (129-137). Tannock notes that:

"Both have highly developed education systems which

extend from pre-school through higher education. In both countries, although public education constitutes the major sector, private initiatives remain important at all levels, and show signs of increasing support. The co-existence of public and private education, and the forms of support, controls, and interrelationship between the sectors remain important issues for public policy. Both countries also have constitutional provisions and legal and administrative traditions which often confusingly divide responsibility for education between state and federal governments. Both face major and often conflicting education goals such as equality of opportunity, minimum standards, choice and diversity, etc. Within the context of such aims, both countries must deal with the difficult realities of federal-state relations, large ethnic minorities (both indigenous and immigrant), sharply declined birth rates, high levels of youth unemployment, widespread disaffection about traditional and even current education values, and the fact that funds for education no longer take precedence over most other areas of public resource allocation" (Grossman, 1983, 26, citing Tannock).

Despite these striking similarities, there are equally some striking dissimilarities between the two countries. The dissimilarities are beyond the scope of this thesis.

However, as Porter (1983) argues, it is possible to contrast the US and Australia on the bases of the homogeneity-heterogeneity and centralisation-decentralisation factors.

It is on the basis of the similarities between the US and Australian education systems that the writer employs the Flesch formula in order to estimate the readability of the Australian corporate annual reports.

Researchers in some countries other than the U.S. have used the Flesch Readability formula to study the comprehensibility of reports. For instance, in Australia, Pound (1980) used the Flesch (1948) readability formula to study the comprehensibility of employee reports. He selected the Flesch formula despite its failure in measuring factors like layout, type style, and reader interest that influence effective communication (778). He further argues that this formula was selected among others because it provides an objective method of quantifying comprehension ease.

Similarly, Still (1972) used the Flesch's pattern of reading ease in the United and found that the chairpersons' narratives yielded Flesch scores under 50.

Furthermore, Canadian findings, based on 1981 census statistics, showed that the chairpersons' narratives and footnotes were beyond the fluent comprehension of about 92 per cent of the Canadian population (285-290).

These studies show that, to some extent, the most widely accepted method of assessing readability in various countries is that proposed by Flesch (Still, 1972). It therefore seems appropriate to apply the Flesch formula in this study. However, in order to attempt a more rigorous and more sophisticated set of criteria, this thesis has further tools for estimating readability and difficult levels. These are: sentence length, occurrences of passives and writing style factors contributing to sentence complexity.

CHAPTER 3: METHOD**3.1 READABILITY OF THE CHAIRPERSONS' AND REVIEW OF
ACTIVITIES NARRATIVES.**

Data for this study was collected from the analysis of the discourse of the chairpersons' and the review of activities (the management discussion and analysis) reports of the 1989/90 Australian Corporate Annual Reports. Methods of analysis used were:

- (a) readability analysis;
- (b) analysis of syntactic forms and structures of sentences;
- (c) analysis of sentence complexity in terms of writing style factors.

The essence of this research was to find out the effectiveness of the writing of annual reports. Put differently, this thesis was investigating the power of their communicative styles. For this reason, an application of rhetoric theory to the discourse of annual reports was done, focussing primarily on the writers' or firms' credibility (**ethos**) and the "cannons" of rhetoric - **Invention, Arrangement, Style, Memory and Delivery**.

The pertinent question here was whether or not the authors of corporate annual reports use "..... every available means of persuasion" (Aristotle, *Rhetoric*, 1924, 1355b) in their power to achieve their goal of communicating to readers such as shareholders and creditors.

The objective of the analysis of the structures and forms of sentences was to find out the relationship between occurrences of passive voice in sentences and readability scores. This was done because passive voice has been established in literature to have negative effects on comprehension. Specifically, a text count of occurrences of passive voice construction in sentences was done for each passage of the CHAIRPERSONS' narrative and the review of activities. The totals were then plotted against their respective readability scores.

A count of writing style factors contributing to sentence complexity - fused or run on sentences, wordy phrases or trappings, etc.) was also done for each narrative. The results were then plotted against their respective readability scores to find the relationship between the two variables.

Sampling: Selection of Corporate Annual Reports

Seventy **narratives** of the reports of public companies were selected. The primary selection criterion of the corporate annual reports was that the reports should have either CHAIRPERSONS' Address or the Review of Activities or both.

Data Collection

Instead of using samples from the text, this thesis used whole texts of the chairpersons' and review of activities narratives.

Readability analysis

From each chairpersons' address a syllable count and sentence length computation were done. Results were then verified by an independent checker, which produced a 98% agreement. A similar procedure was followed for each 'review of activities' section and which produced a 97% agreement.

Use of the readability results

The results are intended to provide an insight into the readability level of the chairpersons' and review of

activities narratives of corporate annual reports. Depending on the findings, implications and suggestions will be made. In other words, if the results predict that the narratives are difficult to read, this thesis intends to come up with implications and also suggestions on how readability could be improved.

Limitations of the Flesch test in the study

Render, Stair, Sterans, Villere (1976), and Courtis, (1986) argue that the Flesch formula does not quantify non-writing style features such as the background of the reader, the content or the report formats or presentation. These features are critical not only in corporate reporting, but in every form of communication. In other words, the formula measures only the style of writing. Yet, content has to be interesting; should arrest the attention and interest of readers, and be relevant to the readers' needs if, in the first place, it is to be read at all. This does not depend on whether the material is readable or not.

Furthermore, there is a possibility that the formula may not be a good measure of style. Short sentences and words might be incomprehensible or ambiguous as well but the

Flesch formula does not account for this. It does not follow that a substitution of short words for long, and cutting down sentences would always produce the desired effect. More often than not, ambiguity features in short sentences. Thus, as Healy (1977) argues, a poor piece of writing might not necessarily be poor due to the low readability score, and it would not necessarily be comprehensible because of a good score. There are other aspects of discourse, apart from sentence length and word length, which play a role in comprehension.

Despite the shortcomings, the Flesch formula was used in this study because it appears to be the most valid among other formulae developed. As Guidy and Knight (1976) maintain, the formula has a low adjustment factor and a more or less even distribution above and below the comparative mean. Furthermore, two of the objectives of Soper and Dolphin (1964) in their U. S. A. study of corporate annual reports, were to ascertain the validity of the Flesch readability scores and they found that it provides a useful rating of reading ease for the reports' narrative sections.

3.2 METHODOLOGY OF SENTENCE COMPLEXITY.

This category of sentence complexity includes several

measures of difficulty inherent in the narratives because of the style of writing the authors have used. Hence reference to these as **style factors**. The measure of writing style consists of:

a. occurrences of wordiness or trappings

b. overstated or abstract words

c. fused or run-on-sentences

d. redundancy

Whole passages as opposed to samples of chairpersons' and the review of activities were analysed. This was done to obtain an accurate contribution of complexity of style factors to readability as opposed to an estimate.

Occurrences of these style factors for each passage were counted. The total occurrence of these for each narrative was plotted against the readability scores for the same narrative. This then revealed the relationship of the writing style used and readability.

This approach is similar to Aukerman's (1980) study on readability of secondary school literature. In his methodology, he had a category called "Verbal complexity".

This category included several measures of difficulty.

These were :

- (a) incidence of verbals, where he counted the number of verb forms used as nouns or objectives;
- (b) incidence of word difficulty which involved counting of (i) classical, mythical and word references; (ii) number of colloquial dialect and slang words and phrases; (iii) number of words of three syllables or more;
- (c) incidence of abstraction which involved the counting of abstract nouns.

When the average of (a), (b) and (c) were added, they provided the incidence of occurrence of verbal complexity in the texts.

ANNOTATION OF STYLE FACTORS

a. WORDY OR TRAPPINGS

In this thesis, '**wordy**' or '**trappings**' refer to two types of occasions about the writers' use of word(s) or phrases.

The first one is those instances where the writers have used more words than necessary and the second one where they have used a word, words or phrases which could be completely omitted without significantly changing the main idea of the sentence.

Examples of trappings can be seen from the following extract from Malaghan CHAIRPERSONS' narrative.

The original sentence reads:

I wish to express in particular the Institute's thanks to Brierley Investments Limited who in conjunction with the Malaghan family have been especially supportive and to acknowledge the support of Miss Lois Duncan of Khandallah, who, together with a group of supporters, raised over \$5000 for the Institute.

As can be seen from the underlined examples, they do not have a consistent or uniform structure. In other words, they do not belong to one class of the English language grammatical system. For this reason, I prefer to call them utterances since, on their own they are meaningless. However, functionally, they have one thing in common. They serve no significant purpose in imparting the main idea of the sentence.

The main idea of the sentence with underlined examples of trappings is the Institute thanking Brierley Investments Limited, the Malaghan family for their support, Miss Loise Duncan and some supporters for raising over \$ 5000.

The trapping: "**I wish to express in particular ...**" is adding unnecessary words to the sentence. This is because, by the very act of writing, the writer is actually expressing himself/herself. Whether he/she wishes or does not wish to express, is irrelevant because what matters is the act of expressing, in this case writing. Whether he/she has been compelled to write is quite irrelevant.

Although we know that "**I wish to**" is a social convention denoting politeness, in this case it would be more appropriate in speech than in writing. This is because in speech it could serve as a preliminary remark before the main point to, for instance, put the speaker at ease.

The trapping "**who in conjunction with**" is also adding unnecessary words to the sentence. It could be replaced by the conjunction "**and**".

"**Have been especially**" has to be completely omitted because it serves to add to the word count without giving significant new information.

The trapping: "to acknowledge the" should be removed completely. This is because it is like the trapping "I wish to express in particular" in the sense that, the mere act of thanking Miss Lois of Khandallah and some people for their support and raising \$ 5000 for the Institute is the actual acknowledgement. For that reason, there is no reason to write that the writer wishes "to acknowledge". This trapping just adds to the word count because it is stating not only the obvious, but also what is implied, and above all, inherent in the act.

The trapping: "Together with a group of". is similar to "who in conjunction with". In the first place, "together with" is redundant. "With" without "together" would have been sufficient, because "with" denotes "together". ("Together with", on its own would be counted under the style factor of redundancy. It is counted here as part of a phrase "a group of", which is irrelevant in its own right. What matters is that in either case, there is no double counting).

In the second place, the whole phrase should be completely removed and replaced by the conjunction "and". Whether the supporters are a group or many people is not of significance here. What is of essence is that there are

some supporters who raised \$5000 and are being thanked for that.

"**For the Institute**" should also be removed because it is implied in the whole sentence of thanking that the \$5000 was raised for the Institute. After all, it is the Institute doing the thanking.

The original sentence with examples of trappings has 48 words. If the trappings were removed, it would have 28 words which could be divided into two sentences of 13 and 15 words each.

A revised sentences with the underlined words omitted would read as follows:

**The Institute thanks Brierley Investments Limited
and the Malaghan family for their support. We also
thank Miss Lois Duncan of Khandallah and
supporters for raising over \$5000.**

As seen from the above example, trimming trappings reduced the number of words almost by half. Twenty words have been removed and the sentence is shorter, more manageable and therefore more readable.

"OVERSTATED" OR "ABSTRACT" WORDS OR PHRASES

This refers to those instances where words or phrases whose meaning is indirect, abstract, ambiguous or vague. These words do not reflect a clear, concrete or tangible meaning. They, therefore, add to the incomprehensibility of the passage. Examples of these can be seen from the following extract from Adtrans CHAIRPERSONS' narrative:

".... While car order intakes only started to slow late in the financial year, the impact of factory subsidies and factory competitiveness had been felt for a longer period. In so far as South Australia is concerned, any market decline will probably prove proportionately less than Australia's as a whole, as our market recovery in 1987, 1988 and 1989 was proportionately much slower than the rest of Australia. We therefore believe the market in the coming year will fall only a little but that it will be market by intense competition.

In South Australia the used car industry has continued at good levels and our group performed well, as we expect to do in the coming financial year.

With continually advancing technology in new vehicles it

is necessary for owners to service their cars with the better-trained and more sophisticated dealers which assisted in the achievement of good service sales last year, and we expect this to continue well into the future.

Our car sales volumes were excellent last year and will remain so for the future".

The underlined words in the above extract are abstract, overstated and vague. If the writer had wanted to be more specific and concrete, this would improve on readability and consequently, comprehension.

Impact:

This word is abstract. The writer could, for instance, state or be explicit about this impact. For instance, the writer could be explicit about the impact, by stating the fall of revenue from car sales from a certain level to a lower one, in terms of dollars.

Competitiveness:

This word is vague and ambiguous. The writer has not stated what she/he means by "the impact of factory competitiveness" which they had felt for a longer time than when the car order intakes started to trickle in.

Does the word mean the competition among car sales people or among factories?

market recovery:

This is both abstract and subjective. What specifically does the writer mean by market recovery? If the writer had wanted to be specific, he/she would have mentioned, for instance, increase in car sales.

good levels, good service and performed well:

What does the write mean by "..the used car industry continued at good levels and our group performed well,..."

Why is the writer not being specific about the level?

What frame of reference are the shareholders going to use to have an objective measure of a good or bad level?

Moreover how well is performing well?

Hoe good is good service?

better-trained

This is an overstated coined word. The writer does not explain the basis of the comparison. The readers are only told that the dealers are superior in qualification, without being told the basis of comparison

more sophisticated:

This phrase has the same flaw as the above coined word. It is overstated. What is the basis of comparison? More sophisticated than who?

excellent:

This is an overstated word. There is unfounded praise of car sales volumes. And what does excellent mean in real terms? How much is excellent in terms of car sales volume?

As seen from the examples, there is a lot of use of overstates, abstract and vague words. Use of more concrete words and specification of abstract referents will improve comprehension by readers.

RUN ON OR FUSED SENTENCE

This refers to a sentence that runs on too long or connects/fuses more than one sentence. Usually, it is created through the use of comma splices or coordinating clauses, or through the use of too many conjunctions.

An extract from the chairperson's narrative of Australian Airline Limited will illustrate a run on sentence:

"The Board has made specific proposals to the Government aimed at maximising the price that will be paid by an investor or investors, ensuring the ongoing good health and the success of the entity, enabling staff to participate as investors, providing the new owner or owners with maximum flexibility to develop the Airline and maintaining the high safety standards in aviation for which the Airline is noted"

This sentence has been made too long by the use of too many clauses and conjunctions. As a result of that it is not easy to understand it if one reads it once.

- ensuring the on going good health,
- and the success of the entity,
- enabling staff to participate as investor/investors,
- providing the new owner or owners with maximum flexibility,
- to develop the Airline,
- and maintaining the high safety standards in aviation,
- for which the Airline is noted.

Since this is a proposal, readability could be improved by putting it in point form as follows:

The Board has made the following specific proposals to the Government which are aimed at maximising the price that will be paid by an investor(s):

- (a) To ensure continued success of the organisation;
- (b) To let staff to invest;
- (c) To provide the new owner(s) with maximum flexibility to develop the Airline; and
- (d) To maintain high safety standards in aviation

d. REDUNDANCY.

This refers to those occasions when more than one word expressing the same denotative meaning is used. In such cases, one word is sufficient to convey the meaning and the other should be omitted. For instance an extract from Email will show this:

"A new range of water cooled commercial packaged units was also released, once again assisting Email York to cement its position as the major air conditioning manufacturer in Australia".

"Once again" is redundant. This is because "once" is inherent or implied in "again". So the writer should use "again" only:

A new range of water cooled commercial packaged units

was also released, again assisting Email York to cement its position as the major air conditioning manufacturer in Australia.

Another example of redundancy from Email's report is:

"Continued pressure from overseas principals to increase volume is resulting in reduced margins which necessitates a refocus of efforts in these areas together with a review of the locally produced product range".

"**Together with**" is redundant. This is because "together" is inherent or implied in "with". So the writer should use "with" only:

Continued pressure from overseas principals to increase volume is resulting in reduced margins which necessitates a refocus of efforts in these areas with a review of the locally produced product range.

These words do not add new information to the passage or sentence but lengthen it unnecessarily.

3.3 METHODOLOGY OF PASSIVE SENTENCES.

A frequency count of occurrences of passive sentences was done. The total occurrence of these for each narrative was then plotted against the readability score for the same narrative. This revealed whether or not there was a correlation between the two variables.

**CHAPTER 4: RESULTS, ANALYSIS AND DISCUSSION - APPLICATION OF
THE 'NEW' FLESCH READABILITY FORMULAS.**

4.1 - The findings on the application of the "new" Flesch Readability Formula to the two types of narrative sections of the corporate annual reports, the chairpersons' and the review of activities, were analysed using the Flesch's (1948) Pattern of "Reading Ease" Scores in Table 1 below.

Table 1 shows Flesch's (1948) range of scores, description of style, typical magazine, number of syllables per 100 words and the average sentence length in words (230).

TABLE 1. Flesch's Pattern of "Reading Ease" Scores:

Reference Categories for Reading Ease Scores.

"Reading Ease" Score	Description of Style	Typical Magazine	Syllables per 100 Words	Average Sentence Length in Words
0 to 30	Very Difficult	Scientific	192 +	29 +
30 to 50	Difficult	Academic	167	25
50 to 60	Fairly Difficult	Quality	155	21
60 to 70	Standard	Digests	147	17
70 to 80	Fairly Easy	Slick-fiction	139	14
80 to 90	Easy	Pulp-fiction	131	11
90 to 100	Very Easy	Comics	123 or -	8 or -

Source: R. Flesch, 'A New Readability Yardstick'. Journal of Applied Psychology, 1948, p. 230, Vol. 32, No. 3.

4.1.2 Reading Ease Scores of chairpersons' narratives.

The range of readability scores for the Chairpersons' narratives shown in **Table 2** below is from 8 to 47 .

According to Flesch (1948 & 1949) reference categories for these scores, these narratives of the corporate annual reports vary within descriptive styles of **difficult**, similar to material of academic journals, to **very difficult**, like material in *Scientific Journals* (see Table 1 above).

TABLE 3: Percentage of Narratives in Each Category of the Descriptive Style Category.

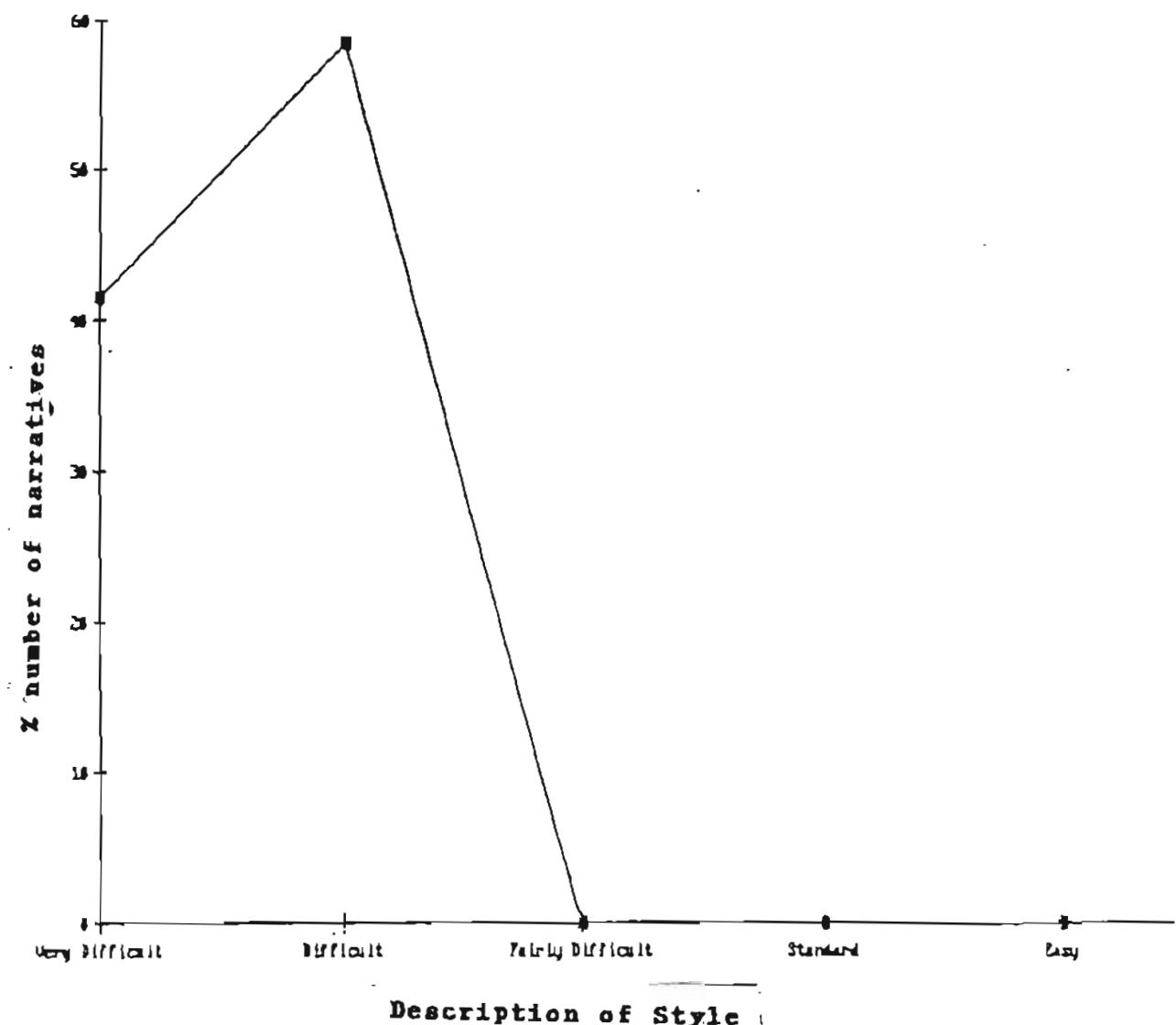
Reading Ease Score	Description of Style	% of Chairpersons' Narratives
0-30	Very difficult	46.46
30-50	Difficult	58.54
50-60	Fairly difficult	0
60-70	Standard	0
70-80	Fairly easy	0
80-90	Easy	0
90-100	Very easy	0

Source: (Adapted) R. Flesch. ' A New Readability Index' **Journal of Applied Psychology**, 1948, p. 230, and **The Art of Readable Writing**, New York, 1949, Harper & Bros.

TABLE 2: CHAIRPERSONS' NARRATIVES

CORPORATE ANNUAL REPORT	FLESCH READING EASE SCORE	FLESCH DESCRIPTION OF SYTLE
ADTRANS	33	DIFFICULT
AMCOR	22	VERY DIFFICULT
ANIL	34	DIFFICULT
AUST. AIRL	35	DIFFICULT
AUSTRALIAN	21	VERY DIFFICULT
BHP	*	*
BOND	21	VERY DIFFICULT
BORAL	38	DIFFICULT
CALTEX	30	VERY DIFFICULT
CHARLES	25	VERY DIFFICULT
COCA-COLA	43	DIFFICULT
COLES	30	VERY DIFFICULT
COMMON.BAN	32	DIFFICULT
CRA	39	DIFFICULT
CSR	43	DIFFICULT
EMAIL	18	VERY DIFFICULT
FAI	36	DIFFCULT
FAULDING	8	VERY DIFFICULT
GPI	47	DIFFICULT
HARDIE	35	DIFFICULT
IBM	21	VERY DIFFICULT
ICI	28	VERY DIFFICULT
MALAGHAN	36	DIFFICULT
MAYNE	21	VERY DIFFICULT
McILWRAITH	32	DIFFICULT
NATIONAL	27	VERY DIFFICULT
NORSEMAN	23	VERY DIFFICULT
NORTH	*	*
OPSM	35	DIFFICULT
PACIFIC	39	DIFFICULT
PIONEER	27	VERY DIFFICULT
PRO-IMAGE	35	DIFFICULI
S. A. BREW	22	VERY DIFFICULT
SABCO	37	DIFFICILT
SCOTT	26	VERY DIFFICULT
STOCKLAND	41	DIFFICLT
TANDOU	41	DIFFICLT
WATTYL	46	DIFFICLT
WESTERN	33	DIFFICLT
WESTFIELD	35	DIFFICLT
WESTPAC	29	VERY DIFFICLT
WOLF WINE	31	DIFFICLT
WOODSIDE	37	DIFFICLT

FIGURE 1: CHAIRPERSONS' NARRATIVES



A summary of the analysis of the reading ease scores for the chairpersons' narratives shown in **Table 3** above indicates that 41.46 per cent of them were within the *very difficult* range and 58.54 per cent in the *difficult* range. This is also indicated in **Figure 1**.

The **mean** of the reading ease scores for the Chairpersons' narratives of these reports is 31.047. Going by Flesch's (1948) standards, writing at this level is generally **difficult**. The preponderance of the Chairpersons' narratives in the **difficult** category on this measure might be an indication of a high level of abstraction in the language of this section of the annual reports.

4.1.3 Average Sentence Length of the Chairpersons' Narratives.

Table 4 presents a summary of the results for the average sentence length (number of words per sentence) for the chairpersons' narratives.

The measure of average sentence length for the Chairpersons' narratives shown in Table 5 ranged from 12.3 to 31.1. According to Flesch (1948), these reports vary within the descriptive styles of **easy**, as with material of pulp-fiction, to **very difficult**, as in scientific journals.

**TABLE 4 - CHAIRPERSONS' NARRATIVES:
AVERAGE SENTENCE LENGTH**

MEASUREMENT RESULTS BY COMPANY

AVERAGE SENTENCE LENGTH AND DESCRIPTION OF STYLE

NAME OF COMPANY	AVERAGE SENTENCE LENGTH	DESCRIPTION OF STYLE
ADTRANS	25.6	Difficult
AMCOR	19.1	Standard
ANIL	23.5	Fairly Difficult
AUSIR. AIRLINE	23.1	Fairly Difficult
AUSTRALIAN	23	Fairly Difficult
BHP	*	*
BOND	28.5	Difficult
BORAL	19.1	Standard
CALTEX	21.2	Fairly Difficult
CHARLES	23.3	Fairly Difficult
COCA-COLA	18.6	Standard
COLES	23	Fairly Difficult
COMMON. BANK	21	Fairly Difficult
CRA	18.5	Standard
CSR	14.8	Fairly Easy
EMAIL	26.2	Difficult
FAI	20	Standard
FAULDING	25.6	Difficult
GPT	18.8	Standard
HARDIE	23	Fairly Difficult
IBM	25.1	Difficult
ICI	17.5	Standard
MALAGHAN	17.8	Standard
HAYNE	22.3	Fairly Difficult
Mc ILWRAITH	12.3	Easy
NATIONAL	25.7	Difficult
NORSEMAN	22.6	Fairly Difficult
NORTH	*	*
OPSM	22.2	Fairly Difficult
PACIFIC	21.3	Fairly Difficult
PIONEER	19.6	Standard
PRO-IMAGE	23.3	Fairly Difficult
S.A. BREW.	27.1	Difficult
SABCO	18.6	Standard
SCOTT	23.6	Fairly Difficult
STOCKLAND	19	Standard ..v
TANDOU	23.3	Fairly Difficult
WATTYL	17.1	Standard
WESTERN	18.6	Standard
WESTFIELD	23.7	Fairly Difficult
WESTPAC	25.7	Difficult
WOLF WINE	31.1	Very Difficult
WOODSIDE	22.9	Fairly Difficult

TABLE 5: Average Sentence Length - % of Chairpersons' Narratives in Each Category.

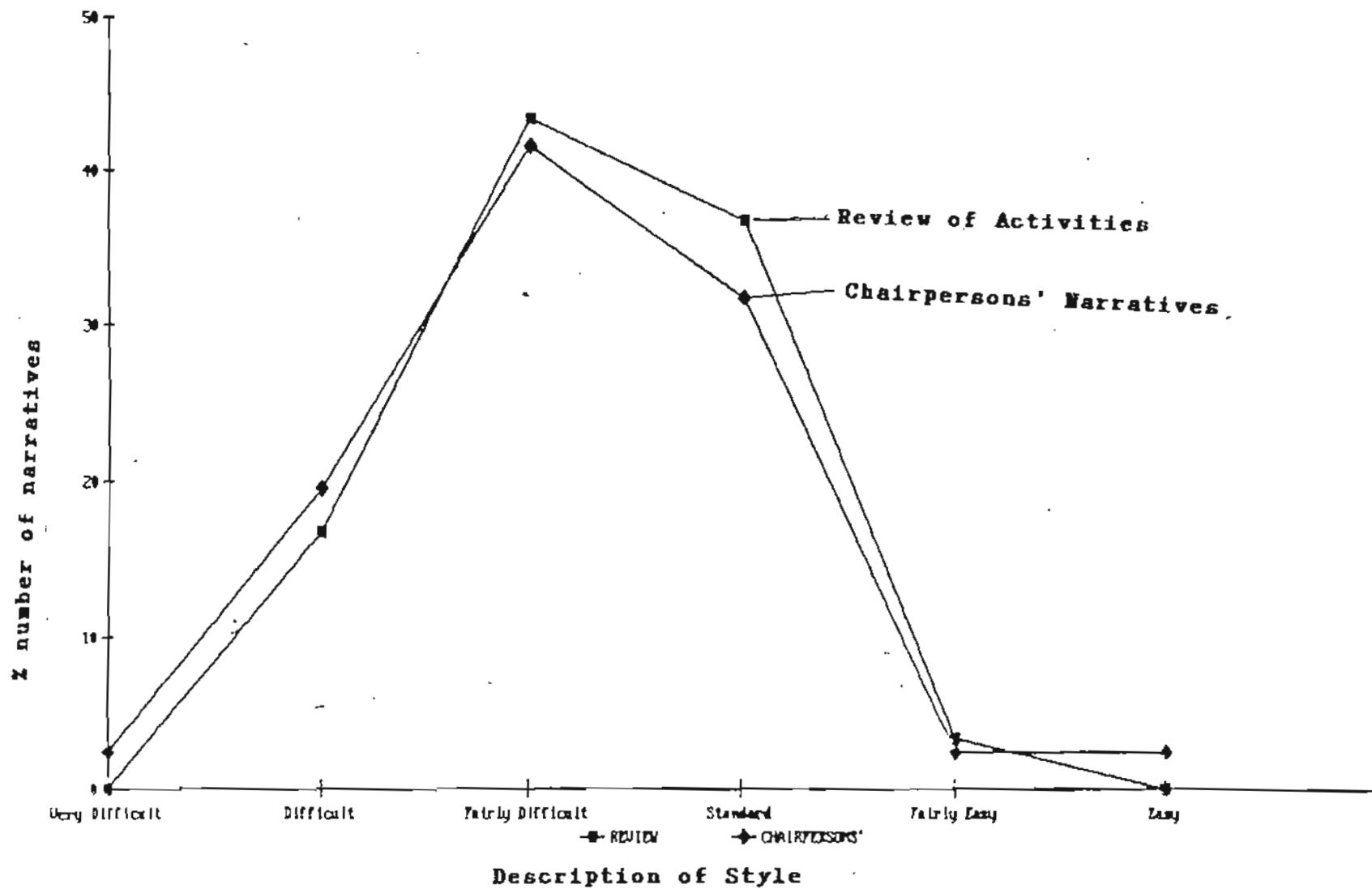
Average sentence length	Description of style	% of chairpersons' narratives in each category
29+	Very difficult	2.4
25-29	Difficult	19.5
21-25	Fairly difficult	41.5
17-21	Standard	31.7
14-17	Fairly Easy	2.4
11-14	Easy	2.4
8-11	Very Easy	0

Source: (Adapted) R. Flesch. 'A New Readability Yardstick'.

Journal of Applied Psychology, June, 1948, p. 230.

The mean for the average sentence length for the chairpersons' narratives of these annual reports was 21.89 words per sentence, which Flesch (1948) categorises as fairly difficult to read. Furthermore, Table 5 above and Figure 2 below show that 41.5 per cent of the chairpersons' narratives were fairly difficult to read. This result might be a general indication of a high level of abstraction in

FIGURE 2 CHAIRPERSONS' NARRATIVES: AVERAGE SENTENCE LENGTHS



the language of the sentences in this section of the annual reports. This is a barrier to communication considering that the aim is for the audience at large to find them **easy** to read.

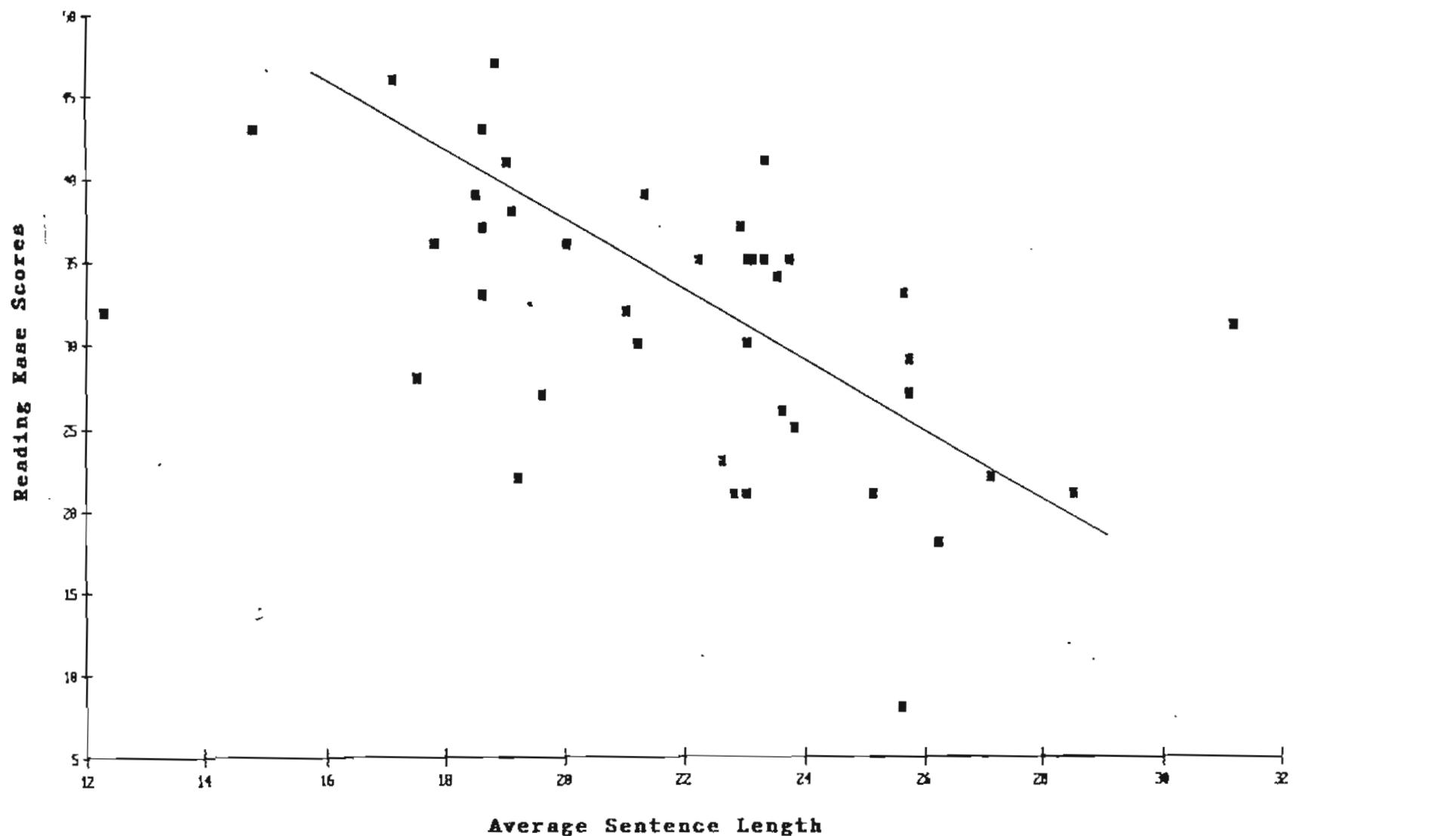
Figure 3 below is a scattergram that shows the relationship between **average sentence length** and **reading ease scores** for the chairpersons' narratives. The scattergram indicates a **negative or inverse** correlation between the two variables - the average sentence length and reading ease scores . In other words, an increase in the average sentence length is accompanied by or entails a decrease in the reading ease score. This result seems to suggest that longer sentences are more **difficult** to comprehend, and conversely, shorter sentences are easier to read and therefore to understand.

4.1.4 Word length (number of syllables per word) of the chairpersons' narratives.

Table 6 below presents the findings of the average number of syllables per word (word length) for the chairpersons' narratives. This measure ranged from 1.66 to 2.04 syllables per word.

According to Flesch (1948), these narratives vary within descriptive styles of **fairly difficult** to **very difficult** to read. Flesch further states that these descriptive styles

**FIGURE 3. CHAIRPERSONS' NARRATIVES: READABILITY
AGAINST AVERAGE SENTENCE LENGTH**



**TABLE 6. CHAIRPERSONS' NARRATIVES:
AVERAGE NUMBER OF
SYLLABLES PER WORD AND
DESCRIPTION OF STYLE.**

NAME OF COMPANY	AVERAGE NUMBER OF SYLL. PER WORD	DESCRIPTION OF STYLE
ADTRANS	1.74	Difficult
AMCOR	1.95	Very Diffi
ANIL	1.76	Difficult
AUSTR. AIRLINES	1.75	Difficult
AUSTRALIAN	1.92	Very Diffi
BHP	*	*
BOND	1.85	Difficult
BCRAL	1.76	Difficult
CALTEX	1.34	Difficult
CHARLES	1.86	Difficult
CO-OPERATIVE GROUP	*	*
COCA-COLA	1.71	Difficult
COLES	1.81	Difficult
COMMONWEALTH BANK	1.81	Difficult
CRA	1.76	Difficult
CSR	1.76	Difficult
EMAIL	1.92	Very Diffi
FAI	1.78	Difficult
FAULDING	2.04	Very Diffi
GPT	1.66	Fairly Dif
HARDIE	1.75	Difficult
IBM	1.89	Difficult
ICI	1.9	Difficult
HALAGHAN	1.8	Difficult
MAYNE NICKLESS	1.92	Very Diffi
McILWRAITH	1.92	Very Diffi
NATIONAL	1.81	Difficult
NORSEMAN	1.9	Difficult
NORTH	*	*
OPSM	1.76	Difficult
PACIFIC	1.73	Difficult
PIONEER	1.89	Difficult
PRO-IMAGE	1.75	Difficult
S.A. BREWERIES	1.86	Difficult
SABCO	1.78	Difficult
SCOTT	1.85	Difficult
STOCKLAND	1.73	Difficult
TANDOU	1.68	Difficult
WATTYL	1.69	Difficult
WESTERN	1.83	Difficult
WESTFIELD	1.75	Difficult
WESTPAC	1.86	Difficult
WOLF WINE	1.7	Difficult
WOODSIDE	1.73	Difficult

are similar in level of difficult to the material in quality, academic and scientific magazines or journals. In addition, Flesch (1948) argues that a comfortable narrative contains one and one-half times as many syllables as words. Yet, these chairpersons' narratives, on this measure of the number of syllables per word and the total number of words in a passage, the range is from 166 to 204 syllables per 100 words. This range is more than one and one-half times as many syllables as words, and therefore, the narratives are not comfortable to read according to Flesch's judgement.

Table 7 below shows the percentage of the chairpersons' narratives in each descriptive style category in relation to the word syllable measure. The range of the descriptive styles for the chairpersons' narratives was from **fairly difficult** to **very difficult**. 82.93 per cent of the narratives were **difficult** to read. The preponderance of the chairpersons' narratives in the **difficult** category on this measure (82.93% of them) might be an indication of a high level of abstraction in the language of these narratives.

The **mean** for the average number of syllables per word for the chairpersons' narratives of 1.809 supports the finding that the narratives are **difficult** to read. Furthermore, in relation to the **mean** for the syllable measure, the graph in **Figure 4** below shows that most of the narratives are in the **difficult** range.

In relation to the syllable measure, **Figure 5** below is a scattergram of average number of syllables per word (word

TABLE 7: Average number of syllables per word (word length) for the Chairpersons' narratives - % of narratives in each of Flesch's category.

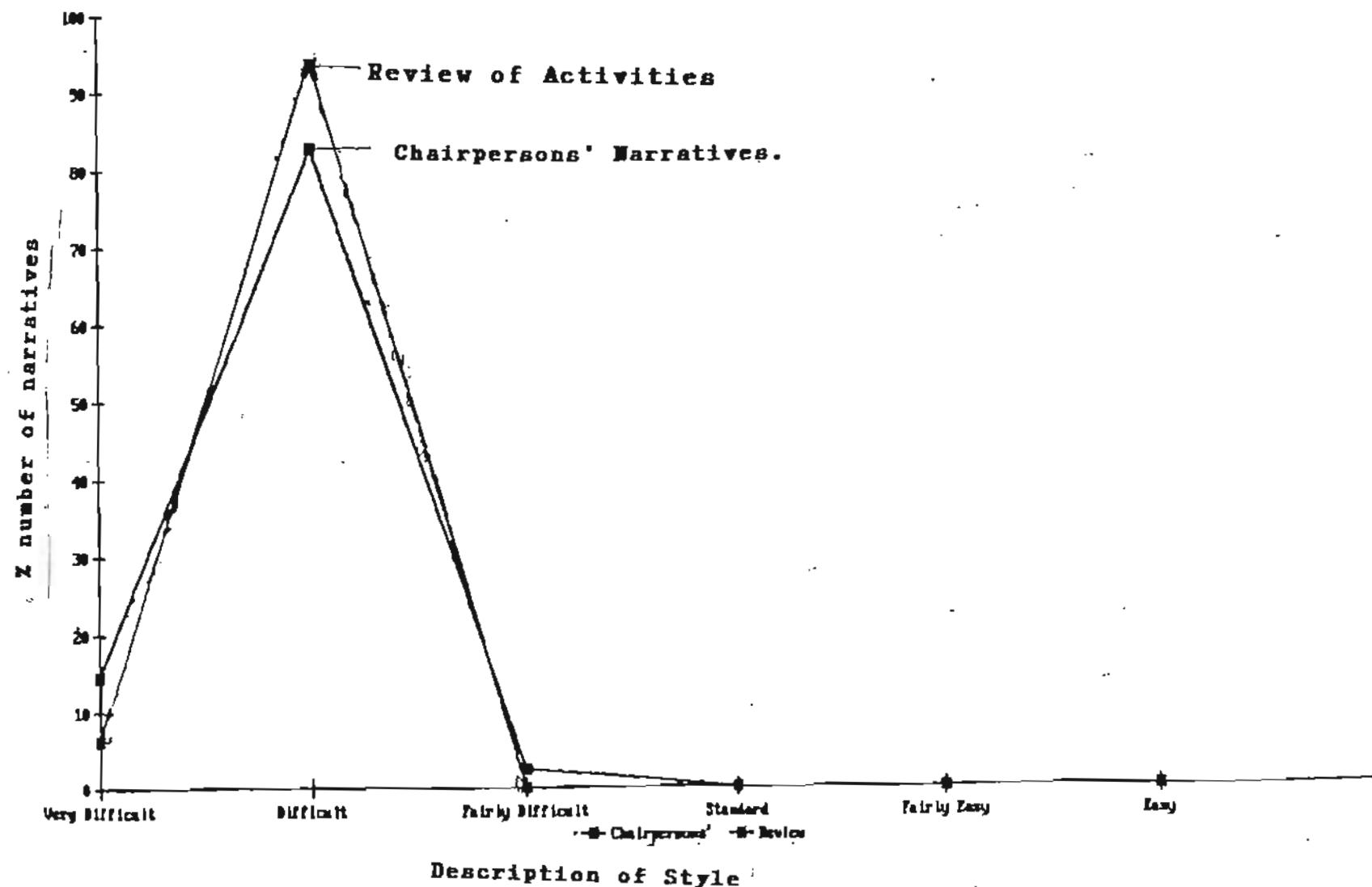
Syllables per word	Description of style	% of Chairpersons' narratives in each category
--------------------	----------------------	--

1.92+	Very difficult	14.63
1.67-1.92	Difficult	82.93
1.55-1.67	Fairly difficult	2.44
1.47-1.55	Standard	0
1.39-1.47	Fairly easy	0
1.31-1.39	Easy	0
1.23-1.31 or less	Very easy	0

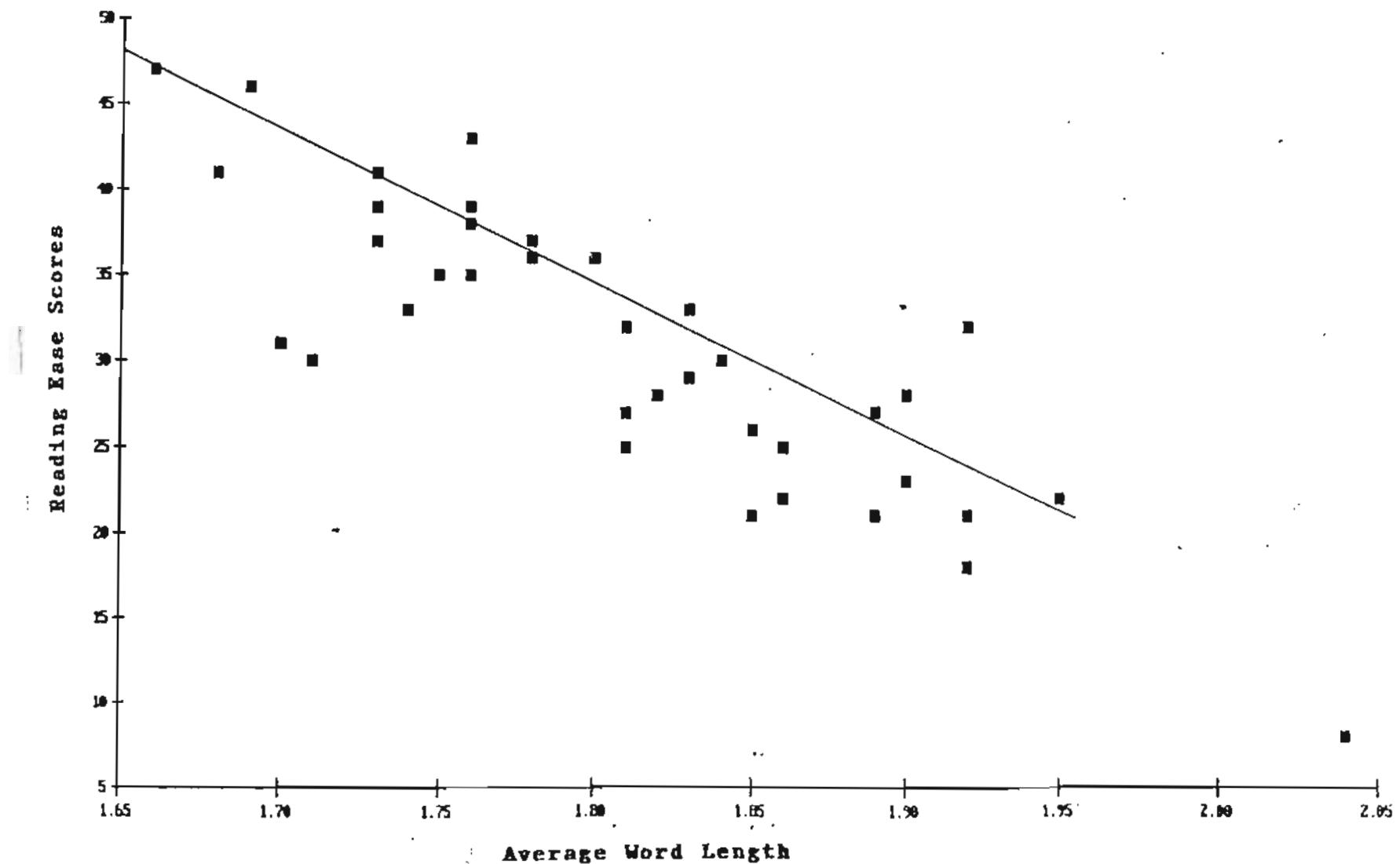
Source: (Adapted) R. Flesch. 'A New Readability Yardstick'.
Journal of Applied Psychology, June, 1948, Vol. 32, No. 3.

length) against reading ease scores for the chairpersons' narratives. The scattergram shows an inverse correlation between the two variables. That is, an increase in the number of syllables per word is accompanied by a decrease in

FIGURE 4 . CHAIRPERSONS' NARRATIVES :
WORD LENGTH .



**FIGURE 5. CHAIRPERSONS' NARRATIVES:
READABILITY SCORE AGAINST
AVERAGE WORD LENGTH.**



the reading ease scores. This relationship seems to suggest that the large number of syllables per word (**mean = 1.809**) of these narratives make them *difficult* to read and therefore difficult to comprehend.

FINDINGS FOR THE REVIEW OF ACTIVITIES SECTIONS

4.2.1 Reading ease scores for The Review of Activities.

The findings on the application of the new Flesch

TABLE 9: Flesch's Pattern of Reading Ease and the Percentage of Review of Activities in Each Category.

Reading Ease Score	Description of Style	% of Review of Activities Narratives
0-30	Very difficult	50
30-50	Difficult	50
50-60	Fairly difficult	0
60-70	Standard	0
70-80	Fairly easy	0
80-90	Easy	0
90-100	Very easy	0

Source: (Adapted) R. Flesch. 'A New Readability Index'.

Journal of Applied Psychology, 1948, p. 230, and **The Art of Readable Writing**, New York, 1949, Harper & Bros.

TABLE 8. REVIEW OF ACTIVITIES

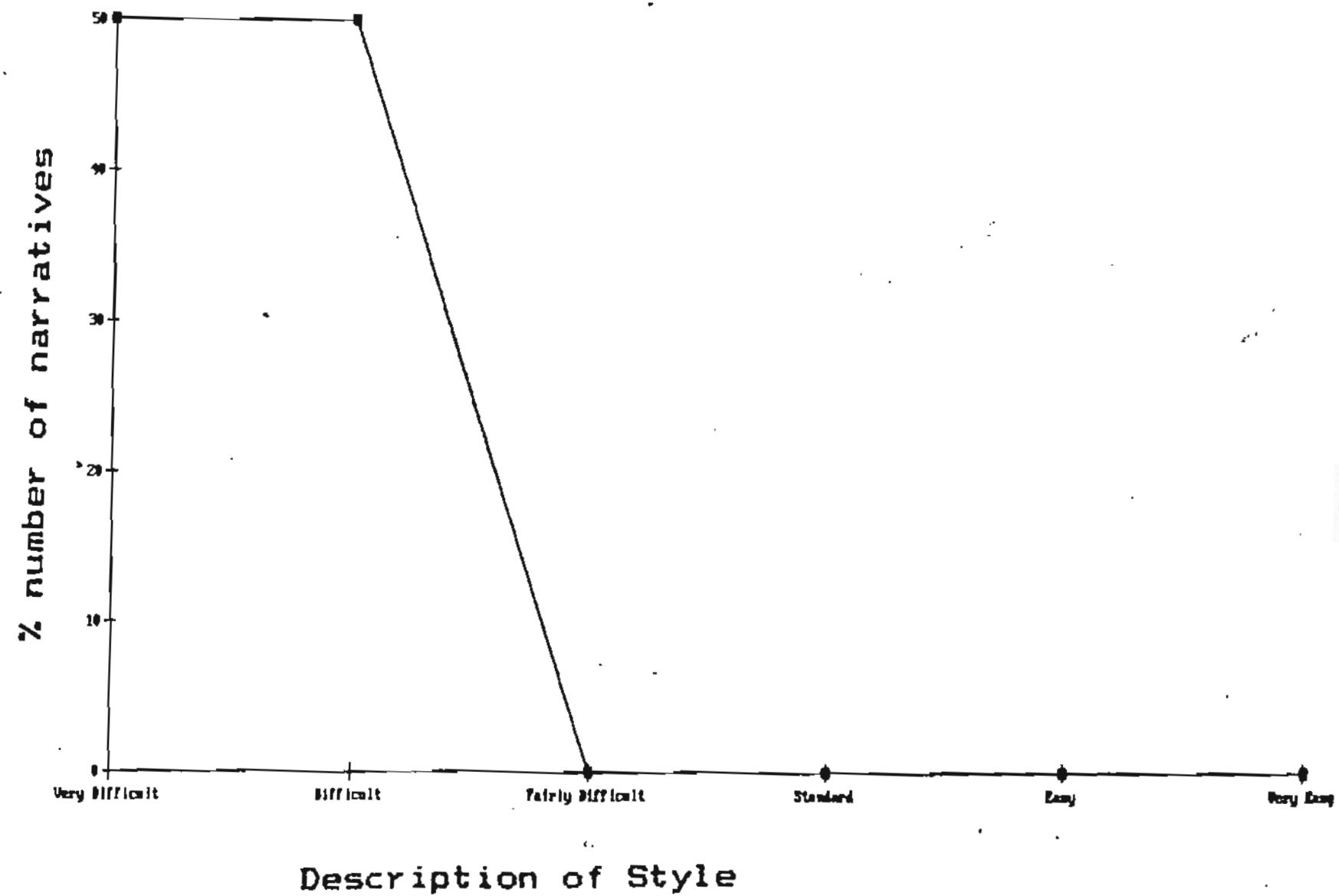
CORPORATE ANNUAL REPORT	FLESCH READING EASE SCORE	FLESCH'S DESCRIPTION OF STYLE
ADTRANS	38	DIFFICULT
AMCOR	*	*
ANIL	34	DIFFICULT
AUST. AIRL	25	VERY DIFFICULT
BHP	41	DIFFICULT
BOND	*	*
BORAL	41	DIFFICULT
CALTEX	28	VERY DIFFICULT
CHARLES	*	*
COCA-COLA	*	*
COLES	29	VERY DIFFICULT
COMMON. BA	29	VERY DIFFICULT
CRA	39	DIFFICULT
CSR	*	*
EMAIL	27	VERY DIFFICULT
FAI	31	DIFFICULT
FAULDING	11	VERY DIFFICULT
GPT	39	DIFFICULT
HARDIE	29	VERY DIFFICULT
IBM	28	VERY DIFFICULT
ICI	28	VERY DIFFICULT
MALAGHAN	24	VERY DIFFICULT
MAYNE	25	VERY DIFFICULT
McILWRAITH	33	DIFFICULT
NATIONAL	*	*
NORSEMAN	39	DIFFICULT
NORTH	23	VERY DIFFICULT
OPSM	39	DIFFICULT
PACIFIC	30	VERY DIFFICULT
PIONEER	30	VERY DIFFICULT
PRO-IMAGE	*	*
S.A. BREW	32	DIFFICULT
SABCO	*	*
SCOTT	*	*
STOCKLAND	34	DIFFICULT
TANDOU	35	DIFFICULT
WATIYL	*	*
WESTERN	30	DIFFICULT
WESTFIELD	*	*
WESTPAC	29	VERY DIFFICULT
WOLF WINE	38	DIFFICULT
WOODSIDE	*	*

Readability Formulas for reading ease scores to narratives of the review of activities of these corporate annual reports are listed in **Table 8**. The range of readability scores was from 11 to 41. Flesch (1948 & 1949) categorises these scores as varying within descriptive styles of **very difficult**, similar to material of scientific and professional journals, to **difficult**, as materials in academic journals.

An analysis of the reading ease scores for the review of activities in **Table 9** above and **Figure 6** indicate that 50 per cent of them were within Flesch's (1948) descriptive styles of **very difficult** to read and 50 per cent in the **difficult** range. The preponderance of the review of activities of these annual reports in the **difficult** and **very difficult** descriptive styles is indicative of the high level of abstraction in the language of this section of the reports.

The **mean** for the reading ease scores of the review of activities for these annual reports is 30.97. Flesch (1948) argues that writing at this level is normally **difficult** to read, and the material is similar in level of difficulty as in academic journals.

FIGURE 6 REVIEW OF ACTIVITIES: READABILITY AGAINST
DESCRIPTION OF STYLE



4.2.2 Review of Activities: Average Sentence Length and Reading Ease Scores.

A summary of the results for the average sentence length (average number of words per sentence) for the review of activities is shown in **Table 10**.

The measure of average sentence length for the review of activities shown in Table 10 varied from 16.8 – **standard**, and is typical of digest magazines to 27.8 – **difficult**, as in academic journals.

The **mean** for the average sentence length for the review of activities for these annual reports is 21.33 words per sentence, which Flesch (1948) categorises as **fairly difficult** to read. In relation to this mean, Table 11 below and Figure 4 also indicate that most of the review of activities reports were **fairly difficult** to comprehend. This finding might be a general indication of the high level of abstraction in the language of the review of activities of these annual reports.

Figure 7 is a scattergram that shows the relationship between the average sentence length and reading ease scores for the review of activities of these reports. The scattergram indicates an *inverse or negative correlation* between the average sentence length and the reading ease

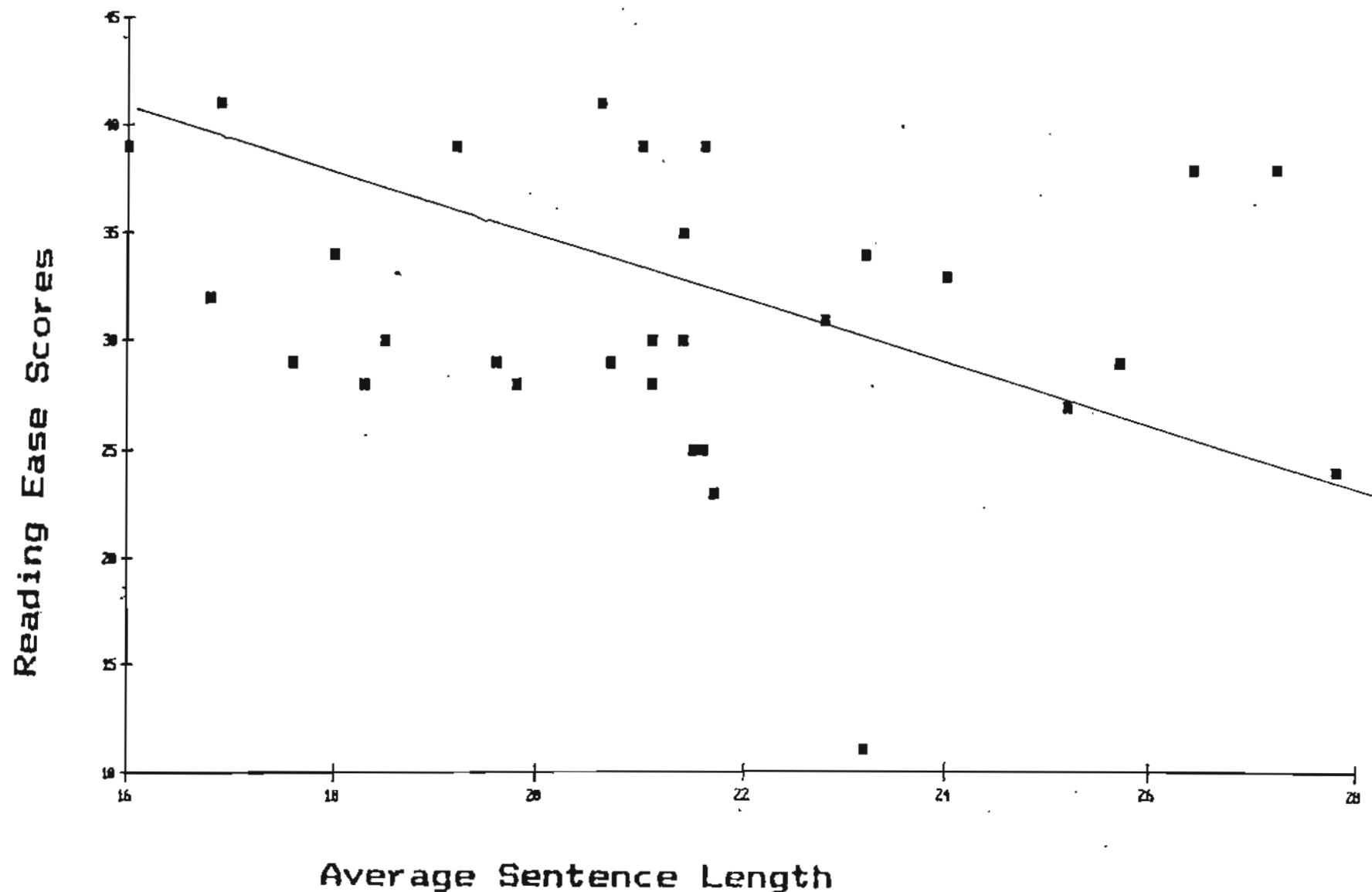
**TABLE 10. MEASUREMENT RESULTS
BY COMPANY.**

REVIEW OF ACTIVITIES

AVERAGE SENTENCE LENGTH AND DESCRIPTION OF STYLE

NAME OF COMPANY	AVERAGE SENTENCE LENGTH	DESCRIPTION OF STYLE
ADTRANS	26.4	Difficult
AMCOR	*	*
ANIL	23.2	Fairly Difficult
AUST. AIRL.	21.5	Fairly Difficult
BHP	16.9	Standard
BOND	*	*
BORAL	20.6	Standard
CALTEX	21.1	Fairly Difficult
CHARLES	*	*
COCA-COLA	*	*
COLES	20.7	Standard
COMMON. BANK	19.6	Standard
CRA	21.6	Fairly Difficult
CSR	*	*
EMAIL	25.2	Difficult
FAI	22.8	Fairly Difficult
FAULDING	23.2	Fairly Difficult
GPT	21	Fairly Difficult
HARDIE	25.7	Difficult
IBM	19.8	Standard
ICI	18.3	Standard
MALAGHAN	27.8	Difficult
MAYNE	21.6	Fairly Difficult
McILWRAITH	24	Fairly Difficult
NATIONAL	*	*
NORSEMAN	19.2	Standard
NORTH	21.7	Fairly Difficult
OPSM	16	Fairly Easy
PACIFIC	21.4	Fairly Difficult
PIONEER	21.1	Fairly Difficult
PRO-IMAGE	*	*
S.A. BREW.	16.8	Standard
SABCO	*	*
SCOTT	*	*
STOCKLAND	18	Standard
TANDOU	21.4	Fairly Difficult
WATIYL	*	*
WESTERN	18.5	Standard
WESTFIELD	*	*
WESTPAC	17.6	Standard
WOLF WINE	27.2	Difficult
WOODSIDE	*	*

FIGURE 7 REVIEW OF ACTIVITIES: READABILITY AGAINST AVERAGE SENTENCE LENGTH



scores. In other words, the shorter the sentence length, the bigger the reading ease score and therefore, the easier the passage is to read. According to Flesch (1948), longer

TABLE 11: Flesch's Pattern of 'Reading Ease' Scores -

**Average Sentence Length and Percentage of Review
of Activities Narratives in Each Category**

Average sentence length	Description	% of Review of Activities in each category
29+	Very difficult	0
25-29	Difficult	16.7
21-25	Fairly difficult	43.3
17-21	Standard	36.7
14-17	Fairly easy	3.3
11-14	Easy	0
8-11	Very easy	0

Source: (Adapted). R. Flesch. 'A New Readability Yardstick'. Journal of Applied Psychology, June, 1948, p. 230.

sentences are more difficult to comprehend and conversely, shorter sentences are easier to read and comprehend. This finding, together with the mean of the average sentence lengths, seem to suggest that the review of activities of

these annual reports are **difficult** to read due to the long sentence lengths.

4.2.3 Review of Activities: Word Length (Number of syllables per word).

Table 12 is a summary of the findings for the average number of syllables per word (word length) for the review of activities of these annual reports. The measure of the average number of syllables per word ranged from 1.67 to 2.03. Flesch (1948) asserts that the descriptive style for this range is from **difficult**, typical of academic journals, to **very difficult**, as in scientific journals. This finding is contrary to Flesch's (1948) advice since the range of 167 to 203 syllables per 100 words does not satisfy ease of reading a narrative of one and one-half times as many syllables as words.

Furthermore, the majority of these narratives (93.75 per cent of them) in the *difficult* category in relation to this syllable measure, seem to indicate that probably this is due to a high level of abstraction in the language of the Review of Activities of these annual reports. See Table 13 below.

The **mean** for the measure of the average number of syllables per word is 1.824. This **mean** is within the descriptive style of **difficult** to read.

TABLE 12: REVIEW OF ACTIVITIES.

AVERAGE NUMBER OF SYLLABLES PER WORD
AND DESCRIPTION OF STYLE

NAME OF COMPANY	AVERAGE NUMBER OF SYLL. PER WORD	DESCRIPTION OF STYLE
ADTRANS	1.68	Difficult
AMCOR	*	*
ANIL	1.76	Difficult
AUSTR. AIRLINES	1.89	Difficult
AUSTRALIAN	*	*
BHP	1.76	Difficult
BOND	*	*
BORAL	1.71	Difficult
CALTEX	1.86	Difficult
CHARLES	*	*
CO-OPERATIVE GROUP	1.94	Very Diffi
COCA-COLA	*	*
COLES	1.85	Difficult
COMMONWEALTH BANK	1.87	Difficult
CRA	1.76	Difficult
CSR	*	*
EMAIL	1.82	Difficult
FAI	1.8	Difficult
FAULDING	2.03	Very Diffi
GPI	1.73	Difficult
HARDIE	1.79	Difficult
IBM	1.88	Difficult
ICI	1.89	Difficult
MALAGHAM	1.82	Difficult
MAYNE NICKLESS	1.89	Difficult
McILWRAITH	1.77	Difficult
NATIONAL	*	*
NORSEMAN	1.75	Difficult
NORTH	1.91	Difficult
OPSM	1.79	Difficult
PACIFIC	1.83	Difficult
PIONEER	1.84	Difficult
PRO-IMAGE	*	*
S.A. BREWERIES	1.87	Difficult
SABCO	*	*
SCOTT	1.85	Difficult
STOCKLAND	1.82	Difficult
TANDOU	1.77	Difficult
WATTYL	*	*
WESTERN	1.87	Difficult
WESTFIELD	*	*
WESTPAC	1.89	Difficult
WOLF WINE	1.67	Difficult
WOODSIDE	*	*

In relation to the mean of this syllable measure, the graph in **Figure 4** upholds the finding that most of the narratives in the review of activities were in the **difficult to read** description of style.

TABLE 13: Flesch's Pattern of Reading Ease Scores - Average

**Number of Syllables Per Word (Word Length) and
Percentage of Review of Activities Narratives in
Each Category.**

Syllables per word	Description of style	% of Review of Activities in each category
1.92+	Very difficult	6.25
1.67-1.92	Difficult	93.75
1.55-1.67	Fairly difficult	0
1.47-1.55	Standard	0
1.39-1.47	Fairly easy	0
1.31-1.39	Easy	0
1.23-1.31 or less	Very easy	0

Source: (Adapted). R. Flesch. 'A New Readability Yardstick'. **Journal of Applied Psychology**, June, 1948, p. 230.

The relationship between the average number of syllables per word and the reading ease scores for the review of

activities of these annual reports is shown in the scattergram in **Figure 8** below. The scattergram indicates a negative or inverse correlation between the two variables. That is, an increase in the average number of syllables per word is accompanied by a decrease in the reading ease scores. This relationship seems to support Flesch's (1948) argument that longer words are more **difficult** to comprehend.

4.3. COMPARISON BETWEEN THE NARRATIVES: CHAIRPERSONS' AND REVIEW OF ACTIVITIES.

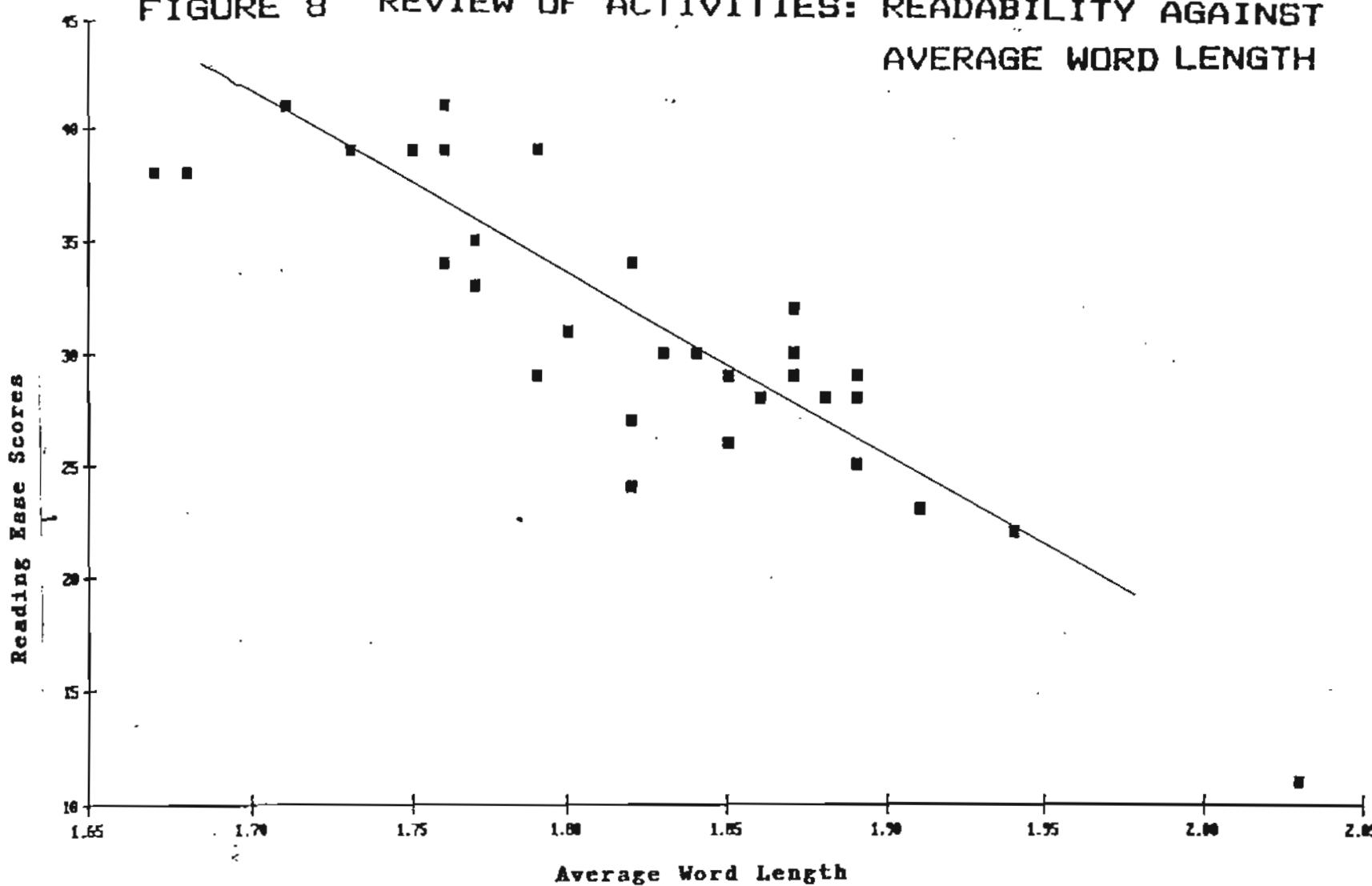
4.3.1 Reading Ease Scores

The raw reading ease scores for the chairpersons' and the review of activities are shown in Tables 2 and 7, respectively. A **t-test** of the means for the two sections of the annual reports was carried out to measure statistical equivalence in terms of the readability level. The summary of the finding is shown in **Table 14** below.

Table 14. Mean Reading Ease scores, Standard Deviations and t-test Score: Comparison between the Chairpersons' and Review of Activities narratives.

	Mean Reading Ease Scores	Standard Deviations	t-score
Chairpersons' narrative	31.047	8.006	0.0452
Review of Activities	30.97	6.53	(ns)

FIGURE 8 REVIEW OF ACTIVITIES: READABILITY AGAINST AVERAGE WORD LENGTH



The t-test results did not attain statistically significant mean difference at 0.05 level. In other words, at 5 per cent level of significance, there really was no difference between the means of the two narratives. Consequently, the implication of the observed difference between the means of the reading ease scores for the two sections of the annual reports could have been due to chance. This finding suggests that the two sections of the annual reports were equivalent with respect to the reading ease scores. This further confirms the homogeneity of these two sections in relation to the findings above, that they vary within Flesch's descriptive styles of difficult and very difficult.

The scattergram of the plot between chairpersons' and review of activities narratives readability scores in Figure 9 indicate a positive correlation. That is, a rise in one is accompanied by an increase in the other. This correlation seems to further confirm the homogeneity of the two sections in terms of reading ease. Moreover, when both groups of narratives are plotted against reading ease scores, the result is shown in Figure 10. Both sets of narratives seem to have the same line that best fits the two sets of scores.

This relationship appears to imply that both sections of the annual reports are similar in terms of reading ease or difficulty.

FIGURE 9. READABILITY: CHAIRPERSONS' AND REVIEW OF ACTIVITIES

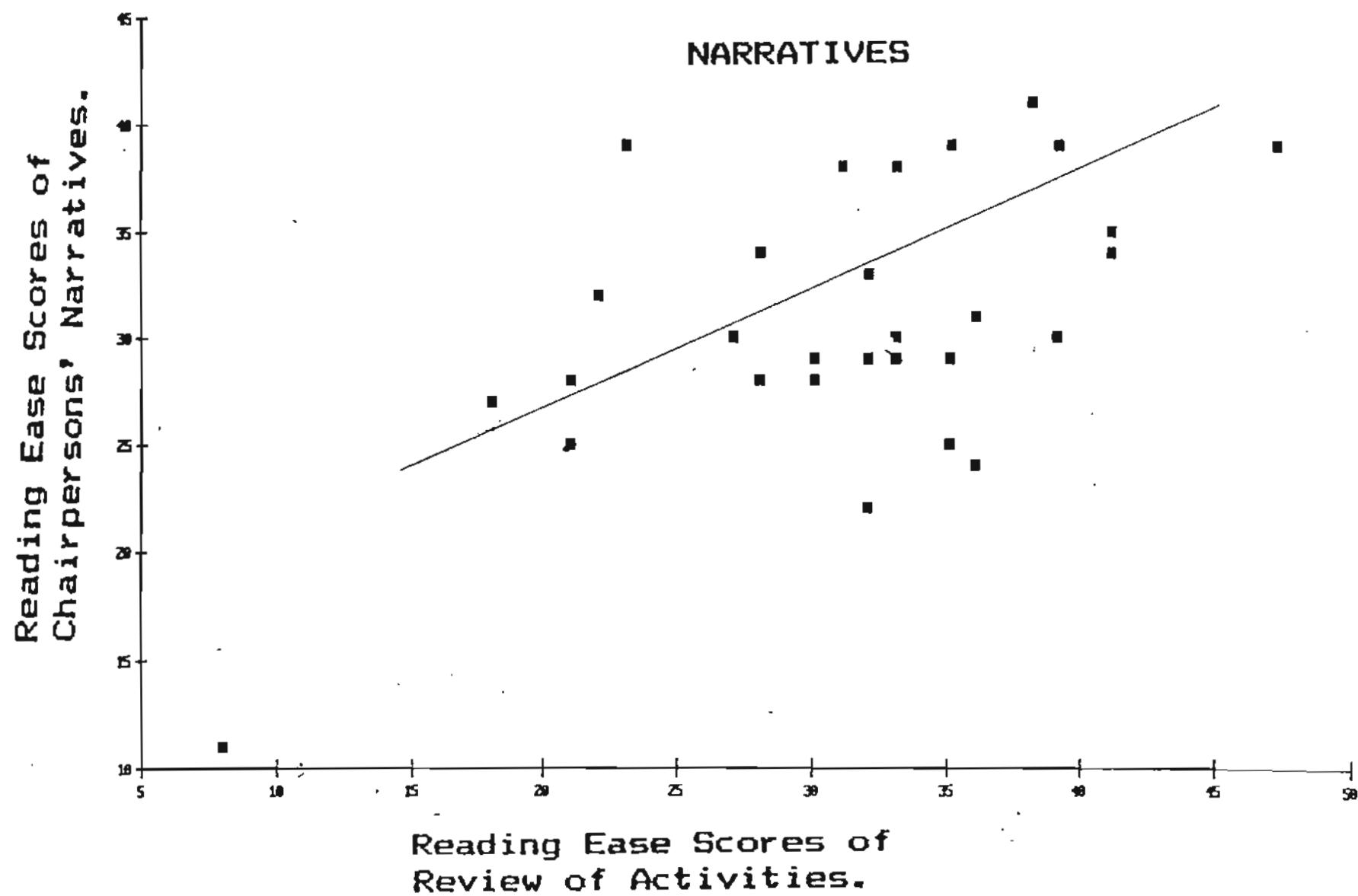
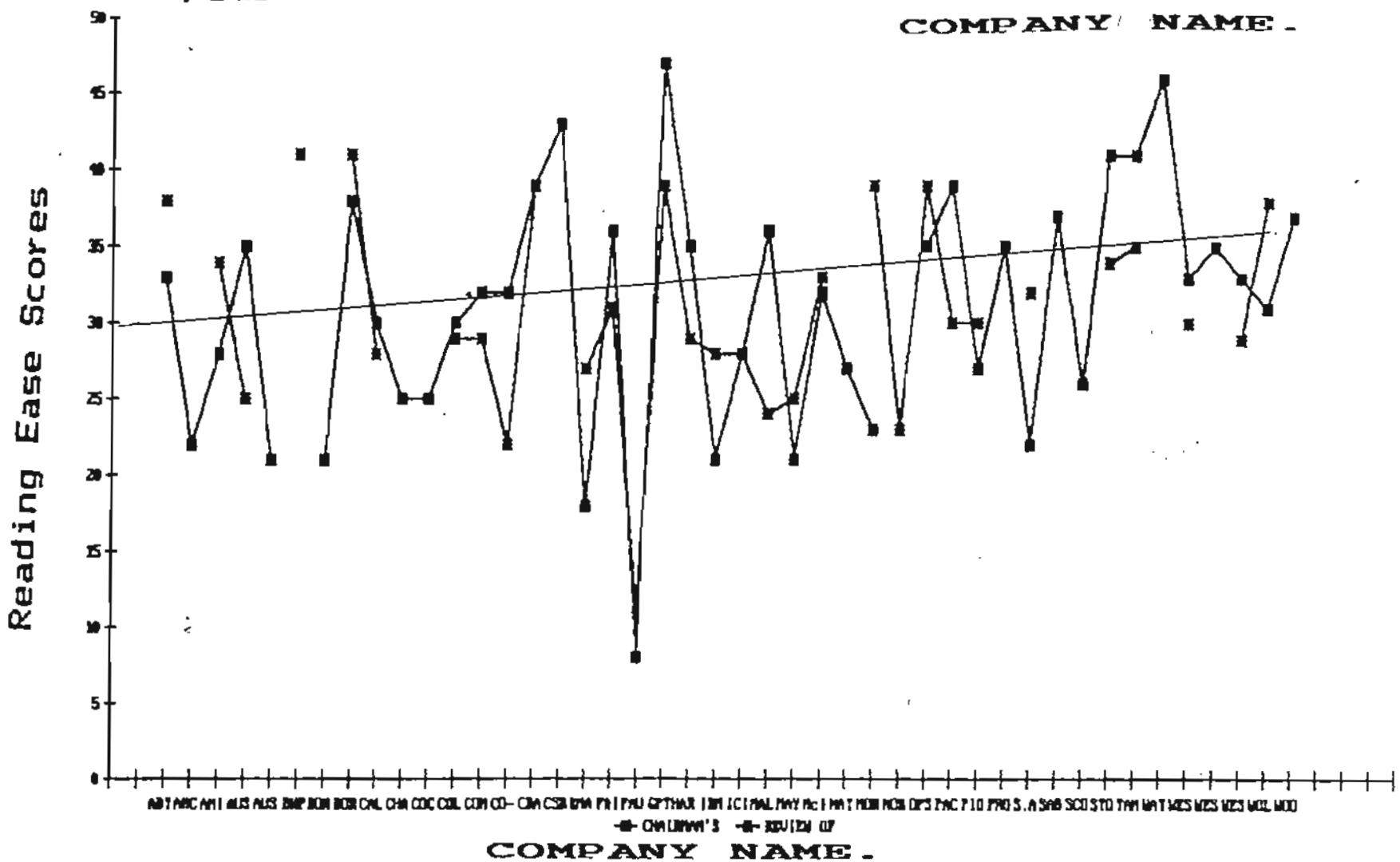


FIGURE 10. READING EASE SCORES: READING EASE SCORES AGAINST COMPANY / NAME .



In addition, Table 15 below and Figure 11 show that in relation to the percentage of number of narratives in the different descriptive style categories, both sections of these annual reports were similar in that they were within the *difficult* and **very difficult** ranges.

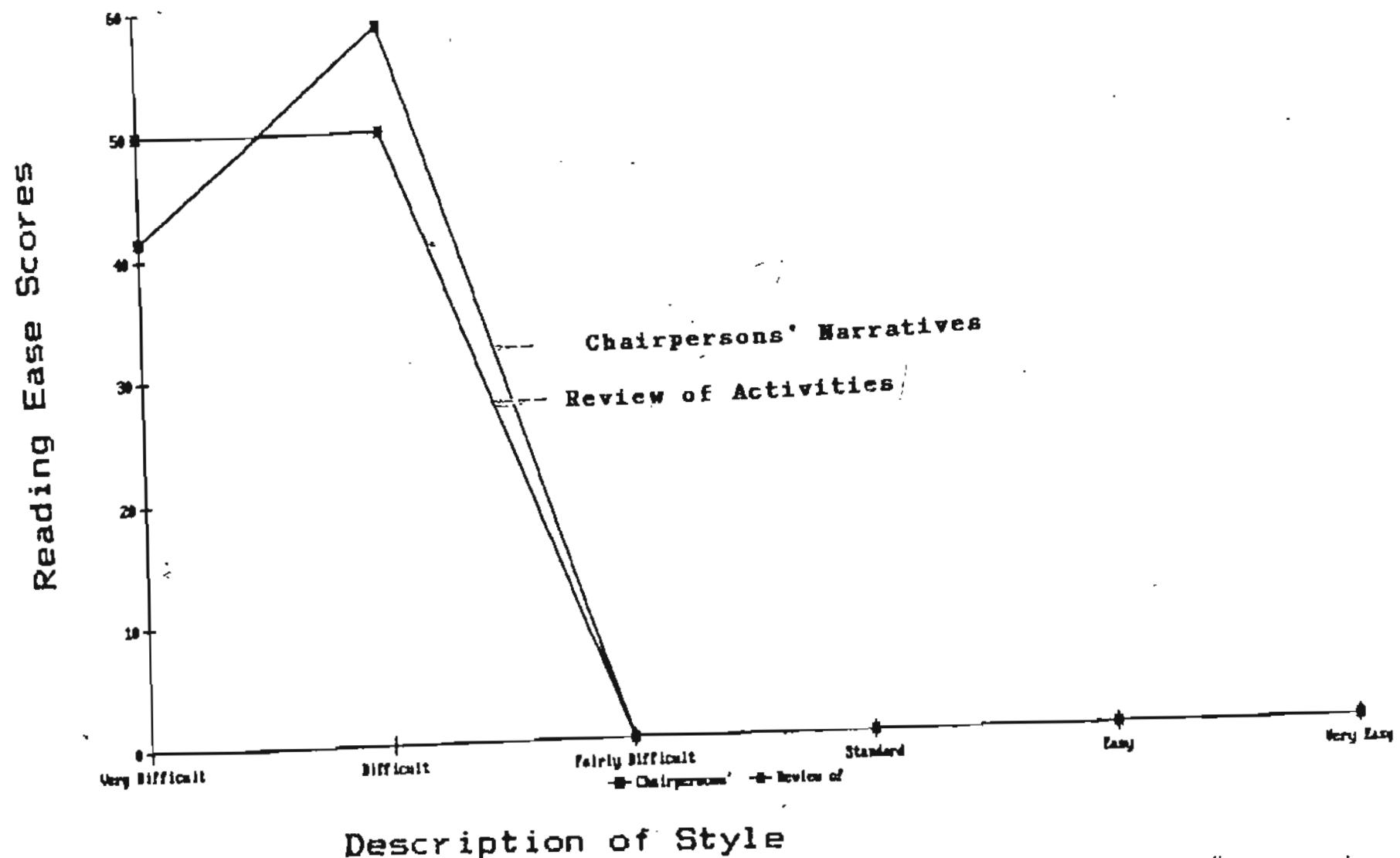
TABLE 15: Chairpersons' and Review of Activities: Percentage of Narratives in Each of Flesch's Reading Ease Category.

Reading Ease Score	Description of Style	% of Chairpersons' Narratives	% of Review of Activities
0-30	Very difficult	41.46	50
30-50	Difficult	58.54	50
50-60	Fairly difficult	0	0
60-70	Standard	0	0
70-80	Fairly easy	0	0
80-90	Easy	0	0
90-100	Very easy	0	0

Source: (Adapted) R. Flesch. 'A New Readability Yardstick'. **Journal of Applied Psychology**, 1948, p.230.

However, Table 15 and Figure 11 show that 58.54 per cent of the chairpersons' narratives were **difficult** to read, and the

FIGURE 11. READING EASE SCORES AGAINST DESCRIPTION OF STYLE



review of activities had 50 per cent of them in this category. Therefore, more of the chairpersons' narratives were in the difficult to read range than the review of activities narratives. Conversely, the chairpersons' narratives had less, 41.46 per cent of the narratives, whereas there were more narratives, 50 per cent of the review of activities in the *very difficult* category.

In spite of the differences in the percentage number of report sections in the **difficult** and **very difficult** ranges of descriptive styles, it is interesting to note that the general reading ease of the two sets of narratives was homogeneous.

4.4.2 Comparison of the average sentence lengths between the chairpersons' and review of activities narratives.

The summary of average sentence lengths and description styles of the chairpersons' and review of activities narratives, as suggested by Dr. Flesch (1948), is presented in Tables 4 and 10 respectively.

In order to determine whether there exists a significant difference between the **means** of the average sentence lengths, a statistical t-test was done. The means, standard deviations and the t-test score for the two sections of these annual reports are presented in Table 16 below.

The t-test done to compare the means for the average sentence lengths of the two narratives demonstrates no statistically significant differences at 0.05 level. In other words, the mean average sentence length for the chairpersons' narratives was found to be equivalent to that of the review of activities.

The difference between the means could have been due to chance. This finding seems to imply that sentence length was virtually the same for the two sets of narratives. Consequently, this seems to further confirm the finding stated above that both sets of narratives are generally **fairly difficult** to read, in relation to the average sentence lengths.

Table 16: Means, Standard Deviations and t-score of the Chairpersons' and Review of Activities Average Sentence Lengths.

	Mean Average Sentence Length	Standard Deviation	t-score
Chairpersons' Narratives	21.89	3.67	0.713
Review of Activities Narratives	21.33	2.933	(ns)

As stated above, the plots of average sentence lengths against reading ease scores for each set of narrative revealed an inverse correlation. These findings seem to uphold the view that " length is most clearly related to sentence difficulty. The longer a sentence is, the harder it is to understand" (Lesikar and Lyons, 1986, 153-154).

TABLE 17: Average Sentence Length - Percentage Number of Chairpersons' and Review of Activities Narratives in Each Category.

Average sentence length	Description of style	% of Chairpersons' narratives	% of Review Activities
29+	Very difficult	2.4	0
25-29	Difficult	19.5	16.7
21-25	Fairly difficult	41.5	43.3
17-21	Standard	31.7	36.7
14-17	Fairly easy	2.4	3.3
11-14	Easy	2.4	0
8-11	Very easy	0	0

A comparative analysis of the two narratives in relation to average sentence length and the percentage of texts in each

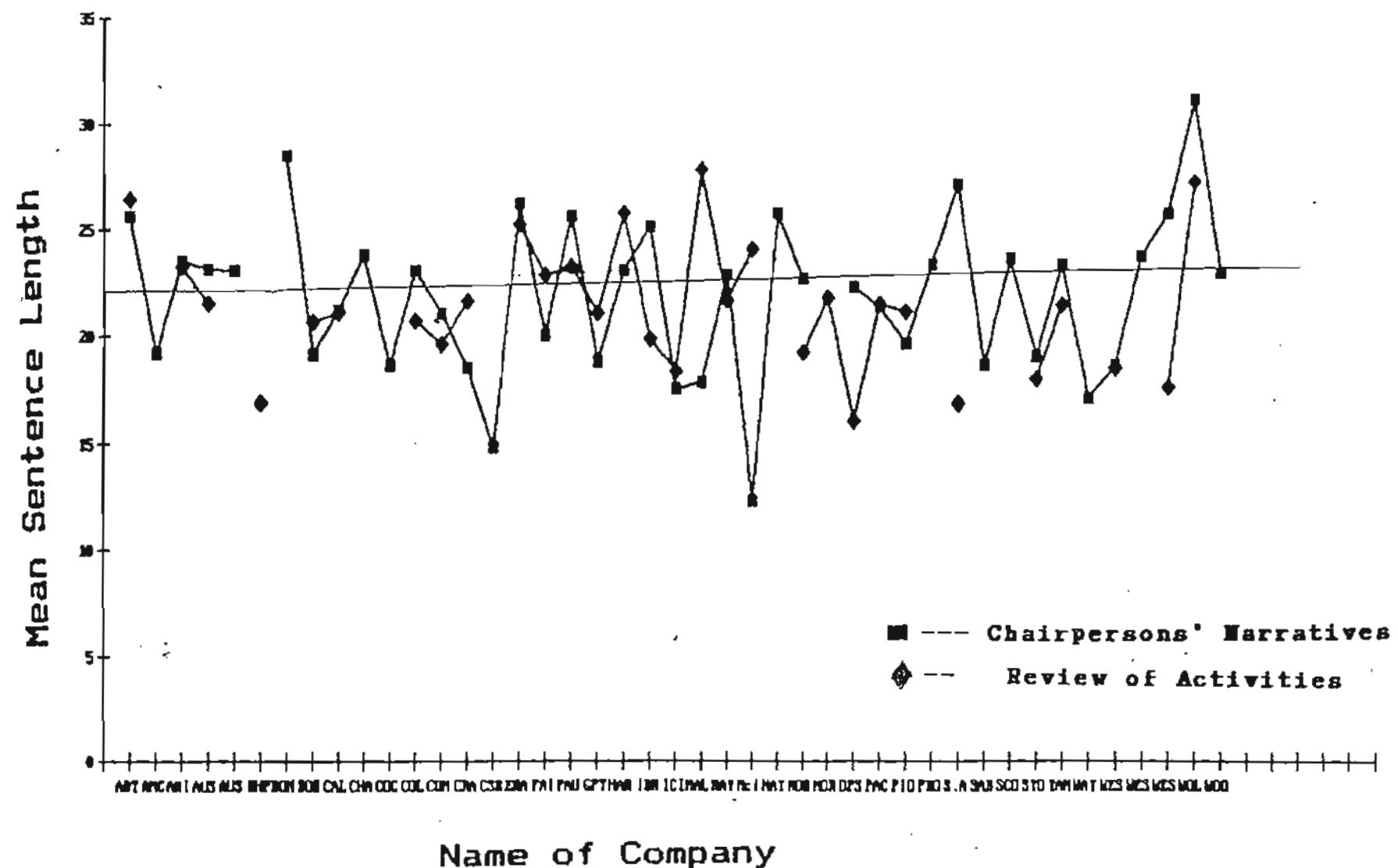
category of descriptive style as suggested by Flesch (1948) is shown in Table 17 above. It can be seen that both narratives, chairpersons' and review of activities had the highest number of texts in the **fairly difficult** range - 41.5 and 43.3 per cent, respectively. The next highest descriptive style category for both narratives was **standard** (31.7 and 36.7 per cent, respectively) and then **difficult** (19.5 and 16.7 per cent, respectively).

It is however interesting to note that a few texts of both sets of narratives were in the *fairly easy* category, and the set for the chairpersons' narratives had some which were in the *easy* category. Although there were no texts in the **very difficult** range for the review of activities, and despite a few differences in the percentage of texts in the other descriptive styles, the results shown in Figure 5 seem to suggest a homogeneous trend for the two sets of narratives. Furthermore, the line graphs of the narratives in Figure 12 below seem to demonstrate similar trends in terms of the average sentence lengths. That is, a line that best fits the plots for both sets of narratives has been drawn, thereby suggesting the homogeneity of the two narratives in relation to sentence length.

4.4.3 Comparison of the narratives in relation to the average number of syllables per word (word length).

The statistical t-test score for the means of the average

FIGURE 12. MEAN SENTENCE LENGTH AGAINST NAME OF COMPANY



number of syllables per word (word length) shown in **Table 18** below did not attain any significant difference. Consequently, it appears that, from the t-test score, there is virtually no difference between the mean average word lengths noted in the chairpersons' and review of activities narratives.

**Table 18: Means, Standard Deviations and t-score for the average number of syllables per word:
Chairpersons' and Review of Activities narratives.**

	Mean Average Word Length	Standard Deviations	t-score
Chairpersons' narrative	1.809	0.087	-0.645
Review of Activities	1.824	0.107	(ns)

(ns - not significant)

This finding is in line with the observation in **Tables 7 and 13**. Despite slight differences in the number of texts in the descriptive styles, most of the texts were in the **difficult** range, (82.93 and 93.75 per cent for the chairpersons' and

review of activities, respectively), followed by the **very difficult** category, (14.63 and 6.25 per cent, for the chairpersons' and review of activities narratives, respectively). Moreover, the graphs in Figure 4 for the two sets of narratives demonstrate similar trends in the descriptive styles of the texts in relation to the word syllable measure.

In regard to the syllable measure, the scattergrams in Figures 5 and 8 show an inverse correlation between word length and reading ease scores. Consequently, the inverse correlations in the two sets of narratives seems to suggest that longer words are more **difficult** to read. In other words, the chairpersons' and review of activities narratives show a general trend of negative correlation between readability and word length.

4.5.1 IMPLICATIONS AND DISCUSSION

The readability analysis of the chairpersons' reports and the review of activities narratives by means of the 'new' Flesch Readability Formulas revealed that the general level of reading was within the range of **difficult** to **very difficult**. The implication is that these two sections of corporate annual reports contain language which is beyond the language experience and fluent comprehension of the majority of interested readers - employees, customers and

especially stockholders who, one would assume, form the largest interested group that receives these reports. In other words, these two sections of annual reports are found to be understandable to only a limited audience. In the U.S.A., the overall average reading ease scores of this study imply that only a small percentage of those who have obtained a level of university education would be able to comprehend the texts. By inference, in Australia, only a small percentage of the population of those who have completed a university education can understand them.

If we base the argument on the comparative reading level of the U. S. adult population, it appears from these findings that both narratives, the chairpersons' and review of activities, are not an effective communication device to the average reader whether they be a stockholder, employee, customer or the public at large.

Since annual reports are formal means of communication between the companies and the interested parties (Chenhall and Juchau, 1977; Still, 1972; Courtis, 1986), it would seem compelling and imperative for those with the responsibility of preparing annual reports to become aware of the readability scores of their annual reports.

For instance, the use of 'new' Flesch's readability measure would be indicative of difficult comprehension, and hence

some editing and revision should be done. Although this might not completely solve the problem, it could increase the probability of the texts being understood by a wider audience. On this issue, Courtis (1986) suggests that preparers of annual reports need to use simple and inexpensive yardstick strategies for measuring communication effectiveness prior to the dissemination of information. He further suggests that one such strategy would be the use readability formulas (285) by the annual report writers.

This study reveals some possible variables which might have contributed to the narratives being difficult to read. Generally, there were negative or inverse correlations between readability and sentence length, and readability and word length. As for the differences between the two sets of narratives in relation to sentence and word lengths, the statistical t-test scores revealed no significant differences.

Consequently, basing on the means of these two variables and Flesch's (1946) descriptive styles, it appears long sentences and words are contributing factors towards the difficulty in the readability of both sets of narratives, the chairpersons' and the review of activities.

In relation to the syllable measure, the incidence of the numbers encountered in the two sets of narratives might have

had a considerable adverse effect on their readability. Flesch (1948) argues that numbers separated by space should be counted as words, and several and lengthy figures should be omitted when counting the syllables. He further argues that, instead, an equivalent number of words to the number of figures omitted should be added, and then find their syllable totals by adding to those already counted (221-233). An application of these directions to the narratives might be underestimating the disastrous effect the large number of figures might have on the general reader - a reader not widely trained in mathematics or numbers.

Consequently, the large number of figures in the narratives invites speculation. It therefore seems that greater care and attention should be given to determine the best ways of presenting figures in the chairpersons' and review of activities narratives. Probably, the lengthy figures could be more effectively incorporated in a table or chart. Otherwise, the large number of figures in these texts might have a serious negative effect upon comprehension, either directly through increasing confusion, or indirectly by inducing boredom.

Perhaps the significance of these results on readability obtained by employing the Flesch's technique could best be indicated by suggesting what would improve the reading ease

scores. The findings of this study seem to suggest that writers of the chairpersons' and review of activities narratives need to use shorter words (number of syllables per word) when synonyms exist.

Furthermore, writers concerned need to hold down the sentence lengths in order to improve the readers' understanding of the narratives - as sentence length seems to be related to sentence difficulty in reading. Consequently, in relation to sentence length, it appears that readability can also be improved by holding down not only the number of syllables per word, but also the number of syllables per sentence.

These findings have important implications considering the length of time readability of annual reports has been studied. Many research studies, beginning from 1949 (Dolphin and Wagley, 1977, 20), have shown that there has been no or little improvement in the readability of annual reports. Dolphin and Wagley (1977) showed that there had been a decline in the readability of annual reports in the U. S. A. between 1948 and 1974. They further found that the rate of decline was greater than the increase in educational attainment of either the general public or stockholders. They therefore concluded that annual reports had not been

effective communication devices for the average reader (22). Similarly, Jones (1988) research revealed that the corporate annual report he studied had remained difficult to read throughout the period from 1952 to 1985.

It is very important to bear in mind that the need for "writing down" sentences and words, that is, reducing sentence and word lengths needs no emphasis and would not necessarily be an under-estimation of intelligence. This is because the people whom corporations want to influence cover a range of ability and educational levels. Probably, corporate writers are overestimating the language experience of their potential audience, a diversified readership of stockholders, employees and the general public.

Corporate annual report writers could attempt to write in Plain English, aiming at simplifying language and its structure. On this problem of simplifying the language of annual reports, Courtis (1986) suggests that annual report preparers should (a) attempt to write sentences that are as simple as possible and (b) check the readability of their sentences and words for ease of understandability with small samples of their employees or other groups of people who do not possess the technical language. He further argues that by doing this, annual report texts might become more comprehensible to a bigger audience, especially those without university education (292).

Some organisations, for instance, the NRMA company in Australia, has revised its insurance policies to improve readability and hence assists the public at large to comprehend the information (Eagleson, 1985, 673-675).

Similarly, in the U. S. A., the First National Bank of Boston has begun using Plain English loan agreements. In addition, Citibank of U. S. A. has also eliminated half the length of its narrative with the aim of increasing readership (Anon, 1985, 665-667).

Although the two variables, sentence and word lengths, are associated with reading difficulty, it might be an oversimplification. They may not necessarily improve the true understandability of the messages in the chairpersons' reports and review of activities narratives. True

understandability might involve many more variables than sentence and word length. However, it is important for the writers of the chairpersons' and review of activities narratives to view simplification of sentences and words with the aim of "expressing" rather than "impressing".

As stated above, sentence and word lengths might be prone to a number of general limitations so that they may be unreliable indicators of readability. For instance, Predeux



and Baker (1986) argue that some short sentences are harder to recall than long ones. For example, a short sentence with a relative clause is usually more complex than a long one without.

In addition, Flesch's readability measure in this current study does not take into account the recipients' or readers' interest in the material and yet, as Shnayer (1969) argues, a high level of motivation towards the subject matter has a positive effect on the reading competence of a reader, especially a poor one. Moreover, as Still (1972) argues, it is possible for the chairpersons' and review of activities narratives to have a descriptive style of easy or very easy on the Flesch's reading ease measure and yet be ungrammatical, ill-punctuated and organised in a disorderly manner (38). As a result, narratives of this kind might have a serious negative effect upon comprehension even if the sentences and words are short.

It is worth noting that limitations like the ones stated above suggest that sentence and word lengths are not the only variables that affect readability. On this issue, Harrison (1980) asserts that simplification of this kind alone does not automatically ensure improvement in readability of a text, but may increase the probability of the texts' comprehensibility to a wider audience (50).

With the idea that readability might be a function of more variables than just sentence and word lengths, it is the objective of the second part of the analysis of my thesis to find out the count of occurrences of passive voice in sentences in the narrative sections of these annual reports - that is, the chairpersons' and the review of activities narratives. The reason being to ascertain whether or not the relative frequency of occurrences of passive voice contributes to sentence difficulty in reading.

CHAPTER 5: FINDINGS OF OCCURRENCES OF PASSIVES, SENTENCE COMPLEXITY AND SENTENCE LENGTH.

OCCURRENCES OF PASSIVES

5.5.1 Review of Activities.

There seems to be a correlation between readability scores and **OCCURRENCES** of passives. The scattergram in **Figure 13** below appears to reveal a *negative* relationship between readability and occurrences of passives in the narratives of the review of activities. An increase in readability scores is accompanied by a decrease in the occurrence of passives. Therefore, there is a *negative* correlation between the two scores. This relationship seems to demonstrate that the greater the occurrences of passives, the more difficult the text is to read and understand.

5.5.2 Chairpersons' narratives

The *negative* correlation shown in **Figure 14** below between reading ease scores and occurrence of passives in the chairpersons' narratives might indicate that an increase in occurrence of passives is accompanied by a decrease in the readability scores. In other words, as the occurrences of passive voice increase, readability decreases.

FIGURE 13 REVIEW OF ACTIVITIES
READABILITY AGAINST OCCURRENCES OF PASSIVES.

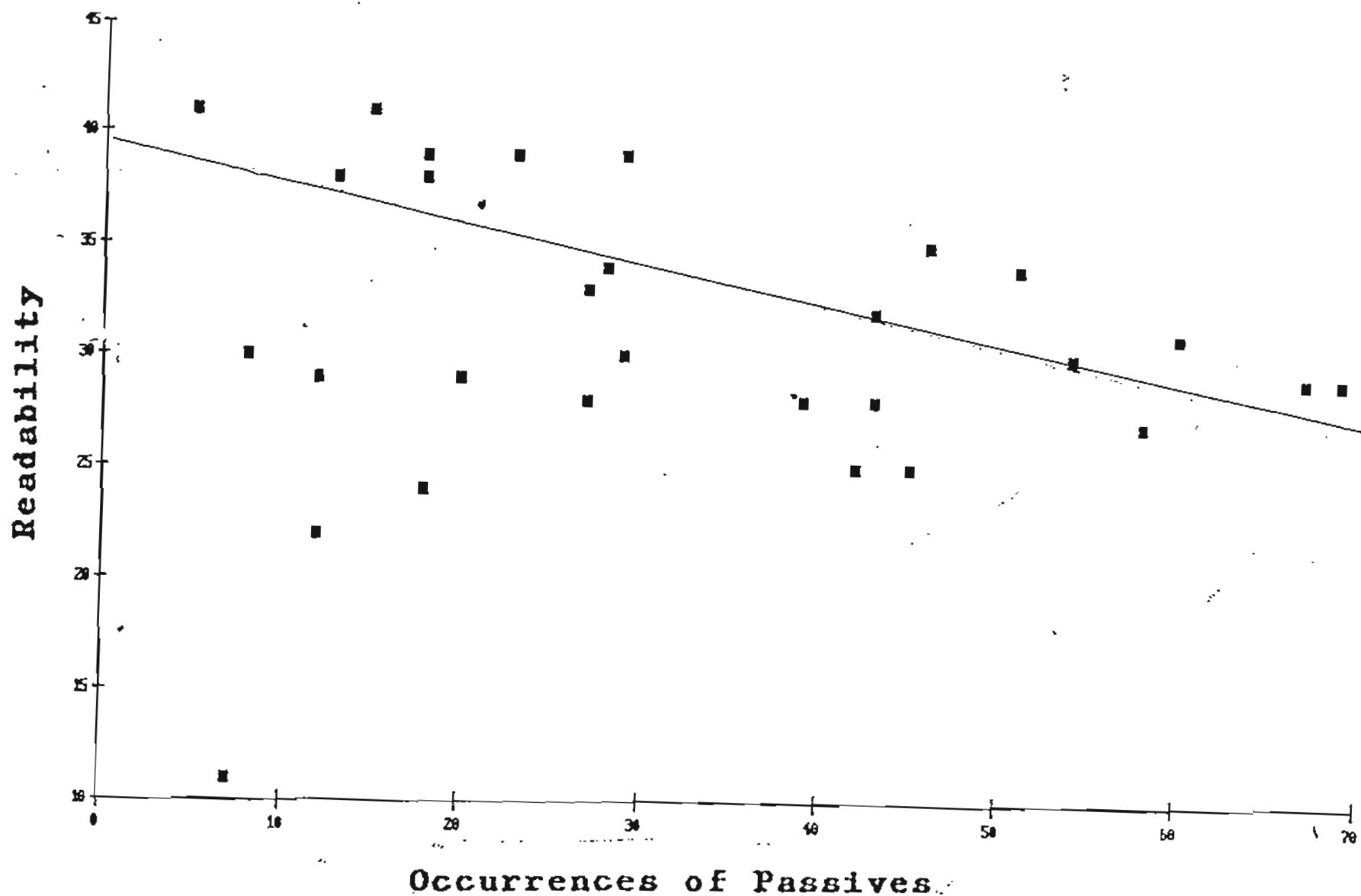
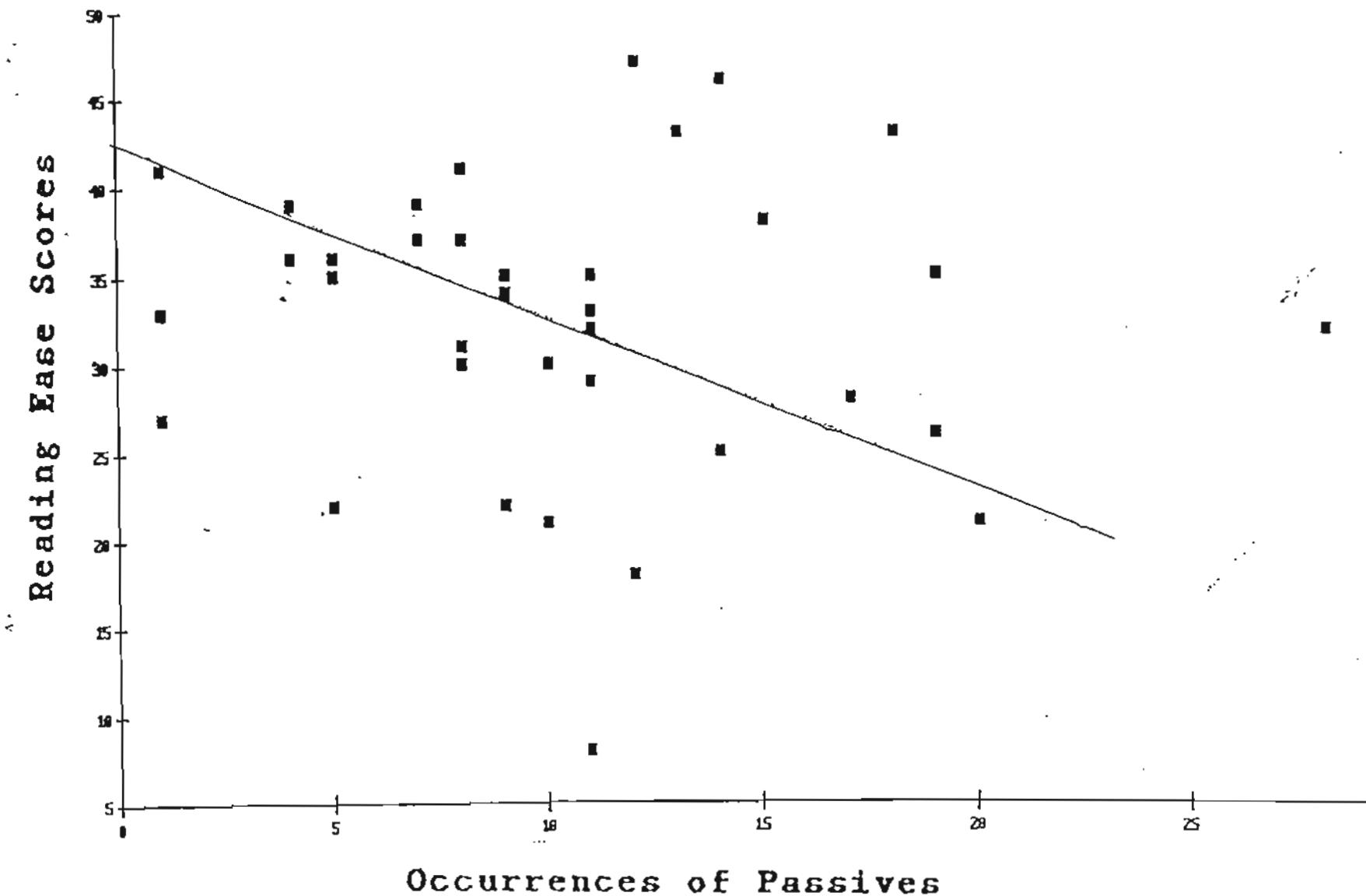


FIGURE 14. CHAIRPERSONS' NARRATIVES
READABILITY AGAINST OCCURRENCES OF PASSIVES



5.5.3 Comparison between chairpersons and review of activities narratives.

The occurrences of passives in the chairpersons' narratives are fewer than those of the review of activities. The **means** in **Table 19** below show substantially less occurrence of passives in the chairpersons narratives than in the review of activities.

Table 19: Means, Standard Deviations and t-Score:

**Comparison between the Occurrence of Passives in
the Chairpersons' and Review of Activities
Narratives.**

	Mean Occurrence of Passives	Standard Deviation	t-score
Chairpersons' narrative	10.4	5.8	-6.05
Review of activities	31.93	18.5	(s.d.)

(s.d. - significantly different)

The statistical t-score, reported in **Table 19**, shows a significant difference between occurrence of the passive in the review of activities and the chairpersons' narratives.

The cumulative frequency distributions in **Figures 15** and **16** also indicate a difference in the occurrence of passives between the two kinds of narratives - chairpersons' and the review of activities. The review of activities ogive in **Figure 16** lies to the right of the chairpersons' over the entire range. This shows that the review of activities scores were consistently higher than the chairpersons'. Similarly, the curve or ogive of the review of activities in **Figure 15** lies above that of the chairpersons', indicating a higher occurrence of passives. Furthermore, a histogramic comparison of the individual company's chairpersons' and review of activities in **Figure 17** and the *high-low* chart in **Figure 18** show a higher overall occurrence of passives in the review of activities than in the chairpersons' narratives. This seems to be supported by **Figure 19** in which the best line for the review of activities lies at a higher level than that of the chairpersons' narratives.

CONCLUSION AND IMPLICATIONS

The findings of this study show a negative correlation between the occurrences of passives in the narratives and readability. In other words, passive voice seems to affect readability detrimentally. An increase in the use of

FIGURE 15. CHAIRPERSONS' NARRATIVES AND REVIEW OF ACTIVITIES
NARRATIVES: MID-POINT SCORES AGAINST CUMULATIVE
PERCENTS OF OCCURRENCES OF PASSIVES

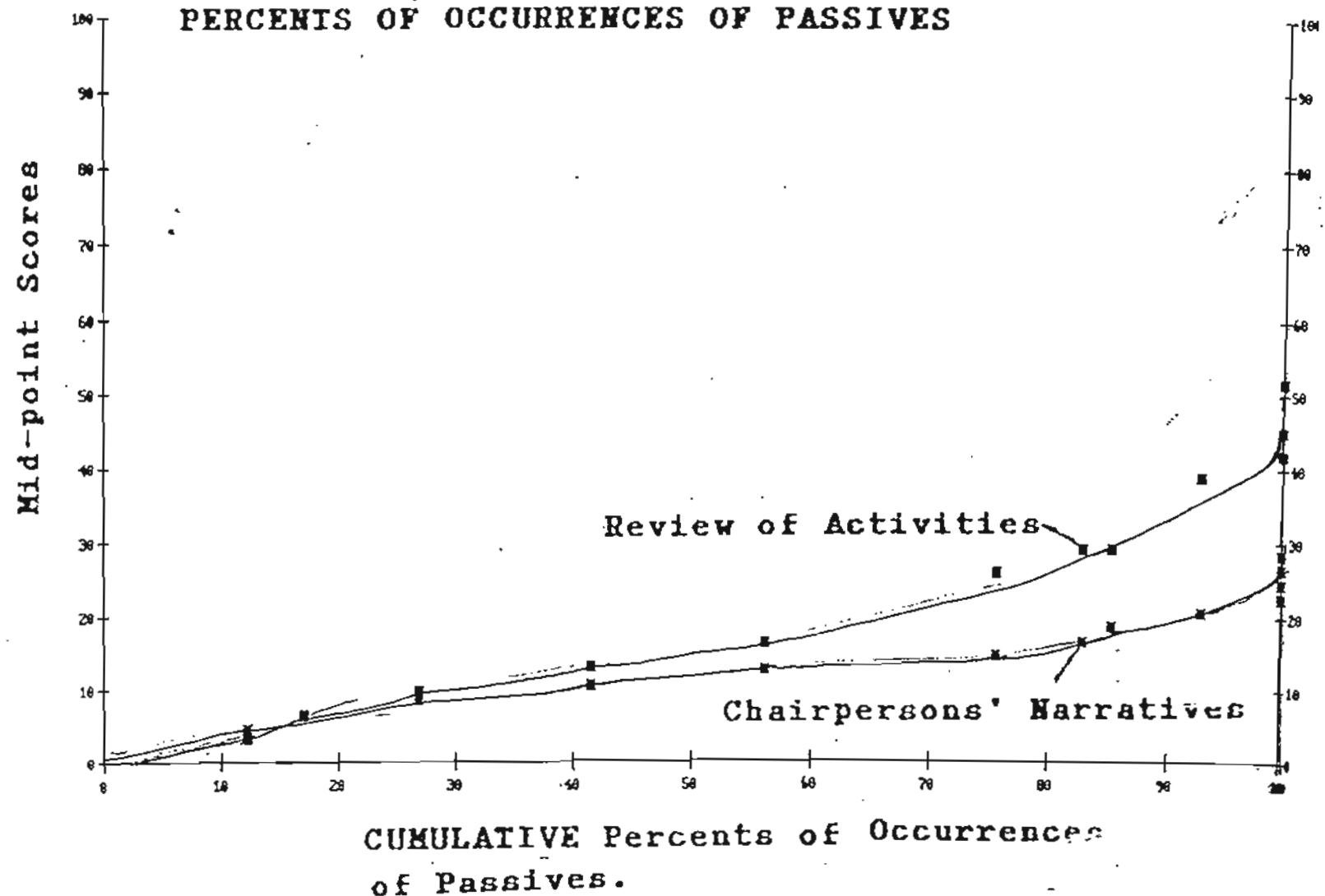


FIGURE 16. CHAIRPERSONS' AND REVIEW OF ACTIVITIES NARRATIVES

- CUMULATIVE PERCENTS OF OCCURRENCES OF PASSIVES.

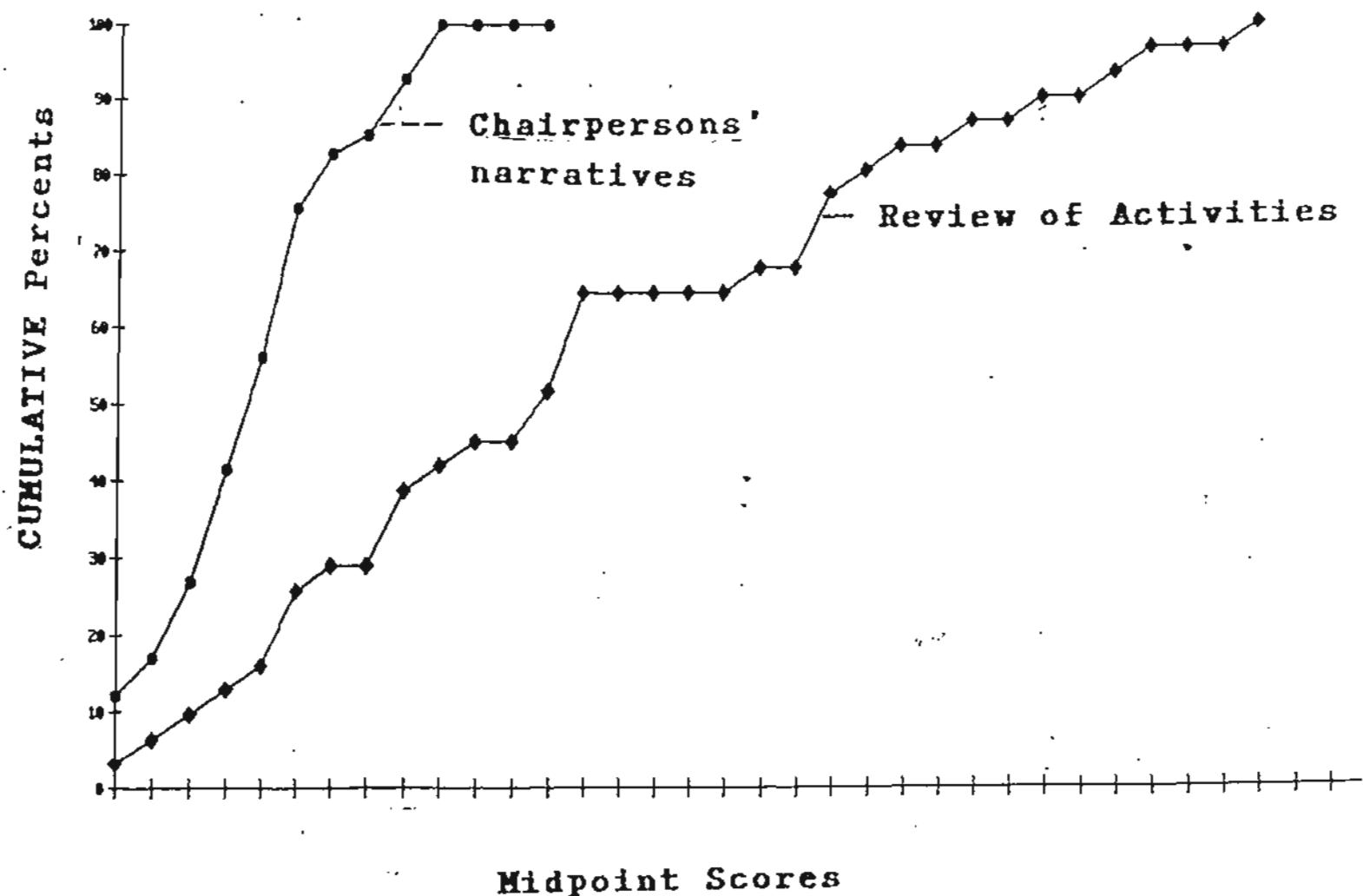


FIGURE 17. CHAIRPERSONS' AND REVIEW OF ACTIVITIES NARRATIVES

Occurrences of Passives against Name of Company

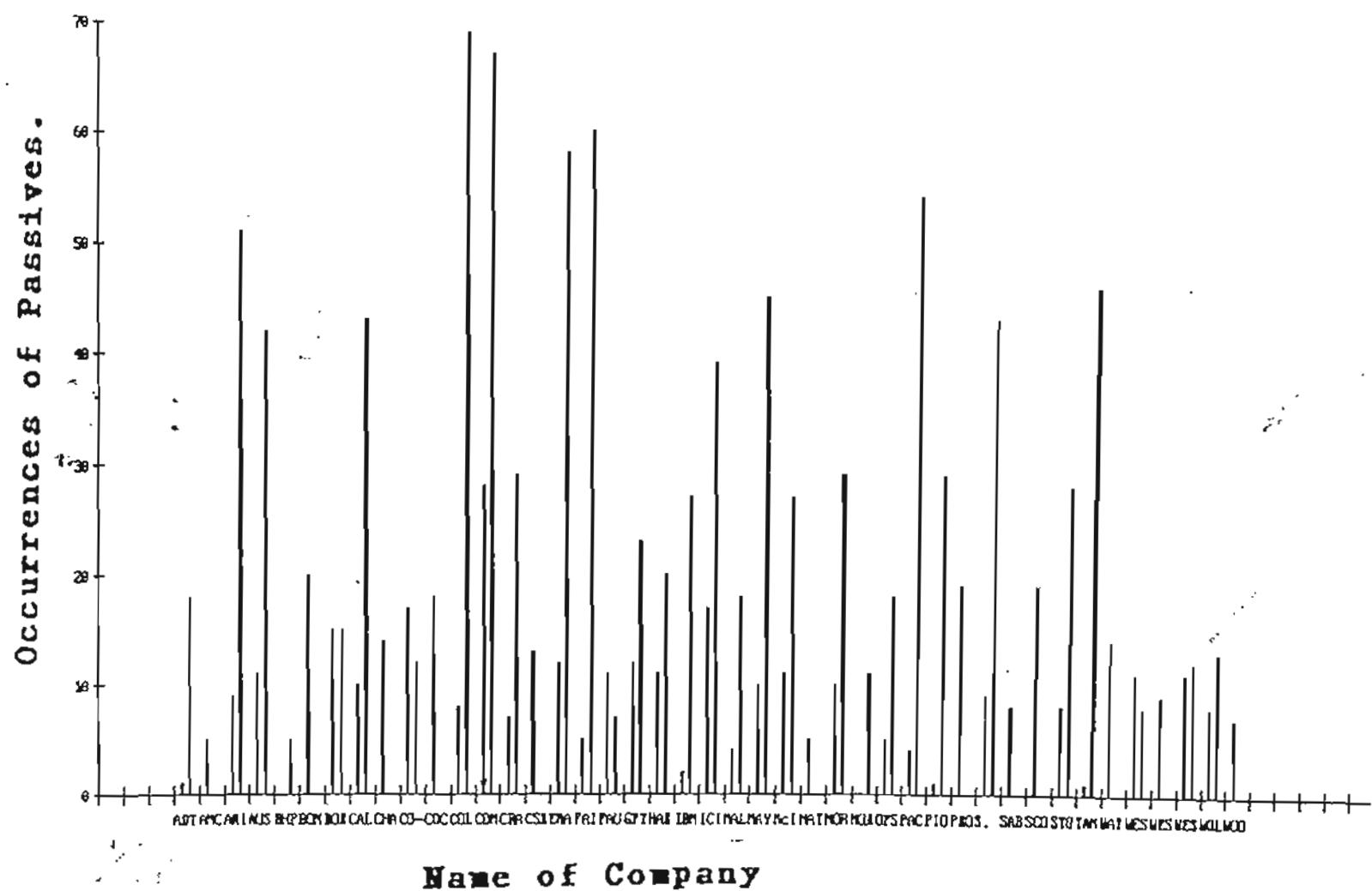


FIGURE 18 HIGH-LOW CHART

OCCURRENCE OF PASSIVES against Name of Company

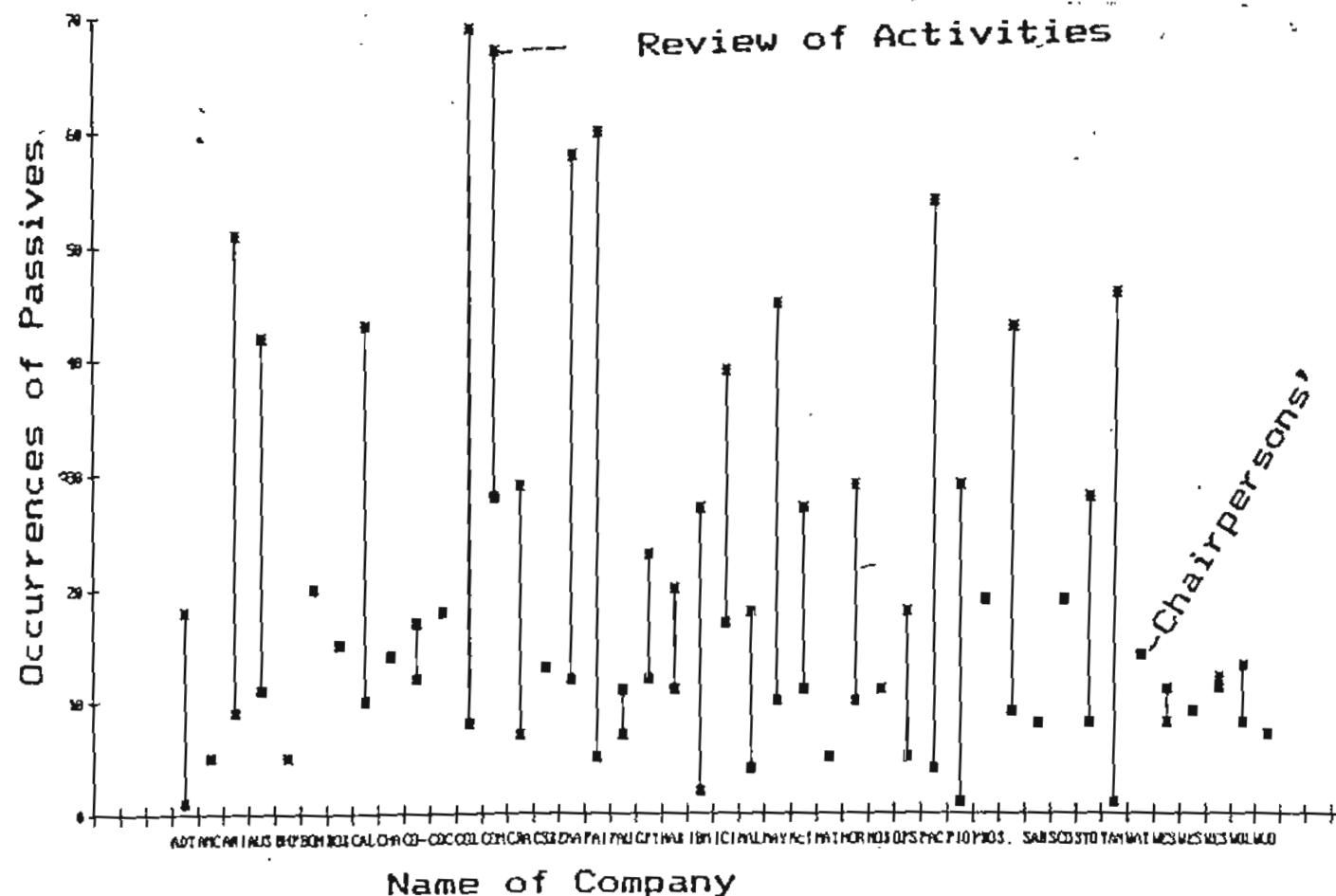
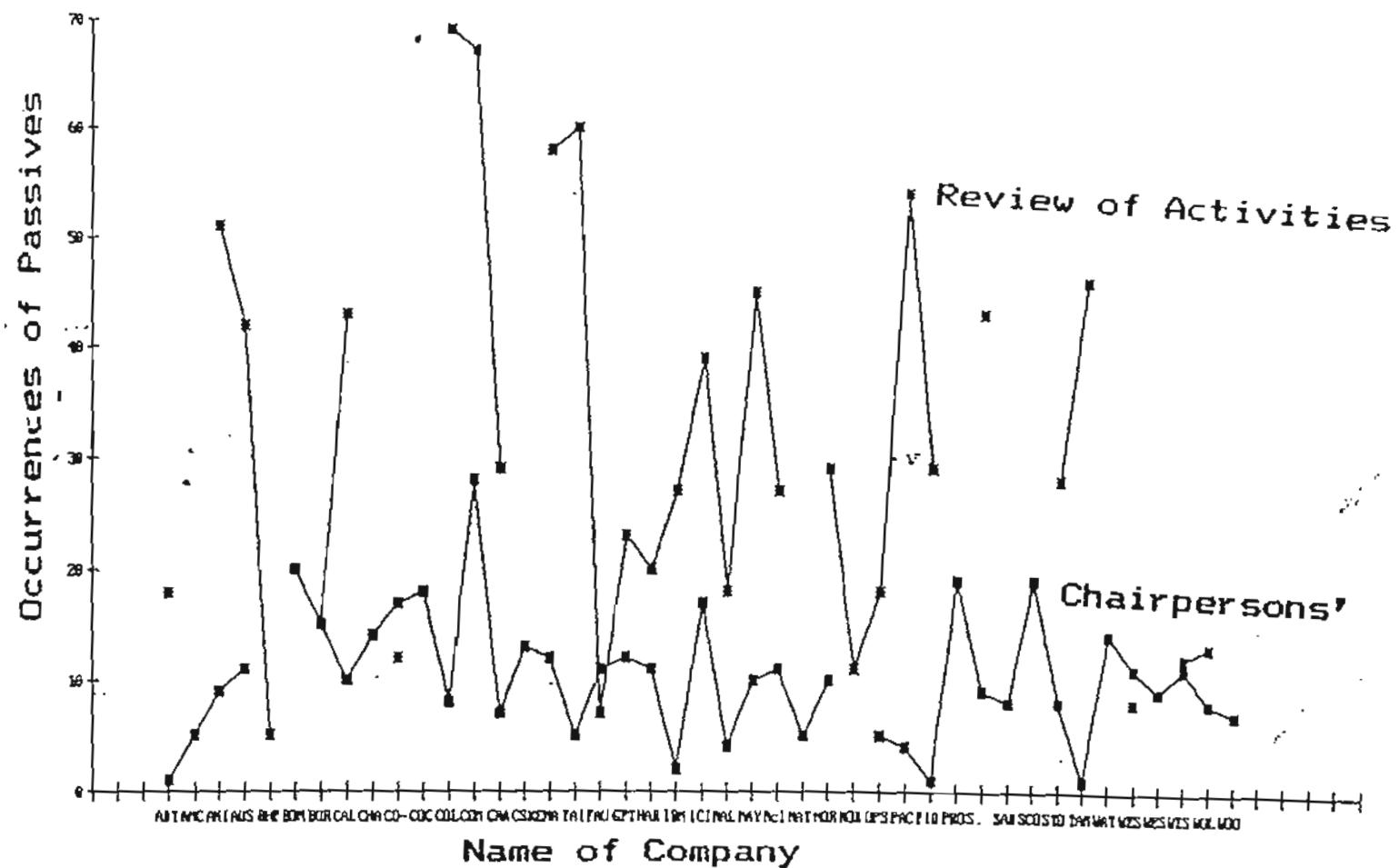


FIGURE 19. Occurrences of Passives



passive voice makes the chairpersons' and the review of activities narratives more difficult to read and comprehend. In fact, as the **t-test** in Table 19 above shows, there is no significant difference in the use of passive voice between the chairperons' and the review of activities narratives. This implies that the writers of these two sets of narratives equally make use passive voice in their writings.

This finding is in line with the argument that passive voice more difficult to read and comprehend than active (Gibson and Levin 1975; Clark and Clark, 1977).

The implication of this is that writers of annual reports have to minimise the use of passive voice by changing it to active. In so doing, the reports might be more readable. An increase of the use of passive voice might only serve to make the narratives even more difficult for the readers to comprehend.

5.6 SENTENCE COMPLEXITY

5.6.1 Chairpersons' Narratives.

A summary of the results of sentence complexity for the chairpersons' narratives is presented in **Table 20**. below.

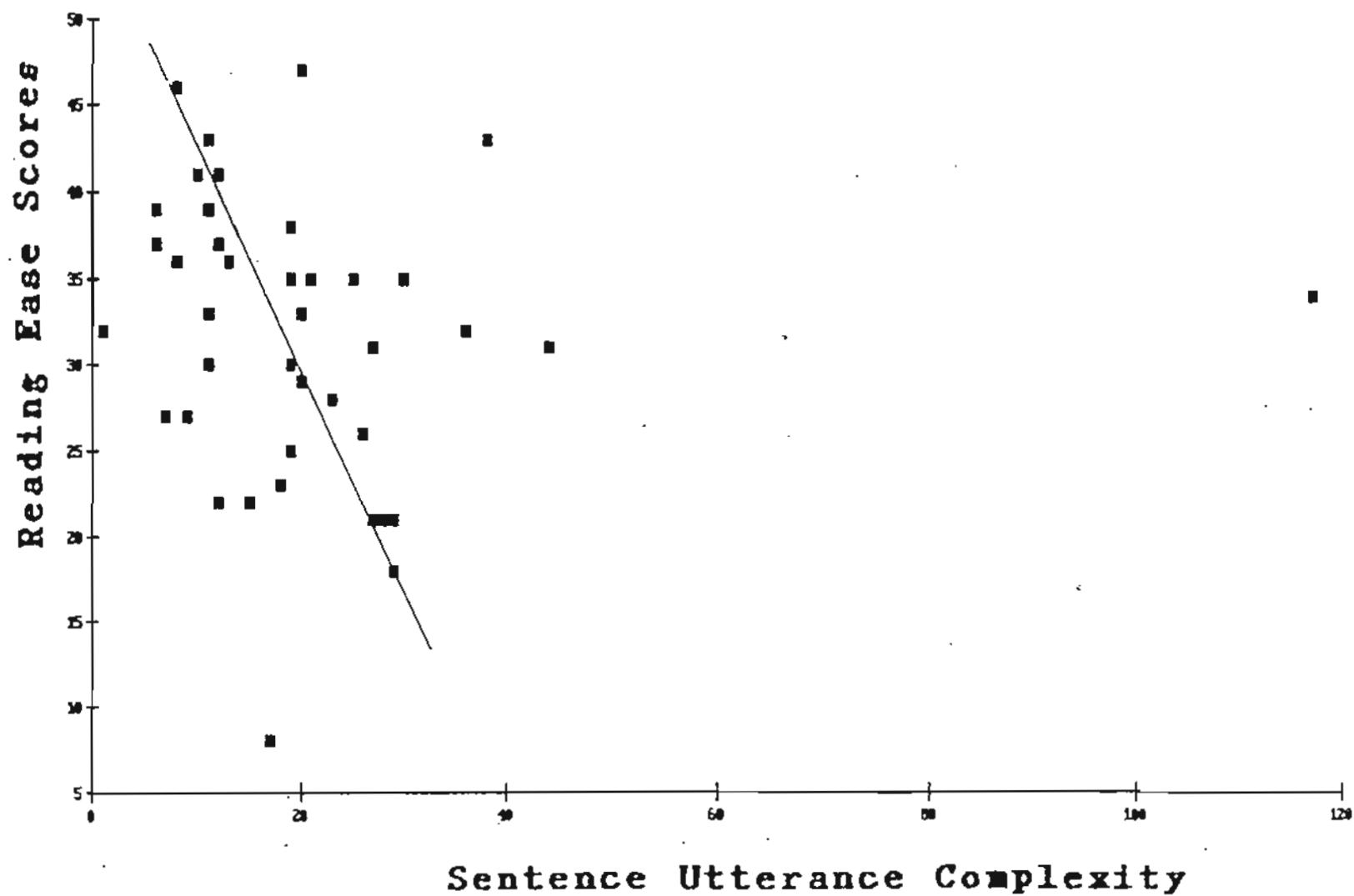
On this measure, the chairpersons' occurrences of utterance complexity ranged from 1 to 117. The mean for occurrences of utterance complexity for the chairperson's narratives was 20.6 and had a standard deviation from the mean of 17.72 (see **Table 22** below).

There seems to be a correlation between occurrences of utterance complexity and readability scores. The scattergram in **Figure 20** below reveals a negative correlation between the two variables - utterance complexity and readability scores. In other words, an increase in occurrences of utterance complexity is accompanied by a decrease in the readability scores. This indicates that the greater the number of occurrences of utterance complexity in the chairpersons' narratives, the more difficult the narratives are to read and comprehend.

TABLE 20. CHAIRPERSONS' NARRATIVES:
Sentence Utterance Complexity

NAME OF COMPANY	CHAIRPERSON NARRATIVES
ADTRANS	20
AMCOR	15
ANIL	117
AUSTR. AIRLINES	19
BHP	10
BOND	28
BORAL	19
CALTEX	19
CHARLES	19
CO-OPERATIVE GROUP	27
COCA-COLA	38
COLES	11
COMMONWEALTH BANK	36
CRA	11
CSR	11
EMAIL	29
FAI	13
FAULDING	17
GPT	20
HARDIE	30
IBM	27
ICI	23
MALAGHAN	8
MAYNE NICKLESS	29
Mc ILWRAITH	1
NATIONAL	9
NORSEMAN	18
NORTH	*
OPSM	*
PACIFIC	6
PIONEER	7
PRO-IMAGE	25
S.A. BREWERIES	12
SABCO	6
SCOTT	26
STOCKLAND	12
TANDOU	10
WATTYL	8
WESTERN	11
WESTFIELD	21
WESTPAC	20
WOLFWIN	44
WOODSIDE	12

FIGURE 20. CHAIRPERSONS' NARRATIVES



5.6.2 Review of Activities

Table 21 presents a summary of occurrences of utterance complexity for the review of activities. On this measure, the occurrences of utterance complexity for the review of activities ranged from 8 to 109.

The **mean** for occurrences of utterance complexity for the review of activities was 42, with a standard deviation of 27.2 (see **Table 22** below).

The scattergram of occurrences of utterance complexity against reading ease scores for the chairperson's narratives is shown in **Figure 21** below. The scattergram appears to indicate a negative correlation between the two variables. That is, an increase in the occurrences of utterance complexity is accompanied by a decrease in the reading ease scores. This seems to show that in a narrative, the greater the number of occurrences of utterance complexity, the more difficult it is to read and understand.

5.6.3 Comparison between chairpersons and review of activities narratives.

The occurrence of utterance complexity for the review of

FIGURE 21

REVIEW OF ACTIVITIES NARRATIVES

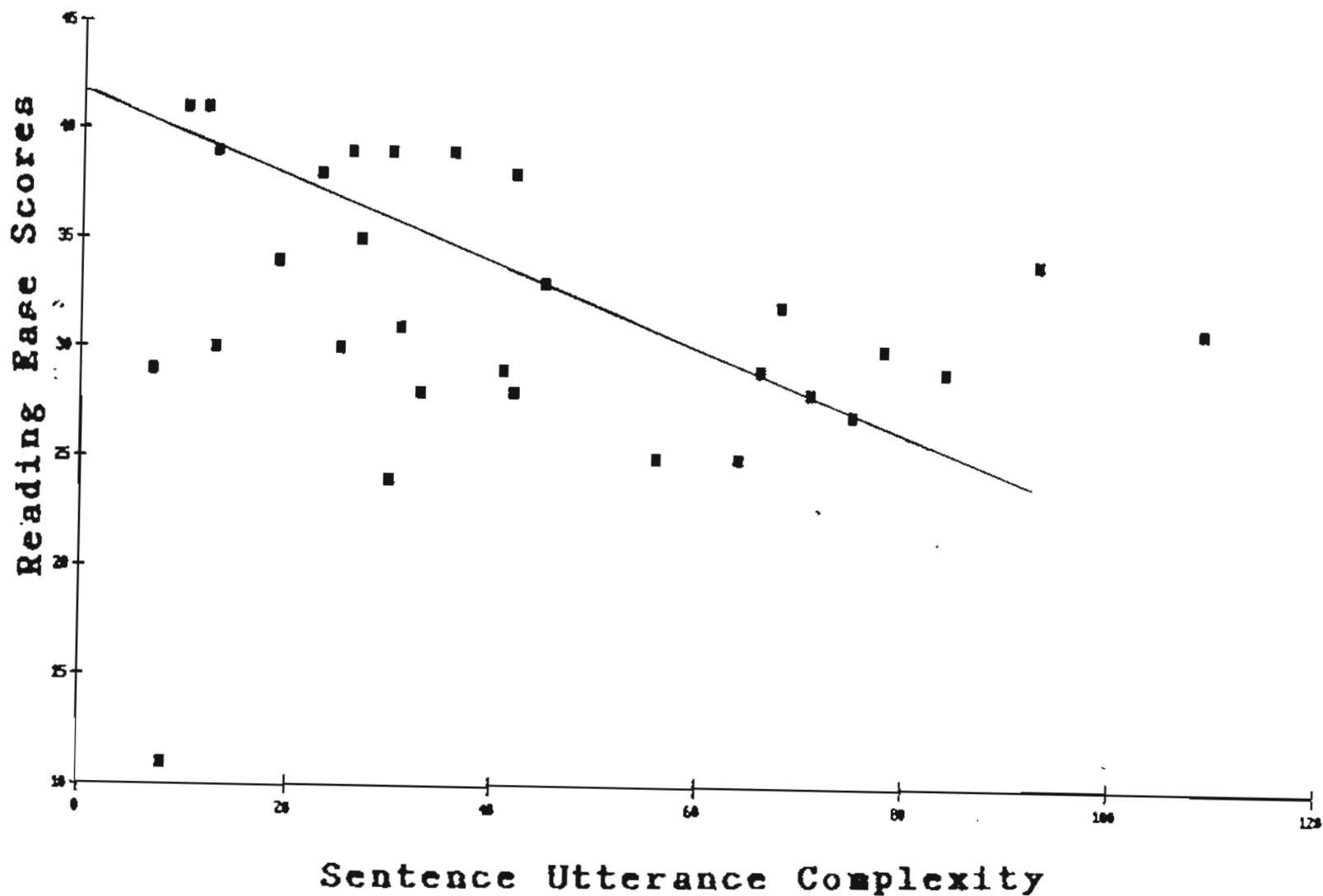


TABLE 21 REVIEW OF ACTIVITIES NARRATIVES

SENTENCE COMPLEXITY

NAME OF COMPANY	SENTENCE COMPLEXITY
-----------------	------------------------

ADTRANS	42
AMCOR	*
ANIL	93
AUSTR. AIRLINES	56
BHP	10
BOND	*
BORAL	12
CALTEX	42
CHARLES	*
CO-OPERATIVE GROUP	31
COCA-COLA	*
COLES	84
COMMONWEALTH BANK	66
CRA	30
CSR	*
EMAIL	75
FAI	109
FAULDING	8
GPT	36
HARDIE	41
IBM	71
ICI	33
MALAGHAN	30
MAYNE NICKLESS	64
Mc ILWRAITH	45
NATIONAL	*
NORSEMAN	13
NORTH	*
OPSM	26
PACIFIC	78
PIONEER	25
PRO-IMAGE	*
S.A. BREWERIES	68
SABCO	*
SCOTT	*
STOCKLAND	19
TANDOU	27
WATTYL	*
WESTERN	13
WESTFIELD	*
WESTPAC	7
WOLFWINE	23
WOODSIDE	*

activities was greater than that of the chairperson's narratives. The **means**, in **Table 22** below, demonstrate this difference between the two kinds of narratives. In addition, the standard deviation from the mean for the review of activities (27.2) was greater than that for the chairpersons' narratives (17.72).

Table 22: Means, Standard Deviations and t-Score:

**Comparison between 'Utterance Complexity' in
the chairperson's and review of activities
narratives.**

	Mean Utterance Complexity	Standard Deviation	t-Score
Chairpersons' narratives	20.6	17.72	73.49
Review of activities	42	27.2	(s.d.)

(s.d. - significantly different)

The statistical **t-score**, reported in **Table 22** above, indicates a significant difference between the occurrences of utterance complexity in the chairpersons' narratives and the review of activities.

The cumulative frequency distributions in **Figure 22** below also show a difference in the occurrences of utterance complexity between the chairpersons' and review of activities narratives. The review of activities ~~o give~~ lies to the right of the chairpersons'. This shows that the review of activities scores were consistently higher than the chairpersons', except from the 99.5 mid-point.

Furthermore, the **high-low** chart in **Figure 23** shows a higher overall occurrence of utterance complexity in the review of activities than the chairpersons' narratives. In addition, the **best lines** through the plots in **Figure 24** appear to demonstrate this difference. The **best line** for the review of activities is above that of the chairpersons' narratives. This indicates a higher occurrence of utterance complexity in the review of activities than the chairpersons' narratives.

5.6.4 CONCLUSION.

From the findings above, it appears the style of writing in these annual reports is wordy, with numerous overstated, abstract or vague words, redundancy and many fused or run on sentences. Redundancy and wordiness might lengthen the sentences on narratives unnecessarily. Overstated words and fused or over run sentences might obscure the message the writer intends to communicate.

FIGURE 22. CHAIRPERSONS' AND REVIEW OF ACTIVITIES NARRATIVES
Occurrences of Sentence Complexity

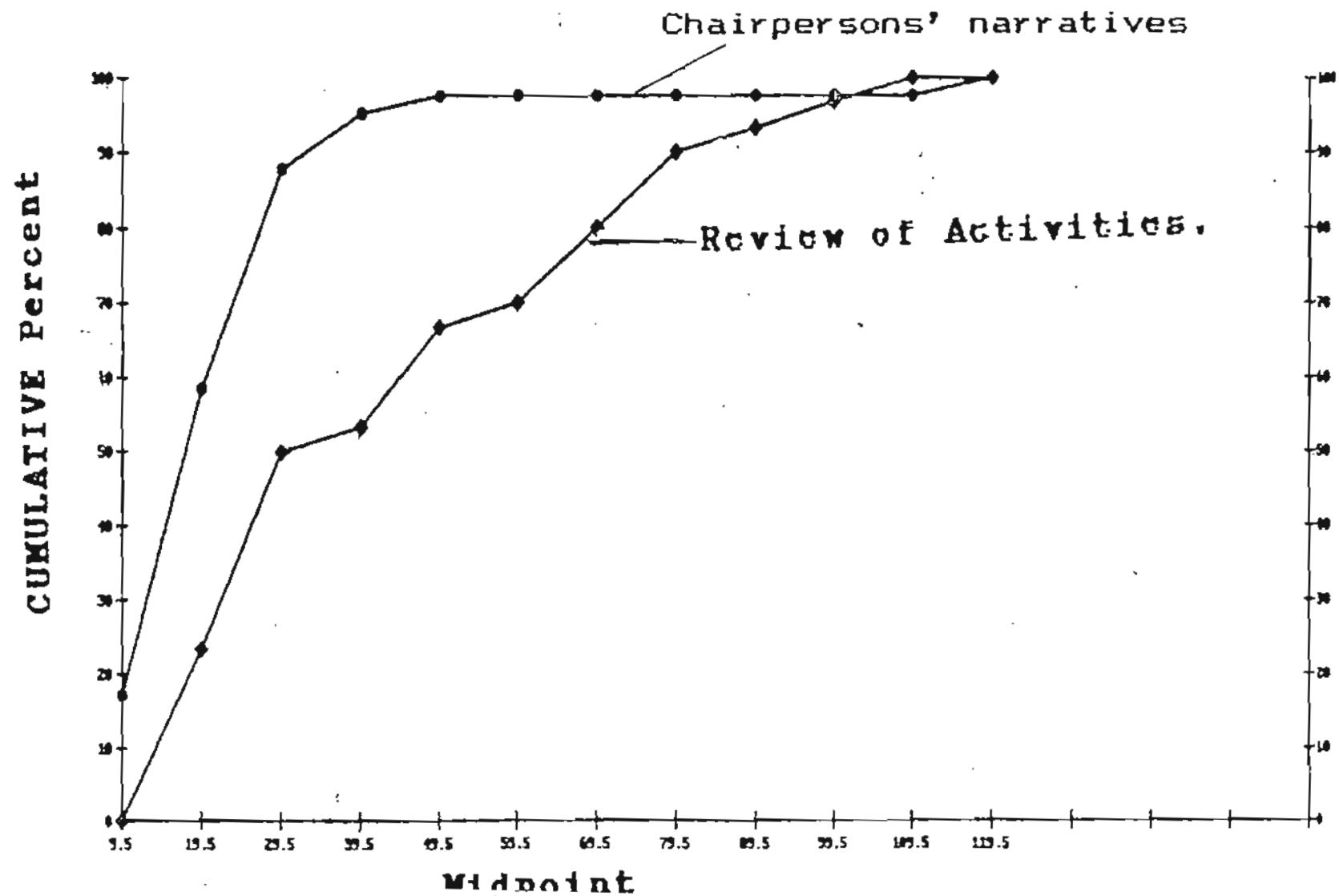
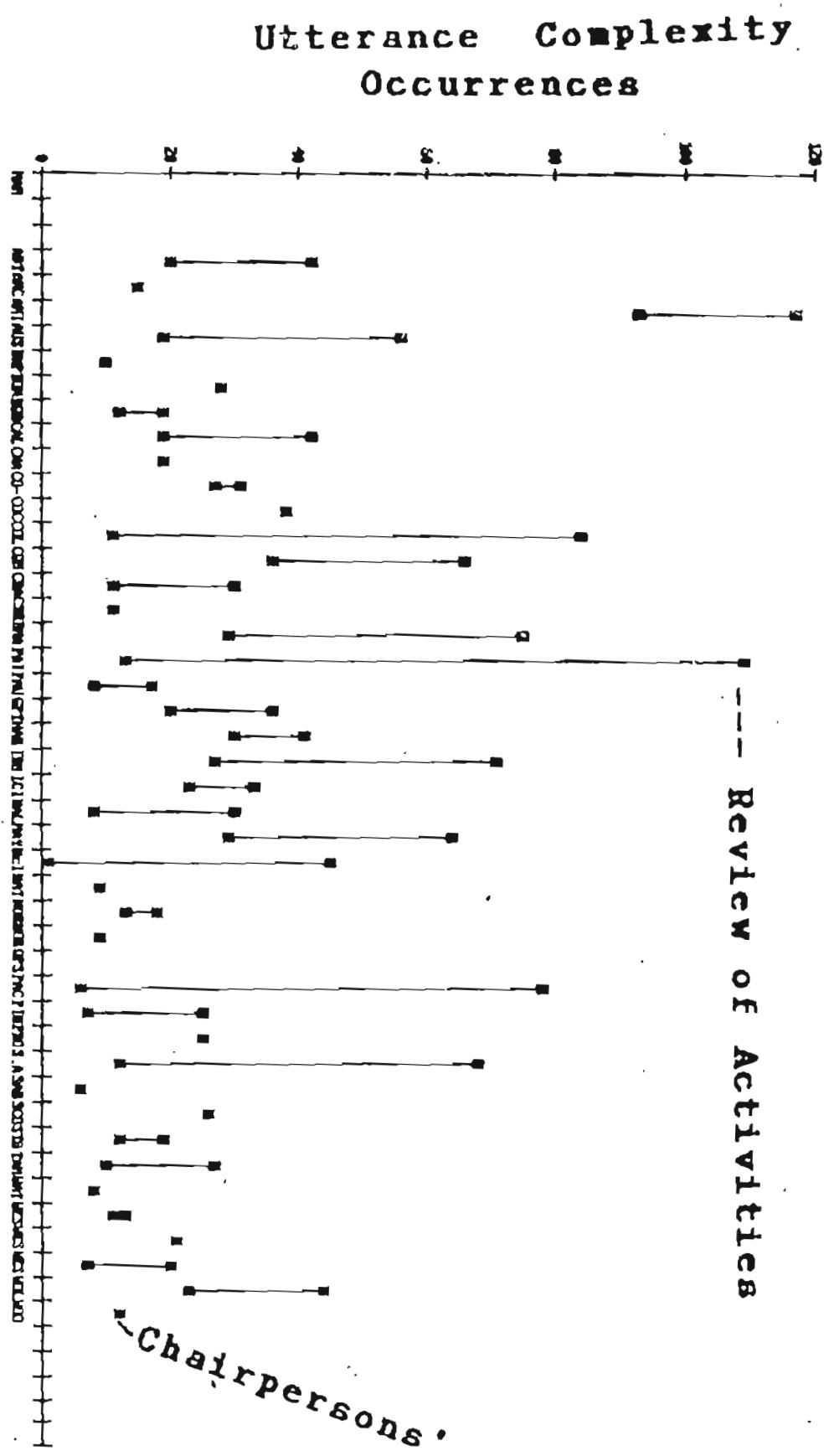
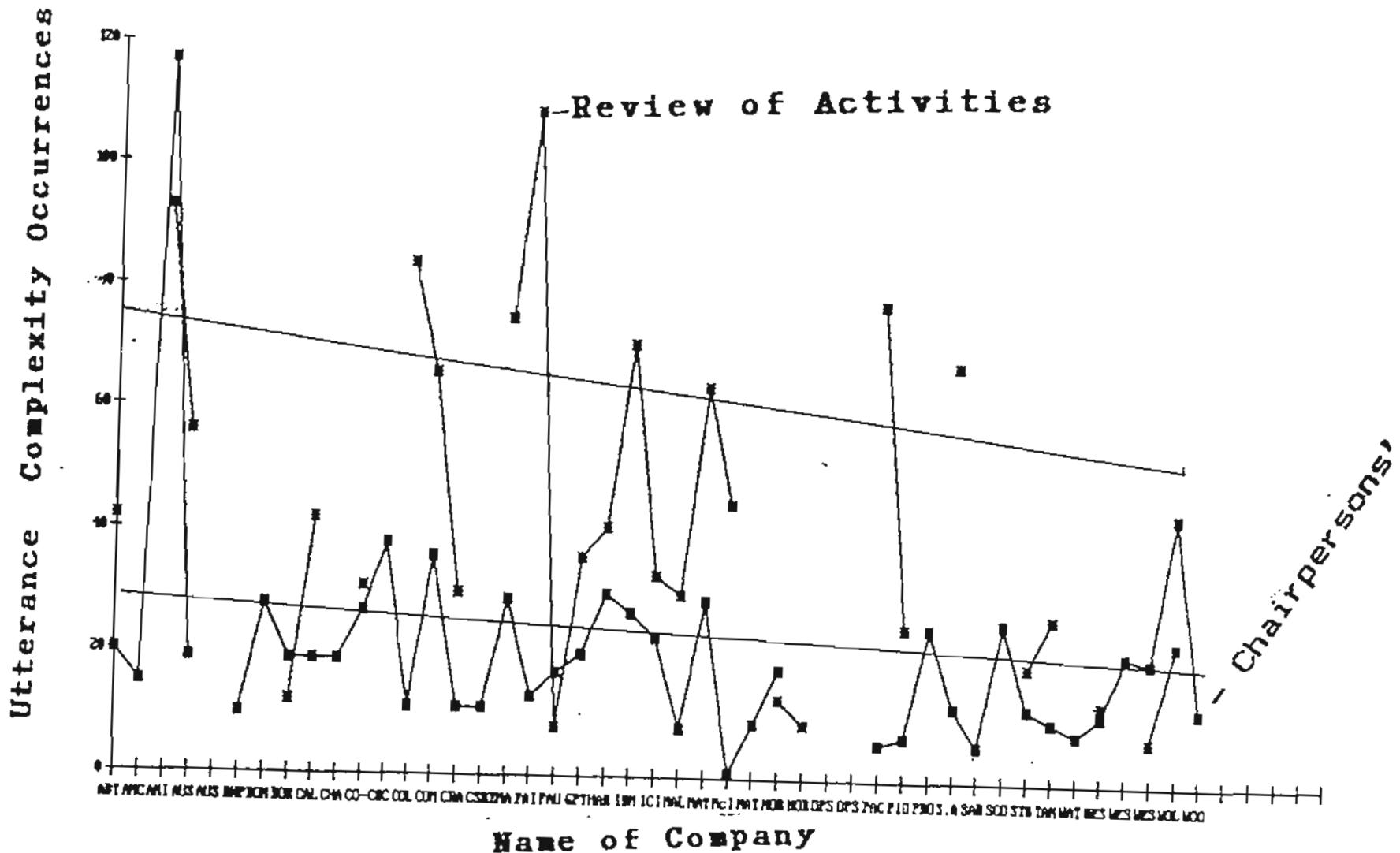


FIGURE 23. HIGH-LOW CHART

CHAIRPERSONS' AND REVIEW OF ACTIVITIES NARRATIVES



**FIGURE 24. CHAIRPERSONS' AND REVIEW OF ACTIVITIES
OCCURRENCES OF UTTERANCE COMPLEXITY**



The findings of sentence length against readability in Chapter 4 show that the longer the sentences, the lower the readability scores. The findings have also shown that the more occurrences of passives they are in a passage, the lower the readability scores. Furthermore, it has been revealed that the more occurrences of factors of sentence complexity (redundancy, overstated or abstract words, wordiness or trappings, and run on or fused sentences), the lower the readability scores.

The next section examines a few reports, giving examples of sentences with the above factors, revising them to make them more readable.

5.7 SENTENCE LENGTH: Examples of Long Sentences in the Chairpersons' and Review of Activities Narratives.

As stated in Chapter 4, the chairpersons' and the review of activities narratives in the corporate annual reports are difficult to read on the measure of the new Flesch (1948) Readability Formula. One of the factors contributing to this difficulty is sentence length.

The results of this study reveal an inverse correlation between sentence length and readability. In other words, the longer a sentence is, the harder it is to understand. Consequently, it is suggested in Chapter 4 that simplification of the chairpersons' and the review of activities narratives in terms of a greater use of shorter sentences might reduce readability difficulty.

Furthermore, it is argued in discourse studies that an overload of propositions or ideas in a narrative have negative effects on comprehension (Kintsch and Keenan, 1973; Kintsch, 1976). Probably, the difficult in reading corporate annual reports is due to, apart from other factors, high density of ideas.

In view of the argument that long sentences are difficult

to understand and that sentence length is related to sentence difficulty, this part of the thesis gives examples of 'long sentences' from the narratives. Five reports were randomly selected for this purpose, and from each report, six sentences with thirty or more words were randomly selected and reproduced. The selection of the length of sentences from the narratives is based on the Flesch (1948) Readability Formula used in Chapter 4. Simplified versions of these sentences , that is, 'shorter sentences' are then suggested. A comment then follows about why the original sentences should be modified.

Complete Chairpersons' and Review of Activities narratives from which examples of long sentences have been extracted are in **APPENDIX A**.

LONG SENTENCES: Examples of long sentences from the corporate annual reports and suggested revisions.

AUSTRALIAN NATIONAL INDUSTRIES LIMITED (ANI).

A. CHAIRMAN'S ADDRESS.

1 a. Original sentence:

Undoubtedly the 1990 financial year has been one of the most important in ANI's 80-year history. Following the disastrous loss in 1989 from the company's involvement in Spedley, and the change in shareholding which resulted in Consolidated Press Holdings Limited becoming the new major shareholder, the Board initiated a three-stage program aimed at restoring value to all ANI's shareholder's investment by:

- Returning the company's balance sheet to acceptable gearing levels by disposing of underperforming or non-strategic assets;
- examining the remaining businesses to optimise their ongoing profit and cash flow potential; and

- establishing long-term objectives that would ensure continued growth of ANI's profit and cash flow.

b. Comment:

The sentence is too long. There are several thoughts or propositions in this sentence. It could be broken into shorter sentences. In fact, the topic sentence and developing sentences of the paragraph do not match. The topic sentence refers to the **most important year** which gives the impression that what follows is a **success story**. However, what follows is a long sentence of negative view - disastrous losses and what has been done to counteract the success story.

The words "the change in shareholding" in the original sentences are implied in the word "becoming". Therefore, there is no need to have both in the same sentence. The phrase "becoming the new major shareholder" will suffice.

c. Revised version:

The Board initiated a program to restore value to ANI's investments. This was done to counteract the loss from

involvement with Spedley and Consolidated Press Holdings Limited becoming the major shareholder. This program involves reorganisation to dispose of unprofitable businesses.

2 a. Original sentence:

The recovery of monies and legal issues associated with the Spedley losses are under constant review by a sub-committee of the Board and our current assessment is that losses will not exceed the provision made in ANI's 1988/89 results.

b. Comment:

There are many ideas in this sentence. The main idea of the sentence is that a sub-committee of the Board reviews the recovery of monies and legal issues. The other idea about the assessment of losses should be in a separate sentence. This will make two shorter sentences which will be easier to read than the original one.

The adjective "current" should be one omitted because it does not really matter whether the assessment is current or not. In fact, it is implied.

c. Revised sentence:

A Board sub-committee constantly reviews the recovery of monies and legal issues associated with the Spedley losses. Our assessment is that they will not exceed the provision made in ANI's 1988/89 results.

3 a. Original sentence:

A well focussed, talented management team and loyal employees at all levels of our organisation have been critical in enabling us to achieve the major restructuring of ANI, now nearing completion, and so approach the future growth of our company with confidence. We thank them for their understanding contribution.

b. Comment:

"enabling ANI to be successful in their restructure" and "approaching the future growth of the company with confidence" are two separate ideas which should be in different sentences.

"at all levels of our organisation" is not critical to the conveying of the main idea, so it should be omitted. If

one is thanking employees, it is given that they are from their organisation. Additionally, it does not make sense to thank someone for their "understanding contribution". We thank someone for their understanding or for their contribution or for both. The noun "contribution" can not be described by the adjective "understanding".

c. Revised sentences:

A competent management team and loyal employees have been crucial to our major restructuring of ANI. We thank the team and all employees. We are confident of the growth of the company.

AUSTRALIAN NATIONAL INDUSTRIES (ANI) LIMITED.

B. REVIEW OF ACTIVITIES.

1 a. Original sentence:

In the case of Coates Hire we have withdrawn this business from sale and will continue to run it using the same disciplines that apply to the rest of our businesses, i.e. there will be a balance between optimising its current profitability and long term growth potential.

b. Comment:

There are three issues involved here:

- (a) Withdrawing Coates Hire from sale;
- (b) Continue to run it using company policy; and
- (c) Clarification of the policy.

Number two and three have something in common and that is the company discipline and could be in one sentence. Issue one should be a complete thought of its own.

The word policy should replace disciplines because although both have the same number of syllables, policy has fewer number of letters and is simpler.

c. Revised version.

We have withdrawn Coates Higher from sale. We will continue to run it by our policy of balancing profitability and long term growth potential.

2 a. Original sentence:

The program included the absorption of ANI Ruwolt into the

Bradken Division, and the merging of Bradken with Comsteel and ANI Arnall under one central manufacturing management which is to be located at New Castle as a "Centre of Manufacturing Excellence" in October 1990.

b. Comment:

The original sentence is overloaded with ideas. These ideas are not supposed to be in one sentence, and because they are complete thoughts on their own, putting them in one sentence makes it difficult to separate the main idea from the incidental ones. However, what they have in common is only that they are part of a program.

The ideas could be sorted into separate shorter sentences.

c. Revised version.

The program involves several changes in various divisions in order to establish a "Centre of Manufacturing Excellence" at Newcastle in October, 1990.

3 a. Original sentence:

The successful implementation of these changes would not

have been possible without the positive response throughout the group at all levels to a more open management style which has resulted in ideas flowing not only down from management but up to management as well.

b. Comment:

"...the positive response throughout the group at all levels to a more open management style, which resulted in ideas flowing not only from management but up to management as well" could be summarised to "effective communication".

The reason for summarising is that the phrase is too long, making the sentence unnecessarily long and complicated. Furthermore, because there are too many ideas (propositions) in the phrase, they tax the reader's memory. It is almost certainly as if the writer wanted to impress the reader by detailing that they have an open management style and how it works.

In so doing, there is a possibility of the reader missing the main point, which is "the successful implementation of the changes with cooperation from staff. The writer is overwhelming the reader with incidental information which

could be imparted effectively in two words in two words - "effective communication". The details of this effective information are not relevant. What is of essence is that the reader, and indeed the shareholder is that she/he knows that the changes were successful.

c. Revised sentence.

We could not have implemented these changes successfully without effective communication throughout the group.

EMAIL LIMITED.

A. CHAIRMAN'S REPORT.

1 a. Original sentence:

Major Appliances experienced a significant downturn in profit, due to a decline in consumer spending in the second half of the year and substantial one-off costs such as the consolidation of cooking appliance manufacture in Adelaide and the establishment of the computer controlled manufacturing facility in Orange for small refrigerators.

b. Comment:

This sentence is a mere heap of ideas of causes for the

decline of profit of major appliances. If the writer had used a topic sentence and developing sentence, he/she would have come up with something like this:

c. Revised version:

There was a decline in profit in Major Appliances. This was largely due to a decline in consumer spending in the last half of the year and in the costs involved in establishing a manufacturing facility in Orange and in the move to Adelaide of the cooking appliances division.

2 a. Original sentence:

Operations were further improved by acquisitions and divestments, rationalisation of facilities, expenditure on product development and equipment and divestment of operations with low returns as detailed in the Review of group operations appearing on pages 10 to 26 of this Annual Report.

c. Comment:

This sentence is overloaded by packing too many adverbs of

manner or cause. Although the author decided not to include the details of divestment of operations with low returns which appear on pages 10 to 26, the sentences is still too compact to have the main idea easily accessible.

If the writer had used the sentence as an analytic unit, he/she would have used a topic sentence with developing sentence, like this:

c. Revised version:

Operations were improved in several ways. We acquired businesses, closed or extended facilities where appropriate, and developed new products and bought new equipment. Businesses with low returns were closed.

EMAIL LIMITED

REVIEW OF ACTIVITIES

1 a. Original sentence:

To realise the goals of world standard products, of world standard quality, supplied and serviced by an organisation committed fully to its customers, is a task involving continuous improvement in our management techniques and in

the ability to achieve attitude change throughout the group.

b. Comment:

It is very difficult to identify the main idea of this sentence because of an overload of qualifiers: "of world standard products, of world standard quality, supplied and serviced by an organisation committed fully to its customers "

The main idea is the need for continuous improvement in our management techniques and in the ability to change attitude throughout the group in order to realise world standard goals.

The qualifiers obscure it. Summarising the qualifiers and having developing sentence would make the sentence readable and more organised. In any case, what is meant by "world standard products and world standard quality? Who sets the standards?

In fact, sentences with interrupted clauses have been seen to be more difficult to read than sentences without (Prideaux and Baker, 1986).

c. Revised version:

It is not an easy task to produce world standard quality products. To achieve this, we have to be fully committed to our customers. This demands continuous improvement in our management techniques in order to bring about new attitudes in our employees.

2 a. Original sentence:

Manufacturing productivity at Beautyware was increased by the introduction of robotic transfer operations in the press shop and further market penetration was achieved in the high growth spa-bath market sector by the introduction of innovative spa systems using air rather than water circulation.

b. Comment:

This is an aggregating sentence because it has two main ideas within the same unit. The ideas are:

- (a) The increase of the manufacturing productivity at Beautyware by the introduction of robotic operations

in the press shop.

- (b) Achievement of further penetration in the growth spa-bath market section by the introduction of innovative spa systems using air rather than water circulation.

The emphasis is on methods and strategies used to increase productivity. So these methods should be the subjects of sentences. Furthermore, the two methods are not only different, but also what they improve. The difference in the methods of improvement and what they improve make this sentence difficult to understand as one unit. For these reasons, they should be separate sentences.

c. Revised version:

There was also growth in other sectors. Robotic transfer operations in the press shop increased Beautyware manufacturing productivity. By introducing new spa systems, we increased market share in this division.

3 a. Original sentence:

Valectro Division went through a period of consolidation with an upgrade of manufacturing processes to improve

productivity and quality and a change in marketing strategy, involving both the addition and deletion of major products in the context of an increased concentration on those products of higher added value being sold into growth markets.

c. Comment:

This aggregated sentence is so busy that it fails to bring the scene into focus. What is crowding the sentence is the string of qualifiers starting from:

With an upgrade of manufacturing processes
to improve productivity and quality and
a change in marketing strategy
involving both the addition and deletion of major
products
in the context of an increased concentration on those
products
of higher added value being sold to:
into growth markets.

This string of propositional phrases and the connective "and" are making the sentence unnecessarily long and

difficult to process. If the writer had written one segregating sentence as the topic sentence, then the rest of the propositional phrases (qualifiers) would be incorporated as developing sentences.

c. Revised version:

Valectro Division went through a period of change. It upgraded its manufacturing processes and changed its marketing strategies. Products with high added value were sold to growth markets whilst low value products were discontinued.

4 a. Original sentence:

These included development costs for Omega, which is an automated bulk fuel dispensing system, and a service station forecourt controller, which is an electronic device incorporating cash register, petrol pump authorisation and on line communication with banks and oil companies.

b. Comment:

This sentence has been made long by incorporating details

of how Omega works, detailing, what device is used and how this device works. All this information is irrelevant. What is of essence is that the costs included development costs for Omega and what omega is.

c. Revised version:

These included development costs for Omega, an automated bulk fuel dispensing system and a service station forecourt controller.

WESTERN

A. CHAIRMAN'S REPORT.

1 a. Original sentence:

The 1989/90 equity accounted profit was reported last year as \$455.6 million but, due to changes in accounting standards during the year, items previously treated as extraordinary are now treated as abnormal requiring restatement of the 1988/89 profit to \$345.0 million.

b. Comment:

Although this sentence is as crowded with ideas as the

preceding ones, it is not as difficult to read. This is because the cause "changes in standards...." have affected the profit, resulting in a different figure. In other words, there is a logical sequence. However, the main idea should be in a topic sentence on its own, to introduce it. The development sentences could follow in a logical sequence.

c. Revised version:

The 1988/89 equity accounted profit was reported as \$455.6 million. However, a change in the accounting standards which occurred during the year, altered this figure. As a result of this, the 1988/89 profit is now \$345.0 million.

2 a. Original sentence:

In Canada, operating results at Chibougamau, in Quebec, were severely affected by lengthy interruptions to production because of repairs to the internal shaft at Copper Rand, and by the cessation of operations on 14 May because of inability to make progress in the three-yearly contract re-negotiations with the union.

b. Comment:

The main idea of this sentence is that lengthy interruptions had a negative effect on results. The incidentals are the reasons for the interruptions. To minimize obscurity of the main idea, it should be in its own sentence and the rest of ideas, supporting or expanding on it.

c. Revised version:

Lengthy interruptions had detrimental effects on operating results of Chibougamau, in Quebec, Canada. Equipment repairs at Copper Rand interrupted production as did the failure of new contract negotiations with the Union, on May 14.

3 a. Original version:

The feasibility study of Queensland Phosphate's Fertiliser Project was completed. Because of the combined effect of the greatly over-valued Australian dollar and the high capital cost it is not possible to commit to the project at this time, although the operating costs would be very competitive in world terms.

b. Comment:

In the above case, the topic sentence, with the main idea, is on its own, short, precise and to the point. However, the second sentence with the reasons for not proceeding with the project is too long. To shorten it and make it more comprehensible, it is necessary to make a summary of the reasons, rather than the details.

c. Revised version:

The feasibility study of Queensland Phosphate Fertiliser Project was completed and we have decided not to go ahead with the project. Adverse world trading conditions are the reasons.

B. WESTERN**REVIEW OF ACTIVITIES****1 a. Original sentence:**

Kambalda's production was disappointing, and steps have been taken to establish more favourable operating conditions which, together with production from the recently purchased Leinster leases, will result in higher levels of output in the next few years.

c: Comment:

The main idea of this aggregated sentence is not clear. The first idea is Kambalda's disappointing production. The second is steps being taken to improve conditions. The rest is expansion of the improvements.

However, the coordinator "and" has been used wrongly because the steps to improve production are a result of the poor production. So these should not be on the same level with the first idea, because "and" joins ideas of the same level.

If they had wanted to put the ideas on the same level, they should have used "consequently" or "as a result of that". However, if the writers do that, the sentence will be like the original, overloaded with ideas.

To avoid this, the sentences should be used as an analytic tool to sort out the different ideas of cause and effect.

c. Revised version:

Kambalda's production was disappointing. This resulted from poor operating conditions. Consequently, steps have

been taken to improve these, which should raise production in the next few years.

2 a. Original sentence:

During the year the Company received, or had re-confirmed, highly favourable ratings from leading Australian, US and Canadian rating agencies in relation to its short term debt including a P-1 rating from Moodys Investors Service.

b. Comment:

The main idea is that the company was rated favourably by leading agencies.

This sentences is long because of (a) the long list of the objects of the sentences - the rating agencies; (b) Adverb of time - "during the year"; (c) the alternative to received - "had reconfirmed"; (d) the category for the rating - "in relation to its short term debt".

To get straight to the point, the writers should omit "had reconfirmed", the adverb of time and category for the rating. The reason is that the sentence will be shorter and still convey the main idea.

c. Revised version:

Leading Australian, US and Canadian rating agencies rated our Company positively, especially Moodys Investor Service, which gave us a P-1 rating.

3 a. Original sentence:

The Company's successful Dividend Selection Plan, which applied to the November and April dividends and which enabled shareholders to elect to receive a franked or unfranked dividend, has been discontinued owing to changes in the income tax laws which rendered the plan ineffective.

b. Comment:

There is over-qualification or over modification in this sentence. The main idea is "The Company's Dividend Selection plan has been discontinued". The subject of the sentence is "The Company's Dividend Selection Plan". This has been over-qualified because "The" already specifies and isolates it from other plans. The adjectives "successful", "Dividend", and "Selection" also describe the "Plan".

It appears though, that from the author's point of view, these are not adequate. She/he further describes the Plan by "which applied to the November and April dividends". There is another relative clause still referring to the Plan "which enabled shareholders to elect to receive a franked or unfranked dividend". There is yet another relative clause - "which rendered the plan ineffective", referring to the tax laws.

One wonders whether all this over-modification or over-qualification is necessary to enable the readers to identify the "Plan". These only serve to lengthen the sentence and make it harder to process.

The length of the sentence is not the only issue here, but also the interruption of the main clause by relative clauses and embedding the clauses within clauses. These make sentences harder to process. (see Prideaux and Baker (1986)).

In any case, if the "Plan" is successful, why has it failed?

The revised version would be:

c. Revised version:

The Company's successful Dividend Plan has been discontinued because of changes in the income tax laws, which made the plan ineffective.

A. TANDOU LIMITED:**CHAIRMAN'S REPORT.****1 a. Original sentence:**

Since the end of the previous financial year, no director of the holding company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount received or due and receivable by directors shown in note 4 of the accounts) by reason of a contact made by the company or related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

b. Comment:

This sentence sounds like an extract from a legal document. The sentence is overcrowded by qualifiers which

do not add information necessary for the comprehension of the main point.

The main point is that:

"No director has received a benefit they are not entitled to". The rest of the information is legal jargon, serving only to interfere with comprehension. The implication of the adverb of time "since the end of the previous year" is that in the past, some directors have received benefits they were not entitled to. Otherwise, that too, should be omitted from the revised version.

c. Revised version:

Since the end of the previous financial year, no director of the holding company has received benefits they are not entitled to.

2 a. Original sentence:

There has not been any matter or circumstance, other than that referred to in the accounts or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the group, the results of those operations,

or the state of affairs of the group in financial years subsequent to this financial period.

b. Comment:

This sentence, like the preceding one, sounds like it has been lifted from a legal document.

- "referred to in the accounts or notes thereto" simply means "mentioned in this report".
- "that has arisen" is unnecessary because if it is a matter, the implication is that it has arisen, otherwise, it is not an issue at all. In other words, "a matter" arises, if it does not, then it is not one.

The writer has to choose either "may significantly affect" or "that has significantly affected" but not both. This is because writing both merely lengthens the sentence.

"the state of affairs of the group" implies "operations and results of those operations". For this reason, there is no need to write "the operations of the group, the results of those operations ...".

c. Revised version:

Other than matters mentioned in the notes, nothing has significantly affected the group's operations. Moreover, we do not see anything to significantly affect the group's operations in the future.

TANDOU LIMITED**REVIEW OF ACTIVITIES****1 a. Original sentence:**

A decision has been made to increase the area of vetch to 400 hectares this year to provide the dairy with a higher quality hay while ensuring a harvest timing which will enable the field to be returned to summer crop in the same year.

b. Comment:

The sentence is overcrowded by ideas which should be in separate sentences to facilitate comprehension.

Apparently, there is confusion and uncertainty of the main point in this sentence. Is it: (a) the fact that a

decision has been made, (b) the fact that decision is to increase the area of vetch to 400 hectares, (c) provision of the dairy with hay, (d) higher quality hay, (e) ensuring a timely harvest, (f) preparing the field for the summer crop the same.

The sentence fails to bring out the real issue. Sorting these ideas in different sentences would facilitate comprehension by juxtaposing the main idea and having developing sentences expanding on it.

c. Revised version:

Management has decided to increase the area of vetch this year. This will provide higher quality hay for dairy, and will ensure that the field can be returned to summer crop in the same year.

2 a. Original sentence:

Apart from trialing grain sorghum stubble cubes and making dairy rations for Broken Hill the plant will be run on an opportunity basis when prices which can be obtained on the domestic or export markets are favourable compared with grain.

b. Comment:

"opportunity basis" and "when prices which can be obtained on the domestic or exports markets are favourable compared with grain". Both have the same referent. For that reason, putting them in one sentence is redundant and only serves to lengthen the sentence.

c. Revised version:

The plant will be run on a pragmatic basis, coming into production when both domestic and export prices are better than that of grain.

3 a. Original sentence:

When referring to recent corporate acquisitions of irrigated farms the valuer states that "If this trend should continue then the value of Tandou may well be regarded as conservative as there are a few properties of the magnitude of Tandou particularly as the availability of irrigation water becomes more secure".

b. Comment:

There is really no reason why the writer quoted the

statement of the valuer. If it is for authenticity and impression, then it is not necessary. The reason is that the statement is not a fact, it is conditional. It could have been in reported speech and the sentence would have been shorter and to the point. Furthermore, it is referring to the opinions of those who would value it "may well be regarded as ...".

The statement also fails to bring out the main point. Both the statement of the valuer and that of the writer show uncertainty regarding the main point. This is because the sentence has many ideas and one wonders what the main point is.

In fact, what does the statement of the valuer mean? It appears that there is confusion of the logical relationship between Tandou's being regarded as "conservative" because "there are a few properties" as big as or as small as Tandou.

There is confusion of ideas with "particularly as the availability of irrigation water becomes more secure". What is the connection between specificity about the availability of water and Tandou's size?

Perhaps putting these ideas in separate shorter sentences (not necessarily grammatically simpler) would bring out the valuer's and the writer's point.

c: Revised version:

When referring to recent corporate acquisitions in the irrigation farms section, the valuer stated that the value of Tandou might well be viewed as conservative. Its value will rise further as irrigation water becomes more secure.

4 a. Original sentence:

Shareholders should not expect a profit for the 6 months to 31 December 1989 because the winter crop is again relatively small and all the costs of establishing the summer crop are incurred in this period.

b. Comment:

This sentence could be broken into two sentences of cause and effect, to logically separate ideas and make it manageable.

c. Revised version:

Shareholders should not expect a profit in the second half of the year because the winter crop is small, thus requiring money reserves to establish the summer crop.

BOND CORPORATION HOLDINGS LIMITED**A. CHAIRMAN'S REPORT.****1 a. Original sentence:**

The 1990/91 financial year, covering the nine months period to 30 June, 1991, has seen significant progress in management's aims to restore your Company to a stable financial position and to provide a financial environment where the Company can operate effectively for the benefit of creditors, shareholders and employees.

b. Comment:

This sentence is too long and is overloaded with ideas which obscure the main point the writer wants to convey. The phrase "covering the nine months period to 30 June, 1991", should be omitted because it is redundant. In

addition, there is no reason to In addition, there is no reason to to emphasize the period because it is not the main issue. emphasize the period because it is not the main issue.

In fact, it is logical for the topic sentence to have "management" as subject, and not "The 1990/91 financial year" because the paragraph is about management and its aims.

c. Revised version:

The aims of management have made significant progress in the 1990/91 financial year. Our aims are to restore your Company to a stable financial position and to create an environment for the Company to operate effectively.

2 a. Original sentence:

In my last chairman's Review, I reported to you that, after detailed discussions with the Group's major unsecured and subordinated creditors, a proposed Scheme of Arrangement (the 'Scheme') between Bond Corporation Holdings limited (BCH) and its creditors and shareholders had been developed.

b. Comment:

The fact the writer is reminding the readers of what he/she told them in the last chairpersons' review should be reason enough to minimise on details and capitalise on their prior knowledge.

As it appears, the writer is assuming non-existence of the readers' experience by giving too many details. For instance, the adjectives "unsecured" and "subordinated" should be omitted to leave "creditors".

"A proposed scheme of arrangement had been developed", is all that needs to be in the revised sentence. The people involved in the scheme and when it was developed is irrelevant as details of these should have been given in the previous chairpersons' review.

c. Revised version:

In my last Chairman's Review, I reported that a proposed Scheme of Arrangement had been developed.

a. Original sentence:

The Scheme involved two phases comprising a moratorium

period during which creditors are precluded from taking action against the Company in relation to their claims, and a compromise involving the allotment of ordinary and preference shares to allow full satisfaction and discharge of creditors claims against the Company.

b. Comment:

The sentence is seen in the same perspective as the previous one. If the information in the sentence was already given to the readers through the previous chairpersons' address, why does the writer take the problem of giving details?

If the writer must repeat what he/she reported, then it should be put in shorter sentences for easier comprehension. This is because there are numerous ideas.

The phrase "in relation to their claims" is irrelevant and redundant. This is because the claims would be in relation to their claims anyway.

c. Revised version:

The Scheme had two aspects, the first being the moratorium

period when creditors are not allowed to lodge claims against the Company. The second aspect was a compromise involving the allotment of ordinary and preference shares. This was to allow full satisfaction and discharge of creditors' claims against the Company.

4 a. Original sentence:

The moratorium conditions require that the Scheme Administrators certify that the total shareholders' equity of the Company is not less than \$40 million, and that distributions to be payable by the way of redemption of the preference shares and payment of redemption premium instalments be at least 8 cents in the dollar on all claims against the Company.

b. Comment:

Like the preceding sentences, this sentence has a long list of nouns in the object position of the sentence. If these must be included, then they should be sorted out in different shorter sentences for easier comprehension.

c. Revised version:

The moratorium conditions require that the Scheme

Administrators certify that the total shareholders' equity of the Company be not less than \$40 million, distributions being made by redemption of the preference shares at a minimum of 8 cents in the dollar on all claims against the Company.

5 a. Original sentence:

Sales revenue of \$339.3 million primarily included the turnover of Pittsburgh Brewing, Observation City and the newspaper interest of The Bell Group Ltd until the date of deconsolidation, and the proceeds from the sale of Nine Network Australia Limited shares and a 50% interest in the Rome land.

b. Comment:

The list of the objects of the sentence is so long that it makes comprehension difficult upon the first reading.

If all the nouns in object positions should be included, then they should be in separate sentences to reduce information overload.

Furthermore, the word "primarily" should be omitted because there is no corresponding contrast in the sentence. After primarily, readers expect "secondary" or "secondarily" or then.

c. Revised version:

Sales revenue of \$339.3 million came from Pittsburgh Brewing, Observation City and the Newspaper interest of The Bell Group Ltd until the deconsolidation proceeds from the sale of Nine Network Australia shares and a 50% interest in the Rome Land.

6 a. Original sentence:

Your Company has continued to devote substantial executive time and financial resources to ensuring the success of its legal actions relating to the Kwinana Petrochemical Projects against Western Australia Government Holdings Ltd., the State of Western Australia, Mr Peter Dowding, former Premier and Treasurer of the State of Western Australia and Mr David Parker, former Treasurer of the State of Western Australia.

b. Comment:

Like the preceding sentence, this sentence has a long list of nouns in the object position of the sentence.

If these must be included, then they should be sorted out in different shorter sentences easy comprehension.

c. Revised version:

Your Company is still pursuing legal actions against Western Australia Government Holdings Ltd., the State of Western Australia and the Energy Commission of Western Australia. Kwinana Petrochemical Project is also taking legal action against Mr. Peter Dowding, former Premier and Treasurer and Mr. David Parker, former Treasurer.

It is evident from the examples given that the writers of annual reports use long sentences. As argued earlier on, these affect readability detrimentally.

DISCUSSION

Sentence length appears to be an important factor to be considered by the writers of the chairpersons' and the review of activities narratives. They have to recognise that it is through these sentences that they 'run' their thoughts to their readers.

It is, however, worth noting that these narratives are composed of a large number of sentence units and therefore, through the selection of appropriate sentence lengths, report writers might effectively communicate information to the heterogeneous audience.

Appropriateness of sentence length, then, implies that the writers of these prose sections should have the audience in mind.

As Chomsky (1973) argues, one of the major problem of long sentences is that readers might lose track of the beginning of the sentence by the time they reach the end (27). Similarly, Emden and Easteal (1993) argue that as sentences grow in length, the rate of reading slows down and the readers are forced to reflect on the ideas presented (45). Consequently, readers might also lose interest in the material.

In order to assist readers, report writers have to tightly control sentence length. Probably, as Emdem and Easteal argue, the 'average' sentence length has to be within the range of 17 to 20 words and some sentences can be increased to within the average length range of 20 to 25 words. It is possible that beyond this range, especially sentences of more than 30 words, might provide the readers with too much information to assimilate (45).

This does not imply that all short sentences in the chairpersons' and review of activities narratives are easy to comprehend. It is however important for writers of these narratives to simplify the information so that readers can learn and use it for their own interests. This, in other words, is a call for simplicity in sentence lengths and not sophistication.

Annual reports writers might argue that long sentences are inevitable if they are to express complex interactions of their respective corporations. This point of view might be a mistake, especially if we consider the heterogeneous audience involved.

Although any subject can be broken up into longer or shorter items of information at will, the determining

factor might be the amount of information a reader is able to absorb from a sentence. In other words, sentence length need not be determined by how much information is joined together 'logically', but rather, on what readers are able to effectively assimilate.

Report writers might think that their ideas are expressed better in one logical sentence. They might argue that the logic is disturbed if the argument is broken up into stages. However, as Turk and Kirkman (1982) argue, they have to take into account the back-tracking and the encoding of the information on the part of readers which might make the information difficult to be understood.

The writer of this thesis is not advocating the use of simple or shorter sentences only as this might be monotonous to the readers.

There is need for variety of sentence length in the narratives to make reading more interesting. The use of short sentences only might cause readers to be sensitive to repetition of style in terms of, for instance, words and structures.

Perhaps, as Corbett (1990) argues, writers of these reports can use a variety of sentence length, while

placing more emphasis on the short ones. Such an approach requires the writers to have the *listening* audience in mind in the process of *inventing* the sentences in the discourse.

OCCURRENCE OF PASSIVES**INTRODUCTION:**

The findings of this study indicate that there are sufficient passive construction occurrences in the chairpersons' and the review of activities narratives to affect comprehension detrimentally.

There is literature to the effect that passive voice is more difficult to read than active (Gibson and Levin; 1975; Miller, 1962; Kane and Peters, 1966; Horner, 1988; Clark and Clark, 1977). For instance, the study by Gibson and Levin (1975) reveals that when adults read active sentences, they return to what they have read and make forward fixations less frequently than they do with passive sentences (372-375). They further argue that when they do regress or make forward fixations, the time duration of these is shorter with active sentences than with passive. This implies that passive sentences are more difficult to comprehend than active ones.

Similarly, in the case of children, the study done by Slobin (1960) in language acquisition revealed that, in general, children more easily verify pictures linked to

active sentences than those corresponding to passives. Also, the study by Savin and Perchonock (1965) shows us that subjects recall more words from a random word list read after presentation of an active sentence than after presentation of a passive one. This is in line with the studies by McMahon (1963) and Gough (1966) which reveal that passives are harder to verify than their respective actives.

In relation to the findings that passive voice is more difficult to understand than active voice, it is important for writers of annual reports to examine the use of "be" verbs. In other words, they have to see if they really need to use them. They have to look carefully at other verbs to see if they adequately describe the action with a more specific verb. Otherwise, the use of some variant verb "be" (*is, are, was*), indicates the passive voice where the subject is acted on. This is unlike the active voice where the subject performs the action.

For instance:

Active: Management investigated the problems of the company.

Passive: The problems of the company were investigated by management.

Even if there is no concealing of information here in relation to the agent, this example demonstrates that the passive voice carries the same meaning but uses more words with the addition of **were** and **by**. Furthermore, the passive voice distances the actor from the action. Consequently, the passive not only adds impersonality to the text, but also lengthens the sentence by increasing the number of words.

An instance from the third paragraph of Olex Cables, a division of Pacific Dunlop will also illustrate this:

Passive: The new China factory is operated by Shenzhen Olex Cables Limited in Guangdong province where Olex has a 75 per cent managing interest in partnership with the Shenzhen Science and Industry Park corporation and the China National Post and Telecommunication Appliance Corporation.

The underlined words show the subject of the above sentence 'The China factory' being acted upon by the object of the sentence 'Shenzhen Olex Cables limited in Guangdong where Olex has a 75 per cent managing interest in Partnership with the Shenzhen Science and Industry Park

Corporation and the China National Post and Telecommunication Appliances Corporation'.

Active:

Shenzhen Olex Cables Limited in Guanzgdongn Province where Olex has a 75 per cent managing interest in partnership with the Shezhen Science and Induststry Park Corporation and the China National Post and Telecommunication Appliance Corporation operates the new China factory.

The passive sentence has forty two words while its active counterpart has forty. Even if there is no concealing of information here in the sense that the 'doer' of the action or the agent (Olex Cables) is revealed, this example demonstrates that the passive voice carries the same meaning but uses more words than its active counterpart. The word count is increased in the passive voice by the addition of **were** and **by**.

Furthermore, the passive voice distances the actor from the action. Therefore, the passive adds impersonality to the text. Although one might argue that the addition of two words is negligible, considering that the sentence is already long and complicated, the passive, nevertheless uses more words than the active sentence.

It is important, then, for writers of annual reports to lessen the use of passive voice. This could be done by changing it to active - by moving the actor to the subject position at the beginning of the sentence, and thereby eliminating the form of the verb, **be**. In fact, the change becomes personal and the number of words in the sentence is decreased to a certain extent.

From this perspective, the suggestion is that passive voice has to be avoided, unless there is a good reason to omit or distance the actor or subject.

In the second example for instance, there is no compelling reason for the writer to use the passive voice. This is because the main idea of the passage is Olex Cables and its success. Even the paragraph in question has more information about Olex Cables than the factory in China which is the subject of the passive voice construction. The whole point is that the emphasis is on Olex Cables and not the new factory in China. This is clearly shown by the string of qualifiers for Shenzhen Olex Cables Limited : **in Guangdong Province where Olex has a 75 per cent managing interest in partnership with the shenzhenScience and Industry Park Corporation and the China National Post and Telecommunication Appliance Corporation.**

Passive voice could be used, for instance, in cases where the active subject is not known or cannot easily be stated which might not be the case in annual reports. For instance, passive voice can also be used in cases where the passive voice is more important (Kane and Peters, 1966, 303).., or in situations where the passive offers the more appropriate emphasis. For instance, in scientific writing, where the focus is on the action rather than the actor. In scientific writing, passive voice is used in order to preserve the objectivity of experiments and also, for the writers to distance themselves from the experiment.

However, in business annual reports, the writers are accounting for the use of the shareholders' investments. The shareholders entrusted their investments with the companies. For this reason, it would be more appropriate for the companies to show interest by associating themselves with the company activities and operations than detach themselves by using passive voice.

In view of the argument that passive voice is more difficult to comprehend than active voice, this part of

the thesis gives examples of 'passive' voice from the chairpersons' and the review of activities narratives. Six reports were randomly selected for this purpose, and from each report, six passive sentences were selected and reproduced without using passive. The rationale for preference of avoiding passive voice has been given above. For this reason, the comments following the original sentences are additional.

Complete Chairpersons' and Review of Activities narratives from which examples of sentences with occurrences of passive voice have been extracted are in **APPENDIX B**.

**PASSIVE SENTENCES: Original sentences and revised
versions.**

PACIFIC

CHAIRPERSONS' REPORT

1 a. Original sentence:

In Pacific Dunlop's case, the challenge is being made harder by the severity of the downturn affecting the Australian economy where we have some two thirds of our operations.

b. Comment:

There is no compelling reason to use passive voice here. The cause for the challenge in Pacific Dunlop's case is known. If the authors find awkward to nominalise or put in subject position "the severity of the downturn affecting the Australian economy where we have some two thirds of our operations", they could write like the revised version below:

c. Revised version:

For Pacific Dunlop, the challenge is harder. The reason is the severity of the downturn affecting the Australian economy, where we have two thirds of our operations.

2 a. Original sentence:

The year, however, had its sobering side in that we were compelled [by ..] to reduce and re-focus some of our operations.

b. Comment:

There is really no need to use the passive voice here. This is because the reason for reducing and refocusing some operations is implied, from the preceding text. From the context, it is the severity of the downturn affecting the Australian economy. As it would be tedious to repeat this, the word circumstances could be used and active voice employed.

However, do we really know what compelled the firm to refocus and reduce its operations? Is it implied, since the topic of the whole address is difficult economic conditions?

If it does then, how can the same conditions enable the firm to produce commendable results and put it at a vantage point, yet at the same time, force them to refocus, and especially reduce its operations. There is a contradiction here which the following will show:

Apparently, the reason for using passive voice in the above sentence is to conceal information. The reason is as follows:

The subject of the chairpersons' address is "difficult economic conditions and how Dunlop has been performing under these".

The second paragraph explains how the results of the year have been commendable for Dunlop, while operating under these very difficult conditions. We are also told that Dunlop is at a good vantage point, given the times of adversity.

It is therefore, surprising to learn in the last paragraph that the Company was forced to refocus and especially reduce some operations, without revealing either the cause or agent.

Surely the shareholders would like to know what compelled the firm to reduce its operations after being told how well it performed.

b. Revised version:

The year, however, had its sobering side in that circumstances compelled us to reduce and refocus some of our operations.

PACIFIC

REVIEW OF ACTIVITIES

1 a. Original sentence:

We are not interested in the buzzwords which usually surround this subject, only in ensuring that our minimum required performance levels are attained.

b. Comment:

There is no compelling reason to use the passive here. It only serves to obscure the person(s) who are supposed to

perform so that the goals are reached. Who is supposed to perform so that someone or management attain the minimum performance levels?

c. Revised version:

We are not interested in the buzzwords which usually surround this subject, but only in ensuring that we attain our minimum required performance levels.

2 a. Original sentence:

Sales of all products reached another record high which can be attributed to the quality and value offered by Ansell's product range worldwide combined with the effective distribution network established in recent years.

b. Comment:

Who is attributing the sales of all products to the quality and value offered by Ansell's product range and effective distribution network. If it is implied that it is management, what harm would it do to be explicit, use active voice and at the same time improve readability?

c. Revised version:

We can attribute the high record sales of all products to the quality and value of Ansell's products. Credit also is due to Ansell's effective distribution network.

3 a. Original sentence:

Priority was given to improving efficiency through extensive staff training programs and installation of advanced computer systems which can provide paperless electronic data exchange between customer and branches.

b. Comment:

There is deliberate concealing of the agent. Who gave priority to improving efficiency? Why is it necessary not to name the agent? Investors would want to know the person(s) responsible for such commendable work. Or if it is not necessary to mention the agent, then the object of the original sentence could be in subject position – nominalized:

c. Revised version:

Extensive staff training programs and the installation of advanced computer systems improved efficiency and customer service.

4 a. Original sentence:

Manufacture of the Jockey range was concentrated at Maryborough, Victoria, as part of a major restructuring.

b. Comment:

The agent, the entity responsible for concentration of manufacturing of the Jockey range is not known.

This section is talking about Pacific Brands, a division of Pacific Dunlop. Therefore, it is appropriate to mention that the division, if it is the one, is the one which concentrated manufacture of the Jockey range at Maryborough. If it is imperative that the writer use passive voice and conceal the person(s) who concentrated manufacture of the Jockey range at Maryborough, Victoria, then the original sentence should be left as it is.

c. Revised version:

As part of a major restructuring, Pacific Brands concentrated on the manufacture of the Jockey range at Maryborough, Victoria.

CRA**CHAIRMAN'S REPORT****1 a. Original sentence:**

In 1990, CRA made good progress towards commissioning several new operations, and its persistent exploration efforts were rewarded by a number of promising discoveries.

b. Comment:

The agent of this sentence is odd. It does not make any sense. The passive here is just serving to obscure the fact that management has nothing to say. There is nothing tangible in this statement.

This fact is clearer if the agent (a number of promising discoveries) is put in subject position and the sentence

is transformed into active voice:

A number of promising discoveries rewarded the persistent exploration efforts of CRA as it made good progress towards commissioning several new operations, in 1990.

In the above sentence, how can something abstract "discoveries", which are not even a reality, but are "promising", reward persistent exploration efforts? Is management fooling shareholders? How do the shareholders know that the "persistent" explorations are worth their investments? How do they be assured that they are not a waste of money since even the prospective rewards are abstract - "discoveries"?

Furthermore, the original sentence is ambiguous. It is not clear whether or not "new operations" and persistent exploration efforts have the same referent, and use of passive voice is not helping matters. It is also not clear whether "new operations" include the explorations or vice versa. Whatever the case, the two nouns have two separate verbs (predicates) and therefore should be in separate sentences.

If "the rewards" i. e. "the promising discoveries" is part

of good progress, then definitely it should be in a separate sentence, developing the main idea "good progress", expressed in the topic sentence. Nevertheless, the revised version is:

c. Revised version:

In 1990, CRA made good progress in commissioning several new operations. A number of promising discoveries rewarded our persistent exploration efforts.

2 a. Original sentence:

As announced in September the Dividend Reinvestment Plan and Share Investment Plan have been suspended [by].

b. Comment:

The readers, at least shareholders, would like to know who is taking responsibility for the suspension. Passive voice leaves obscure who is accountable.

The revised sentence will link with the other developing sentences, especially the terminating one in the

paragraph, which rationalises the decision. The paragraph will then read as follows:

As announced in September, the Directors have suspended the Dividend Reinvestment Plan and Share Investment Plan The Directors, therefore believe that it is not in the shareholders' interest to add to the Company's equity at this time.

c. Revised sentence:

As announced in September, the directors have suspended the Dividend Reinvestment Plan and Share Investment Plan.

3 a. Original sentence:

While it is a loss that can be quantified [by ...] in terms of dollars and cents, it is less easy to assess the cost to Papua New Guinea and the Province of the North Solomons of closing down such a valuable asset.

b. Comment:

If it is difficult to assess the cost of closing down, it follows that it is difficult to quantify.

The aim of the writer is to contrast the monetary loss for CRA as a firm and the effects on the people of Papua New Guinea and the North Solomons, of terminating operation of the mines.

The other aim is to contrast the ability of the author in assessing the loss to the firm and to Papua New Guinea and the Province of North Solomons.

The original sentence has more than one idea. Infact, it has two, which should be in two separate sentences.

The author contrasts one's ability to quantify CRA's loss in monetary terms and to assess the cost of the loss for Papua New Guinea and the North Solomons. The author also brings out the origin of the cost for Papua New Guinea and the North Solomons.

The original sentence contrasts the author's ability to quantify and assess the loss. However, quantifying is a narrower term than assess.

Semantically, quantifying is inherent in assessing but assessment is not inherent in quantification. In other

words, the two contrasting parts of the sentence are on different levels. If the author had used the word 'even' before assess, his/her intentions would have been explicit.

Passive voice here does not show who would find it easy or difficult to assess or quantify the loss or cost.

c. Revised version:

While we can quantify this loss in dollars and cents, we find it difficult to do so for Papua New Guinea and the Province of the North Solomons. For these, the cost of closing down such a valuable asset is difficult to assess.

CRA

REVIEW OF ACTIVITIES

1 a. Original sentence:

Because of the uncertainty, CRA has decided to consolidate the Bougainville Copper accounts to ensure that the group's balance sheet is not distorted by the inclusion of assets and liabilities from a non-operating subsidiary.

b. Comment:

Besides unnecessary use of passive voice, this sentence is congested with ideas. The agent, "the inclusion of assets and liabilities from a non-operating subsidiary" is known. So the writer should avoid passive voice.

There are several ideas or propositions in the original sentence. Ideally, one idea should be expressed in one sentence. For instance, in the first part of the sentence, we are given two reasons why CRA has made the decision:

- i. uncertainty, and
- ii. to ensure that the balance sheet is not distorted.

"the" non-operating subsidiary has replaced "a" non-operating subsidiary because the subsidiary is known and has already been mentioned in the text.

c. Revised version:

CRA has decided to consolidate the Bougainville Copper accounts because of uncertainty. This is to ensure that the inclusion of assets and liabilities from the non-

operating subsidiary does not distort the balance sheet of the group.

2 a. Original sentence:

The Government has been informed that CRA is not seeking to sell its investment, but that if a change in ownership is the final impediment to a political resolution then CRA would be prepared to consider the disposition of its investment, provided the company was adequately compensated for the loss sustained and the interest of the public shareholders in Bougainville Copper were adequately safeguarded.

b. Comment:

The first passive voice does not show the person who is responsible for negotiating with the Government. It is left obscure. Surely in such an important issue those with interest in the company would like to know who has taken that responsibility.

The public shareholders would definitely want to know who would safeguard their interest. Furthermore, those with vested interest in the company, e.g. creditors and

employees would also like to know who would be responsible for compensating them.

c. Revised version:

We have told the Government that we do not wish to sell our investment and that we would make alternative arrangements for our investments if we fail to resolve the issue politically and have to change ownership. This of course, would only occur if they consider the interest of the public shareholders and compensate the company.

3 a. Original sentence:

The last company employees left the island in March 1990, the National Government's security forces having been withdrawn from the island shortly before.

b. Comment:

Passive voice in the original sentence does not state who withdrew the forces. The reader assumes that it must be the National Government. Since this has become a national issue, it is appropriate to be explicit and inform those interested parties, e.g. shareholders, creditors and employees who the authority is.

c. Revised version:

The National Government withdrew its forces in March 1990, shortly before the last company employees left the island.

SABRE**CHAIRMAN'S REPORT****1 a. Original version:**

The success of our international expansion strategy has been particularly pleasing. Not only is it ahead of schedule, but the off-shore operations of our International Group have been successfully integrated with the rest of the Company and sales and profit increases were ahead of the year's targets.

b. Comment:

The sentence is too long to comprehend and passive voice is making it worse. There is concealing of the agent. The writer does not show explicitly who is responsible for the successful integration of the off-share operations with

the rest of the company. Is it the International Group or the rest of the Company?

c. Revised version:

We are pleased with the success of our international expansion strategy. We are not only ahead of schedule, but have successfully integrated the International group off-shore operations with the rest of the Company. Moreover, the sales and profit increases were higher than the targets of the year.

2 a. Original version:

The Packaging Group's Australian operations were affected by a downturn in local demand and additional costs associated with the delay in commissioning of the new beverage can plant at Clayton in Victoria. The problems have been overcome and the plant is now performing as planned.

b. Comment:

Probably the author feels uneasy about nominalizing the

agent: "a downturn in local demand and additional costs associated with the delay in commissioning of the new beverage can plant at Clayton in Victoria" because, it is too long to be the subject of a sentence.

However, that is the only way this can be transformed into passive which is not necessary. If that is the case, to avoid the use of passive voice, the revised version would be:

c. Revised version:

A downturn in local demand and additional costs affected the operation of the Australian Packaging Group. These costs were caused by the delay in commissioning the new beverage can plant in Victoria. However, we have overcome these problems and the plant is performing as planned.

The main idea of the paragraph is "problems which have adversely affected operations". So it is not logical to have the topic sentence of the paragraph not only talk of these problems, but also have the subject of the sentence as these problems.

3 a. Original sentence:

A strict policy of minimising exposure to currency risk on foreign borrowings has been continued [by], with foreign assets and earnings used [by] as a natural hedge against the effect of currency movements.

b. Comment:

The original sentence does not state either who has continued the policy or used foreign assets as a natural hedge against the effect of currency movement. Replacing "A" in the original sentence by "Our" and changing verbs from past perfect to present in the revised version makes this explicit.

c. Revised version:

Our strict policy of minimising exposure to currency risk on foreign borrowings continues. We use foreign assets and earnings as a natural hedge against the effect of currency movements.

4 a. Original sentence:

A third strategy business unit was formed to focus on international growth by developing imported agency business and export sales.

b. Comment:

The developing sentences in the paragraph in which the above sentence is are about what the division is doing to grow. Using passive voice in the second developing sentence obscures the main idea of the paragraph. Instead of focussing on what the firm is doing, it focuses on the object of the sentence - what was done, that is, a third strategy business unit. However, the paragraph is not about this unit per se, but about what the firm is doing, which includes other activities apart from the formation of the third strategy unit.

c. Revised version:

We have formed a third business strategy unit. This focuses on international growth by developing imported agency business and export sales.

SABRE REVIEW OF ACTIVITIES**1 a. Original version**

To ensure the effective operation of this policy, an ongoing monitoring program has been established [by...] to analyse trends in the Company's employment patterns of men and women, and to provide a basis for the review of personnel policies and practices.

b. comment:

This sentence has too many ideas in it, and use of passive voice only adds to the length of the sentence. In other words, there is no reason why the writer has used passive voice.

c. Revised version:

We have established a monitoring program to find out our employment trends of men and women and to provide a basis for review of policies and practices.

2 a. Original version

In addition to operating profit, shareholders' wealth was

further increased by an extraordinary profit after tax of \$ 35.6 million. This was generated by the sale of shares in C C Battlers Limited, marginally offset by business rationalisation expenses, the discount on the early repayment of the debt owed by Petitio Limited on the sale of shares in the Elders IXL Limited and the write down of the value of the Company's investment in Austereo Limited.

b. Comment:

Apart from the high density of ideas, there is use of passive voice. As pointed out earlier, these make reading difficult.

Considering the amount of information showing how the company made the extraordinary profit of \$ 35.6 million, it appears as if this is the main idea of the paragraph, not the fact that \$ 35.6 million, the extraordinary profit after tax, increased shareholders' wealth.

This being the case, the "extraordinary profit" should be in the subject sentence, and passive voice avoided. The developing sentences would then develop the idea on "how" the company made this profit.

In the original version, the writer has given the profit secondary place by putting it in object position when using passive voice, when actually much of the information in the paragraph is about "how" this profit was made, and not the increase of the wealth of the shareholders.

c. Revised version:

An extraordinary profit after tax of \$ 35.6 million further increased shareholders' wealth, besides operating profit. We gained this profit by selling shares in CC Battlers Limited and Elders IXL Limited and the write down of our investments in Austereo Ltd.

WOODSIDE

CHAIRMAN'S REVIEW

1 a. Original sentence:

In late July, 1989, when the Northwest Sunderling slipped her mooring lines and commenced her historic inaugural voyage to Japan, the curtain was being raised on an exciting phase of development for Woodside.

b. Comment:

The report begins as a piece of fiction by creating suspense. However, the main idea is that they were commencing a new phase of development for the company. In view of this, information for setting the scene should be secondary and come after the main point. Passive voice in the original sentence leaves the readers in suspense. The person(s) who were raising the curtain is/are not shown.

It is not necessary to state that the development was for Woodside if the subject of verb raise is specified in the original sentence.

c. Revised version:

In late July 1989, we raised the curtain on an exciting phase of development. Then, the Northwest Sunderling commenced her inaugural voyage to Japan.

2 a. Original sentence:

The latter half of the decade saw Australia's largest ever construction project, the first two processing trains of the Liquefied Natural Gas (LNG) Plant, being undertaken [by ...] on the Burrup Peninsula.

b. Comment:

The word "undertaken" in the original sentence is vague. Does it mean the planning or implementation of the plan of the project in the actual construction? Furthermore, who is "undertaking it?" Passive voice leaves these questions unanswered.

c. Revised version:

The latter half of the decade saw the beginning of Australia's largest ever construction project on the Burrup Peninsula. The project involves the construction of the first two processing trains of the Liquefied Natural Gas (LNG) Plant.

3 a. Original sentence:

These facilities will be required [by ...] to meet our commitments to our two, 20 year contracts to supply gas to the State of Western Australia and to our customers in Japan.

b. Comment:

The original sentence does not state who will require the

facilities to meet their requirements of Woodside. Is it the State of Western Australia, the customer in Japan or Woodside personnel?

c. Revised version:

We expect these facilities to meet our long-term contract commitments. They involve supplying gas to the State of Western Australia and to our customers in Japan.

4 a. Original sentence:

If these opportunities can be exploited they will considerably enhance the return on your investment.

b. Comment:

The words "the return on your investment" imply that this statement is directed to investors. For this reason, there is need to be explicit about who is expected to exploit the opportunities. Passive voice connotes an air of indifference. For instance, who does management expect to exploit the market for the product, if not management itself?

We have the right to assume that investors would be interested in knowing who would be responsible for taking the opportunity to boost their investments!

c. Revised version:

If we can exploit these opportunities, we will considerably enhance the return on your investment.

5 a. Original sentence:

At present we are examining ways these discoveries can best be developed.

b. Comment:

This sentence is similar to the preceding one in the sense that it is concealing the agent. That is, it appears to be avoiding responsibility by employing passive voice. The sentence does not specify who is going to develop these discoveries. Apparently one could say that the Company is evading responsibility.

c. Revised version:

At present we are examining ways by which we can best develop these discoveries.

6 a. Original sentence:

Naturally, further evaluation and appraisal will have to be made [by ..] of these fields before we can commit to develop any such new projects.

b. Comment:

The original sentence does not state who is going to be accountable for the evaluation and appraisal. There is concealing of the agent. We can only assume that no one wants to take responsibility.

c. Revised version:

Naturally, we have to make further evaluation and appraisal of these fields before we commit ourselves to developing them.

STOCKLAND**CHAIRMAN'S REPORT****1 a. Original sentence:**

We are reasonably satisfied with the profit result, despite the small increase, as the record 1989 result was

nearly 30% higher than 1988, reflecting the boom conditions then being enjoyed [by ...] in our trading activities through Stockland Corporation Limited.

b. Comment:

Passive voice implies detachment. Apparently, the writer is not enjoying the booming conditions. That leaves us to wonder about who is really enjoying the booming conditions.

c. Revised version:

We are reasonably satisfied with the profit result, despite the small increases. It was nearly 30% higher than that of 1988. This reflected the boom conditions which we are still enjoying in our trading activities throughout our Corporation.

2 a. Original sentence:

As a result of additions to the property portfolio, the Trust had less surplus cash than in previous years, so that interest income declined to be replaced with rental income.

b. Comment:

Rental income is the instrument used by someone, the agent, to substitute or replace interest income. However, there is no compelling reason to use passive voice. Moreover, there is no need to reveal the agent as the focus is on the replacement of interest income with rental income. The sentence could be revised, without revealing the agent and without using passive.

c. Revised version:

As a result of additions to the property portfolio, the Trust had less surplus cash than previous years. The surplus cash was so little that interest income declined. However, rental income will replace it.

3 a. Original sentence:

The Corporation has sold all medium-density housing stocks at good prices and has deferred commencement on two other projects until an improvement in sales expectations is perceived.

b. Comment:

Apart from the person(s) to perceive the sales being unknown, the word "perceive" itself is abstract and subjective.

c. Revised version:

The Corporation has sold all medium-density housing stocks at good prices and has deferred commencement on two other projects. This will remain effective until we improve our sales.

4 a. Original sentence:

The hotel, called "The Park on Exhibition" is leased and managed by The Park Apartments Management Pty. Limited, a company in which Stockland Corporation Limited has a 50% interest.

b. Comment:

It is evident from the original sentence that The Park Apartments management Pty. Limited leases and manages the hotel "The Park on Exhibition". In other words, there is no intention on the writer's part to conceal who manages and leases the hotel. For this reason, active voice should

be employed and the subject of the sentence should be "The Park Apartments Management Pty. Limited".

c. Revised version:

The Park Apartments Management Pty. Limited leases and manages the hotel "Park on Exhibition". Fifty per cent interest of this company belongs to Stockland Corporation Limited.

5 a. Original sentence:

Several tenants are being relocated and the building extended to provide for an additional supermarket to be operated by Franklins.

b. Revised version:

We are relocating several tenants and extending the building. This will make room for an additional supermarket which Franklins will operate.

6 a. Original sentence:

This property was developed by the Group on a 12 hectare site leased from the State Government.

b. Revised version:

The Group developed this property on a 12 hectare site.

This site was leased from the State Government.

THE CO-OPERATIVE SOCIETY**CHAIRMAN'S REPORT****1 a. Original sentences:**

In October 1989, a new corporate image was successfully introduced. The Society and its subsidiaries were positioned in the market-place as "The Co-operative Group", highlighting a shelter specialist organisation with the vision to satisfy the shelter and financial needs of the communities the Group serves.

b. Comment:

"Positioned in the market-place" as "The Co-operative Society" simply means changed its trading or business name to "The Co-operative Society". Who positioned the Society and its subsidiaries in society? The passive formation leaves this obscure.

c. Revised version:

In October 1989, we successfully introduced a new corporate image. The Society and its subsidiaries now use the name "The Co-operative Group". This highlights a shelter specialist organisation with the vision to satisfy the shelter and financial needs of the communities the Group serves.

2 a. Original sentence:

The restructuring of the Society's capital base was achieved in early 1990 through the issue of 27.8 million Permanent Shares.

b. Comment:

Passive voice does not state who achieved the restructuring.

c. Revised sentence:

We achieved the restructuring of the capital base of the Society through the issue of 27.8 million shares in early 1990.

3 a. Original sentence:

The issue of Permanent Shares was essential for the future growth of the Society and its subsidiaries and therefore these new Shareholders will be rewarded for providing permanent risk capital.

b. Comment:

The original sentence is unnecessarily long because of ideas which could be separate sentences. These are: (i) the necessity of the Permanent Shares for the growth of the firm, and, (ii) the idea that the investors concerned will receive rewards. Furthermore, "future" before growth

in the original sentence is redundant because growth denotes a future event.

c. Revised version:

The issue of Permanent Shares was essential for the growth of the Society and its subsidiaries. Therefore, the Society and its subsidiaries will reward these new Shareholders for providing permanent risk capital.

THE CO-OPERATIVE SOCIETY**REVIEW OF ACTIVITIES****1 a. Original sentence:**

Profitability was protected by the high quality of the Society's lending base, active interest rate management, the rewards from our strategic diversifications and the contribution made by the parent Society's subsidiary operations.

b. Comment:

The word "protected" does not state exactly how this was done.

c. Revised version:

Three factors contributed to securing profitability. These are the high quality of the lending base of the Society, the rewards from our strategic diversifications and the operations of the subsidiary of the parent Society.

2 a. Original sentence:

The current returns from our Retirement Estate operations, while still in the infancy stages, can best be described as pleasing.

b. Comment:

Passive voice does not state who is pleased with the returns. Are the returns pleasing to the shareholders or management?

c. Revised version:

We can best describe the current returns from our Retirement Estate operations pleasing.

3 a. Original sentence:

Kedney and Associates is the marketing arm, Monarch Management is the retirement community management arm, and financial consultancy is provided by Co-operative Retirement Services of America.

b. Comment:

The rest of the sentence is active and the names of organisations come before what they do or represent. It is therefore, logical that the name of the firm which provides financial management come first.

c. Revised version:

Kedney and Associates is the marketing arm, Monarch Management is the retirement community management arm, and the Co-operative Retirement Services of America provides financial consultancy.

INTRODUCTION: Sentence Utterance Complexity.

This section examines the writing style of the Australian Annual Corporate Reports. The aim is to find out what aspects of their style contribute to difficulty in comprehension.

In traditional grammar, when we make a simple sentence, we mean a sentence with one clause. In contrast, a complex sentence is one with more than one clause. However, the fact that a sentence is grammatically complex does not mean that it is difficult to read.

A narrative consisting of simple sentences would be tedious and the tone of the narrative would be monotonous. As Fowler (1974) puts it:

Text constructed with a preponderance of simple sentences are stylistically tedious: Complex sentences introduce flexibility and variety into linguistic performance by increasing enormously the range of sentence-types available, and also are responsible for the theoretical potential of an indefinite number of individual sentences (*sentence-tokens*).

Language users extend complex sentences by the addition of extra clauses. It is a fact of life that people use complex sentences. For this reason, it is illogical and ridiculous, or rather, not pragmatic to suggest that writers of the chairpersons' and the review of activities narratives of the corporate annual reports should use simple sentences only, or reduce the number of complex sentences. However, they can improve their style of writing by reducing and in some cases, eliminating what I shall call "trappings".

The term "trappings" is used because, more often than not, these factors of writing style do not add any significant information to the sentence. That is, they can be modified and in other cases, eliminated completely without having any significant effect on the basic information being conveyed.

In view of this, this part of thesis focuses on the style of writing in the two narratives - the chairpersons' and the review of activities. Specifically, we intend to find out those aspects of style which can be modified, to facilitate comprehension.

Five reports were randomly selected for this purpose. From

each report, some sentences with factors of writing style that contribute to sentence complexity were randomly selected and reproduced. A comment on why the writing factors should be either changed or omitted follows. Finally, a revised version is then given.

Complete Chairpersons' and Review of Activities narratives from which sentences with examples factors of writing style that contribute to sentence complexity have been extracted are in **APPENDIX C**.

SENTENCE COMPLEXITY: Examples of writing style factors contributing to sentence complexity in corporate annual reports.

COCA-COLA AMATIL

1 a. Original sentence:

We purchased the remaining 51 per cent of Ecks (NSW); a small Coca-Cola franchise in Inverell; the Landegg and Steyr Coca-Cola franchises in Australia; and **entered into** an agreement to purchase 50 per cent of **a joint-venture company holding** the Coca-Cola franchise **for the majority** of New Zealand.

b. Comment:

"entered into" is redundant because "into" is implied in the definition of entered. However, "entered an agreement" sounds awkward. So "intend" replaces "entered into".

"a joint venture company" is a trapping which is redundant because the fact that Coca-cola Amatil has bought 50% of shares implies that the other 50% belong to someone else. Therefore, this is a joint venture company.

"holding.....for the majority" is a trapping which can be removed without significantly changing the message being conveyed. Infact whether or not the company is holding the Coca-cola franchise for the majority of New Zealand is of no consequence. What is paramount is that Coca-cola Amatil has bought 50 per cent of the shares. For this reason, the phrase should be omitted.

c. Revised version:

We purchased the remaining 51 per cent of Ecks (NSW); a small Coca-Cola franchise in Inverell; the Landegg and Steyr Coca-Cola franchise in Australia; and intend to buy 50 per cent of a company holding the Coca-Cola franchise of New Zealand.

2 a. Original sentence:

We are confident that, by broadening the image and appeal of products bearing the Coca-Cola trademark, and by continuing to use the brand Coca-Cola and diet Coke to drive growth in the consumption of soft drinks, we can further strengthen our leadership position in soft drink markets.

c. comment:

"**continuing to use**" is, in a way redundant because the phrase can be replaced by "**using**".

"**drive growth**" is odd, and its meaning is not clear. How can someone **drive growth**? This should be removed and replaced by "**increase**".

"**further strengthen our leadership position**" is a trapping. The whole phrase should be removed and be replaced by "**strong leaders**".

"**soft drink**" This adjective is not necessary because, from the context, readers know that the writer is referring to the soft drink market. For this reason, it should be omitted.

b. Revised version:

We are confident that we can be strong leaders in two ways. The first is by broadening the image and appeal of the Coca-Cola and Diet Coke products. The second is increasing the sales of soft drinks by using the brand names Coca-Cola and Diet Coke.

Although the revised version appears to be longer than the original, at least the ideas are not all crammed into one long sentence. They have been arranged in such a way that there is a topic sentence and corresponding developing sentences. This approach uses the sentences as analytical units to sort the different ideas which tend to make reading difficult.

3 a. Original sentence:

During the year, we acquired two new Coca-Cola franchises, Lendegg and Steyr.

b. comment

The word "acquired" is abstract and indirect. It is at best, vague. It does not have a concrete meaning. It could mean bought, inherited, repossessed, etc. It does not state specifically whether these businesses were bought or obtained by default, i. e., non payment of debts by previous owners. The writer should specify which meaning is applicable.

c. Revised version:

During the year, we bought two new Coca-Cola franchises, Lendegg and Steyr.

4 a. Original sentence:

Given that potato chips represent **such a large proportion** of the total snack food market, the success of Smith's has **played a major role** in further increasing Coca-Cola Amatil's snack food market share.

b. Comment:

Given that
part of the
played a major role
in further increasing

are utterances or trappings which can be removed to improve comprehension. These do not add new information, but add to the number of words in the narrative.

c. Revised version:

Potato chips represent a big snack food market and the success of Smith's has increased Coca-Cola Amatil's snack food market share.

OPSM INDUSTRIES LIMITED**1 a. Original sentence:**

The J. Holland and Optik 2000 **acquisitions** in South Australia and Western Australia, the development of the superstore network and **the consequent** change in rationalisation in both retail outlets and laboratories have given us a **stronger**, more efficient retail system **and** a **solid base for future growth.**

b. comment

"**acquisitions**" is polysemic and does not specify how OPSM came to own the assets. The writer should specify this by for instance, stating that OPSM bought the two organisations.

"**the consequence**" is not of paramount importance to the main idea. What is of essence is that the rationalisations of outlets and laboratories contributed to the efficient retail system.

"**stronger**" is a trapping and not necessary because it is implied in "a more efficient retail system". So, it should be omitted.

"and a solid base for future growth" is a trapping which is also redundant. In the first place, an efficient retail system is also a basis for growth. In this case, the whole phrase "a solid base" should be omitted. In the second place, "future" is implied in growth. For this reason, "future" should be omitted because it is redundant.

c. revised version:

Several factors have contributed to giving us a more efficient retail system. We developed the superstore network and rationalised both retail outlets and laboratories. Furthermore, we bought the J. Holland and Optik 2000 in South Australia and Western Australia.

2 a. Original sentence:

At the same time as we continued building superstores, we **were able to** close 27 conventional outlets, **resulting in significant cost savings.**

b. Comments:

"at the same time" and "were able to" in the original sentence have been omitted. The removal of these shortens the sentence without changing any meaning. These phrases do not add new information.

"**resulting in significant cost saving**" is wordy. It could be replaced by "to reduce costs".

c. Revised version:

We closed 27 conventional outlets while adding new superstores to reduce costs.

3 a. Original sentence.

The legislation is often **unjustifiably** complex and anti-competitive, **thereby** imposing **unnecessary** constraints and costs with **inevitable disadvantages** to consumers.

b. Comment:

"**thereby**", "**unjustifiably**", "**unnecessary**" and "**with inevitable disadvantages**" do not add new information. They have been omitted from the revised version.

"**disavantages**" is implied in "**costs**" and so "**inevitable disadvantages**" should be omitted.

c. Revised version:

The legislation is often complex and anti-competitive, imposing constraints and costs to consumers.

BHP.

CHAIRMAN'S REVIEW

1 a. Original version:

Diversification into other minerals and petroleum has lessened our vulnerability to cyclical downturns and contributed to overall stability and financial strength.

b. Comment:

Diversification is abstract and vague. It is subject to different interpretations.

Vulnerability to cyclical downturns. While this phrase is legitimate, it is quite a mouthful. Therefore, it should be written in simple terms to improve readability.

c. Revised version:

We have reduced our chances of being adversely affected by economic downturns by including petroleum in our business. This has also improved our finances.

2 a. Original sentence:

BHP also acquired the remaining 70% of Mt Goldsworthy Mining Associates to add to its iron ore interests in the Pilbara region of Western Australia.

b. Comment:

Acquired is abstract and does not give a precise meaning. Did the Company buy or inherit the remaining 70% of Mt Goldsworthy Mining Associates? Did BHP come to own the 70% because of non-debt payment of the previous managers of Mt Goldsworthy Mining Associates? The word "acquire" does not give answers to these questions.

c. Revised version:

We also bought 70% of Mt Goldsworthy Associates, adding to our iron ore interests in the Pilbara region of Western Australia.

3 a. Original version:

In the short-term, we expect the impact of the slow-down in growth in Australia steel demand to be absorbed by

increasing exports; when market conditions stabilise
exports will remain a central part of our strategy.

b. Comment:

This is a fused sentence, with two independent clauses in one sentence: "In the short-term increasing exports" and "When the market conditions part of our strategy".

These should be in different sentences to improve readability.

Impact is abstract and has no objective meaning. For this reason, the writer should state instead, the results of this impact which they expect exports to absorb.

Slow down is redundant, because there is no such thing as "slow up". "Down" is implied in "slow" in that the speed goes down or decreases. However, in the context, "slow" can not be used on its own and still make sense. The alternative is to use different words.

c. Revised:

In the short term, we expect increasing exports to counteract the effects of the decrease in the growth rate of the steel demand. When conditions stabilise, exports will remain our major strategy.

"a central part of" is a trapping, only increasing the number of words in the sentence. It has been replaced by one word "major".

Market conditions is in a way redundant. "Conditions" could be used without market since from the context, readers will know that "conditions" refer to economic environment, conditions in the market, etc.

4 a. Original version:

The Minerals and petroleum business recorded solid growth, assisted by generally buoyant commodity prices.

b. Comment:

solid growth is vague and abstract. The writer should be explicit about what she/he means by solid growth. For instance, she/he could give the growth rate.

"assisted by generally buoyant commodity prices". This is vague. How did the prices of products help "solid growth"?

c. Revised version:

The Minerals and Petroleum business grew steadily because of the high selling price of the products.

5 a. Original version:

BHP performed well in the past year. Profits, sales and earnings per share all reached record levels. the strong result reflected the cumulative strength of BHP's business.

c. Comment:

performed well is vague. It does not state either what that performance is or how well is well. The investors would have no frame of reference as to how well the company performed.

"record levels" is abstract and vague. What is meant by record levels? The writer should have stated these levels.

c. Revised version:

BHP increased its production, revenue dividends profit after tax in the past year. Revenue was \$, dividends were increased from to cents per share, (etc).

CALTEX**REVIEW OF ACTIVITIES****1 a. Original version:**

It was most concerning to experience the 21-day freeze on petrol and automotive diesel prices which came into effect following the Iraqi invasion of Kuwait. This kind of action not only had a damaging effect on the company's earnings but also subverts the confidence of investors. To ensure that the Federal Government was aware of these consequences the company's management held discussions with the Treasurer in October 1990.

b. Comment:

"had a damaging effect" is wordy, vague and irrelevant. The writer could have used a more direct term. "A damaging effect is abstract and has no objective meaning.

"subverts". This word is abstract and should be replaced by a more direct word. Changing the construction of the sentence and putting "upset" would be more appropriate.

c. Revised version:

This kind of action not only lowered the company's earnings but also upset investors.

2 a. Original version:

Caltex continued its tradition of involvement in the community with support of a number of interesting programs.

b. Comment:

"a number of interesting": This is a trapping. It is wordy because it is not necessary. It is obvious that the programs add to a certain number, and whether or not they are interesting is irrelevant. What is important is that Caltex supports community programs.

c. Revised version:

Caltex continued its tradition of supporting community programs.

3 a. Original sentence:

As part of the drive to improve the level of customer service we introduced a customer standards program which aimed at determining a standard welcome or greeting, the introduction of a secondary sale and a courteous farewell.

b. Comment:

"As part of the drive" is a trapping and therefore irrelevant. It should be omitted.

"Determining" is abstract and does not have an objective meaning. What is meant by "determining" a standard welcome or greeting? Does the writer mean that the aim of the program was to "come up", or "finding out" or "choosing" a greeting? Use of a more direct term would eliminate this uncertainty.

c. Revised version:

To improve customer service we introduced a program to be courteous to customers.

4 a. Original sentence:

This was the P C based business management system, designed by Caltex together with a group of its franchises which is to be installed at franchise locations commencing in the first half of 1991.

b. Comment:

"together with" is redundant. The writer could use "with" without together and still convey his/her message to the readers. This is because together is implied in "with".

"which is" is wordy in the sense that it is unnecessary. If "which is" is omitted, the writer's message could still be conveyed without changing the main idea.

"commencing in the first half of" is not necessary. It could be replaced by "early" without significantly affecting the message. The reason is that "first half of 1991" does not give the precise date, so does "early 1991". Given that the managers of the firm are working within the framework of probability, it is understandable that they cannot come up with a precise date. In that case, then the less words they use to convey this

probability the better. This is because the situation is already tentative, so it should not be made worse by increasing the number of words which contributes to difficulty in comprehension.

c. Revised version:

This was the P C based business management system, designed by Caltex with its franchises, to be installed at franchises locations early 1991.

5 a. Original sentence:

Throughout the year industrial relations at Baywater were excellent and the continued success of the colliery is to a great extent due to the commitment of Baywater employees. Only two days were lost during 1990 related to domestic issues, well below the industry average.

b. Comment:

Well below: This word is vague. It does not show the precise level. It would be better for the writer either to omit it or give the precise level with a basis of comparison. How low is "well below" the industry?

Excellent: This is an overstated, abstract word. The writer does not state the basis of comparison or what is meant by excellent either. The implication of this statement is that the industrial relations are not as good at other firms or branches or were not as good for the same firm in the past.

To a great extent: This is a trapping or an accessory. It does not add significant new information to the main idea of the paragraph. The main idea is that management was contended by industrial relations. If "to a great extent" is omitted, this message will not be obscured. For this reason, the trapping only adds to the sentence length - number of words in the sentence.

c. Revised version:

Industrial relations were satisfactory throughout the year because of the commitment of Paymaster employees. We only lost two days of work, and this is below the industrial average.

COLES MYER

REVIEW OF ACTIVITIES

1 a. Original version:

Directors have determined a final dividend for the year of

16.0 cents per share giving a total dividend for the year of 37.0 cents compared to 36.5 cents last year.

b. Comment:

Determined is abstract and vague. The writer could have used "decided on".

c. Revised version:

Directors have decided on a final dividend of 16.0 cents per share for the year. This raises the total dividend from 36.5 cents to 37.0 cents.

2 a. Original version:

The company received preliminary approvals from State Governments which will allow a consolidation of the legal structure of the corporation and then elimination of a number of costly and unnecessary subsidiary companies.

b. Comment:

"which will allow" is not necessary and could be replaced by "to".

"a number of unnecessary ... companies" is not necessary because it is obvious that the subsidiaries are a certain number. "Unnecessary" should be removed because it is implied in "elimination" and "costly".

"elimination" is abstract and vague because it does not state whether the businesses will be sold or just abandoned.

"subsidiary companies" is redundant. The word subsidiaries will be adequate because "company" is inherent in the word.

c. Revised version:

The Company received preliminary approval from the State Government to centralize the legal departments of our corporation and to stop operating the costly subsidiaries.

3 a. Original version:

Considerable improvements in inventory control were achieved and the implementation of electronic scanning throughout the chain was successfully completed.

b. Comment:

"Considerable improvements" is vague because how much improvement is "considerable improvements"? If it is difficult for the writers to measure the improvements then the word "considerable" should be omitted because it does not give any new or important information.

"the implementation" of electronic scanning through out the chain was successfully completed.

The writer does not clarify whether implementation refers to the actually trial/use of the electronic devices or the process of installing these. If the firm improved inventory control through the use of the devices, then they must have successfully completed installation [implementation] and tried or used them [implemented]. Is the writer referring to both? If so, this should be clarified.

c. Revised version:

We installed electronic scanning throughout the chain and improved inventory control.

4 a. Original version:

Other achievements during the year included:

- Repositioning and repackaging of a wide range of both "Farmland" and "Savings" house brand merchandise and the introduction of a number of successful new house brand products including pre-prepared meals and additional lines in the successful Farmland Cookies range launched last year.

b. Comment:

"A number of successful new house brand products including ". This phrase is wordy and unnecessary. Either the writer uses it or uses pre-prepared and additional lines. In fact, new house brand include pre-prepared meals and additional lines. Furthermore, "successful" qualifying the new house brands is adequate without the addition of "successful" qualifying the Farmland Cookies range.

"a number of" is also unnecessary because the brands are a certain number. The phrase beginning "the introduction of a number of should be in a different sentence because it is a different idea.

"a wide range" is not necessary because it is of no significance. Whether it is a narrow or wide range does

not give additional information.

c. Revised version:

Other achievements during the year included:

- Repositioning and repackaging of some "Farmland" and "Savings" house brand merchandise.
 - Introduction of new house brand products.
-

As can be seen from the examples above, the original versions of sentences are complicated because of factors of writing style. Removal or modification of these, and at times rearrangement of ideas make the message being conveyed clearer. This is evident from the revised versions. The writers of chairpersons' and review of activities narratives, therefore have to avoid complicating sentences to convey clearer messages.

**CHAPTER 6: CONCLUSIONS: APPLICATION OF RHETORIC TO THE
DISCOURSE OF THE AUSTRALIAN CORPORATE ANNUAL
REPORTS.**

INTRODUCTION.

This thesis has examined Company Annual Reports, using both formal methods (Flesch) and more critical ones (sentence construction and mood). The analyses strongly suggest that the style and presentation of these reports leave much to be desired. Broad criticism is one thing; but are there general models for writing what might provide authors with a comprehensive guide?

It is not fashionable in contemporary Australia, to adopt traditional methods in social and educational theory but this author believes that much could be learned, and some useful improvements gained, if writers digested the principles of ancient rhetoric.

This final chapter considers selected major principles created by the Ancients in order to point out the weaknesses in Corporate Annual Reports.

RHETORIC AS BASIS OF LANGUAGE STUDY.

Rhetoric is, among other things, guidelines for effective

written communication, although it had been considered as a body of knowledge and a technique for oral persuasion in the classical period.

It is interesting to note that the classical rhetorical work by the great Greek philosophers – Socrates, Plato, and Aristotle, and the Latin rhetoricians such as Quintilian and Cicero, have been the basis for language and literature study ever since. For this reason, it is not surprising that the contemporary rhetoricians base their teachings of writing and the study of literature on the principles set by the ancient rhetors.

In fact, the recent ideas about rhetoric have simply expanded on classical rhetoric. This means that the principles basically remain the same. Baird (1965); Corbett (1990); Horner (1988), all remind us that both the classical orator and the contemporary writer rely on the same basic principles, although, for instance, language forms have received varying degrees of emphasis.

In view of this, both the classical and modern views of rhetoric have some serious implications for the authors of the chairpersons' and the review of activities narratives of the Australian Corporate Annual Reports. Consequently,

this chapter of the thesis will examine the implications of some aspects of rhetoric: morality, ethics and writing style.

However, before examining these implications, it is necessary to establish that consciously or unconsciously, these Australian firms are engaged in rhetoric.

Earlier in this thesis, in Chapter 2, in the section of the role of the annual reports, it has been shown that one of the functions of annual reports is to let shareholders, creditors, and debenture holders know how their investments are being used. This is done so that they can make informed economic decisions. The other purpose is to win their cooperation so that they continue supporting the companies.

It hardly needs emphasis that at one point or another, in one way or another, these companies must have convinced these shareholders and creditors to invest in them. It has also been shown in the same chapter that annual business reports are used for advertising and to coopt new shareholders and creditors.

Furthermore, it has been indicated that annual reports are used to present a favourable corporate image to the

public. This is done, no doubt, with the aim of inducing cooperation and investment. This implies that these companies are involved in rhetoric. By inducing cooperation, they are seeking "adherence of the mind", to use Aristotle's term. For Aristotle, rhetoric is seeking "adherence of the minds" by "... observing, in any given case, the available means of persuasion".
(Aristotle, *Rhetorics and Poetics*, 1954, 24).

Whatever the circumstances of these companies, as long as they induce cooperation, they are involved, consciously or unconsciously, in rhetoric. Whatever their available means, written or oral, they are engaged in rhetoric.

They are engaged in rhetoric also because for Aristotle, "rhetoric is not a function of any particular art, but rather any art that can instruct or persuade about its own subject matter". In other words, we can apply rhetoric to any topic. The fact that business organisations are concerned with cooperation vis economic and financial matters, does not preclude them from being classified as being engaged in rhetoric.

To put it differently, rhetoric is inherent when one persuades, instructs or informs, regardless of topic. We

might even ask ourselves what written material is not rhetorical since any writing aims to inform, change attitude, teach, etc.

As Campbell (1963) put it, "All the ends of speaking are reducible to four; every speech being intended to enlighten the understanding, to please the imagination, to move the passions, or to influence the will" (1). Although these purposes could be integrated in any discourse, he also argues that only one of them would be dominant at a time. In other words, any written material aims at somehow influencing the audience. From this perspective then, companies are engaged in rhetoric and this has implications for them.

ANNUAL BUSINESS REPORTS AND MORAL OBLIGATION

The findings of this thesis in Chapters 4 and 5 reveal that the readability of the chairpersons' and the review of activities narratives leaves a lot to be desired. Both sections of the annual reports are in the difficult to read range. Shareholders comprise a wide range of educational attainment and many readers would find the reports difficult to understand. This is because the constraints are not environmental, but those which arise from straining or stressing the psychological processing

resources of human capacity.

In view of this, is it not "high" time the authors of these sections alleviated the problem by making these sections readable and understandable? If one of their motives for writing these sections is really to inform shareholders about their stewardship, should they not be concerned that the information is not in a readable, understandable form?

Although the authors of annual reports are legally bound to produce annual reports, there is no law which binds them to produce readable understandable reports. If the government grants permission for these companies to be established, and in turn compels them to produce annual reports to protect the public, how much protection is the public getting if they fail to understand what is written? Are they not getting a "raw deal"?

We can understand shareholders going to financial analysts for interpretation of financial statements like balance sheets, profit and loss statements, etc. because some have no bookkeeping experience. However, if they are literate, and the sections are written for their benefit, why should they need someone to interpret the prose sections for them? As indicated even these experts have problems

understanding these sections.

Unless their motive is to deliberately confuse the shareholders and obscure information, the writers of annual reports have a **moral obligation to make reports readable and understandable.**

For Aristotle, knowledge of what to say is, on its own, not adequate, but knowledge of how to make information and opinion clear is also essential. While Aristotle emphasised the techniques for effective persuasion, Quintilian emphasised the motives. For Quintilian, it is not enough to know how to say things, but also how to link the motives to the ends (Quintilian, *The Institutio Oratoria of Quintilian*, II, xvi, 1920).

On this issue of motives, Quintilian argues that inducing cooperation in people should be associated with the character and motives of the rhetor, which should be honourable. Quintilian expanded Aristotle's notion of rhetoric, saying that it was not sufficient just to induce cooperation, but also that the rhetor should be a 'good' man (Quintilian, *The Institutio Oratoria of Quintilian*, II, xvi, 1920).

Quintilian and Cicero both emphasize morality. While

Cicero emphasizes that the rhetor must be an honourable man (De Oratore, 1942), Quintilian emphasizes that he should be a good man.

We can deduce from that that an honourable man keeps his word and is therefore, a "good man". If he does not, then he is not morally upright. His deeds are not true to his word or motives. For Quintilian, a good man is a person who realises that he/she has moral and ethical obligations to his/her community and fellow citizens. By extrapolation to our situation, the writers of annual reports have to look beyond themselves and acknowledge their obligations to the users of reports, especially shareholders.

A further implication of this for the writers of the chairpersons' and the review of activities narratives is that they do not do what they claim they are doing. In other words, these sections claim to "enable the public at large, and shareholders in particular to form a judgement regarding stewardship of the directors and the performance of the managers" (Gilchest and Taylor, 1979, 37). However, the findings of this study indicate the contrary.

How can the shareholders, the public, etc. make informed decisions on the basis of information which they find difficult to read? How can the shareholders know how well

the directors and managers are performing? How can they know whether their investments are worth the risk? The writers of these two sections of the annual reports have to consider these questions. Since no law binds them, it is a question of moral obligation on their part to rectify the situation.

The other point is that the authors of these annual reports are wasting resources. As already pointed out in Chapter 2 above, some companies spend millions of dollars and about six months to produce these reports (Meyer, 1981). Are these resources worth utilising in this way to produce a product whose recipients can not use productively?

What is ironic about the situation is that the firms which produce these reports do so at the expense of shareholders while claiming to account for that in reports which shareholders can not use effectively to make informed decisions.

In view of the results of this thesis, we would not be impertinent if we put it crudely. The implication is that costs these firms are spending a lot of other peoples' money on something not useful - to "get it over with" just because the law demands that they should produce annual reports.

This is not only morally unacceptable, but also unethical. They have a moral obligation to the shareholders and the public at large to make these sections readable.

Apparently, this situation is in a way not different from Plato's dissatisfaction with the pedagogical practices of the Sophists. He attacked them for not having adequate knowledge on the subject matters on which they were teaching the technique of persuasion and just focusing all their resources on the technique of argument.

To Plato, they were obscuring the truth by making the worst things seem better (Plato, *Sophist*, 1007). In other words, they were obscuring their ignorance of subject matter by being cunning in presentation.

While during the classical period the issue was lack of knowledge of the subject matter, the current situation of authors of annual reports is inverse. The issue is not lack of knowledge on the subject matter – financial issues. It is lack of application of knowledge of effective writing.

On the issue of the lack of knowledge, Cicero has a similar view to that of Plato. For instance, Cicero argues that, the Sophists, with their obsession of winning the audience, would be obsessed with winning the audience, at

the expense of knowledge of subject matter. He argues that they would deliver a speech with "prescribed precise places where to digress". He further argues that at times, they would make a speech about a murder without even referring to the victim or the crime itself.

While in this case Plato and Cicero are bemoaning lack of knowledge of the subject matter, this thesis has no dispute with knowledge of subject matter - financial knowledge. It is, however, critical of their lack of knowledge of the actual techniques of effective writing.

A further implication is that the authors of the chairpersons' and the review of activities narratives are either too busy or too eager to convey their subject matter to consider how effective their writing is or they deliberately obscure their message. In either case, they are not being fair to the users of annual reports, especially shareholders.

The implication of this for the authors of these two sections of the annual reports is that they claim to be accountable to the shareholders through annual reports. This seems to be a "false accountability" in the sense that the recipients find it difficult to understand what they have written.

It would appear to be a sweeping statement to say that the authors are not aware of the principles of clear writing. However, if they are, then, why do they not apply them? Are they, to use Plato's words, "without a knowledge of the truth" of clear writing guidelines? Are they deliberately presenting a document that appears to impart information on accountability when actually it is not? If they are, then their motives and morals are in question.

Assuming that the writers of these sections of annual reports are not deliberately writing incomprehensible material, it entails that they are not aware of the principles of a clear writing style. For, do writers not write with their audience in mind?

This is a very serious situation. That is where the significance of Cicero's emphasis on liberal education comes in. Cicero calls on, besides moral obligation, a liberal education for anyone whose task is to influence people. He argues that "..... one has to acquire knowledge about a formidable quantity of different matters". He goes on to say that "to hold forth without this information will just mean a silly flow of windy verbiage" (*Cicero, On the Orator, 4, 16, 241*).

According to Cicero then, influencing people is a much

more considerable activity, and depends on a far wider range of different arts and branches of study, than what people imagine. Therefore, writers of annual reports, apart from acquiring knowledge in their specialist field, should venture into techniques of effective writing. They should broaden their knowledge and not just concentrate on core subjects.

Although Plato scorned the way the Sophists were teaching rhetoric, he argued that rhetoric has its important function in governmental, legal and private affairs (Plato, *Statesman*, 1075; *Phaedrus*, 1938, 47). For Plato, an effective orator must be talented in the art of public speaking and rhetorical criticism. He argues that this is because a leader has the task of delivering orations that are directed towards arousing the soul, and in the long run, directed towards justice.

The implication of this for management of these firms which produce annual reports is that they are in a position of leadership and, as such, should be "talented" in the techniques of presenting information in annual reports for effective communication. For how will investors know that management is being fair with them if they do not understand what they write? Should

shareholders wait until these firms have collapsed due to, for instance, financial problems, in order to know that there was no fairness involved?

Annual reports and ethics

This issue of fairness has a direct impact on the "ethos" or credibility of the character of management. According to Aristotle, a person's credibility of character is revealed "when the speech is so spoken as to make us think him credible" (*Aristotle, Rhetoric*, 1.1. 1356a 4-9)

In other words, our trust and confidence in a person depends on the way that person speaks or writes. According to Aristotle, how a person speaks or writes reveals his/her personal integrity. This depends on how effectively he/she communicates.

The implication of this is that the corporate image (character of a corporations) depends on how effective are public relations. In this case, the credibility of these organisation depends on how they effectively communicate in annual reports. As the results of this study have shown, the users of annual reports find the chairpersons' and the review of activities narratives difficult to read and understand, it follows that communication is not effective. How can shareholders trust the organisations if

they do not understand the accountability of their investment? The shareholders should question whether these corporations are worth the risk of placing investments.

As Aristotle argues, "..... character is the most potent of all the means of persuasion" (Aristotle, *Rhetoric*, 1356b, 9-12) and as Cicero asserts, "it contributes much to the success in speaking [writing]" (Cicero, *On Orators and Oratory*, 1875, II). He further argues that the speaker's [writer's] morals, principles, conduct, and lives should be such as to merit their credibility [esteem].

The implication is that the writers of annual reports should know that the way they present information is critical to their professional integrity and credibility.

In order to appreciate Aristotle's argument that a persons' character, *ethos*, is the "most potent of all means of persuasion", we need have to look at the aspect of rhetoric, *Invention*, because *ethos* is part of *Invention*.

Aristotle argues that an effective speaker is one who possesses "..... the faculties of *Invention*, *Arrangement*, *Style*, *Memory*, and

Delivery. Invention is the devising of matter, true or plausible, that would make the case convincing.

Arrangement is the ordering and distribution of the matter, making clear the place to which each thing is to be assigned. Style is the adaptation of suitable words and sentences to the matter devised. Memory is the firm retention in the mind of the matter, words, and arrangement. Delivery is the graceful regulation of voice, countenance, and gesture (*Rhetorica* and *Herennium*, 1.2.3)

INVENTION AND ANNUAL REPORTS

Invention, according to Aristotle, is a process that involves narrowing down the purpose, and the gathering and analysing of facts and evidence, especially those relating to the needs of the audience. Furthermore, Invention, as Aristotle argues, deals with the three modes of persuasion: *Ethos*, *pathos* and *logos*. *Ethos* deals with ethical appeal, *pathos* with emotional appeal and *logos* with the rational appeal (*Aristotle, Rhetorics and Poetics*, 24–25). Although there are these three modes of persuasion, Aristotle emphasises *ethos*, that is, the character or credibility of the speaker or writer, as the most effective mode of persuasive communication.

We have the right to assume that shareholders invest in these firms on the basis of their credibility. How credible are these firms if they write incomprehensible annual reports? How can investors make informed decisions based on information written in a way they do not understand?

The results of this study indicate that the chairpersons' and the review of activities narratives are difficult to read. How can they be "worthy of belief" (*Rhetoric*, 1356b, 9-12), if the users can not understand the accountability of their investments? How can they have confidence in these firms? As Campbell argues, " it is a matter of consequence that in the opinion of those whom he [she] addreseth, he [she] is both a wise and a good man [person] (Campbell, 1963, CH X, Section 1). For Campbell, it is the opinion of the audience that defines a persons' ethos/character). This then gives the orator or writer the responsibility of knowing his audience. Rhetorically, do our major companies care enough to establish the varied groups which comprise their shareholders?

As pointed out earlier in Chapter 2, the chairpersons' and the review of activities narratives are more widely read than the formal financial statements like balance sheets,

profit and loss statements, etc. This is because most shareholders do not have bookkeeping experience. These two types of narratives could be the only means of marking or assessing the trustworthiness of a company. They might be the only means by which the readers make decisions to commit themselves to the firms' future plans.

Annual reports and Pathos

As stated above, this mode of persuasion deals with the emotions of the listeners or readers and as Aristotle argues, "persuasion may come through the hearers [readers], when the speech [text] stirs their emotions (Rhetoric 1.1.1356a, 13-16).

The implication is that the writers of annual reports need to be aware of the feelings of the audience in terms of their hopes, needs, fears, desires, goals and their nature. However, the findings of this research in Chapter 2 indicates that this factor, *pathos*, is not addressed, otherwise, the reports would be readable.

Another implication of this is that the writers of the

chairpersons' and the review of activities narratives have to have the readers in mind when writing - appealing to their hopes, fears and their desires. In this way, the firms would also be safeguarding not only the interests of the report users, but the firms' welfare as well.

A further implication is that the writers need to know their readers in terms of their educational background. As stated in Chapters 1 and 2, the user group in Australia is heterogeneous in terms of its educational background, cultural values, interests, hopes, fears etc. In fact, the educational background of the readers ranges from laypersons to professional ones.

In view of the diversity of the audience, the writers should present information in a varied manner. One of the ways they can do it is by applying pathos in their writing. For instance, if they decide to appeal to the fears of some of the shareholders with low education attainment and those with high educational attainment in domains other than financial management, they would limit the use of technical terms that laypersons would find difficult to comprehend.

The writers of annual reports would be acknowledging the

existence of these shareholders, by acknowledging their human fears by changing the way they write the reports to make them understandable.

These implications are directly linked to the writers putting themselves into the readers' group. Put differently, the writers of annual reports should have empathy with their audience. Such an approach would enable them to not only widen their perception but also to increase their awareness of user ability to comprehend the information - otherwise, there is no point in writing the reports at all.

Annual reports and logos

This third kind of proof is contained in the words themselves and come "by means of the persuasive arguments suitable to the case in question" (Aristotle, Rhetoric, 1356a, 20). *Logos*, in other words, refers to logical appeals through reasoned discourse. The speaker or writer appeals to the readers' or listeners' reason or understanding. However, how can they appeal to the understanding of the audience if they do not understand the appeals in the first place? *Logos* therefore calls on the speakers or writers to grope for ideas to present their cases convincingly.

The implication of this is that the writers of the chairpersons' and the review of activities narratives have to write convincingly for the shareholders. The results of this study clearly indicate that the firms' information in the annual reports are not presented clearly to the readers. Lack of clarity implies that writers do not understand either the material itself or the relationship between content and presentation. This study suggests the latter to be the case. Australian companies, therefore, do not present a fully national approach to their documentation activities.

Another implication of this is that the writers of annual reports have to go beyond themselves, exploring their audience prior knowledge and experiences in order to present their arguments in a convincing manner. They could take what happened in the ancient world of Greece and Rome as an example.

In the ancient world, it was common practice for all citizens to participate in politics . The crucial issues concerning society were discussed by the whole community of individuals. For one to be an effective participant, it was essential to speak **clearly** and **convincingly** (Hamilton, 1973, 7) . Inability to speak clearly and convincingly in

public and in assemblies was a grave handicap. It meant that leadership skills were essential but oratory skills were indispensable. A leader could have outstanding skills in a particular field, but if he failed to communicate convincingly, the other skills were rendered useless. An ideal military leader, for instance, had to have both eloquence and competence in the presentation of information (Enos, 1972).

It needs no emphasis that a convincing message in the chairpersons' and the review of activities narratives would enable the corporations to clarify their position as regards their stewardship to the investors. They would, in other words, be justifying their actions during the financial year in a convincing manner.

However, writers of annual reports have to realise that the three factors, *ethos*, *pathos* and *logos* are interwoven and therefore are inseparable in the process of producing effective communication.

ARRANGEMENT AND ANNUAL REPORTS.

Arrangement involves the process of organising discourse in an appropriate manner. This requires orderly planning and structure (Aristotle, *Rhetorics*, 1.1.1356a).

However, in the case of arrangement or *dispositio*, an orator or writer has to select the material, and then order it in terms of relevance and proportion. That is probably why Wagner (1944) defines *dispositio* as "the functional selection and use of materials for a particular purpose" (285-294).

The classical rhetorician differed in the rules that govern this category of rhetoric. According to Plato,

Every speech ought to be put together like a living creature, with a body of its own, so as to be neither without head, nor without feet, but to have both a middle and extremities, describe proportionately to each other and to the whole"
(Phaedrus, 342-343).

In this case, Plato sees arrangement as having the introduction (the beginning), the middle, and the end of a speech (conclusion). However, Quintilian defined arrangement as the distribution of things and their parts in advantageous places (*Institutio Oratoria, 1921, 223*).

As for *Rhetorica ad Herennium* (unknown author, published about 86 B.C., also known as *Ad Herennium*), there are seven divisions in this category - Opening (*Exordium*),

Statement of Background Facts (*Narratio*), Exposition or definition of Terms and Issues (*Explicatio* or *Definition*), Proposition or Thesis (*Partitio*), Proof (*Amplificatio*), Refutation of Opposing Arguments (*Refutatio*) and Conclusion (*Peroratio*) (Turi Ciceronis, "De Oratore", Vol. 1. 56-64).

structured argument

To Aristotle, the following elements constitute arrangement: Introduction, Statement, Argument, and Epilogue (conclusion) (*The Rhetoric of Aristotle*, 1932, 220). However, Quintilian includes selection, elimination, ordering, massing or proportioning and colouring as rules for the parts of speech.

Baird (1965) argues that the purpose of the discourse requires the writer or speaker to have "clearcut" statements to encompass the overall idea and the rhetorical objective of informing, entertaining, persuading, convincing, and inspiring (172).

This, in turn, could be applied to the prose sections of annual report in that they should have a distinct structure with the purpose of informing shareholders and the public at large. It could be the core of all the parts of the narratives, the chairpersons' and the review of activities - each part being complete for that purpose.

The introduction to these parts of annual reports should have "clearcut" statements to secure the interest and attention of the readers. In other words, the opening statements could be closely linked with the ethical appeal.

However, as already pointed out in Chapter 2, Business Annual Reports do not have objectives written down at the front or introduction. As a matter of fact, they have no introduction. The objectives they have come from literature, not the reports themselves. Probably, if the annual reports outlined their objectives, it would clarify why they write difficult to read prose. They are only interested in outlining the objectives of the organisations they represent, but they do not have the objectives of the document in view at all. Writers of annual reports may, for example, want to gain the readers' interest by telling them why annual reports are important to them for their present and future planning.

Such statements could establish the company's credibility and goodwill from shareholders and the public at large by, for instance, acknowledging community responsibility and their continual involvement in environmental issues and show how much is being done.

Annual report writers have to refer to this working concept of discourse, *dispositio*, in their preparations. It is, as Genung (1886) asserts, a "nuclear-thought, expressed or implicit, which must be in his [her] mind as a central point of reference, a constant determinator and suggester of the scope and limits of his [her] subject" (249) my emphasis. As Baird put it, this is the germ of the whole work, and the core of both the writer's or speaker's thought and his/her purpose for writing or speaking to an audience (Baird, 172).

If the writers of these reports outlined their objectives, they would question themselves whether they are achieving them. They would then, hopefully, be interested in their audience and make their narratives readable.

STYLE

Style is one part of rhetoric, known to the Greeks as *lexis* and the Romans as *elocutio* which deals with how one says what he/she means. It is a part of rhetoric linked with the subject matter and as such, Quintilian warns us against separating it from the subject matter:

Rhetoric is, like a harp, not perfect, unless with all its strings attached, it be in unison from the

highest to the lowest notes (Quintilian,
Institutio Oratoria, 2.8.15).

Quintilian further argues that "a translucent and iridescent style merely serves to emasculate the subject which it arrays with such pomp of words (*Institutio Oratoria* 8. Preface 19-20).

For classical tradition, style depended on the words and language used in a narrative. The orator is advised to:

use acceptable, correct, appropriate language;
make it clear and direct;
make it polished, noble, and vivid;
adjust it to the message, audience, and speaker.

However, the analyses of this thesis reveal that, the authors of the chairpersons' and the review of activities narratives do not do this. For instance, on the sentence level, they do not make their message clear, direct and vivid. They crowd a lot of incidental ideas in one sentence - thereby obscuring the main idea. For example, a sentence from the review of activities of Australian National Industries (ANI) Limited, will illustrate this.

"The successful implementation of these changes would not

have been possible without the positive response throughout the group at all levels to a more open management style which has resulted in ideas flowing not only down from management but up to management as well".

"..... the positive response throughout the group at all levels to a more open management style, which resulted in ideas flowing not only from management but up to management as well" could be summarised to "effective communication". Furthermore, because there are too many ideas (propositions) in the phrase, they tax the readers' memory. It is as if the writer wanted to impress the reader by detailing that they have an open management style and how it works. In so doing, there is a possibility of the reader missing the main point, which is "the successful implementation of the changes with cooperation from staff. The writer is overwhelming the reader with incidental information which could be imparted effectively in two words - "effective communication". The details of effective information are not relevant. What is of essence is that the reader, and indeed the shareholder, knows that the changes were successful.

If the writers utilised the rhetorical factors of **style**, the sentence would read as follows:

'We would not have implemented these changes successfully without effective communication throughout the group'.

Style, in other words, involves selection of words, phrases, clauses, sentences, paragraphs, and the larger units of the narrative that arouse the appropriate emotional response in the readers and assist in establishing the ethos (Corbett, 1965, 375). It is the effective elevated language that relates itself to the understanding of those who respond.

As stated above, in regard to the ethos of the writers of annual reports and the corporations as a whole, we might argue that the readers measure the corporations' credibility on the basis of the syllabic composition of the words in the narratives; their "tone" by the texture of the words and judgement about the formality of their style can be largely be made on the basis of the level of diction used.

Writers of annual reports need to realise that this principle of style in discourse has to do with the selection of words that stand for, not only the message but also the way that the information addresses itself to suit the readers or listeners.

For instance, the analysis on style factors in Chapter 5 of this thesis which contribute to sentence complexity reveal that the writing style of the chairpersons' and the review of activities narratives leaves a lot to be desired. The authors complicate sentences by adding clauses, phrases, etc, which are irrelevant. They also use a lot of passive construction which is not only difficult to read, but also obscures information.

The writers of annual reports have to make good judgement in the use of suitable language so as to secure maximum interest and comprehension. This means that the reverse is also true in that the writers need to realise that poor style or unsuitable language might cause distortion in the meaning of the information, as perceived by the users.

The implication of this in regard to the findings stated in Chapters 4 and 5 in terms of word length, sentence length, occurrences of passives and sentence complexity, is that writers of these two sections of annual reports need to use the qualities of good style - **correctness, accuracy and clarity, and appropriateness.**

a. Correctness.

Correctness has to do with correct grammar.

It is important for the information in the chairpersons' and the review of activities narratives to be grammatically correct. This is despite that errors in grammar do not always cause misunderstanding. They might, however, do so and consequently cause readers to perceive the corporations to be of somewhat lower **ethos** than otherwise would be the case. Grammatical errors might indicate either ignorance in the corporations' affairs or carelessness in running them. However, this thesis is not concerned with the grammatical aspect of the narratives.

b. Accuracy and Clarity

Accuracy and **clarity** depends on good word choice and coherence. It is important for the writers of these two sections of annual reports to accurately and clearly express the intended meaning.

The analyses of this study reveal that the authors of the chairpersons' and the review of activities narratives do not use an accurate and clear style. The style they use is

incoherent. For instance, the following sentence from the Australian National Industries (ANI) Limited shows incoherence:

Undoubtedly, the 1990 financial year has been one of the most important in ANI's 80-year history. Following the disastrous loss in 1989 from the company's involvement in Spedley, and the change in shareholding which resulted in Consolidated Press Holding Limited becoming the new major shareholder, the Board initiated a three-stage program aimed at restoring value to all ANI's shareholder's investment by:

- returning the company's balance sheet to acceptable gearing levels by disposing of underperforming or non-strategic assets;
- examining the remaining businesses to optimise their ongoing profit and cash flow potential; and
- establishing long-term objectives that would ensure continued growth of ANI's profit and cash flow.

This sentence is too long. There are several thoughts or propositions in this sentence. It could be broken into shorter sentences. In fact, the topic sentence and developing sentences of the paragraph do not match at all. The topic sentence refers to the most important year which gives the impression that what follows is a success story. However, what follows is a long sentence of negative view – disastrous losses and what has been done to solve the problems.

The words "the change is shareholding" in the sentence are implied in the word "becoming". Therefore, there is no need to have both in the same sentence. The phrase "becoming the new major shareholder" will suffice. A revised version of the sentence would read as follows:

The Board initiated a program to restore value to ANI's investments. This was done to counteract the loss from involvement with Spedley and Consolidated Press Holdings Limited becoming the major shareholders. This program involves reorganisation to dispose of unprofitable businesses.

In view of this, the criterion would be that of whether

the style the writers employ is accurate and clear. If the users understand the meaning of the information, it means that the style is most likely accurate and clear.

Another example of incoherence from the South Australia Breweries report is:

"The success of our international expansion strategy has been particularly pleasing. Not only is it ahead of schedule, but the off-shore operations of our International Group have been successfully integrated with the rest of the Company and sales and profit increases were ahead of the year's targets".

In the first sentence of the paragraph, the subject of the sentence is "The success of our international expansion strategy".

The head of the noun phrase (NP) is "success". This (success) is what has been particularly pleasing. However, the second sentence of the paragraph has a cohesive device, pointing backwards, the relative pronoun "it", which anaphorically refers to a noun in the first sentence. The noun "it" refers to the international expansion strategy. But this noun is not the head of the NP, it is qualifying the noun "success". In reality,

according to how the sentences have been written, "it" is referring to the noun "success".

However, this renders the second sentence senseless, because if the noun "success" replaces the pronoun "it", it will read:

"Not only is the success ahead of schedule,"

"Success" can not be ahead of schedule and strategy can not be either. For this reason, there is something wrong with cohesion in these original sentences.

If the authors wanted "it" to refer to the international expansion strategy, then it should be the head of the NP, and not be there as a qualifier for the noun "success".

Furthermore, the subject of the first part of the second sentence "it" does not agree with the second part either. We wonder whether "the off-shore operations" of (the) International group has the same referent as "international expansion strategy". If it has, then it should read something like this:

"Not only is it ahead of schedule, but has been successfully integrated with the rest".

However, this is not acceptable either because "it" is referring to a strategy, or technique of something (expansion) while the "off-shore" are operations or activities. In view of this, they can not have the same referent and the passive voice does nothing but complicate comprehension more.

Moreover, the sales profit increases can not be "ahead" of the year's targets, but "higher than" the targets of the year.

A revised version would therefore read as follows:

We are pleased with the success of our international expansion strategy. We are not only ahead of schedule, but have successfully integrated the International group off-shore operations with the rest of the company. Moreover, the sales and profit increases were higher than the targets of the year.

Thus, in this thesis, accuracy refers to the choice of words to express the corporations' ideas. The style would be accurate if the wording represents the meaning intended by the corporations. In addition, clarity refers to understanding on the part of the readers. How can we say

that the chairpersons' and the review of activities are accurate and clear when the results of this study indicate that they are difficult to read?

The writers of these two prose sections, as the findings show, must realise that clarity is the first quality of style and as Quintilian argues, they should not "wrap up everything in a multitude of words simply and solely because they are unwilling to make a correct and simple statement ...". Furthermore, they should not "omit words which are actually necessary to the sense, regarding it as a matter of complete indifference whether their meaning is intelligible to others, so long as they know what they mean themselves" (*Institutio Oratoria*, 8.2.18-19). This has a direct significance on the use of passive voice, where the agent is deliberately omitted.

In other words, the writers have to choose the right words so to say what they want to say and also make the narratives readable. However, it is also important for the words and sentences to cohere so that the users of the reports are able to comprehend the information with ease.

As for coherence, Quintilian argues that

We must struggle not merely to place thoughts

in their proper order, but to link them together and give them such cohesion
(*Institutio Oratoria* 7.10.16-17).

The second example above from ANI's annual reports shows incoherence.

From this rhetorical perspective of style, there is need for writers of annual reports to make logical links of their ideas or concepts in order to assist the readers in comprehending information as they move from one paragraph to another. However, it must be kept in the minds of the writers that ideas or concepts are expressed in words and sentences.

c. Appropriateness or Propriety

Appropriateness refers to stylistic choices that suit the subject and the occasion. Rhetorically, style of discourse has to be appropriate to the writer, the audience or readers and to the subject.

For Aristotle, language is appropriate if it expresses emotion and character of the orators or writers. In addition, it has to be in harmony with the subject matter under discussion. From Aristotle's point of view, we can

say that the writers of annual reports should not write casually about serious matters and not solemnly about the trivial ones. The words and sentences should clearly show the emotion and character of the corporations, or otherwise, the message might not reach the readers as intended.

According to Cicero, appropriateness has to do with suiting the style to the occasion and the audience. The implication is that the writers of annual reports have to distinctively identify their audiences. As stated above, the writers have to know their readers in order to use appropriate words, phrases and sentences that suit their readability levels. This is especially so because the Australian readers group is heterogeneous educationally and culturally.

The general audience involved with the annual reports requires special attention because, for instance, the use of advanced vocabulary, longer, and more complex sentences create problems as regards the readability and comprehension of the narratives - as indicated in the findings in Chapters 4 and 5. There is, in other words, a requirement use shorter or simpler words and sentences. Moreover, the use of more familiar words might make the texts more readable.

In other words, appropriateness of language used in these two sections of annual reports has to be determined by the writers' knowledge of the readers' abilities and the intent of the information. Writers of annual reports can not and must not go on ignoring their readers. Knowledge about the user group could assist the writers in finding out if the language in the reports is suitable for the heterogeneous user group.

Writing to suit the language ability of the audience has to do with the appropriate choice in terms of word length, sentence length and vocabulary. Moreover, as words and sentences are an indication of the company-user relationship, the writers of annual reports may have to alter the words and sentences that might strain this relationship, especially with shareholders.

Furthermore, in relation to sentences, writers have to consider sentence length as a factor that affects comprehension. This too can lead to some valid generalisations about the writer's style.

The style used in annual reports is directly linked to sentence complexity, which in turn is linked to the readability of the texts (see Chapter 5). The implication of these results in regard to sentence complexity is that

the writers have to consider the type and number of the clauses in sentences - that is, whether the sentences used are simple or complex to make them readable. As suggested earlier on, the heterogeneous user group of annual reports requires the use of more simple sentences than complex ones. The average word and sentence lengths have to be reduced so as to meet the users' comprehension abilities.

In short, the overall implication of this from a rhetorical viewpoint is that writers of the chairpersons' and the review of activities, need to be aware of these measures stated above - making use of appropriate style that facilitates comprehension of the material by the heterogeneous user group. Just like invention, style can serve the utilitarian purpose of achieving the effects of these narratives in the annual reports as intended by the corporations.

In this respect then, the reverse is also true in that if the chairpersons' and the review of activities narratives do not meet the needs of the users and those of the corporations' intention it might be due to the use of inappropriate discourse style. Writers have to keep in mind that the skilful use of style enhances the overall communicative effect.

MEMORY

For an orator, memory is an essential part of rhetoric - "the treasurehouse of eloquence" (*Institutio Oratoria*, 11.2.3). Furthermore, Quintilian gives the advice that one needs

To learn much by heart and to think much, and, if possible, to do this daily" (*Institutio Oratoria* 11.2.40). " For our whole education depends on memory" and "it is the power of memory alone that brings before us all the store of precedents, laws, rulings, sayings and facts which the orator must posses in abundance" (Quintilian, *Institutio Oratoria* 11.2.).

Quintilian advises that a person should have "a copious supply of words and matter to suit all and every case".

Probably this would not exactly apply in today's world since there are technological resources for writing such as computers and word processors. Although this is the case, one still has to remember the norms of appropriate and acceptable texts. It might be advisable to have

trained personnel in written discourse of the two types of narratives in order to strengthen the memory which is a product of art (*Ad Herennium*, 3.16.28).

PRESERVATION

Presentation or *delivery* could be considered as "the faculty of greatest use to the speaker [writer] and the most valuable for persuasion" (*Ad Herennium*, 3.11.19). For an orator, this involves gesture and voice.

Presentation for the orator and the writer involves the same basic principle in that, in the final analysis, it is the presentation of ones ideas in the best and most appropriate manner that matters. For instance, orators who fail to pronounce their words correctly and clearly before an audience might be ineffective. In written discourse, if, for instance writer misspells words or make many deletions, like omissions of agents in passive sentences, communication can be ineffective. Furthermore, communication can be ineffective if the words used are not only unfamiliar, but also long.

In fact, if presentation is not appropriate or is unsuitable, it might affect the credibility of the

corporations. The readers might even think that the writers of the chairpersons' and the review of activities narratives do not know what they write about.

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There is need for writers of the reports to recognise the fact that annual reports are there to enable shareholders and the public at large to form a judgement regarding stewardship of the directors and the company as a whole, presentation must facilitate comprehension of the information.. What is written in the reports and how the messages are told to the readers, assist the readers in the decision making process when reviewing their commitment to the enterprise.

Finally, if these organisations are so concerned about presentation that they decorate the annual report documents themselves (see Chapter 2), they should take trouble to present the material in a readable form. One would rather have a dull looking document which is readable, than a decorated one which can not be fully understood.

This thesis has made a large, perhaps charitable assumption that modern corporations make every effort to provide shareholders with full, accountable information on

day-to-day activities and on future plans. If so, they could do worse than to consult old and traditional communicators rather than modern, public relations experts.

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APPENDIX A

AUSTRALIAN NATIONAL INDUSTRIES LIMITED (ANIL).**FROM THE CHAIRMAN**

Undoubtedly the 1990 financial year has been one of the most important in ANI's 80-year history. Following the disastrous loss in 1989 from the company's involvement in Speedy, and the change in shareholding which resulted in Consolidated Press Holdings Limited becoming the new major shareholder, the Board initiated a three-stage program aimed at restoring value to all ANI shareholder's investments by:

- returning the company's balance sheet to acceptable gearing levels by disposing of underperforming or non-strategic assets;
- examining the remaining businesses to optimise their ongoing profit and cash flow potential; and
- establishing long-term objectives that would ensure continued growth of ANI's profit and cash flow.

At the last Annual General Meeting of shareholders, I indicated that our objective was to reduce ANI's net debt, including Convertible Notes of \$70 million, to \$150 million by 30th June 1990. I am pleased to report that this objective was almost met - our net debt at 30th June 1990 was \$155 million.

This year the company has also achieved a record pre-tax profit, before abnormal items, of \$163.4 million and after tax operating profit of \$114.8 million. During this period the company underwent major changes and rationalisation in a difficult economic climate.

The current year's profit after tax represents an increase of \$18 million or 19% when compared to the 1989 pre-Spedley written down profit.

The asset disposal program, which has largely been completed, has realised in excess of \$250 million and resulted in an abnormal profit of \$43.9 million. This abnormal profit has been applied to reducing the company's goodwill and providing for costs associated with closedowns and rationalisation of several activities.

In the year under review the company made two important acquisitions for its steel distribution activities in Australia and the U.K. with the purchase of Sandovers Metals and Enpar, at a total cost of \$40 million.

Furthermore, we committed \$60 million to capital expenditure programs which were aimed at enhancing the company's future profitability and competitive position.

In the later part of the year, considerable management effort was directed to refocussing and streamlining the company's core businesses. This has resulted in the consolidation of certain manufacturing facilities and the establishment of a separate division to provide more focus on the sales and marketing of our many manufactured products and services. This change will provide improved customer service and coverage of our international markets.

The three separate Australian steel distribution businesses of Steelmark, Eagle & Globe and Sandovers Metals, have been merged and are already providing better market coverage of our markets with a more competitive cost structure.

Aurora has become an important part of ANI's total overall operations and represents a major asset internationally. Considerable rationalisation has taken place within the subsidiaries of Aurora which has permitted us to shed a number of non-core businesses, and together with capital expenditure has permitted this Group to obtain improved profits.

The result of these changes, which will be largely completed by October of this year, will mean that ANI has become a highly competitive "no frills" well-directed manufacturing corporation with its cost structure and technical expertise capable of performing better than most other Australian manufacturing businesses in the current difficult economic climate.

The improved operating performance and strengthened balance sheet has enabled the Board to recommence payment of dividends. The fully franked interim dividend of 5.3 cents per share paid in July 1990 will be followed by a fully franked dividend of 6.0 cents per share, which will be paid in October 1990. I am pleased to announce that as a benefit to all shareholders, the discount rate to apply to the market value of shares allotted under the Company's Dividend Reinvestment Plan and Bonus Share Plan has been increased from 5% to 10%. This increase will take effect from the dividend payable on 31 October 1990.

ANI will continue to develop its product base and export markets as well as seek opportunities which complement our existing businesses. The present under-gearred balance sheet provides the opportunity for the company to diverge into other manufacturing related businesses with the

objective of providing additional future profit and cash flow growth.

Shareholders are assured that management controls and Board involvement have been critically reviewed and upgraded where appropriate.

The recovery of monies and legal issues associated with Spedley losses are under constant review by a sub-committee of the Board and our current assessment is that losses will not exceed the provision made in ANI's 1988/89 results.

A well focussed, talented management team and loyal employees at all levels of our organisation have been critical in enabling us to achieve the major restructure of ANI, now nearing completion, and so approach the future growth of our company with confidence. We thank them for their outstanding contribution.

AUSTRALIAN NATIONAL INDUSTRIES LIMITED (ANIL).**REVIEW OF ACTIVITIES**

The Chairman has stated the three objectives we established for the corporation in July, 1989.

The initiation of the asset disposal program proved to be timely as most of the major sales were achieved by March 1990 and we were therefore able to realise prices much higher than could have been attained for these businesses in today's economic climate.

The Company has been examined from top to bottom and changes have occurred at all levels.

The corporation's head office staff has been halved and relocated to leased premises at Darling Harbour, NSW. Non-essential corporate assets such as the Lear Jet, the corporate boat and several houses and apartments, have been sold.

Responsibility for computers has been re-assigned to operating areas, achieving not only significant operating efficiencies but resulting in improved and more appropriate systems development.

Several layers of management have been eliminated from the group by merging and rationalising operations and a major change in management style has taken place which has encouraged greater initiative at the operational level. These changes have been achieved within a framework of improved control of our overall operations which better focus on cash flow issues such as stock and debtors.

We have aimed to improve the quality of our ongoing sustainable earnings and the divestiture from the highly cyclical contracting businesses was a direct result of this decision.

We are committed to focussing on businesses where we could be or could aspire to be market leader, and where we believe we have or can attain a competitive edge in product, process, quality and cost of production.

Achievement of these objectives requires continuing commitment to staff training, research and product development of markets both domestically and internationally all supported by appropriate capital investment.

The company has well developed training programs for staff and has fostered trade apprenticeship training in our manufacturing plants at a level significantly in excess of

the 1% levy recently introduced by the Australian Government.

As part of our reorganisation, we have established Newcastle as our "Centre of Manufacturing Excellence" for Bradken, Comsteel, ANI Arnall, ANI Ruwolt and ANI Hoskins, with the new rationalised head office for these businesses being relocated to Newcastle into upgraded premises during October 1990.

Research and development remained a high priority throughout our Manufacturing Divisions with in excess of \$10 million being outlaid on various programs.

A number of new products and manufacturing processes have been developed by Bradken, which will be critical to this division's future profit growth.

Research and development at Aurora has resulted in improved tooling and componentry for a number of products in our U.K. manufacturing businesses.

Internal research and development has enabled Comsteel to improve horizontal casting performance and steel making quality. ANI Ruwolt have developed designs for off-highway haulage vehicles which are about to go into commercial production.

The drive for new export markets and additional penetration of existing ones continued during the year. Notable successes were:

- Bradken achieving increased orders from the U.S.A. for crawler shoes;
- ANI Hoskins opening up markets in Europe, South-East Asia and New Zealand for wear products;
- ANI Arnall establishing with the British Coal Corporation to supply strata control equipment, which will result in Aurora manufacturing the products in the U.K.;
- Comsteel lifting their export sales of grinding media by over 50% into areas such as Papua New Guinea, Indonesia, Malaysia and New Zealand.

The establishment of a separate Sales Marketing and Distribution business unit for all of our Australian manufacturing businesses, also located at Newcastle, will improve the service and coverage of our customers.

It will also permit us to develop more appropriate warehousing and distribution systems and reduce our overall response time to customers' demands.

At the same time, strategic acquisitions totalling approximately \$40 million have been made to strengthen a number of core activities by proving synergistic benefits. These include Sandovers Metals, now part of the Steelmark/Eagle & Globe division, and Enpar, a highly specialised metals distributor operating in the U.K., Germany and The U.S.A., which is now an arm of Aurora Steels.

Additionally, approximately \$60 million of funds have been committed to ensure the Group remains a low cost producer in its core businesses. A major project is a \$25 million merchant mill for Comsteel which will be commissioned early in the 1991/92 financial year. This mill will significantly reduce production costs and increase Comsteel's international competitiveness.

In the last quarter of the 1990 fiscal year, Steelmark and Eagle & Globe were merged into one business and this resulted in major cost savings and inventory reductions without impinging on customer service.

The new steel distribution group is therefore well placed to operate in the current difficult economic climate.

We have adopted a practice that we will not sell surplus or non-strategic assets at "fire sale" prices. In the case of Coates Hire we have withdrawn this business from sale and will continue to run it using the same disciplines that apply to the rest of our businesses, i.e. there will be a balance between optimising its current profitability and long term growth potential.

Because the company initiated the rationalisation program before the current downturn in the Australian domestic market and continues to focus on export-oriented businesses, i.e. supply to the Mining Industry locally and export sales, we approach the 1990/91 year with confidence.

MANUFACTURING

In March 1990, the company initiated a major rationalisation program of its Australian manufacturing operations. The program included the absorption of ANI Ruwolt into the Bradken Division, and the merging of Bradken with Comsteel and ANI Arnall under one central manufacturing management which is to be located at New Castle as a "Centre of Manufacturing Excellence" in October 1990.

Several plants have been rationalised and other facilities upgraded to accommodate increased production requirements. In the process, several layers of management have been eliminated.

The Sales/Marketing functions of all these manufacturing businesses have been rationalised into a new division which is known as The ANI Products Group Division. These programs are expected to be completed in total by October 1990.

Profit in 1989/90 was ahead of expectations and well ahead of the previous year's result. Both domestic and export sales have been buoyant.

Bradken's reputation for quality and reliability has permitted the company to continue to achieve our fair share of the market.

The company's Melbourne general foundry and Brisbane Griffin Wheel plant have been closed and our Mascot plant is scheduled for closure during the 1990 calendar year, whilst the two Newcastle foundries are being upgraded to accommodate the work from the closed facilities.

Major orders were gained for mining shovel crawler shoes for the Australasian and U.S.A. markets, which will have significant ongoing benefits.

Bradken's major export sales remain crawler shoes and shredder hammers for the U.S.A. markets. Development of overseas markets in Asia, North America and Europe is continuing. Softening was apparent in some Australian market segments towards the end of the year.

The installation of a furnace in the New Zealand plant to produce refiner plates for the Paper Industry will enable this plant to obtain world-wide orders.

Research and development continued to play an important part in Bradken's operations, a major project being the production of castings by a highly automated technique which will provide improved quality and significant reduction in after-cast costs. A number of other projects, including product development for export sales, are in an advanced stage.

During the year, Bradken assumed the responsibility for running North British Steel Group's foundries located in Scotland. (North British Steel Group had not been profitable for several years and was originally acquired as part of Aurora Plc). Following injection of Bradken's management systems and technical expertise into the North British Steel Group, a major rationalisation of its

operations was initiated, which incorporated emphasis on product quality and performance to schedule. This business is now trading profitably.

Bradken Malaysia had another successful year, reflected in increased sales and profit. Whilst the majority of this company's sales continue to be supported by the tin mining industry the dependence on this volatile market has been reduced by diversification of the product range to supply other available markets within the region. This strategy is proving successful as Bradken Malaysia achieved a major order for transport castings during the year.

Continued emphasis on export business, together with benefits from consolidation in the areas of production and management, are expected to provide the basis for continued profit growth for Bradken in 1990/91.

Strong trading in 1989/90 resulted in profits considerably above the previous year's. Major factors in the result were a high level of demand from the coal mining sector, maintenance of margins on mining products, and continued growth in Arnall's export sales.

Recent restructuring of the coal industry, which is responsible for the major share of the division's turnover, together with buoyant demand for coal internationally, provided the basis for steady profit growth. Export demand is expected to enable growth to be sustained by the coal industry through to 1995.

Arnall also performed well in the smaller metalliferous mining market.

Demand from the civil construction market again grew during the year and this pattern is expected to continue with the emphasis on road improvements on the eastern seaboard.

Strata control equipment sales to the U.K. and Mexico increased, although exports to the former will be replaced by local manufacture by Aurora, beginning in September 1990, with ANI Arnall supplying the necessary technical support.

Closure of the Wollongong plant after balance date, and relocation of equipment to the Newcastle facilities are expected to result in improved productivity and a reduction in infrastructure costs during 1990/91.

The prospect is for sustained profit growth from ANI Arnall in 1990/91 as it continues to dominate the strata control market in Australia, while pursuing plans to sell its technology and products overseas.

In the year under review, ANI Hoskin's profits and sales were well up on the 1988/89 figures.

The two major areas of business enjoyed buoyant conditions, notwithstanding the general downturn in industrial activity.

Demand from this market segment increased as customers recognised the advantages of both refurbishing rather than replacing costly components, and of minimising wear on new equipment by using products such as Dua-Plate and Dua-Block.

The higher sales of wear products were supported by the installation of additional automated plate-making machinery.

ANI Hoskins now supplies the major share of the Australian market for these products.

Development of export markets was given high priority during the year and ANI Hoskins is now well established in Europe, South-East Asia and New Zealand. This export drive will continue in the current year.

Two new products in the Dua-Plate range, developed in-house, are now in full production and are enjoying excellent consumer acceptance in their respective niche markets.

Management expects continued growth in sales and profits in the current year, with the biggest gains expected to come from new export sales and increased penetration of the markets established in 1989/90. The current year is also expected to show the benefits of integration into the new ANI Products Group Division.

The development of new product lines helped lift Ruwolt's results, despite the impact of the closure of Bougainville Copper, which had been a major customer. Progress in the introduction of new products enabled the division to reduce dependence on licensed products and to increase capacity usage in workshops.

As a result, specialised engineering sales of such items as mining truck bodies, pressure vessels and railwagons, were considerably higher than for the previous year.

Ruwolt, which has now been integrated into the Bradken division, is forecasting a higher trading profit in the current year, largely as a result of increased work input from other ANI divisions, particularly Bradken. This will allow higher utilisation of its manufacturing capacity as

well as achieved a number of other production efficiencies.

Buoyant demand for railway products and forgings, combined with efficiencies from new production equipment and a rationalisation of some operations, produced a marked improvement in earnings in 1989/90 and enabled Comsteel to resume the strong upward profit trend of recent years.

Rationalisation of wheel manufacture within the group saw Comsteel's domestic market for rolling stock wheels and axles increase by 50%. The market now includes all government systems and all West Australian private railways hauling iron ore.

Forgings enjoyed strong demand from the steel industry as well as new mining projects and defence related work, notably the submarine building contract using Comsteel's high integrity specialised steels not previously manufactured in this country.

Steelmaking achieved excellent performance levels with both the arc furnace and the continuous caster recording new output records. The new grinding ball plant, after some launching problems in the previous year, exceeded rated capacity during the year, enabling Comsteel to meet the growth in demand for grinding balls and to achieve its original projected profits.

Export sales grew sharply in the period, particularly for grinding media which enjoyed a 50% increase, and while exchange rates have pressured margins on high value-added products such as cold mill rolls, newly installed production equipment will increase Comsteel's international competitiveness in the current year.

Further profit growth is expected in 1990/91 with benefits again flowing from the rationalised railway wheel operation at Newcastle, and with continued strong demand for forgings from defence projects and the mining industry. A number of large mining projects coming on-stream in the next 18 months are also likely to cause a surge in demand for grinding media.

Aurora earned increased profit in 1989/90, compared with the previous year, despite a high interest rate climate which led to curtailed activity in businesses supplying the building and construction sector.

A strong performance by the forging and the railway trackwork operations more than offset lower earnings from the building-related subsidiaries which have now been sold.

The businesses servicing the aerospace, oil, gas, petrochemical, transportation and general engineering industries also recorded increased turnover. The majority of these operations were successful in achieving higher margins by improved efficiencies.

The businesses involved in the aerospace markets experienced competition from imports because sterling strengthened and, although total sales including exports increased, it did limit some export opportunities. In a year when Aurora experienced major changes as the company rationalised and restructured its operations to focus on businesses where it had a competitive edge and growth opportunities, aerospace was Aurora's highest sales area.

The rationalisation program has now largely been completed and has resulted in Aurora focussing on six major ongoing businesses compared with over 20 different businesses that existed when ANI acquired it 20 months ago.

Aurora's challenge for 1990/91 will be to capitalise on the business opportunities that exist from buoyant demand for a number of our products in civil aviation, oil and gas industries, as well as railway trackwork and strata control products, whilst finding new business opportunities to offset any loss from reduced defence spending.

Aurora's profits will continue to benefit from the ongoing capital expenditure program designed to improve efficiency, remove bottlenecks, and expand the product range of a number of our core businesses.

Distribution.

In February 1990, the company acquired the Sandovers Metals business in Western Australia and immediately and successfully integrated it into Steelmark's West Australian operations. This resulted in the largest steel distribution business in the State with an expanded customer base with strong representation in rural areas. Additionally, major rationalisation benefits, including inventory savings, were achieved.

In April 1990, a program was initiated to merge the Steelmark and Eagle & Globe businesses (the latter having been acquired as part of Aurora). Major cost savings and inventory reductions have been achieved from this program without impinging on customer service.

These actions have, to a large extent, negated the profit deterioration that would otherwise have occurred from an overall reduction in industry sales of approximately 18% in the last half of 1989/90. However, this major downturn

in the Australian economy, which has affected the building and construction industries, contributed to a decline in the profit before tax from last year's record high.

Whilst conditions will remain difficult in the current year, the cost savings and other benefits from the newly integrated operations have placed this division in a strong position to capitalise on further growth of its market share, and will continue to be a major contributor to the Group's overall earnings.

While achieving a significant lift in the value of sales, ANI Komatsu earned lower profits in the year under review. The movement in sales was due largely to the inclusion of a full year's operations of Forcepower, acquired in October 1988. Earnings, however, were adversely affected by an increase in funds employed, allied with the high level of interest rates.

Major sales achieved included the contract to supply fleet equipment to Comalco at Weipa and an order for 25 D53 bulldozers from the NSW Soil Conservation Service.

ANI Komatsu's market strategy includes achieving increased share of the quarrying and contracting businesses with small to medium sized equipment while increasing its existing market share in the mining segment with larger machines.

The volume of unit sales of excavators and wheel loaders rose accordingly, although the degree of competition encountered put pressure on margins. Spare parts sales grew substantially with the growth in the total number of the Komatsu machine population in the market place. A new spare parts warehouse was built at Muswellbrook, NSW, during the year to provide additional workshop space and boost profitability.

ANI Komatsu's result in 1990/91 will show an improved control of costs and reduction in funds employed.

Other Activities.

Despite a tightening economy, this division's earnings increased slightly over 1988/89, with all State operations contributing to the improvement.

New South Wales had a particularly successful trading year as Sydney Central Business District construction activity, road building programs and coal mine development in the Hunter Valley, all generated strong demand.

Victoria also improved on last year's results mainly due to an active construction sector in the first six months,

allied with the successful introduction of the Access line of equipment.

Elsewhere, results were affected by the downturn in the construction industry and such factors as abnormally bad weather.

Profitability in 1990/91 is not expected to reach record levels of the past two years because of the decline in building and construction. However, some cushioning is expected from management's anticipation of a market swing to engineering construction and road building, and its ability to service these areas comprehensively, along with the cost reduction measures that have been introduced.

Although sales were generally higher in 1989/90, increased operating costs eroded profits against last year. These problems have been addressed and together with a number of new sales initiatives, management are confident of achieving an increased profit in 1990/91.

Profit was higher than in the previous year, despite a protracted strike over the Commonwealth Government's decisions on the future of Cockatoo Island, which affected operations in the first two months of the financial year.

In June 1990, the Government reaffirmed its decision to sell the island and announced it would not place any further Oberton class submarine refits with the dockyard. The Department of Defence has been directed to negotiate terms for the early termination of the company's lease which expires in December 1992, and commercial discussions are currently taking place with the Commonwealth.

As a result, the dockyard's workload will decline, with the majority of existing orders being completed in the current financial year.

Investments.

Profit from equity investments increased in 1989/90. Bradken (Malaysia) Bhd (40% owned), the largest producer of steel castings in Malaysia, had a successful year with both sales and operating profits higher than in 1988/89.

W.A. Mining Engineering Services, supplying repair services for mining equipment, suffered from lower volumes of work.

Sales and profits before tax were below the levels of last year.

The equity investments in Flameguard and Telescan were sold during 1989/90. Equity investments in Vickers Hoskins

Malaysia Sdn Bhd and Iscar Australia were sold subsequent to balance date.

Staff training.

All Group operations continued to give high priority to staff training and development during the year.

ANI's training expenditure is well in excess of the Federal Government's minimum requirement for investment in staff training on the part of business. Historically, ANI management has always been committed to improving the skills of its workforce.

In addition to apprenticeship and specialist skills training, multi-skilling schemes related to award restructuring were again implemented in co-operation with unions. Also, certain employees were assisted with tertiary courses, while undergraduate trainees were provided with the opportunity to gain experience in such areas as metallurgy, marketing and management.

Generally, safety and occupational health programs continued to receive close attention from the operating units.

Employees.

The support and loyalty of staff were again key ingredients in ANI's success in 1989/90.

During the year there have been major changes within the company with the sale of several businesses and the purchase of some new ones. Additionally, there has been major rationalisation of our remaining businesses.

The successful implementation of these changes would not have been possible without the positive response throughout the group at all levels to a more open management style which has resulted in ideas flowing not only down from management but up to management as well.

The Board and management wish to place on record their appreciation of the staff's performance during the year.

BOND CORPORATION**CHAIRMAN'S REVIEW**

The 1990/91 financial year, covering the nine months period to 30 June, 1991, has seen significant progress in management's aims to restore your Company to a stable financial position and to provide a financial environment where the Company can operate effectively for the benefit of creditors, shareholders and employees.

In my last Chairman's Review, I reported to you that, after detailed discussions with the Group's major unsecured and subordinated creditors, a proposed Scheme of Arrangement (the "Scheme") between Bond Corporation Holdings Limited (BCH) and its creditors and shareholders had been developed.

Since then we meet together in meetings forming part of a series of meetings with shareholders and the various classes of creditors at which attendees were informed of the details of the Scheme.

The approval of the Scheme at these meetings by the requisite majority of creditors and shareholders paved the way for the Supreme Court of Western Australia to make out an Order approving the Scheme on 16 August, 1991. The Order was lodged with the Australian Securities Commission on 30 August, 1991 ("the Commencement Date") which signalled the commencement of the Scheme.

The Scheme involved two phases comprising a moratorium period during which creditors are precluded from taking action against the Company in relation to their claims, and a compromise involving the allotment of ordinary and preference shares to allow full satisfaction and discharge of creditors claims against the Company.

The moratorium period commenced on the Commencement Date and will concluded upon the satisfaction of specified moratorium conditions or 30 November, 1992, whichever is the earlier. The moratorium conditions require that the Scheme Administrators certify that the total shareholders' equity of the Company is not less than \$40 million, and that distributions to be payable by the way of redemption of the preference shares and payment of redemption premium instalments be at least 8 cents in the dollar on all claims against the Company. The return to unsecured creditors cannot be readily calculated until all claims against the Company have been established. Once entitlements are established the new ordinary and preference shares can be issued, to be followed in due course by restoration of a Stock Exchange quotation for the ordinary shares.

Management

Since the commencement of the moratorium period, the day to day management of BCH is legally vested in Messrs I. D. Ferrier and G. J. Trevor of Ferrier Hodgson & Co, Chartered Accountants as joint Scheme Administrators. The Scheme Administrators are subject to the discretion of a Committee of Management which was fully constituted on 27 September, 1991, and comprises six members representing the various creditor groups and one member representing the existing shareholders.

Your Board of Directors, which managed the Company throughout the financial year, remains constituted but its powers are now vested in the Committee of Management.

The Scheme Administrators will continue to manage BCH until the moratorium conditions are satisfied and until the new shareholders meet in an extraordinary general meeting to appoint a new board of directors.

Financial Results and State of Affairs

The operating loss after income tax for the financial year was \$651.4 million compared to a \$1,565.6 million loss last year. Substantially all this loss related to non-cash items such as accrued net interest expense of \$176.1 million, non-current asset write downs of \$324.4 million, net movements in provisions of \$226.3 million and after recording unrealised net foreign exchange gains \$54.2 million. The Group's result was in line with Director's expectations and will not adversely affect the Scheme.

The total operating revenue for the Group was \$446.6 million, down from \$9,480.0 million in the last financial year. Sales revenue of \$339.3 million primarily included the turnover of Pittsburgh Brewing, Observation City and the newspaper interest of The Bell Group Ltd until the date of deconsolidation, and the proceeds from the sale of Nine Network Australia Limited shares and a 50% interest in the Rome land. Other operating revenue of \$107.3 million included interest receivable of \$35.7 million and unrealised net foreign exchange gains of \$54.2 million.

In the preparation of this year's accounts, the provisions of a new applicable accounting standard on Consolidated Financial Statements, AASB 1024, have been applied. This has led to the Company deconsolidating the accounts of subsidiaries G. Heileman Brewing Company Inc., The Bell Group Ltd and J. N. Taylor Holdings Limited resulting in a significant contraction of the Group's balance sheet, with total assets reducing to \$526.8 million from \$2,215.9 million last financial year.

Future Prospects

Notwithstanding what has been achieved to date, there is still much to be done before the company is reconstituted. The major objectives in the coming financial year are twofold.

Firstly, we must satisfy the moratorium conditions. Once this has been achieved, the Scheme Administrators shall as soon thereafter as is practicable cause ordinary and redeemable preference shares to be allotted to creditors who have lodged their claims. This recapitalisation of the Company will have a major beneficial effect on the balance sheet. At the last balance date, the Group reported net liabilities, or a deficiency of shareholders funds, of \$1,905.5 million. Following the recapitalisation of the Company and the extinguishment of certain existing unsecured and subordinated debt, we expect the Group balance sheet to record a substantial positive net worth.

Secondly, we must work towards enhancing the value of the Group's remaining unsecured assets and to ensuring that the timing and sale proceeds realised from future asset sales provide a maximum return and enable the Company to meet its commitment to make distributions to creditors by way of paying redemption premium instalments on, and the later redemption of, the preference shares issued.

Whilst all parties concerned with the management of the Company are committed to the success of the Scheme and a continuing future for the Company, it would be remiss of me not to remind you of the potential pitfalls that confront us.

There are a number of events that, should they occur, would lead to the termination of the Scheme. These events include: the failure to pay redemption premium instalments on the relevant redemption premium instalments dates; failure to redeem the preference shares on the redemption date; failure to satisfy the Moratorium Conditions on or before 30 November, 1992; or the amendment, termination or rescission of an Agreement between the Company and Australian Consolidated Investments Limited.

Your Company has continued to devote substantial executive time and financial resources to ensuring the success of its legal actions relating to the Kwinana Petrochemical Projects against Western Australia Government Holdings Ltd, the State of Western Australia, the State Energy Commission of Western Australia, Mr Peter Dowding, former Premier and Treasurer of the State of Western Australia and Mr David Parker, former Treasurer of the State of Western Australia. We are confident that the Company will eventually succeed in its claim and will recover its net investment together with substantial damages. However, the outcome of litigation cannot be forecast with certainty

and failure in our legal action could ultimately result in a termination of the Scheme.

If the Scheme were to be terminated, it would almost certainly result in the Company being put into liquidation with estimated returns to creditors being minimal.

A summary of the provisions of the Scheme is set in Note 32 of the accounts.

As well as dealing with all aspects of the Scheme, management has been dealing with assets sales, negotiations with our unsecured creditors, regulatory inquiries, litigation and media enquiries, all in the environment of a shrinking work force. This means an increasing work load on our remaining staff who have exhibited great patience and considerable persistence in adversity to ensure that the Company succeeds in its endeavours. On your behalf I thank them for their past support and look forward to its continuation.

EMAIL LIMITED**DIRECTORS' REVIEW****Results for the Year**

The Company earned an operating profit after tax of \$80.10 million for the year ended 31 March 1990. This compares with a profit for the previous year of \$76.15 million, restated as required by a change to approved Australian Accounting Standards and relating to tax adjustments previously reported as extraordinary items.

Following a review of Company policy with regard to intangible assets, brand names acquired from recent acquisitions, including Simpson Holdings and Bunge Metals & Engineering, have been written off, resulting in an extraordinary loss of \$60.5 million after tax. The Company's brand names are a valuable asset and directors believe the value of all brand names far exceeds the amount written off. However, it is not considered appropriate to record these values in the balance sheet.

The goodwill of \$4.2 million from the acquisition of Bunge Metals & Engineering has been recorded as an intangible asset and will be amortised against future profits in accordance with Australian Accounting Standards. A net extraordinary gain of \$43,000 was achieved in relation to the reorganisation and disposal of business segments, including an appreciable surplus received from the sale of the Plumbing Supplies Division.

Major Appliances, Building Products and Industrial Products, existing at the beginning of the year, all experienced a lower result, while Metals Distribution, acquired from 1 September 1989, made a good contribution ahead of expectations. The overall results of 50% joint ventures were ahead of the previous year.

Major Appliances experienced a significant downturn in profit, due to a decline in consumer spending in the second half of the year and substantial one-off costs such as the consolidation of cooking appliance manufacture in Adelaide and the establishment of the computer controlled manufacturing facility in Orange for small refrigerators.

Most of the divisions within Building Products and Industrial Products recorded strong real sales growth and, in view of the economic downturn, achieved profit results which were satisfactory. However, their overall profitability fell, due to a combination of factors,

including increased competition raw material quality problems and costs of restructuring.

Acquisition of the Metals Distribution activity has provided a substantial business not generally subject to import competition and with much greater emphasis on markets not strongly influenced by the fluctuations in consumer demand.

In addition to the construction industry, it has a wide exposure to manufacturing, the mining and exploration sector, defence and agriculture, and is expected to provide good internal growth.

The Company supports the phase out of ozone depleting chlorofluorocarbons and during the year has actively participated in this process through the adoption of new materials and manufacturing techniques and by offering new environmentally acceptable refrigerants where available. Further investments this year will enable continued progress towards the goal of eliminating the use of ozone depleting gases.

Email remains committed to manufacturing excellence in Australia. Operations were further improved by acquisitions and divestments, rationalisation of facilities, expenditure on product development and equipment and divestment of operations with low returns, as detailed in the Reviews of group operations appearing on pages 10 to 26 of this Annual Report.

In the main, market shares have been maintained and remain at significant levels for our major products.

Financial Matters

Net borrowings currently stand at \$131 million, or about 30% of shareholders' funds. The Company has spent around \$200 million net on new acquisitions after the proceeds of divestments. Acquisitions included the Metals Distribution Group, Westinghouse Systems Furniture, a kitchen exhaust system activity, two roller shutter units and, in New Zealand, stainless steel sink and air conditioning operations. The Plumbing Supplies division and surplus property were divested.

Interest costs were up by \$18.96 million, with \$13.67 million relating to the Bunge Metals & Engineering acquisition, which contributed \$22.27 million before internal interest charges. The remaining \$5.29 million in increased interest related to the costs of other acquisitions, capital expenditure and higher inventories for part of the year. While inventories had been higher than desired for some months, they were back to satisfactory levels by year end.

The Company also invested \$60 million in capital expenditure, well in excess of the level of any previous year. As a consequence of rationalisation of facilities, sales of surplus property will be available, totalling about \$16 million.

Fully Franked Dividends

A fully franked final dividend of 16.5 cents per share is proposed, which, together with the interim dividend of 8.5 cents, also fully franked, makes a total of 25 cents for full year, the level indicated by directors in June 1989. This is paid on capital increased by the 1 for 10 bonus issue to shareholders in July 1989 and by the placement of 10% of the Company's capital with a wide range of local and international institutions in August 1989. The dividend will be payable on 3 August 1990 to shareholders on the register at 5.00 p.m. on 29 June 1990.

Potential for Growth

It is important to note that the past year has been one of significant effort to provide a firm basis for ongoing growth through -

- * acquisitions, to diversify and build on existing strengths
- * consolidation of facilities, to reduce costs
- * product development, to maintain strong market shares
- * capital expenditure on plant, to increase efficiency and enhance quality
- * continued divestment of operations with low returns

The fall in margins in 1989/90 includes the cost impact of some of these initiatives ahead of the benefits being realised.

Employees

Directors record their appreciation of the dedication and skills displayed by employees at all levels in responding to the challenges to protect profitability as subdued trading conditions developed during the second half. For the current year and for the years ahead, restructuring of various employment awards is providing opportunities for productivity and efficiency improvements as well as enhanced training and career path arrangements. During the year, the third issue of employee shares since 1987 was made, enabling employees to participate further in the progress of the Company.

Outlook

There is little doubt that high interest rates have led to a slowdown in the economy and there has been a fall in

demand in some product areas in the last six months. The Company has absorbed a number of non recurring costs and in 1990/91 we shall have a full year's profits from Metals distribution, as well as the benefits of capital expenditures now completed.

The Group is well equipped to handle the downturn, with experienced management, a balanced spread of activities which respond at different stages of the economic cycle and a strong financial position. While acknowledging that forecasting is unusually difficult in the present climate, the Company has budgeted for some growth in the coming year.

EMAIL LIMITED**REVIEW OF OPERATIONS****Major Appliances**

By the close of the year, the manufacture of all electric and gas cooking appliances has been consolidated at the Dudley Park factory in Adelaide and the space previously devoted to range manufacture at Orange in New South Wales has been transformed into a totally new, world standard facility for the production of refrigerators and freezers up to 250 litres in capacity.

The computer integrated flexible manufacturing facility at Orange - CIMFAC 1 - was officially opened by Senator The Hon. John Button, Minister for Industry, Technology & Commerce on 9 November 1989. That opening, which was attended by guests representing governments, leading retailers, professional bodies and trade unions, ushered in a new era of appliance manufacture in Australia. With special purpose production lines designed and built by Simpson Automation - the group's specialised machinery builder in Adelaide - and with fully integrated computer control systems developed by our own engineers, CIMFAC 1 makes possible the achievement of still higher quality standards, represents a major gain in productivity and offers capacity for random production of more than 300 variants of refrigerators and freezers to meet the immediate needs of our markets in Australia and overseas. 5. As the forerunner of continuing investment programmes throughout all the group's manufacturing operations, CIMFAC 1 underwrites the group's capacity to strengthen its leading shares in the Australian refrigerator and freezer markets and penetrate new markets overseas.

The consolidation of range manufacture at Dudley Park was a complex task, involving the relocation of major items of capital plant and the induction and training of some hundreds of new employees. It was a costly process, both in terms of its impact on profitability and also its impact on the market as production lagged behind demand for Westinghouse and Simpson brand cooking products through much of the year. By year end though, the plant had reached record output levels, providing a firm basis for our marketing organisations to re-establish their leadership position in cooking appliances.

In achieving this substantial restructuring of its refrigeration and cooking appliance manufacture, management in the group has been conscious - as it has been on past similar occasions - of the need for a sensitive approach to the inevitable dislocations of

employment. The moves were accomplished without retrenchments and in positive spirit of co-operation with employees and their unions. The additional costs of this approach during the consolidation period are seen to be an important element of the overall investment necessary for the achievement of the very substantial longer term benefits flowing from this programme.

The 1989/90 year was also one of further investment in a number of major projects, the full benefits of which will emerge in the years ahead.

As Australia's largest producer of automatic washing machines, the group's Beverly factory completed an ambitious programme to design, test and bring to production the world's first 6 kg. washing machine incorporating the performance, reliability and cost benefits of the principle of top suspension of the wash bowl - a design approach launched earlier with great success in the medium sized Genesis and Delta, Simpson washers.

This new machine will be brought to the market early in the new financial year and is confidently expected to win further market share gains.

To round out its ability to meet every requirement for major appliances in the laundry and kitchen, the group moved into the kitchen exhaust hood business through the acquisition of a small regional manufacturer during the financial year.

After an intense period of product development, a comprehensive line-up of Westinghouse brand rangehoods was released to the Market in all states towards the end of the year. Valuable sales and profitability growth are anticipated from this expansion move.

The year in review was the first full trading year for our Simpson Appliances subsidiary in New Zealand. It achieved very satisfactory levels of sales growth and made an important contribution to the group's overall profitability.

Further investment was made during the year in the re-launch of the Frigidaire brand. An exciting and innovative range of refrigerators and other new products planned for future release will ensure growth from this leading brand in 1990/91 and beyond.

The 1989/90 year also saw a quickening of the pace of change towards the aim of market leadership through giving priority to the customer. To realise the goals of world standard products, of world standard quality, supplied and serviced by an organisation committed fully to its

customer, is a task involving continuous improvement in our management techniques and in the ability to achieve attitude change throughout the group. The challenge of maintaining a vibrant, profitable appliance manufacturing base in Australia demands nothing less.

The level of overall market demand for major appliances in Australia varied significantly through the year. In the first half, the market growth of the previous year continued. From around August, consumer confidence progressively declined in response to the government's use of interest rates to slow the overall Australian economy. There was also some regrowth, from prior year lower levels, of imports in the refrigeration, washing machine and room air conditioner markets. Thus, while the overall market figures for the year showed little change from 1988/89, the fall in second half demand resulted in lower sales and profitability in that period.

Creative marketing by the group's brand organisations ensured, however, that Westinghouse, Kelvinator, Simpson and Frigidaire products continued to hold leading positions.

The group's close to 60% overall share of the refrigerator and freezer market is an indication of that strength.

While the Major Appliance Group remains committed to a strong future in its international activities, it was necessary during the year to terminate the operations of the washing machine joint venture in China. By early 1989, that business had demonstrated its capacity to produce washers of internationally accepted quality, was becoming a strong force in Chinese domestic market and had reached a sound level of performance. However, the later market dislocation within China, following political and economic upheaval there, resulted in sustained unfavourable operating conditions. Proposals for the refinancing of the venture through additional local equity were not adopted by our Chinese partners and the company has been placed in voluntary liquidation.

Metals Distribution

The Metals Distribution Group, was formed on the acquisition of the Bunge Metals & Engineering business, with an annual turnover in excess of \$500 million in September 1989. Results achieved since acquisition have been ahead of expectations and cash flow has been strong due to good trading results and better than anticipated performance in inventory control.

Pleasingly, there have been no personnel losses identified as a result of the change of ownership. The group has continued to record significant improvements in both service and efficiency during the year and Total Quality

Management principles are being progressively implemented in all facets of the business.

The group's operations are conducted through three principal trading divisions:

Steel Distribution
Pipeline Supplies; and
Bisalloy Steels.

The activities of these divisions are coordinated by a small central staff who also provide specialist services.

The group has experienced strong growth and improved operating margins over the last 12 months. The outlook is for a slowing in economic activity with sharp falls already being felt in some areas. The fall is likely to be cushioned as a result of the group's success in some major projects involving Pipeline Supplies and a strong forward order book at Bisalloy Steels.

Steel Distribution, comprising Union Steel and BGJ Steelstocks, markets a wide range of steel products through a national network of 16 steel service centres. A new branch was opened during the year in Canberra as a result of an acquisition. These centres are meeting an increasing part of the demand for Australian steel. This is being achieved by committed and experienced people, supported by ready availability of stock and strong systems designed to give high levels of customer satisfaction.

Major initiatives in progress include the implementation of a national computer system which will enhance the service provided to customers as well as operating efficiency.

State of the art metal cutting and processing machines will be commissioned during the coming year, giving the division a leading edge in structural and plater processing and will provide customers with a unique combination of cutting facilities.

Another new initiative is the planned relocation of Union Steel and Pipeline Supplies in Sydney to a new speciality distribution, processing and administration centre. This move should offer significant improvements in the operating efficiency of both divisions and greater flexibility and ease of meeting customer demand.

The division is well advanced in the development of quality management systems and, with external accreditations expected this year, will be able to provide external evidence of quality assurance to customers. Additionally, reorganisations in the steel sheet and coil

product area are expected to lift performance and customer service.

Pipeline Supplies is recognised as Australia's leading supplier of pipes, valves and pipe fittings. There are 15 branches around Australia and 2 in New Zealand. New branches were opened during the year in Bunbury, Western Australia, and Cairns, Queensland, further strengthening PSA's distribution network.

During the year PSA has continued to gain recognition for its specialist valve services. This was supported by the commencement of inhouse production of speciality valves designed by PSA to suit specific applications where standard valves are not available, and the manufacture of the Turnflo butterfly valve range.

The establishment of a product development team in Melbourne is helping PSA to further expand its market while taking advantage of opportunities resulting from new product technology, including wear resistant pipe and valves.

Bisalloy Steels is Australia's only producer of high-strength and abrasion-resistant quenched and tempered steel plate. This is produced in the company's plant at Unaderra, New South Wales.

Bisalloy is used extensively in mining, agriculture, manufacturing, construction and defence applications.

During the year domestic demand has remained strong, with significant tonnages of special, high strength quenched and tempered steel plate being supplied for the construction of Australia's new generation of diesel-electric submarines.

In addition, the success of the promotion of Bisalloy high strength steel for use in the construction of medium and high rise buildings, bridges and storage tanks is evidenced by the supply of substantial tonnages to major building projects in Melbourne and Perth, and the incorporation of this steel in the designs of several other projects throughout the country.

Major exports markets, such as the USA and Canada, continued to contribute to the overall profitability of the division, accounting for over 20% of total sales volume. Unfavourable exchange rates and lower international prices may limit the division's involvement in these markets in the coming year.

Recent gains in production yields as a result of process improvements have enabled Bisalloy to achieve significantly better ontine delivery performance.

The 1990/91 year will see the commissioning of a new process control computer system, which will further contribute to control and improve productivity in the production process.

Building Products

Despite the impact of high interest rates, which caused a significant downturn in the number of new dwellings commenced in the period, total sales exceeded the previous record level in 1988/89, but margins were adversely affected by competitive pressure, particularly in the Juralco markets, and there was a reduction in overall profit.

Bathroom & Kitchen Products Division achieved strong sales and profit growth in the face of a falling dwellings market.

Growth was achieved in both the Australian and New Zealand operations.

In the latter half of the year a major investment was made in committing to a new ED(P) system across the division. The objective of moving to the new system is to achieve the highest possible level of customer service in terms of delivery response, and consequently all factories and sales offices will be on-line with a complete integration of order entry/stock control/production scheduling. The system will be fully operative in late 1990.

Radiant continued to expand its lead and industrial products operations and major advances in manufacturing efficiency and customer service are expected in the coming year as the result of a relayout of the factory in Coburg, which was begun in the second half of the 1987/90 year.

Sales and profit performance at Clark were excellent, with product development in the sink range providing a significant competitive edge. New graphics affecting signage, stationery and packaging design were well received by the market and helped to reinforce Clark's leadership role and image.

Manufacturing productivity at Beautyware was increased by the introduction of robotic transfer operations in the press shop and further market penetration was achieved in the high growth spa-bath market sector by the introduction of innovative spa systems using air rather than water circulation.

The acquisition in the second half of the year of Kingsway Industries with its well established range of stainless steels sinks gave Clearlite the most comprehensive sink and bathware product range in New Zealand, and the market

demonstrated its recognition of this leadership position by a significantly increased order intake rate. Further strong growth is anticipated in the coming year.

Juralco Division, while maintaining an emphasis on continuing development of its core Amplimesh aluminium grille business, placed a heavy focus on the development of new product and market opportunities.

In Australia, an entry was made into the window roller shutter market via the acquisition of Cosbac, a well established distributor in Victoria. Security is a major feature of window roller shutters and the product characteristics and distribution channels for shutters and Amplimesh grille have a large area of overlap. The market for window roller shutters is growing rapidly and Juralco intends to be a strong presence in this market through both organic growth and planned acquisition. In line with this policy, in May 1990 the business of Advanced Shutter Industries in Sydney was purchased and, in combination with Cosbac, this gives Juralco a strong base of experienced management and an established distribution network.

Engineering development at the Adelaide plant allowed new high strength flywire meshes to be introduced to the market and further similar products are planned to be added to the range. These new marketing and product initiatives are expected to compensate for the decline in the margin of the Amplimesh products as that market sector reaches a maturity phase.

In the United States, product diversification is at an advanced stage with the sales of locks and transport industry components, such as ramps and bulkheads, growing strongly and matching the sales of Amplimesh products. Extensions of the product range are not yet significant factors in the business of Singapore, but are expected to be major contributors to future growth in the region.

Valectro Division went through a period of consolidation with an upgrade of manufacturing processes to improve productivity and quality and a change in marketing strategy, involving both the addition and deletion of major products in the context of an increased concentration on those products of higher added value being sold into growth markets.

The major ongoing product groups, based on rollformed or extruded aluminium or steel sections, are flywire door and window frames and accessories, shower screen suites, wardrobe suites, patio systems, blind and awning systems and contract rollforming.

Cowells Building Products achieved strong sales and profit growth, with its timber products operation being the prime contributor. Both the steel products and the hardware stores businesses improved year on year performance and all operations are expected to show further growth in the coming year, resulting from new product and business development activities which have been initiated.

In particular, the timber products operations are expected to show substantial growth from the acquisition of the Timber Division of B. J. Walters Pty. Ltd., effective 1 May 1990. The B. J. Walters business, which is based two miles from the Cowells site in Adelaide, will be integrated on the Cowells site and the combined business will be in a position to offer the most comprehensive product range in the South Australian market.

Blunts Homes felt the impact of the fall in demand for dwellings as the interest rate for housing rose, and action has been taken to match the organisational structure to current demand levels.

Industrial Products

Furniture Division again improved its profit performance in a very competitive and slowing market. Excellent results were recorded in the first five months of the year but from September on demand slowed considerably. However, the strength of Namco and Brownbuilt in this market enabled the division to increase share during the slower period and maintain a good level of profitability.

Major work towards the rationalisation of Brownbuilt and Namco office products manufacturing continued through the year. This involved the acquisition of a 15,000 sq. metre facility in East Bentleigh, Victoria, to which, after extensive refurbishment, Namco's Noble Park operation was moved. Brownbuilt's Thornbury operation will be absorbed across three States into the decentralised Namco manufacturing sites. Substantial overhead, efficiency and freight benefits will result from the rationalisation, expected to be completed by September 1990, and the Thornbush site will be sold.

Brownbuilt, acquired in 1988 with an unprofitable history, achieved a substantial profit improvement, aided particularly by the West Australian business and the national industrial racking, shelving and storage business.

Further benefits are expected following the office products rationalisation in mid 1989.

Namco did not match last year's excellent earning rate due to the second half slowdown but, aided by a strong

performance in Victoria, maintained a very acceptable return on funds.

Farmac has been a disappointment acquisition in August 1988.

The substantial decline in the upper end of the commercial furniture market in a year when new expense was incurred to install EDP systems, product costing and inventory planning, has resulted in a trading loss for 1989/90.

During the year, Westinghouse Systems Furniture was acquired from Cemac Commercial Interiors and consolidated with Framac. This added volume, together with rationalisation savings, has created a more cost effective business.

Framac products continue to have a reputation for design and quality and play a vital part in Email's participation in the furniture market. With the attention directed at operating side of wroth business in 1989, and the more recent success of new product introduction, an improvement is expected this year.

Email York Division again had record sales, despite the combination of a slow down in consumer spending prior to and continuing through the summer season as well as a very mild summer. Thus, while sales of residential air conditioning were well down on the previous year, commercial packaged equipment and the larger York range both remained buoyant due to the large backing in non residential construction, while Service revenue continued to grow.

Profit for the division was just below the previous year's record level, because of the decline in residential products and a squeeze on York margins. The latter was a result of steep increases in compressor prices from the USA, which adversely affected margins on fixed price contracts. For 1990, compressor prices have stabilised now that world wide demand has abated.

A new residential split system range was released in time for the summer season and it was well received by dealers. The quality appearance is the result of a significant new tooling investment and a new powder coat paint line, the benefits of which will apply to all Notting Hill manufactured products. A new range of water cooled commercial packaged units was also released, once again assisting Email York to cement its position as the major air conditioning manufacturer in Australia. During the year, the equipment sales and service division of New Zealand Mechanical was acquired and it now sells the full range of Email York equipment in that country.

While the outlook for large equipment is softer, new products, improved margins, efficiency gains in service and the addition of New Zealand, should benefit operations in 1990/91.

Email Electronics Division, formed in mid 1988 by combining two former divisions, incurred substantial once off costs during the year. These included development costs for Omega, which is an automated bulk fuel dispensing system, and a service station forecourt controller, which is an electronic device incorporating cash register, petrol pump authorisation and on line communication with banks and oil companies. Both new products are due for release in 1990. Costs were also incurred in further rationalisation of the previously separate activities.

The sales of petrol pumps soared as the division's new low profile multiproduct pump was preferred by major oil companies. However, these sales were at the expense of the traditional simpler two hose pump with its long established assembly methods and the product mix was not favourable to margins. Petroleum service continues to be a well controlled business and produced a good result.

In the electronics and controls side of the business, sales were well below expectations on both locally manufactured and distributed products. Continued pressure from overseas principals to increase volume is resulting in reduced margins which necessitates a refocus of efforts in these areas together with a review of the locally produced product range.

Whilst the division remained profitable, the combination of these factors resulted in a significant decline from the previous year's result. The outlook for the year ahead is more encouraging.

Element and Tube Division improved further on last year's good result and comfortably managed the highest return on funds in Industrial Products Group. This success was built on continued benefits from major investments that have given the division internationally competitive manufacturing methods and a growing export customer base, which lessened the impact of the local downturn in demand. In the year ahead this well managed, specialised business is poised for a good performance.

TANDOU STATUTORY REPORT OF DIRECTORS

Chairman's and Managing Director's Review

The Directors of Tandou Limited, submit herewith the balance sheet as at 30 June, 1989, and the profit and loss account for the period then ended. In order to comply with provisions of the Companies (N. S. W) Code, the directors report as follows:

The names of the directors of the holding company in office at the date of this report and their relevant interests (as defined in the Company Code) in ordinary shares capital of the company as at 18 September, 1989 are as follows:

TABLE – ORDINARY SHARES

Since the end of the previous financial year, no director of the holding company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount received or due and receivable by directors shown in note 4 of the accounts) by reason of a contact made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Principal Activities of the Group

The principal activities of the group in the course of the financial year were:

- production of irrigated crops and livestock at the company's property at Lake Tandou
- processing and packaging of forage cubes
- operation of a lot fed dairy and milk processing plant at Broken Hill, and
- operation of a wholesale milk and allied products distribution business.

Results

The net results for the group for the period ended 30 June, 1989 were as follows:

Consolidated Operating Profit before Extraordinary Items,
and Income Tax \$1,333,353

Consolidated Operating Profit after Extraordinary Items
and Income Tax expense and Minority interests \$1,018,271

Dividends

The directors recommended the payment of an unfranked dividend of 5c per share in respect of the period ended 30 June 1989.

Changes in State of Affairs

During the financial period there was no significant change in the state of affairs of the group other than that referred to in the accounts or notes thereto.

Subsequent Events

there has not been any matter or circumstance, other than that referred to in the accounts or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the group, the results of those operations, or the state of affairs of the group in financial years subsequent to this financial period.

Share Options

Particulars of options over unissued shares granted by the company during the financial period or since the end of the financial period are:

Tandou Limited

Ordinary Optionholders - 3,111,248 ordinary shares

Each option entitled the holder thereof to one ordinary share on exercise. The options are capable of exercise during the period 1 march, 1991 to 31 March, 1991.

455,000 ordinary shares paid to 1c were issued during the year by virtue of the exercise of options previously issued under the Employees and Directors option Plan.

Particulars of unissued shares under option as at the date of this report are:

Ordinary Optionholders - 3,111,248 ordinary shares

Price of issue of shares - 20c on acceptance of option and \$1.00 on exercise of the option.

Date of expiration of options - 31 march, 1991.

No person entitled to exercise any of the above options had or has any right, by virtue of the option, to participate in any share issue of any other corporation.

Other Information

The following information attached to this report shall be deemed to be incorporated herein:

- Particulars of the directors of the holding company in office at the date of this report
- A review of the operations of the group, and
- Information regarding likely developments in the operations of the group and the expected results of those operations.

TANDOU**- REVIEW OF OPERATIONS**

Directors are pleased to report that the group earned an operating profit of \$1,133 million in the year to 30 June last. A 5 cent unfranked dividend has been recommended. The improvement was achieved despite the wettest autumn on record which coincided with the harvest of our grain sorghum summer crop, which in turn, suffered some weight loss and was more expensive to harvest than we had budgeted.

The dairy at Broken Hill also incurred higher than budgeted costs in the start up year. New projects often take time to move into profits particularly where a new concept is involved, as in the case of the lot fed dairy. An improvement is expected this year.

The policy of keeping shareholders appraised of the present valuation of the enterprise was continued this year. Following the revaluation of the properties at 30 June 1989 the asset backing has risen to \$1.95 per share from the June 1988 figure of \$1.79 per share. On fully diluted basis after the exercise of the options in March 1991 the asset backing is \$1.72 per share. These figures are after making provision for the recommended dividend and exclude any increase in valuation of plant, machinery and licences.

The board continues to adopt a conservative attitude to the company's accounting policies, writing off the Sabstar Licence fee and retaining standard values for stock. In addition, the goodwill paid for the Broken Hill milk distribution business was written off as an extraordinary item.

Highlights of 1989

- > The company harvested 42,567 tonnes of grain in the period under review after losses estimated at between 3,000-5,000 tonnes as a result of bad weather. Thus the company achieved the tonnage of "greater than 40,000 tonnes" foreshadowed in the 1988 report.
- > Commercially viable yields were obtained from the trial cotton crop despite adverse weather conditions.
- > Surplus flows in the Darling River continued following heavy rains in the catchment area and the company holds sufficient water in its on-farm storages which when added to normal annual allocations, will allow for maximum irrigated crop acreages for fiscal 1990 and 1991.

> The purchase of the 5320 hectare property known as Texas Downs provides the company with the soils and location to develop an area of high value horticulture in the Western Division adjacent to Menindee having the added advantages of power, all weather roads and rail access.

> The appointment of a project manager to oversee the investigation of the sheep meat product has led to improvements in the product, the receipt of trial orders from Taiwan and Korea, and the beginning of test marketing in Australia.

Prospects for the 1990 Financial Year

> The expectation of harvesting similar grain tonnages to 1989.

> Continuation of surplus flows in the Darling River.

> Stable wool returns because of the Wool Corporation's Reserve Price Scheme.

> Lower returns from sheep sales.

> Expansion of the trial cotton area from 40 hectares to 150 hectares and the preparation of a 1000 hectare planting for 1991 which would be combined with the purchase of a small on site cotton gin if the results from the current year's planting reach our expectations.

> Expansion of the Broken Hill dairy production and the provision of a long storage life product to absorb surplus milk production.

> Positioning cube and hay production to take advantage of domestic and export markets when prices provide better returns than grain.

> Continuing evaluation and promotion of the sheep meat product.

> Planning for commencement of work on a higher value permanent crop on part of the Texas Downs property.

Detailed Review of 1989 Operations

Livestock

The company achieved its budgeted income from wool and sheep despite higher than normal stock losses stemming from the abnormally wet weather before shearing. An 80% lamb marking was achieved. The autumn and winter rains have ensured an abundance of feed.

Winter Cereals

Barley yields were in line with budget but prices received were higher and 7,000 tonnes were marketed with a spread delivery to an Adelaide based maltster.

Wheat yields were generally below normal expectations due to the later sowing but prices received were higher and 6,500 tonnes were marketed to an Adelaide stock feed mill with spread delivery.

1,060 tonnes of oats were harvested and mainly used in our dairy ration the balance being sold for stock feed.

A small trial of stock feed legume hay known as vetching was sown with triticale and produced promising yields. A decision has been made to increase the area of vetch to 400 hectares this year to provide the dairy with a higher quality hay while ensuring a harvest timing which will enable the field to be returned to summer crop in the same year.

Summer Crops

Grain Sorghum

A final harvest of 28,007 tonnes achieved under adverse harvesting conditions exceeded our 1988 annual report projection by 2,000 tonnes. The prolonged harvest due to wet weather necessitated the purchase of a large continuous flow grain dryer, additional pumps to remove surplus water and high flotation grain bins to carry grain from the field. 23,000 tonnes were forward sold in November 1988 to stock feed mills in Adelaide for delivery March to October 1989.

The remaining 5,000 tonnes have since been contracted for delivery October 1989 to January 1990 at a satisfactory price.

Cotton

A final harvest of 5 bales per hectare was an encouraging achievement as the crop had a poor start. The better part of the field yielded up to 6.5 bales per hectare and management believes that commercial yields are attainable at Tandou.

Forage Sorghum

500 hectares yielded 2,400 tonnes. 900 tonnes was transported to Broken Hill for processing into highly compressed bales for Japan, the balance being held for dairy ration. The very high rainfall during March and

April ruined the second cut of hay. Japan has expressed an interest in cubes made from grain sorghum stubble and test marketing will be undertaken this year.

Cubing

Apart from trialing grain sorghum stubble cubes and making dairy rations for Broken Hill the plant will be run on an opportunity basis when prices which can be obtained on the domestic or export markets are favourable compared with grain.

Hay Processing

Commissioning of the mechanical press has presented the exporter with a number of start up problems. It is expected that this facility on our lease in Broken Hill will be available in future to diversify Tandou's markets when export hay prices warrant growing crops for this purpose.

Lot Fed Dairy - Milk Processing - Distribution

During the year under review the company added low fat and flavoured milk, and orange juice to white whole milk being produced at June 1988. Subsequently the product range handled by the distribution arm has been rationalised to reduce costs.

Plans are in hand for increased production of a long shelf life product and marketing to areas outside Broken Hill.

Not unexpectedly operating costs were higher than budgeted during the establishment period under review.

Towards the end of the financial year a new manager was appointed for the dairy, processing and distribution functions and already significant rationalisation has occurred. A marked improvement is expected during the 1990 financial year. This appointment has allowed our veterinarian to concentrate on herd improvement, ration development and new products.

Rabbits

The company has sold all its stock to a Victorian producer who has been granted a licence. It was decided that with Western Australia and Victoria licensing other producers it was unlikely that Tandou could develop an industry with sufficient margins.

Staff

For the second successive year the farm programme has been made very difficult by abnormal autumn and winter rains. The board wishes to acknowledge the efforts of its staff in overcoming the obstacles presented by these circumstances.

The company continues to provide employee training and has recently appointed an agronomist with previous industry experience to the farm staff, a project manager for the Sabstar meat product, and a manager for the company's Broken Hill operations.

Prospects for Current Year

Water Resources

Off allocation of surplus water was available until end January 1989, recommenced in May 1989 and has been available on a continuous basis since then. The company has added to the earthworks on Lake Nettlegoe permitting the storage of an additional 15,000 megalitres of water taking the company's combined estimated water storages to 160,000 megalitres. It is anticipated that this current year's winter crop and part of the summer crop requirements will be met without the use of our stored water thus permitting a further two years of maximum irrigated area.

Livestock

The best pastoral conditions on record are currently being experienced. The company is currently carrying 25,000 sheep and lambs and it is anticipated that after sales and normal losses 19,000 will be shorn next April. Crop stubbles are available to assist feed if required. Wool sales should be similar to last year but it is anticipated that the value of sheep sold will decline.

Winter Crop

5,600 hectares of winter crop has been established with 6,000 tonnes of malting barley contracted. It is expected that the wheat will be marketed to the Adelaide stock feed industry and the triticale and vetch hay used for dairy rations. 75mm of rain from March to end of June resulted in a large proportion of this crop being late sown. Only moderate yields are expected but achieving higher prices than last year.

Summer Crop

Grain Sorghum

Approximately 5,000 hectares of grain sorghum will be established from early October to mid December and production will be exported if negotiations to sell to the local stock feed industry are not concluded at satisfactory prices.

Cotton

Approximately 150 hectares are to be established early October and several varieties will be evaluated. Our recently appointed agronomist will be working in this area.

A large proportion of the present profit from cotton is lost in transporting it to a cotton gin. A decision will be made next year whether or not to install a cotton gin at Tandou.

Stubble and Hay Processing

The late arrival of machinery combined with the wet autumn has delayed the evaluation of this process. Significant quantities will only be baled if sales are subject to contracts in \$A.

Sabstar Meat Licence

Following the appointment of the project manager, directors have decided to spend a further 12 months evaluating the market potential of this product.

Texas Downs

During the current year, soil types, and the prospects for various permanent crops will be evaluated. Ways of achieving additional water will also be examined to enable the early development of this strategically located property.

Property Valuation

Directors emphasise that a large component of any return on investment in agriculture is the steady increase in property values. They draw shareholders' attention to a note accompanying the latest property valuation. When referring to recent corporate acquisitions of irrigated farms the valuer states that "If this trend should continue then the value of Tandou may well be regarded as conservative as there are a few properties of the magnitude of Tandou particularly as the availability of irrigation water becomes more secure.

1990 Outlook

Shareholders should not expect a profit for the 6 months to 31 December 1989 because the winter crop is again relatively small and all the costs of establishing the summer crop are incurred in this period. Income from the summer crop will not be received until the latter part of the financial year when an improvement on the year under review should be possible. A dividend recommendation will be considered when the full year's result is known.

The company's assets should experience substantial capital appreciation if the company is successful with its cotton crop, decides to invest in a cotton gin and embarks on the first stage of development at Texas Downs.

Acknowledgments

The assistance of local and NSW Government Authorities in surmounting obstacles for the benefit of the West Darling Community and the company is again acknowledged.

WESTERN MINING CORPORATION HOLDINGS LIMITED**CHAIRMAN'S STATEMENT****Results for 1989/90**

Good demand for the Company's products on world markets continued. Prices retreated from the levels in the previous year, but remained generally satisfactory for most of the year.

The 1989/90 equity accounted profit was \$422.6 million. The 1988/89 equity accounted profit was reported last year as \$455.6 million but, due to changes in accounting standards during the year, items previously treated as extraordinary are now treated as abnormal requiring restatement of the 1988/89 profit to \$345.0 million.

The equity accounted return on shareholders' funds was 16.2%. Dividends declared were steady at 30 cents a share, totalling \$252.6 million.

Sales were \$1,380 million, 14.5% higher than last year. Over 75% of these sales was export income for Australia.

Nickel production was 24.5% higher than in 1988/89, and the second highest annual production from WMC sources. Lower output at Kambalda was more than offset by higher production at Leinster.

The average LME price for nickel for the year was US\$4.35 per pound, compared with US\$6.70 last year. It fell to a low of US\$2.68 per pound in January 1990 but by the end of June 1990 the price had recovered to US\$3.95 and by the beginning of September it was US\$5.00.

In gold production, the Company's equity was 14.4% higher than in 1988/89. Both the equity share in production at 938,894 ounces and the output of WMC-managed operations at 1,047,792 ounces were all-time records.

The price of gold fluctuated between US\$346 and US\$422 per ounce and the Australian dollar price between \$443 and \$561. The realised gold price, including hedging in 1989/90 was \$548 per ounce compared with \$560 in 1988/89.

WMC increased its shareholding in Alcoa of Australia Ltd from 43.7% to 44.7%. Alcoa made a record profit of \$742.9 million in the 1989 calendar year (\$421.3 million in 1988). In the first half of 1990 the profit of \$395.9 million was again a record. Alcoa benefited from the continued excellent performance at all operations, including the Hedges gold project, and from good alumina prices, despite a substantial fall in the aluminium price.

Developments in 1989/90

A review of the Nickel Division's future operations was in progress at year end and is expected to be completed before the end of 1990.

At Kambalda, development in existing mines was increased and additional mines were prepared for production, to enable higher nickel production within the next few years.

At Leinster, expansion of the treatment plant to 1.0 million tonnes was completed and a production rate of 14,000 tonnes of nickel in concentrate per annum reached. Mining of the economically accessible ore at the Mount Windarra underground mine was completed and the mine closed. Production from underground at South Windarra continued.

The largest contributor to the increase in gold production was Mount Magnet Gold Operations which more than doubled output following the first full year of production from the new treatment plant. Since the end of the financial year the Company entered into an agreement to acquire adjacent gold operations of Metana Minerals NL at Mount Magnet.

Repairs to the St Ives Gold Plant were completed and it is now operating at a rate of 2.7 million tonnes per annum.

Some operations at Norseman became uneconomic and, since the end of the year, Central Norseman announced that the Regent Shaft will close and operations will be scaled down.

In Canada, operating results at Chibougamau, in Quebec, were severely affected by lengthy interruptions to production because of repairs to the internal shaft at Copper Rand, and by the cessation of operations on 14 May because of inability to make progress in the three-yearly contract re-negotiations with the union. Resumption of production is awaiting conclusion of the negotiations.

Lead and zinc production at Gays River in Nova Scotia began during the year and the project is approaching scheduled production levels.

Gold production in Brazil increased.

The 51% owned and managed Olympic Dam copper-uranium-gold operation in South Australia performed well, notably in the latter part of the year. This project has now settled down to a steady operation in its initial stage of development.

Oil production in Australia and the USA more than doubled and gas production in southern USA increased substantially.

Talc operations continued profitably. Custom milling and marketing of talc continued in Europe and commenced in South East Asia.

The feasibility study of Queensland Phosphate's Fertiliser Project was completed. Because of the combined effect of the greatly over-valued Australian dollar and the high capital cost it is not possible to commit to the project at this time, although the operating costs would be very competitive in world terms. The project will be kept under review.

Exploration expenditure of all kinds amounted to \$101 million. It was almost equally divided between established mine areas, regional minerals exploration and petroleum.

Environmental rehabilitation of areas affected by WMC's activities continued apace. Modern rehabilitation techniques return much of the area disturbed into more useful land than existed before. A large part of the 0.02% of Australian actually disturbed by mining therefore is used only temporarily for that purpose.

An excellent example of the quality of such work is the regeneration of forest in areas mined by our associated company, Alcoa of Australia Ltd. Alcoa received rare United Nations recognition in June for its work during than last 20 years.

Staff and Employees

Strenuous efforts to improve safety resulted in the number of lost time accidents per million man-hours worked being reduced from 25.5 to 17.3. Considerable effort was put into various training programmes to improve the skills and performance of employees at all levels.

Staff and employees performed well during what was in many ways a difficult and challenging year. The Board acknowledges their commitment and contribution under the leadership of the Managing Director, Mr. H.M. Morgan.

Outlook

World market conditions for metals and minerals remain generally satisfied at present. The unrealistically high A\$-Us\$ exchange rate is affecting profitability adversely. A concerted effort will be made in 1990/91 to further reduce costs.

WESTERN MINING CORPORATION HOLDINGS LIMITED**CORPORATE OVERVIEW**

During the year under review WMC made further progress in its development as an internationally oriented resource based enterprise with product diversity and geographical spread.

Although less than planned, the Nickel Division recorded an increase in the level of production. Kambalda's production was disappointing, and steps have been taken to establish more favourable operating conditions which, together with production from the recently purchased Leinster leases, will result in higher levels of output in the next few years. A comprehensive study is currently in progress to determine how best to utilise WMC's nickel mining, concentrating, smelting and refining facilities.

In 1989/90 WMC produced record amounts of gold, but the benefit of this increase was for the most part lost due to the lower average price. The immediate challenge for the gold operations is to reduce costs and improve productivity.

WMC's shareholding in Alcoa has been very rewarding in recent years and a further 1% interest was acquired during the year.

Operating performance at the Olympic Dam copper-uranium-gold mine continued to improve. It has achieved its initial design capacity and is contributing to operating profit. The mine has large reserves and the capacity to expand appreciably. The joint venturers are currently reviewing the timing of such an expansion.

Production of petroleum in Australia and the USA is beginning to make a useful contribution to profits. This will add further diversification to the Group's activities and the benefits will become increasingly apparent over the next few years.

The Company has significant exploration skills, mineral resources, established processing facilities and a skilled workforce, all of which have taken many years to establish. These form a sound base on which to build.

WMC has grown mainly through exploration success. A continuing financial commitment to an active exploration programme together with adherence to the long established policy of technical innovation should ensure similar successes in the future.

FINANCIAL OVERVIEW**Sales**

Sales increased by 14.5% to \$1,379.9 million. Sales increases were achieved for all of the Company's products except nickel where the large fall in the nickel price more than offset the increase in the volume of nickel products sold.

Over 75% of sales represents exports, or imports substitution for Australia.

Profit

Equity profit after tax and minority interests was \$422.6 million which was 7.2% less than reported in 1988/89. However, after restatement of the previous year's profit, (see margin note) equity profit was 22.5% higher.

Alcoa of Australia contributed \$334.2 million towards equity profit, leaving a disappointing \$88.4 million from WMC's other activities. Lower realised nickel prices contributed to a \$139.8 million fall to \$125.0 million in pre-tax nickel profit.

Exploration charged to profit was \$111.9 million of which \$10.7 million related to expenditure in previous years. Over \$90 million of the charge to profit is a provision against expenditure on areas still being actively explored.

Depreciation and Amortisation

The charge to profit for depreciation and amortisation for the year increased by \$38.5 million to \$186.1 million. The increase was due principally to the start-up of the Leinster operations and expansion of petroleum activities.

Income Tax

The income tax charge against equity profits was \$224.1 million, a reduction from \$245.3 million in 1988/89.

The charge for the year represented an effective tax rate of 35% compared to the nominal rate of 39%. The main reason for the lower effective rate is the exemption from income tax of Australian gold mining profits. This exemption ceases on 1 January 1991.

Gearing, Borrowings and Shareholder's Funds

Cash and liquid investments at year end increased to \$593.4 million, up \$114.5 million from the previous year.

Borrowings increased by \$37.7 million to \$558.4 which included \$338.3 million of loans secured against the Olympic Dam assets without recourse to any other WMC assets. At year end, all forms of debt, net of cash and liquid investments, were only \$23 million.

The Company has committed stand-by facilities from major domestic and international banks totalling approximately \$400 million. These facilities, which mature progressively out to 1995, may be used to support the Company's own commercial paper issues or for direct borrowing.

During the year the Company received, or had re-confirmed, highly favourable ratings from leading Australian, US and Canadian rating agencies in relation to its short term debt including a P-1 rating from Moodys Investors Service.

The only issues of shares during the year were pursuant to the Employee Share Plan and the Dividend Reinvestment Plan, in which an increasing number of shareholders are reinvesting dividends. In 1989/90 nearly 34% of dividends were reinvested.

Shareholders' funds increased by \$186.2 million to \$2,544.4 million.

Capital Expenditure

Capital expenditure for the year, excluding exploration, was \$422.0 million well down on the previous year's expenditure which included the purchase of the Leinster Nickel Operations.

Apart from expenditure of \$68.4 million on the acquisition of further oil and gas properties in southern USA, capital expenditure for the year was concentrated on existing operations. Significant expenditures related to the refurbishment of plant and equipment at Leinster and the development of the underground mine at Junction, near Kambalda.

Exploration expenditure was \$101.2 million. It was almost equally divided between exploration at existing mine sites, regional minerals exploration and oil and gas exploration.

Shareholder Returns

Dividends declared in respect of the 1989/90 year totalled 30 cents per share, which was the same rate as for the previous year. The Company's successful Dividend Selection Plan, which applied to the November and April dividends and which enabled shareholders to elect to receive a franked or unfranked dividend, has been discontinued owing

to changes in the income tax laws which rendered the plan ineffective.

The final dividend payable at the end of October will be fully franked for all shareholders.

Earnings per share in 1989/90 rose from 39.9 cents to 47.8 cents, an increase of 19.8%.

Equity net tangible asset backing per share rose from \$2.76 to \$2.99.

Return on equity shareholders' funds increased from 14.6% in 1988/89 to 16.2%.

Exchange Rates

The average A\$ - US\$ exchange rate for 1989/90 was 0.7693 which was down on the previous year of 0.8123. The depreciation in the average exchange rate had a beneficial effect on the results for the year.

APPENDIX B

CRA**CHAIRMAN'S STATEMENT**

In 1990, CRA made good progress towards commissioning several new operations, and its persistent exploration efforts were rewarded by a number of promising discoveries. Market conditions, however, were less favourable than in the preceding year, so that profits were below the record set in 1989.

Earnings after tax but before extraordinaries were \$472.5 million compared with \$648.4 million in 1989.

The Directors have declared a final dividend of 24 cents fully franked for 1990, to be paid on 3 May 1991. This brings dividends for the year to 44 cents per share fully franked.

As announced in September the Dividend Reinvestment Plan and Share Investment Plan have been suspended. The strength of CRA's cash flow and balance sheet mean that, for the time being, internal growth opportunities can be adequately funded using existing capital and expected cash flow. The Directors, therefore, believe that it is not in the shareholders' interest to add to the company's equity at this time.

The outcome of the Bougainville dispute continues to concern us greatly. recent negotiations between the Papua New Guinea Government and a team of Bougainvilleans held out hope that a political solution might be in sight. Without that solution, reactivating the mining operation at Panguna is not practicable.

The loss of income from Bougainville Copper Limited has contributed to the reduction in CRA's earnings this year. While it is a loss that can be quantified in terms of dollars and cents, it is less easy to assess the cost to Papua New Guinea and the Province of the North Solomons of closing down such a valuable asset. Ultimately the economic loss is translated into fewer classroom places and hospital beds, more unemployment and a lower standard of living. The evidence of this is growing clearer to thoughtful observers. We can only hope that this realisation will contribute to a speedy resolution of the present dispute.

As mentioned in the Chief Executive's Review, international finance is becoming more costly as a result of the greater incidence, world wide, of non-performing loans and the need to reconstruct the economies of Eastern Europe. In these circumstances, CRA's strong balance sheet and sound gearing are especially important.

During 1990, gross balance sheet debt increased by \$86.0 million to \$1 206.9 million. Net debt (including short term funding as a percentage of net debt plus equity rose from 15.8% at the end of 1989 to 20.4%, reflecting the impact on shareholders' funds of excluding Bougainville Copper from the Group accounts and the run down in cash balances during 1990.

The current subdued rate of growth in the world's major economies seems likely to persist for sometime.

Inevitably, it has resulted in lower prices for a number of the commodities on which Australia relies heavily for export income. As a result international competition for markets has quickened, and it has become even more important to minimise each and every cost over which the Group has control.

It is equally important to encourage similar searching scrutiny of the indirect costs, usually controlled by Governments.

Environmental compliance costs are an increasing concern for resource developers. To some extent they are justified as the world grows more crowded and expectations rise, and a clean, pollution free environment becomes more valuable. There are, however, some environmental costs which are hard to justify: typical are those that arise from expensive delays and uncertainties.

During 1990, CRA has looked again at ways to ensure that its environmental practices are as effective as possible.

Group businesses cover a wide range of operations from exploration through mining top fabrication. Best practice in each of these fields is constantly evolving and no prescription of environmental standards will ever be totally satisfactory. What CRA aims to achieve is wide awareness of the importance of environmental considerations at all levels of its business so that no important decision is made without allowing for the environmental consequences.

In February 1991 the company established an Environmental Audit Committee of the Board. The objectives and membership of this committee and of the other two committees of the Board are outlined on page 45.

CRA has contributed to the debate on sustainable development. It has done this because it is essential that Australia quickly evolves institutions and processes that resolve arguments over environmental impacts in a rational and equitable manner. The present methods of gaining community approval for new projects tend to be slow,

cumbersome and unpredictable. They vary from state to state and are subject to a growing level of federal involvement. For companies like CRA they can be a threat to much needed new investment.

In 1990 Mr Denis Horgan resigned from the Board to devote himself to his other business interests. I would like to express the Board's appreciation to Mr Horgan for his valuable contribution. I also thank all CRA employees for their efforts over the past year. They have been few times in Australian history when the contribution of companies such as CRA to the country's economy has been more important. Ours is one of the few industries in which Australia is internationally competitive. Even so, we have to work hard to stay at the top, constantly looking for ways to do a better job. CRA people have successfully met this challenge in the past; I am sure that they will continue to do so in 1991.

CRA**CHIEF EXECUTIVE'S REVIEW
REVIEW OF ACTIVITIES**

Lower metal prices and the continued closure of the Bougainville mine ended a three year run of record profits. CRA's spread of world class operations tempered the impact of the price decline and Bougainville Copper's loss. CRA is well placed to operate profitably in what is likely to be a period of slower economic growth.

Earnings before tax for the twelve months to December 1990 were \$868.4 million, down \$189.6 million compared with 1989.

The extraordinary item in 1990 comprised a charge of \$72.0 million (1989 - nil), net of tax and minority interests, representing CRA's share of the 1990 reported result of Bougainville Copper plus the impact of the deconsolidation of CRA's share of that company's accumulated retained earnings. This charge and its basis are discussed below. Earnings after the extraordinary item were \$400.5 million compared with \$648.4 million (1989 - no extraordinaries).

The reduction in profit was due to lower metal prices and reduced sales volumes for some commodities, offset to some extent by higher prices for iron ore, diamonds, coal and salt. The year also saw industrial disruption at Hamersley Iron's operations and continuing disruption at Kembla Coal & Coke and Southern Copper, plus lower sales volumes from Argyle Diamonds and from some of the Colmaco Business Units. Gains through improvements in productivity slowed during 1990, an issue being addressed strenuously in 1991 by continuous improvement programs throughout the Group.

Earnings for 1990 included one abnormal item, a profit of \$68.2 million on the sale of a part of CRA's holding of Klockner Werke convertible notes. Abnormal profits for 1989, amounting to \$89.4 million, have been previously reported.

Minorities' share of earnings for 1990 was \$56.3 million, down from \$80.5 million in 1989, because of the lower earnings of Comalco.

Sales for 1990 were \$4 594.3 million, down 7.6% from 1989. The decrease results mainly from the absence of Bougainville Copper sales in 1990 (\$330 million in 1989) and lower aluminium prices.

The result has been determined after charging depreciation and amortisation of \$379.5 million (\$419.5 million in

1989), total government taxes and royalties of \$505.9 million (\$603.5 million) and financing charges of \$108.6 million (\$115.7 million). The lower depreciation and aromatisation charges arise from the exclusion of Bougainville Copper from the 1990 consolidated results.

Prices and Exchange Rates

Non-ferrous metal prices, with the exception of lead, were generally down from the price peaks of 1989. The average prices for iron ore, coal, diamonds and salt were higher in 1990 than in the preceding year. Declines of 10-20% in the prices of terminal market traded commodities were recorded in the last three months of the year.

During 1990 the US\$/A exchange rate averaged 78 cents compared with 79 US cents in 1989 resulting in a favourable effect on earnings of about \$20 million. Interest rates declined, especially in the latter half of the year.

Cash and Capital Spending

Cash generated by operations (after royalty and taxation payments but before exploration, research and development and capital expenditure) amounted to \$802.8 million compared with \$1 831.4 million in 1989. The lower cash generation was primarily due to lower earnings and an increase in working capital in 1990 compared with an unusually large working capital reduction in 1989.

Total capital expenditure, including investments, was \$771.2 million (\$1 289.0 million in 1989) with approximately 41% being spent on new projects and investments. The major items were the construction of the Kelian gold mine in Indonesia. The Peak gold mine and the Southern Copper smelter upgrade in New South Wales, and the completion of the Channar iron mine in Western Australia. In addition, \$134.6 million (\$55.8 million - 1989) was advanced to the Kaltim Prima Coal project, Indonesia, mainly for mine construction.

Capital expenditure to sustain existing businesses included technological improvement and modernisation programs across the Group, heavy mobile equipment replacements at Hammersley Iron and Comalco Mineral Products and expansion of capacity at Argyle Diamonds.

Bougainville Copper

The Bougainville Copper mine in the North Solomons Province of Papua New Guinea, which ceased production in May 1989, remained closed. The last company employees left the island in March 1990, the National Government's

security forces having been withdrawn from the island shortly before. The island was blockaded by the Port Moresby authorities from May 1990 until early this year.

National Government negotiators met with a team of Bougainvilleans in August and again in January of this year. Both meetings produced communiqus that promised restoration of government services. Some shipments of medical supplies have been made. Earlier, some services were restored to the adjacent island of Buka, and these continue.

With no production during the year, Bougainville Copper recorded a net loss after extraordinary items of K14.6 million (\$19.7 million).

There continues to be considerable uncertainty surrounding the future of the Panguna mine. Lack of care and maintenance and militant action will have caused considerable deterioration to company assets. Inability to visit the island has made it impossible to assess accurately any necessary writedowns. In the absence of any more realistic measure, normal depreciation and amortisation charges were provided for in 1990 and a write-off made for the loss of stores estimated to have occurred in 1990.

Because of the uncertainty, CRA has decided to deconsolidate the Bougainville Copper accounts to ensure that the group's balance sheet is not distorted by the inclusion of assets and liabilities from a non-operating subsidiary. The Bougainville Copper accounts are attached to the CRA Statutory Report and Accounts.

It remains Bougainville Copper's intention to resume operations when conditions permit. There have been some discussions initiated by the Papua New Guinea with CRA about the company's investment in Bougainville Copper. The Government has been informed that CRA is not seeking to sell its investment, but that if a change in ownership is the final impediment to a political resolution then CRA would be prepared to consider the disposition of its investment, provided the company was adequately compensated for the loss sustained and the interest of the public shareholders in Bougainville Copper were adequately safeguarded.

A short account of the constrictions Bougainville Copper has made in Papua New Guinea appears on pages 12 and 13 of this report.

Credit Lines Strengthened

Reverses suffered by major international banks, particularly in America and Japan, have led to rise in bank lending margins. International banks have been curtailing their lending activities in Australasia and restricting lending only to prime Australian corporations and projects. The major issue for many Australian companies over the next few years will be the availability of foreign funds rather than the cost.

In response to this developing situation, during 1990 the CRA Group moved to secure further its access to such funds. Major debt facilities of US \$950 million have been refinanced in recent months for terms of five to seven years.

Despite the general tightening in credit, it is expected that banks will continue to lend to export oriented projects sponsored by credit worthy participants with a proven track record. CRA's strong balance sheet and its excellent current credit ratings give it a competitive advantage in this area.

Growth

The year has seen the expansion of some existing businesses and steps to bring several important projects to fruition after much hard work.

In Indonesia, the Kaltim Prima coal mine (CRA 50%) and CRA's Kelian gold mine (CRA 82.75%) are both expected to be completed in September 1991. These two projects, which are in the province of East Kalimantan, will be Indonesia's largest coal and gold mines respectively.

The smelter upgrade program, including the installation of the new Noranda furnace at Southern Copper in Port Kembla, New South Wales, is also nearing completion after having been delayed by industrial disruption. The production capacity of this operation will be doubled as a result of the upgrade.

During 1991 work will continue on the construction of The Peak gold mine in Cobar, New South Wales, which is expected to be commissioned in 1992. Last November the Western Australian Government announced that it had approved the excision of the Marandoo iron ore deposit and related infrastructure corridor from the Hammersley Range National Park. The development of the Marandoo mine will underpin the long term export competitiveness of CRA's Pilbara iron ore operations. Later this year construction of the HIsmelt Research and Development Facility, a joint venture with Midrex Corporation of the USA for the direct smelting of iron ore, will start at Kwinana, south of

Perth. These are all important projects that will help to shape CRA's future.

Since the close of the financial year CRA has announced that it proposes to make takeover offers for the shares in Coal & Allied Industries Limited. The price which is proposed for the purchase of the shares is \$7.85 per ordinary share. An association with Coal & Allid's Hunter valley coal mines would make CRA a major participant in the traded steaming coal sector in the Pacific Basin.

Continuous Improvement

Slowdown in world economic growth has inevitably affected demand for most minerals. CRA is better placed than many of its competitors because of the high quality of its resources and operations. The wide variety of commodities produced by the Group helps to even out the fluctuations of the mineral price cycle because prices for all mineral commodities rarely move completely in unison.

However, the tighter business conditions accentuate the importance of having a clear sense of purpose and direction within the Group. CRA businesses continue to adhere to the strategy described in last year's Report. That strategy has, as its key element, the maintenance of the international competitiveness of our existing operations.

Last year, CRA businesses sought to enhance productivity and cost effectiveness, mostly through incremental improvements. While always alert to ways to make a major breakthrough, in reality international competitiveness rests on the ability to work effectively and to make existing assets more productive. Hamersley Iron and Dampier salt are both examples of Group operations where continuous improvement has led to record production in recent years.

It will take some time before the ideals of continuous improvement are uniformly implemented. Before operations can adopt the concept as an operating philosophy, CRA must convince all of its people that satisfaction with the status quo leads to complacency and, eventually, loss of competitiveness. Management cannot expect employees constantly to seek to improve unless they fully understand their roles and their importance to the organisation. For that reason, the CRA Group takes employee training very seriously. In 1990 approximately 7% of payroll costs were dedicated to training.

Exploration and Research and Development

Matching the Group's commitment to training and skills enhancement is a commitment to maintaining exploration and research and development programs. Often these activities are jettisoned or cut back when markets contract and profits fall. CRA believes that such a course is not in the long-term interests of the Group and that the human skills and experience involved are assets too valuable to discard and very difficult to replace.

1990 saw CRA geologists make a number of promising discoveries culminating in a major base metals find in north-west Queensland. The naming of the zinc-rich Century deposit is a tribute to the miners who first worked the area one hundred years ago. It is also a reminder that even land that has been thoroughly explored in earlier years can still hold surprises. This deposit is only one of several promising base metal prospects currently being examined, all of which are the outcome of long-term exploration programs using talented expertise and significant resources.

Overseas exploration has concentrated on gold. Decisions have been made to mine the Kelian gold deposit in Indonesia and the Mt Kare colluvial deposit in the Papua New Guinea Highlands. Further exploration work was undertaken near the Hidden Valley gold deposit in Papua New Guinea's Morobe Province and at the hardrock gold prospect near the Mt Kare colluvial deposit.

Within Victoria there has been progress in solving the processing problems posed by the fine grained nature of CRA's world class mineral sands deposit.

In 1990, \$71.4 million was spent on research, technology and development compared to \$76.4 million in 1989, the reduction reflecting the hiving-off of 50% of Biotechnology Australia and the lower level of spending on HIsmelt research while activities were being relocated from Germany to Australia. Work began on the establishment of a new research and development facility at La Trobe University in Melbourne late in the year. This facility will bring together research and development activities previously carried out in various parts of CRA in Victoria and New South Wales. Currently, areas of research being pursued by the Group include aluminium smelting, rolling and casting technology and computer aided blast design.

Outlook

Consumption of most mineral commodities declined marginally in 1990. This reflected a lower rate of world economic growth, which has continued into 1991. The extent and duration will obviously be affected by the aftermath

of the Gulf war and the impact of recession in international economies.

Within Australia it seems probable that the economy will remain depressed during 1991. This will have less impact upon companies that export the bulk of their products than it will upon those that depend upon the domestic market.

The critical issue remains that of tackling Australia's foreign debt and improving international competitiveness across the whole economy. If this debt is not brought under greater control the international investment community may impose corrective measures that will affect all Australians. Given the more severe trading climate that promises to prevail, it is imperative that every part of the Australian economy functions at maximum efficiency to promote a more competitive export sector.

The slowdown in world economic growth is more pronounced among the industrialised English speaking nations. Relatively robust growth continues to occur in those Asian countries which are important markets for many CRA products. Thus the outlook for CRA businesses remains more positive than might be indicated by broad measures of world growth.

PACIFIC DUNLOP - CHAIRMAN'S COMMENTS

Dear Shareholders,

many of the world's economies are going through a difficult period. At this stage there is no clear indication of how long this may last, which means that global companies such as Pacific Dunlop have a particularly demanding management task ahead if they are to maintain their growth.

In Pacific Dunlop's case, the challenge is being made harder by the severity of the downturn affecting the Australian economy where we have some two thirds of our operations. Last year's results in the circumstances are therefore very commendable. They illustrate just how well Pacific Dunlop is positioned in its markets.

The year, however, had its sobering side in that we were compelled to reduce and re-focus some of our operations. At the same time we placed maximum emphasis on productivity improvement and consolidating the gains of recent years. This cleansing process has been a healthy, invigorating experience and we entered the current year a better company for it. This has been achieved without sacrificing or compromising our essential capital needs for the future.

Your Board knows that conditions will still be difficult in many areas but after last year we are an even leaner, more competitive company. We believe Pacific Dunlop's policy of making the most of offshore opportunities and focusing on international competitiveness within our businesses remains vital for the future. Despite difficult times in Australia and uncertainty in the world environment we will pursue our objective of superior performance. This will always remain our goal, no matter what the economic circumstances may be.

Finally, I would like again to record appreciation of the valuable service given by two of our former Board members, Bill Beischer and Bruce Redpath, who retired at the end of 1989, and welcome two of our group Managing Directors, Rod Chadwick and Graham Spurling, as new Directors from July 1990. I will be retiring from the Board after the Annual General Meeting in November when the Deputy Chairman, Mr John Gough, will become Chairman. The 12 years I have served as a Director have seen enormous growth for Pacific Dunlop. They have been exciting years and stimulating for me personally, and I have great pleasure in recording my thanks and appreciation to my fellow Directors, management, and everyone in the Company, for their contribution to its success.

PACIFIC DUNLOP**MANAGING DIRECTOR'S COMMENTS AND REVIEW OF ACTIVITIES**

Overall we had a very good though mixed year. the closer we were to the consumer, the more difficult business became. This happened particularly in Australia where the economic downturn has been quite severe. As a consequence we had to buckle down and do all we could to turn any negatives into positives. The response throughout the company was outstanding. The approach throughout the year was positive and proactive with the enhancement of shareholder value being the prime concern.

Pacific Dunlop is very much driven by the desire to increase the value of its shareholders' investment. We are not interested in the buzzwords which usually surround this subject, only in ensuring that our minimum required performance levels are attained. This means protecting shareholders' interests at all times, managing soundly, not being afraid to dispose non-performing assets, ensuring the continuing growth of the company and calling on shareholders for funds only when significant growth opportunities are available. Our people achieved this, often in demanding circumstances, and our thanks go to all our managers and employees, many of whom are shareholders, for their contribution to the results. Shareholders will remember that this time last year Australia had come out of five to six years of very buoyant conditions and relatively high domestic growth. Housing starts were a record, commercial property construction was peaking, there were tax cuts increasing disposable income and the climate was generally one of optimism and expansion. Pacific Dunlop shared in this growth. But economies cannot always continue to expand and there must come a time when they must be reined in.

In Australia's case this has meant some painful policies, including very high interest rates.

We saw very early that Australia was slowing down and in November flagged this in the Chairman's remarks at the Annual General Meeting. Our priorities became working capital control and extracting cash from under performing assets. We curbed our capital needs, brought inventories and accounts receivables under tight management control, and pulled gearing back to 46.5 per cent. When the year started, we were at the upper level of our own conservative gearing standards at 61 per cent. As we stated at the time, our own strong cash generating capacity was expected to substantially reduce gearing, which is what we in fact achieved.

In Australia the effects of the downturn were first evident in the consumer products areas and then moved progressively into other activities of the business. The **Pacific Brands** group was the first to feel the brunt. They had to cope with massive adjustments by their customers to inventories. Rob Hershan and his people acted decisively and effectively, and in several months made major changes which have given us greater economies of scale domestically and greater flexibility in the sourcing of products. Pacific Brands today is a considerably rationalised group with fewer profit centres, higher productivity, and a brighter future. Part of their success has been in building longstanding relationships with customers, including assisting them in making the fullest use of brands in marketing.

Ansell maintained its position as the world's high quality, low-cost producer and distributor of latex and synthetic polymer gloves, balloons and condoms after a problem period with latex prices in 1988 when many new entrants began manufacturing. It was only in December 1989 that the market returned to normality, with the clearing of excess market supplies of examination gloves. Ansell's plants are now operating at full capacity again. Ansell used its management talents led by Harry Boon very well. They have a worldclass technology base, excellent spread of customers, and are clearly world leaders in their field. Ansell are now in the process of opening up their Sri Lanka plant, their sixth plant in Asia, which will allow greater flexibility in supplying products to Europe and North America. The integration of Edmont with Ansell has been an outstanding success, and we warmly welcome their people to Pacific Dunlop.

The Distribution Group was another to adjust exceptionally well. Neville Moffat and his management team are positioning the group very strongly. They have consolidated the electrical businesses, integrated the Repco Australian and New Zealand operations very successfully and recently added the large service station distribution business which supplies Shell Shops around Australia. This new business is being merged with Repco and over the next two years we can expect even greater synergistic benefits from Repco. In the US Graham Spurling led **GNB Batteries** to another year progress in their long-term program to improve earnings. Their task is not being made easier by the extremely difficult and competitive nature of the American automotive battery market where surplus capacity indicates the need for further industry rationalisation if there are to be acceptable returns on investment in the future. Much of GNB's rationalisation program was completed this past year in both the US and Australia. As a result, GNB has a more efficient, slimmed down manufacturing operation, with lower unit costs. We

also believe their approach to battery recycling will have significant community benefits.

The Industrial Foam & Fibre Group is a very important part of Pacific Dunlop. Like Distribution, it is highly decentralised with over 20 profit centres ranging in revenues from around \$10 million to \$100 million in size. It's very adaptable to the economic cycle. Last year was its best ever in terms of profit and cash generation, despite a difficult second half, and reflects the ability of the management team led by Grant Latta.

Continued commitment to productivity improvement and marketing was also behind the outstanding performance of **Alex Cables** led by Bob Cruickshanks. They have decentralised manufacturing operations and in July 1990 enlarged their building wire manufacturing with the acquisition of Burton Cables in Australia. They have also developed very good relationships with their customers, in particular Telecom which they partnered in a winning tender for a large cable contract in Pakistan. Olex also won a significant underground high voltage cable contract from the State Electricity Commission of Victoria. We are optimistic about the prospects of the new Olex joint venture plant in Shenzhen, China, where the initial orders already indicate output will be running at a very strong level.

The **Medical Group** led by Bill Thomas placed their product development and marketing on a more commercial footing. Teletronics consolidated its position as a world leader in implantable heart pacemakers and defibrillators for regulating heart rhythm. In both products they have achieved superior performance and technological excellence. We are equally pleased with the success of Cochlear with their hearing devices receiving American FDA's go-ahead for implanting in children aged 2 to 17. Increased sales for the Medical Group in the last quarter confirm our expectation of another year of growth ahead. Medtel, which distributes critical care medical equipment, and Domedica, which markets blood products, also performed very well.

The remaining business area I wish to comment on is South Pacific Tyres. Rod Chadwick has been in charge of this since its formation as a joint venture with Goodyear in 1987 and has faced a very real challenge in bringing the operation up to world standard. This should be achieved by 1992. The past year consolidated earlier gains and saw two important steps to lift productivity in the future. These were the commissioning of a new world standard steel truck radial tyre plant, which will reach full capacity by late 1991, and the agreement with employees and unions for greatly increased utilisation of productive capacity.

These two steps in addition to the improvements already in place will translate into significant productivity gains over the next few years.

In discussing the Company's performance, the outstanding contribution of our corporate financial team under the leadership of the Finance Director, Ian Clark, deserves special mention. They have displayed exceptional talent in the efficient management of the Company's funds and cash flow around the world. This has been a major reason behind our high credit rating and excellent capital markets access. To summarise, each of our businesses is competitive and strongly positioned for good performances over the next three to four years. The recent acquisition of Burton Cables, the offer for Vita Pacific, and the commissioning of strategically located new production facilities in Asia and Australia are also part of this positioning. From this sound base, we are confident of Pacific Dunlop's ability to perform creditably in the current difficult Australian economy and uncertain world environment.

ANSELL INTERNATIONAL

Ansell delivered another year of good results. This was despite the market upheaval caused by more than 200 new producers of latex examination gloves in Malaysia and Thailand which led quickly to oversupply, severe price competition and low margins. The situation stabilised progressively as examination glove users turned back to establish high-reputation suppliers such as Ansell who could meet new lower price levels while maintaining stringent quality standards. By year end, most of the new competitors had gone, latex prices were back to historical levels, and Ansell examination gloves were again running at full production capacity in all factories.

Management continued its focus on maintaining Ansell's position as a low cost producer and distributor of high quality natural and synthetic latex products. As part of this strategy, Ansell is concentrating production in the Asian region where it already has five plants in Malaysia and Thailand. During the year a sixth was added in Sri Lanka, where a major new facility covering a 26 acre site near Colombo will begin production late in 1990. World balloon production is also being centred at Ansell's Lat Krabang plant near Bangkok where additional equipment has been installed for Ansell's growing presence in the world market for quality balloons.

The acquisition of Edmont in mid-1989, which made Ansell the world's largest producer and distributor of synthetic industrial gloves, was an opportunity to reorganise the

manufacturing and distribution facilities at a number of Ansell's North American operations.

The full integration of Edmont with Ansell's existing industrial glove operations in the US and Europe was successfully completed within nine months. Dothan and Troy, Alabama, became the main North American manufacturing centre for latex products for the consumer and medical markets whilst the acquired Edmont facilities continued to focus on industrial gloves. A program is now in place to achieve greater autonomy, improved quality and lower material costs.

Important changes were also made in Ansell's worldwide marketing and distribution which were reorganised into three divisions: Industrial, Medical and Consumer. They will be supported by a new global computer system which is being progressively brought online to improve marketing, inventory control, warehousing, distribution and manufacturing systems.

Industrial includes the Edmont industrial glove range. Ansell now operates six industrial glove factories in the US, Canada and Mexico, and is the world's largest industrial glove manufacturer and distributor, covering a diverse range of industries around the world, and also leads in the research and development of new products.

Medical includes surgical gloves, medical and dental examination gloves. Sales of all products reached another record high which can be attributed to the quality and value offered by Ansell's product range worldwide combined with the effective distribution network established in recent years.

Consumer includes household gloves, condoms and balloons. Ansell successfully launched a new range of condoms to world markets incorporating the latest testing and quality standards, and was again the major supplier to the US Agency for International Development which provides condoms to developing countries. Both Mates and Lifestyles brands of condoms made steady progress in UK, USA and Australia despite lack of growth in condom markets generally.

DISTRIBUTION GROUP

The Distribution Group is Australia and New Zealand's largest supplier of electrical, automotive and industrial products to end user markets. With an Australasian network of 604 branches, it was in a strong position to withstand the downturn in consumer demand during the second half.

Priority was given to improving efficiency through extensive staff training programs and installation of advanced computer systems which can provide paperless electronic data exchange between customer and branches. These are providing improved customer service and assisting sales analysis, ordering, stock and cost controls.

The success of the new system is being demonstrated by the Dunlop Industrial Sales division under an agreement with the BHP Slab and Plate Product Division at Port Kembla, NSW. BHP is now able to order any of 2,500 contract lines from DIS by direct computer access, and DIS will deliver to any of 65 nominated sites on a 24-hour, seven-days-a-week basis. Products range from transmission belts and hose, fasteners, hand and cutting tools, abrasives and paints to welding and safety equipment. Divisional strategy is aimed at increasing its involvement with industry through similar large scale contracts.

the electrical divisions of Lawrence & Hanson, Auslec and Wattmaster experienced continued pressure on margins as housing demand declined in the higher interest rate environment. The emphasis therefore has been on cost control.

The Repco automotive parts businesses in Australia and New Zealand contributed their first full year, with results ahead of expectations. An added benefit was the acquisition of the Repco importing and distribution operation in New Zealand at the start of the year. This added a further 33 branches and is leading to excellent trans-Tasman synergy. Repco was further expanded in May with the acquisition of the national service station distribution business supplying approximately 800 Shell throughout Australia. Significant cost savings are expected from the merging of the purchasing and distribution activities for the Shell outlets with those of Repco.

G N B BATTERIES

GNB reinforced its position in the United States battery markets where it ranks as the third largest automotive battery manufacturer and the second largest in industrial batteries. It is the largest in both Australia and New Zealand, and is the premier manufacturer of industrial batteries in Canada. It is also the second largest recycler and producer of lead in North America. GNB operates in a highly competitive environment, particularly in the US automotive battery market where surplus industry capacity has stimulated intense price competition. Further industry restructuring will be necessary to achieve acceptable profitability in the future. GNB's focus during

the past two years has been to reduce costs, improve productivity and product quality, maintain the strong brands identification and lift customer service to superior levels. As part of this program GNB reduced its number of American factories from 12 to 5.

Distribution is being strengthened with the establishment of a company-owned network supplying gas stations and other users throughout the US. Three battery distributors were acquired as part of this policy. GNB has a strong customer base with over 20 per cent of the US original equipment market and major contracts to retailers, including Wal-Mart/Sams, the fastest growing retailer in the United States.

The US launch of the Champion Switch automotive battery using Pulsar technology is being followed by studies of new applications. GNB is a major supplier of traction and stationary batteries in the United States. In Australia, the downturn in consumer demand together with reduced tariffs and increased imports, including "dumping", affected automotive battery sales and profits. The New Zealand market also slowed with deregulation, tariff reduction and a rapid increase in import competition. A branch rationalisation program is currently underway in these markets as part of an overall program to improve distribution and customer service, and contain costs.

The Pacific Marine Batteries joint venture in Australia with Varta Batterie AG of West Germany for submarine batteries is progressing to schedule, with the building of a new 2,800 square metre factory at Port Adelaide.

Lead recycling became an increasingly important and profitable part of GNB's operations during the year. GNB's three US recycling plants in Los Angeles (California), Frisco (Texas) and Columbus (Georgia) are recycling over 150,000 tons of lead a year. Recycling helps overcome the threat to the environment posed by discarded batteries.

The recycling program is making GNB a totally integrated battery manufacturer. It enables GNB to provide total battery management from raw material supply through production, distribution and customer service to the collection of discards for return to the production system. GNB is going a further step by providing recycling programs for major customers. GNB is now looking at new technology to upgrade the existing smelting operations in Los Angeles and Frisco. A study is also underway in Australia to investigate how the total battery management concept can be introduced in Australia and New Zealand.

The operations in this group comprise diverse manufacturing and marketing companies with significant market shares, strong cash generation and operating flexibility to adjust to changing conditions. These attributes are reflected in their sales and profit growth.

The Industrial Group of companies (rubber, plastics and transmission products) continued to achieve excellent returns. Results include for the first time those of Techbelt Pacific, a joint venture formed at the beginning of 1990 with Goodyear in steel cord conveyor belting. Performance exceeded expectations. Techbelt Pacific is the only manufacturer of steel cord conveyor belting in Australia, and new equipment being installed at its Paymaster, Melbourne, plant will make it the most advanced facility of its kind in the South-East Asia region.

Acquisition of the rubber compounding activities of Emhart broadened supply arrangements to a number of Dunlop businesses as well as outside customers. Improdex/Chemby Vinyl, which was previously part of the Pacific Brands group, maintained its Australasian leadership in custom compounding of PVC and thermoplastic rubber.

The Plastics Division realised the full benefits of the acquisition of Barfell, Australia's leading manufacturer of swimming pool hoses and associated products. Plastics operations were further expanded at the start of the current financial year with the acquisition of the plastics extrusion business of Hunter Douglas in Brisbane. Together with existing extrusion plants in Sydney and Melbourne, this gives Pacific Dunlop technical leadership in producing a wide range of specialised extruded shapes for building, automotive, whitegoods, furniture and general industrial applications.

The Foam and Fibre Group had outstanding results. The bedding division performed well in a highly competitive market with continued success from Miracoil's marketing programme, a successful re-launch of the Slumberland brand, and entry into the New Zealand market with the Slumbertime acquisition.

The Flexible Foams Division continued its strong performance and achieved excellent results from its new Wetherill Park plant in Sydney. The Ribbertech Latex operation in New Zealand was restructured to enhance its profit performance and Joubert & Joubert commenced construction of a new production facility in Dandenong, Victoria to manufacture its innovative commercial flooring products range.

RMAX installed advanced computer controlled cutting equipment during the year which has improved productivity

and quality of the Division's expended polystyrene products. Its operations will be expended during 1990/91 with the acquisition of New Zealand's largest polystyrene foam business, Barnes.

Tontine Industries introduced a new premium domestic brand, the Comforteue, for polyester pillows, and extended its range of Van Winkle mattress protectors and pillows into the hospitality market. Sales of the Triflex Headliner, widely used in the automotive industry were excellent, and sales generally improved in a tight market.

OLEX CABLES

Olex Cables is beginning to reap the benefits of five years' work in developing a world-class engineering and technical operation. This is being seen in the increasing number of major export orders and offshore contracts, and the opening this year of a joint venture factory in China.

Additional contracts were obtained for 110kV and 132kV power cables in Malaysia and for the optical fibre cable requirements of Televerket, Sweden's Telecom. Other major export successes with optical fibre cable were for a petrochemical complex in India and a joint venture with Telecom Australia to supply and install a 2,000 km voice and data telecommunications system in Pakistan.

The new China factory is operated by Shenzhen Olex Cables Limited in Guangdong Province where Olex has a 75 per cent managing interest in partnership with the Shenzhen Science and Industry Park Corporation and the China National Post and Telecommunication Appliance Corporation. This highly automated, high-speed facility is designed to help meet China's growing demand for telecommunications cable, as well as supplying South-East Asian export markets. Chinese nationals who hold supervisory engineering positions at the plant spent three months in training with Olex in Australia earlier in 1990. During the year, Plex became one of the few manufacturers in the world with the technical capability to produce 220kV cable. By mid-1991, Olex will have produced and installed 27km of the new cable, the longest high voltage underground project yet undertaken anywhere in the world. It will link two suburban terminal stations for the State Electricity Commission of Victoria in the heavily built-up area of Melbourne. The Olex-designed high voltage cable is a copper conductor, insulated with cross-linked polythene and hermetically sealed in a corrugated stainless steel sheath making it one of the first of its kind which can be safely buried.

At the start of the current year, Olex strengthened its building wire manufacturing operations with the

acquisition of Burton Cables. Burton also supplies the Click brand of electrical accessories to the retail market.

MEDICAL GROUP

The Medical Group made a good contribution to results while building a solid platform for significant gains both in the current year and the long term. The Group has three advanced technology core businesses which operate worldwide: Electronics, Cochlear and the Distribution Group. During the year, each strengthened their marketing and management systems, improved manufacturing productivity, and continued to develop and rationalise product lines. Electronics consolidated its position as a world leader in implantable heart pacemakers and defibrillators for regulating heart rhythm. Strong market share growth was achieved in both the USA and Europe, particularly with the newer rate responsive and dual chamber products. A detailed strategic plan of the business has laid the foundation for the division's growth well into the future, and new technology products are being added to its range. United States Food and Administration (FDA) approval was received for the Meta single chamber rate responsive cardiac pacemaker is now in clinical trials in the USA. The FDA also approved the Reflex single chamber pacemaker for commercial sale.

The advanced Guardian 4210 antitachycardia pacing defibrillator recently began clinical trials in the USA; to date, more than 600 defibrillators have been implanted throughout the world. Manufacturing of Electronics bradycardia pacemakers is being centred in Miami, Florida, with a consequent significant reduction in product cost. Research and development and manufacturing of defibrillators is being consolidated in Sydney to achieve excellence in design, productivity and lower product cost. Products such as defibrillators are high value-added export earners with strong prospects for the future.

The **Cochlear** division is the developer and manufacturer of the hearing device which stimulates directly the auditory nerves in the inner ear through an implant in the snail-shaped cochlear bone. More than 2,200 people around the world are hearing today because of the cochlear technology. In June, 1990, Cochlear received FDA approval to extend the use of the cochlear implant to children aged 2 to 17, providing the possibility for many thousands of American children to hear. This long-awaited certification is a significant step forward in marketing the device. With head office, research and development, and production facilities in Sydney, Cochlear represents a unique Australian entry in the world of high technology. Cochlear

serves the expanding US market out of Denver and has a growing presence in Europe, the Middle East and Japan.

The distribution division markets critical care medical equipment through Medtel and blood products through Domedica. Domedica achieved good growth in the blood component technology and renal replacement therapy markets. Medtel is a service-oriented business selling highly technical life science products in the Asia-Pacific area where it continues to expand. The Medical Group will continue its already substantial commitment to research and development. R&D spending on new and improved products from the core businesses is being maintained at greater than 12 per cent of revenue, of which more than 20% is for applied and basic research. Investment at such a high level is essential for the Group to take advantage of the major market opportunities available to it over the next decade.

PACIFIC BRANDS

The slowdown in Australian consumer spending in conjunction with reducing levels of protection meant that the anticipated changes to Australia's clothing, footwear and sporting goods markets occurred much quicker and impacted more severely than expected. As Australia's market leader in these areas, Pacific Brands was forced to accelerate its own restructuring plans and compress a planned two-year program into six months.

Management's achievement in doing this, while maintaining a satisfactory level of performance in very difficult and volatile circumstances, is a tribute to their planning and ability to respond. By year end the adjustments were almost complete, placing the group in a much stronger position which will improve profitability in the future. The changes have had three important effects. The first is a substantial cut in production capacity and a one-third reduction in employee numbers from 9,900 to just over 6,500. In the footwear group, which was the focus for early adjustments during the year, production capacity was reduced by 40 per cent against an industry average of 15 per cent. The second effect was a move towards more importing, especially in footwear where the balance was shifted from 50 per cent imports at the start of the year to approximately 70 per cent imports by year end. The third effect has been even greater emphasis by management on asset management and expense control. The need for positive action became apparent early in the second half of calendar 1989 when trading environment in both Australia and New Zealand began to change rapidly as the prolonged high interest rate environment affected retail

demand. The suddenness and degree to which this occurred exposed an excess capacity problem, leaving both manufacturers and retailers overstocked. A surge in imports added to the problem. Clothing imports rose by 13 per cent and footwear imports by 11 per cent.

Margins were consequently eroded by the action necessary to address these problems and clear excess stocks. Action by the group included the closure of the Hollandia and Jeffies footwear businesses, a reduction in Grosby Australia's capacity, and the closure of the Holeproof sleepwear businesses.

Rationalisation also took place in the group's fabric processing and men's underwear production. Heathcoat Fabrics, Grosby K-P in the Philippines, Bonds Weaving and Biflex divisions were sold.

Improvements were made to the number of existing operations. Bonds Industries completed the investment of \$25 million in its Wentworthville spinning plant in Sydney to make it one of the most modern of its kind in the world.

Holeproof's women's underwear division achieved an excellent turnaround, and the men's underwear division enjoyed another good year. Manufacture of the Jockey range was concentrated at Maryborough, Victoria, as part of a major restructuring. Holeproof's joint venture sock factory in Beijing was successfully commissioned in mid-1990 to supply overseas and Australian markets.

The Winestock footwear importing division, Australia's largest leather and non-leather import firm, moved from Sydney to Melbourne to be closer to its main customer base. The Dunlop range of safety footwear brands was expanded with the acquisition of Tuf Footwear.

In the Sporting Goods division, the footwear manufacturing facilities of Niblick and adidas were combined, the bicycle marketing strategy of Repco and Malvern Star was defined and Dunlop Slazenger performed well.

SOUTH PACIFIC TYRES

The South Pacific Tyres joint venture with Goodyear continued to progress towards its goal of becoming a world competitive tyre manufacturer by the end of 1992. Further advances were made in the priority areas of productivity and work practices, production technology and brand positioning. These were achieved in a market environment of reduced demand for replacement tyres and new cars.

Restructuring is continuing in the current year, with the commissioning of a new \$80 million radial truck tyre plant at Somerton, near Melbourne, closure of the old Granville plant in Sydney, and major improvements to the Footscray and Thomastown operations in Melbourne. As a result, all Australian tyre manufacturing operations will be close enough to each other in Melbourne to enable economies of scale. Other developments planned for the current year include the release of new products, introduction of a new dealer development program, reorganisation of retreading operations, and greater attention to quality performance through the introduction of TEAM quality culture.

The improvements achieved already have resulted in increased exports of tyres to 23 countries, including the United States, where a special Dunlop design is standard equipment on the Australian-made Capri sports car sold by Ford through its Lincoln-Mercury dealers.

During the year both the Somerton and Thomastown plants were awarded Ford Q1 quality status, the highest international supplier award given by Ford. The success, however, is being offset by the Australian Government's policy of reducing tariffs which has opened up Australia as a market where overseas producers dispose of over-capacity output at "dumped" prices. These imports now account for over 40 per cent of the Australian market. A more recent concern is the unrestricted entry into Australia of second-hand Japanese tyres. These are attractive to some buyers because of their very low price but their safety on Australian roads, for which they were not designed, and their environmental impact is questionable.

Significant restructuring of the New Zealand operations is also underway which will reduce the number of tyre ranges, improve productivity and strengthen marketing. Product sourcing from Australia will also be increased. The independent marketing arms for Dunlop-Olympic and Goodyear tyres strengthened their operations throughout the year. The introduction of several new passenger tyre designs assisted the growth in market share. The wholly-owned retailing chains consolidated their market-leading positions with improved store identification and layout, and greater attention to customer service. In Australia, the retailing groups are Beaurepaires for Tyres, Goodyear Tyre and Break Service, and McLeods Tyre Stores. Both Beaurepaires and Goodyear also have retail networks in New Zealand which supplemented by Frank Allen Service Stores. In a continuing reassessment of market strengths, 32 stores were closed or relocated.

PEOPLE AND TEAMWORK

The most important elements in our success are the enthusiasm and skills of our people combined with the effectiveness and flexibility of our management team. This applies in all areas of the company's operations where we now employ some 41,000 people in 20 countries, and is why we place so much emphasis on working as a team.

Teamwork heightens everyone's awareness of their own role in the performance of their unit, and how this contributes to the rest of the business. The philosophy on which this approach is based is at the heart of the Company's TEAM (Team Effort Achieves Most) programme. It is a very important reason why the Total Quality Management (TQM) system which is now in place in most parts of the Company is proving so effective.

Substantial sums are being committed each year to advanced technology, better equipment and other production and workplace improvements as part of this programme. The total effect has been a considerable and continuing improvement in productivity.

This has been particularly helpful to the Company's performance in the difficult economic conditions of the past year. Maintaining our competitive position in this environment and protecting as many jobs as we can, is our single most important priority.

Higher productivity continues to be Pacific Dunlop's objective. The South Pacific Tyres joint venture, where work practices have changed dramatically to increase productivity, is an excellent example of the improvements that have already been achieved. At Pacific Brands, where the Australian economic downturn hit first and hardest this past year, the new Wentworthville cotton yarn spinning plant is another example of how the latest technology in the hands of enthusiastic, skilled teams is being used to improve productivity. In the advanced technology Medical group, progress is also being underpinned by a commitment to major research and development programmes as the source of new products. Their purpose is an improvement in health and personal lifestyles. In the same way, GNB Batteries' growing recycling business in the United States responds to the community's quite proper demands for a safer, cleaner environment; it also represents a significant productivity gain and consumer benefit.

Pacific Dunlop currently spends about \$60 million a year on research and development, and has a substantial commitment to staff and skills training programs. This includes expanding the international experience of key people in all operating groups.

S. A. BREWING HOLDINGS**REVIEW BY THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The financial year 1989/90 was a very successful year for S. A. Brewing Holdings Limited despite a difficult Australian economy with tightening consumer demand, particularly in the second six months.

Sales grew by 13.5 per cent and this, combined with increased emphasis on cost control and cash management, enabled the Company to achieve a record profit after tax of \$87.9 million, up 21.3 per cent on the previous year.

This translates to earnings per share of 21.8 cents, giving a compound growth of 46.6 per cent per annum over the past five years. In this five year period, S. A. Brewing Holdings Limited's shareholders earned a compound return on their investment of 31.8 per cent per annum, compared with a return of 16.7 per cent per annum if they had invested in all stocks in the Australian Stock Exchange All Ordinaries Accumulation Index.

The success of our international expansion strategy has been particularly pleasing. Not only is it ahead of schedule, but the off-shore operations of our International Group have been successfully integrated with the rest of the Company and sales and profit increases were ahead of the year's targets.

The Beverage and Food Group performed better than in the previous year, despite extensive discounting by competitors and a contraction in the national beer and wine markets.

The Packaging Group's Australian operations were affected by a downturn in local demand and additional costs associated with the delay in commissioning of the new beverage can plant at Clayton in Victoria. The problems have been overcome and the plant is now performing as planned.

The Appliance Group achieved a substantial increase in sales and profitability during the year. Although the downturn in the Australian housing market affected sales of dishwashers, it did not significantly impact on sales of water heaters and stoves. The success of having Chef cooking ranges and Dishlex dishwashers approved for export to the United States, under the Regency VSA brand, was very pleasing and increased export opportunities are expected in 1990/91.

During 1989/90 the Company's capital expenditure program concentrated on international expansion, productivity

gains and product innovation. The Company's quality improvement programs were extended to ensure that S. A. Brewing Holdings Limited's products were internationally cost and quality competitive, with the strategy of offshore expansion enabling direct comparison of like products between countries.

The improved operating performance, profitable rationalisation of the Company's investment portfolio and sharper focus on main core activities, has placed S. A. Brewing Holdings Limited in a very sound financial position to capitalise on acquisition opportunities that are likely to arise in the future.

Despite a marginal easing of Government monetary policy, a very tight Australian economy is foreseen in 1990/91, characterised by continuing high interest rates, constrained consumer demand, an over-valued Australian dollar and a growth in unemployment.

Due to this difficult Australian economic environment, S.A Brewing Holdings Limited will maintain a focus on cost reduction and international expansion. With this strategy we are confident the Company will achieve its objectives of enhancing shareholder's wealth and performance in the top quartile of Australian industrial companies.

There were two significant changes to the Board during the year. Mr J.I.N. Winter stepped down as Chairman of S.A. Brewing Holdings Limited in November 1989. Mr Winter, who was appointed a Director of the Company in 1969 and had been Chairman since 1983, has made an outstanding contribution and we are very pleased to retain his services as a valued member of the Board.

Mr I.M. McLachlan, who was appointed to the Board in 1978 and had been Deputy Chairman since 1983, resigned as a Director of the Company in April 1990, following his election to Federal Parliament and appointment to, the Shadow Cabinet. Mr McLachlan also gave outstanding service to the Company and his enthusiasm and wise counsel will sorely missed. We all wish him well and extend our gratitude to him.

We pay tribute to our colleagues on the Board, the management team, and all of the Company's 11,000 employees for their support during 1989/90 and in particular thank those employees in the off-shore operations for the positive attitude they have shown in becoming part of the S.A Brewing Holdings Limited Group.

S. A. BREWING HOLDINGS LIMITED**COMPANY PROFILE - REVIEW OF ACTIVITIES.**

S. A. Brewing Holdings Limited has developed into one of Australia's leading industrial companies, committed to market leadership in its core activities and overseas expansion. It employs over 11,000 people in 70 plants throughout Australia and the rest of the world.

With annual sales of \$1,746 million and a market capitalisation of around \$1,000 million, the Company is positioned in the top 50 on the Australian Stock Exchange.

S.A. Brewing Holdings Limited has a wide range of market leading brands in the beverage, food, packaging and appliance industries. Its products are used daily by the majority of Australians and an increasing number of people world-wide.

The Beverage and Food Group produces high quality beers, premium wines and a variety of canned foods. It owns 106 pub-style hotels located in South Australia.

The Packaging Group manufactures a wide range of products which service both consumer and industrial end users - from drums, pails, protective packaging, woven synthetic fabrics, large bulk storage tanks and concrete mixers through to products used in the home, such as beer and softdrink cans, milk and fruit juice cartons, laminated tubes and multilayer plastic food containers.

The Appliance Group manufactures and markets mains pressure storage water heaters, electric and gas cookers, wall ovens, dishwashers, home heating and cooling units and high precision control valves.

The International Group produces packaging and appliances in the United States of America, New Zealand, Canada, Puerto Rico and Indonesia, and provides the framework for the Company's off-shore expansion.

In addition to the above activities, the Company manufactures and installs commercial and architectural signage. It also has strategic investments in Coopers Brewery Limited and the national FM broadcaster, Austreo Limited.

With its sound financial structure, market leading brands, quality assets and dedicated management and employees, S.A.. Brewing Holdings Limited is in a strong position to continue its impressive growth performance.

Business Philosophy

S.A. Brewing Holdings Limited is committed to:

- Enhancing shareholders' wealth through earnings per share and dividend growth;
- Performing in the top quartile of Australian industrial companies;;
- Achieving market leadership through strong brands;
- Being the most efficient producer in all operations; and
- developing an innovative international company.

This philosophy is being realised by concentrating both in Australia and internationally on businesses which complement the Company's manufacturing and management skills.

The Company is determined to be highly competitive in all its businesses and to achieve sustained profit growth through sound management of assets.

S.A. Brewing Holdings Limited has over the last five years to 30 June, 1990, provided its shareholders with an investment return from capital appreciation and dividends almost double that achieved by the Australian Stock Exchange (ASX) all Ordinaries Accumulation Index.

This ASX Research graph compares the return on an investment in S.A. Brewing Holdings Limited ordinary shares at 30 June, 1985, with the ASX All Ordinaries accumulation Index and the Consumer price Index.

The graph shows that an investment of \$1,000 in S.A. Brewing Holdings Limited ordinary shares at 30 June, 1985, would have been worth \$3,981 by 30 June, 1990, if all dividends and proceeds from the sale of rights had been re-invested in the Company, representing a total return of 31.83 per cent per annum compared with a return of 16.67 per cent per annum if invested in all stocks in the ASX All Ordinaries Accumulation index.

Profit

Operating profit after tax and minority interests increased 21.3 per cent to \$87.9 million. This result was achieved through a 13.5 per cent increase in sales revenue to \$1,746 million, together with a 5.6 per cent reduction in net interest to \$66.2 million, and a slight improvement in the effective rate of tax, down from 40.1 per cent in 1988/89 to 39.2 per cent. Operating profit was not inflated by any abnormal items, underlining the strength of the Company's operating businesses in a difficult economic environment.

Earnings per share increased 17.8 per cent to 21.8 cents in the year in review. Since 1986 compound growth rate earnings per share has bee 46.6 per cent per annum.

In addition to operating profit, shareholders' wealth was further increased by an extraordinary profit after tax of \$35.6 million. This was generated by the sale of shares in CC Bottlers Limited, marginally offset by business rationalisation expenses, the discount on the early repayment of the debt owed by Petitio Limited on the sale of shares in Elders IXL Limited, and the write down of the value of the Company's investment in Austereo Limited.

Dividends

Dividends per share rose 16 per cent to 14.5 cents and were fully-ranked. This represents a payout ratio of 67.4 per cent of operating profit after tax. \$16.3 million of dividends paid during the year were re-invested by shareholders in new shares in the Company under the dividend reinvestment plan.

Gearing

During the year, net debt fell by 29.9 per cent from \$566 million to \$397 million. The ratio of net debt to equity reduced from 76 per cent at June 1989 to 48 per cent at June 1990. Despite high interest rates throughout the year, the Company's net interest cover ratio improved significantly to 3.2 times which, given the quality and reliability of earnings, is more than adequate.

Capital Expenditure

Total capital expenditure included acquisitions amounted to \$146 million. This figure comprised \$96 million spent on property, plant and equipment and \$50 million on acquisitions. The major thrust of expenditure on plant and equipment was to achieve cost reductions and productivity gains, which will provide the basis for future improvement in profit. The expenditure on acquisitions was aimed at providing growth in two core business activities - packaging and appliances.

Funding

The expansion of international operations led to a re-organisation of off-shore funding arrangements. In July 1989, a US\$200 million Eurocommercial Paper Programme was established in London to complement the existing A\$250 million Promissory Note Facility in Australia and the recently expanded A\$200 million Eurocommercial Paper Programme in Hong Kong.

The Company is now well placed to fund both Australian and international activities in a cost effective manner through its wholly-owned finance subsidiaries South Australian Brewing Finance Limited in Australia and SAB Finance Inc. in the United States of America.

A strict policy of minimising exposure to currency risk on foreign borrowings has been continued, with foreign assets and earnings used as a natural hedge against the effect of currency movements.

ACTIVITIES IN BRIEF

SABH Beverage and Food Group incorporates three operating divisions which manufacture some of Australia's most popular premium wines and beers and, in Papua New Guinea, canned meats.

Brewing Division

- Operates a technologically advanced brewery in Adelaide, South Australia.
- Dominant supplier to the South Australian beer market with Its West End and Southwark brands and manufactures under licence for Calton and United Breweries Limited.
- Largest freehold owner of retail liquor outlets in South Australia with 106 pub-style hotel properties.
- Largely self-sufficient in malt for brewing from Kent Town Maltings.

Wine Division

- A major producer of premium table and fortified wines and champagne.
- Market leading brands include Seppelt, Queen Adelaide, Great Western, Para Liqueur and the recently acquired Hungerford Hill.
- Ownership of extensive high quality vineyards which supply 60 per cent of premium grape requirements.

Meat Canning Division

- Operates a modern meat processing and canning plant in Madang, Papua New Guinea.
- Major supplier to Papua new Guinea market with globe and James Barnes brands.

OPERATIONS REVIEW

Brewing Division

the Division, with its mainstream brands of West End and Southwark, successfully opposed intense competition in the declining domestic beer market and maintained its market share of approximately 80 per cent in South Australia.

A new low alcohol beer, Southwark Lite, was launched in January 1990 to compliment West End Light, in a sector of the market showing steady growth. Both beers are selling well locally and overseas. After many months of development a new canned beer, Best Bitter, was launched in Perth in June 1990. It has found ready acceptance in Western Australia.

A boutique-style beer, Kent town Ale, was developed and released by the Division's subsidiary, Kent Town maltings. The beer has achieved good distribution in its specialist market.

The Division continued a program of improvement to its 106 pub-style hotels in South Australia which provide a major marketing outlet for S. A. Brewing's bulk and packaged beers. The complete refurbishment of Adelaide's Oxford, Marryatville and Criterion hotels will result in improved trade and profitability for the Company and its tenant hoteliers.

Operations at Southwark Brewery at Thebarton, South Australia, benefited from the unit cost reduction flowing from capital expenditure on new canning and bottling facilities. Plant utilisation has been further increased through production under licence for Carton and United Breweries Limited, which boosted output by approximately 30 per cent over the previous year.

The Division, as a key part of its marketing strategy, was again a major supporter of sport in South Australia. In 1989/90 the Company sponsored a number of sports at all levels, as well as many other community activities.

Major high profile sporting sponsorships included the West End 36ers in the National Basketball League, the South Australian National Football League and its 10 clubs, the South Australian Jockey Club's West End Adelaide Cup Carnival, the South Australian Cricket Association's West End State XI and the West End District Competition, the South Australian Golf Association's West End Open, and Australia's largest picnic race meeting conducted by the Oakbank racing Club.

Wine Division

The Division produced satisfactory results in what were difficult times for the industry. the total domestic market declined by around six per cent and competitors discounted heavily to reduce surplus stocks.

Despite this, the Division increased sales by around eight per cent. This was achieved through a focus on the expanding premium end of the market and exports, particularly to Japan. Great Western held its market share of the competitive commercial champagne segment and Queen Adelaide continued to increase its share of the bottled table wine market.

The domestic wine market has polarised into distinct commercial and premium segments. The Division has responded by concentrating on the premium market to achieve growth in this higher margin sector. A third strategy business unit was formed to focus on international growth by developing imported agency business and export sales.

A major rationalisation is in progress to consolidate wine production at Great Western in Victoria. This project, due to be completed in 1990/91, will significantly reduce costs and allow for the sale of surplus assets.

The recent acquisition of Hungerford Hill Wines has provided the Division with strategic vineyards in the premium Coonawarra and Hunter Valley regions of Australia, further strengthening its premium grape growing capacity.

The 1990 vintage was excellent, both in the quality and quantity of wines produced. The chardonnay and red varieties were of a particularly high standard.

The Division is in an excellent position to build an even stronger market position with the ongoing rationalisation of the wine industry.

Meat Canning Division

The Division, operating as James Barnes PNG and based in Madang, Papua New Guinea, reported improved profitability in the face of adverse economic conditions in that country. The Division achieved a small increase in market share in its core business and activities were expanded with the export of canned meats.

Labour costs were reduced by a significant increase in plant efficiency. Distribution depots were established in Lae and Port Moresby in November, and the ability to produce catering-size packs was extended. Work continued on a new range of high quality meat and vegetable products

packaged in retort pouches for fast food and catering outlets.

ACTIVITIES IN BRIEF

SABH Packaging Group incorporates four main operating divisions and three business units. It is one of Australia's largest packaging manufacturers.

Gadsden Rheem Beverage Packaging Division

- Operates two-piece aluminium can plants in Sydney and Melbourne.
- Supplies the Australian and international beer and softdrink markets.

Gadsden Rheem Rigid Packaging Division

- Operates in all States except South Australia, with nine steel and plastic container and eight steel can plants.
- Manufactures steel cans for packaging pet food, fruit, processed food, industrial products, pharmaceuticals and aerosols.
- Manufactures steel drums and pails, plastic drums and cubes, blow-moulded and co-extruded plastic bottles and reconditioned drums mainly for industrial end use products.

Gadsden Rheem Flexible Packaging Division

- Operates plants in Melbourne and Sydney.
- Melbourne plant produces Pure-Pak gable top and Combibloc aseptic cartons for liquid products such as milk and juice; and cigarette cartons and specialty laminates.
- Sydney plant, operating as Astrapak, produces flexible packaging for confectionery, pet food and bread products.

Gadsden Rheem Packaging and Fabrics Division

- Operates a woven industrial fabric plant in Melbourne; and tube and protective packaging plants, both in Sydney.
- Produces woven polypropylene and polyethylene sacks and fabrics; laminated squeeze tubes and packaging closures; protective packaging under the brands Jiffy, Air Cap, Mail Lite, Cell-Aire, Flo-Pak and Instapak.

Engineered Products

- Plants in Brisbane, Fremantle and Melbourne.
- Manufactures a range of fabricated steel products including stainless steel kegs, liquid storage and transport tanks, gas pressure tanks, steel cable drums, concrete transit, mixers and aircraft passenger access bridges.

Gadsden Rheem Technology Systems

- Based in Melbourne with offices in Sydney, and Wellington, New Zealand.
- Distributes Videojet range of ink jet coding printers and Filtec monitoring equipment.

Gadsden Rheem NuWave Packaging Products

- New operation, located in Melbourne.
- Manufactures a range of high technology multi-layer plastic food and pet food containers.

OPERATIONS REVIEW

Gadsden Rheem Beverage Packaging Division

Delays in commissioning of the new two-piece aluminium can plant at Clayton, Victoria, adversely affected profitability during the year. All problems have been overcome and the operation is now performing as planned.

This new world-class plant has placed the Division in an excellent position to meet expected growth in the beverage can market and recover profitability in the 1990/91 financial year.

Gadsden Rheem Rigid Packaging Division

The Division continued to hold a strong market share despite a fall in demand for some of its products. The markets for steel cans in the pet food, building and retail products industries declined. However, production increased to meet demand in other sectors, particularly plastic pails and cubes. Demand for steel drums was buoyant for the majority of the year but declined in the last quarter.

During the year a re-organisation of the Division's steel and plastic operations was undertaken as part of an ongoing program of cost reduction. This has resulted in

the sale of the West Australian bedding and polythene operations since balance date. The commissioning of the new two-piece steel can line at the Wodonga plant in Victoria will also significantly increase productivity and improve quality. Further rationalisation of overheads and disposals of surplus properties will flow from this program.

These initiatives, together with recent acquisitions in drum manufacturing and reconditioning, and a strong focus on cost reduction will further strengthen the Division's profitability in the 1990/91 financial year.

Gadsden Rheem Flexible Packaging Division

Despite a difficult year, the Division performed satisfactorily primarily due to a strong overhead cost reduction program. Sales of Pure-Pak milk cartons declined but were offset by an increased market share in the rapidly growing Combibloc aseptic carton market.

The Division continued to assist its customers to implement the latest packaging technology into their plants, maintaining its strong position in the aseptic carton market.

The cigarette carton manufacturing activities of the Division experienced a good year.

Gadsden Rheem Packaging and Fabrics Division

The Division performed adequately in an environment of subdued demand for industrial fabrics.

Fabrics manufacturing activities were consolidated at the Clayton plant in Victoria. The resulting efficiencies will assist profitability in the 1990/91 financial year.

Industrial problems at the North Rocks tube plant limited production. However, the shortfall to customers was made up by product from our New Zealand plant. Protective packaging had a good year and the acquisition of Jiffy added to the already strong market position.

Engineered Products

The engineering business made substantial improvements in sales and profitability despite some easing of demand in the last quarter.

Export sales of concrete mixers maintained strong growth with more than half of total production going to Southeast Asia. The Australian concrete mixer distributor, Fowlerex Sales, was acquired and merged into the Division at the

end of 1989/90, strengthening the Company's market presence.

The success of the Company mixer exports and its continued strength in the petrol storage tank market resulted from the business' excellent reputation for quality.

Gadsden Rheem Technology Systems

This business unit increased sales significantly over the previous year, resulting in a very strong profit improvement.

New products released during 1989/90 include small character coders and the Super Filtec filling valve monitor. Customer service facilities were expanded into South Australia and Western Australia during the year.

Gadsden Rheem NuWave Packaging Products

A very exciting new venture for the Group, NuWave Packaging Products, began installing plant to manufacture a range of high technology plastic packaging products.

These multi-layer microwavable and shelf stable food containers will be produced for Australia's growing convenience food and pet food markets. The plant should be fully operational by the end of 1990 and provides excellent long term growth potential.

ACTIVITIES IN BRIEF - SABH APPLIANCE GROUP

SABH Appliance Group, which comprises four operating Divisions, is one of Australia's largest manufacturers of domestic and commercial appliances.

Rheem Water Heater Division

- Plant in Sydney, New South Wales.
- Manufactures Australia's largest selling range of domestic and commercial gas, electric and solar mains pressure storage water heaters, under the Rheem brand.
- Other business units of the Division are Goyen Controls, which manufactures high-precision control valves for domestic and export markets; and Gas Cylinder, which produces LPG automotive fuel tanks and gas bottles.

Chef Division

- Plant in Melbourne, Victoria.
- Produces Australia's largest and most popular range of

gas and electric cooking appliances under the Chef brand.

- Products exported to the United States of America under the Regency VSA brand.

Vulcan Division

- Plant in Melbourne, Victoria.
- Manufactures the market leading range of Vulcan Dishlex dishwashers, Vulcan gas and electric heating systems and Vulcan Freeloader mains pressure storage water heaters.

Bonaire Pyrox Division

- Plant in Adelaide, South Australia.
- Manufactures a range of ducted and portable evaporative coolers, gas space heaters, instantaneous water heaters and ceiling fans under the well known Bonaire and Pyrox brand names.

OPERATIONS REVIEW

Rheem Water Heater Division

The Division increased sales and its share of the water heater market, producing an excellent result. The plant operated at full capacity for the majority of the year and in this demanding production environment, managed to significantly reduce inventory, increasing cash flow.

Co-operation between the Company's water heater operations in Australia, the United States of America and New Zealand brought benefits particularly in areas such as product development and testing, improved production processes and global sourcing of components. This co-operation will reduce costs of certain components for the Australian business and saw operations benefit from the sharing of successful new welding technology.

The Division has expanded its warehousing facilities and merged branch operations with those of the Bonaire Pyrox Division.

Goyen Controls continued to expand production of high-precision control valves for domestic and export markets. The business experienced good growth in sales to the United States and Europe where its distribution networks were expanded. However margins did not match this sales growth due to an over-valued Australian dollar.

In recognition of its export achievement, Goyen Controls received the Australian Government's Austrade Export Award in the medium size manufacturer category.

The performance of the gas cylinder business was an improvement on last year in an over-supplied and extremely price competitive market.

Chef Division

The Division achieved strong results for the year with a lift in sales and an increase in market share for gas cookers. It felt some affects of the general economic downturn in the last quarter.

A major breakthrough was achieved when a range of appliances including an integrated range of wall ovens, cooktops and dishwashers were quality approved for export to the United States under the Regency VSA brand. These products continue to steadily gain market acceptance.

The Regency range has also been released in Australia to target the premium end of the market where imports are strong.

Vulcan Division

The Division continued to increase profits, successfully introducing a new high-efficiency gas central heater, Powerhouse, a range of portable electric oil column heaters and a tangential electric fan heater. Production of the Powerhouse and the column heaters benefited from major capital expenditure on plant and equipment.

The broader range of products, together with more seasonal winter conditions, resulted in record sales of gas and electric appliances.

There was a decline in sales of Vulcan Dishlex dishwashers caused by the downturn in the Australian housing industry and the over-valued Australian dollar which resulted in increased competition from imported products.

SABH INTERNATIONAL GROUP

ACTIVITIES IN BRIEF

SABH International Group is the fastest growing area of the Company with operations in the United States of America, Canada, Puerto Rico, New Zealand and Indonesia.

Rheem Container Corporation/Pacific Rim Packaging Corporation

- Rheem Container Corporation operates 10 plants throughout the east coast of the United States, Canada and Puerto Rico and produces a range of steel and plastic containers.
- Pacific Rim Packaging Corporation operates three plants on the west coast of the United States and manufactures steel drums from five to 55 US gallon capacity, including Sterilpac drums which are used extensively by the tomato Industry.
- From 1 October, 1990, Rheem Container Corporation changed its name to North America Packaging Corporation and Pacific Rim Packaging Corporation changed its name to North America Packaging (Pacific Rim) Corporation.

Bradford-White Corporation

- Acquired in October 1989.
- Manufactures gas and electric mains pressure storage water heaters.
- Plants in Grand Rapids, Michigan, and Reno, Nevada, in the United States.
- Products distributed through eight regional warehouses.
- Growing export market.

Rheem New Zealand Limited

- Operates nine plants.
- Manufactures a wide range of packaging and appliance products including steel drums, liquid storage tanks, water heaters, plastic tubes, blow-moulded containers, extruded plastic film, protective packaging, electric elements and stainless steel cookware.

P. T. Rheem Indonesia

- 51 per cent owned by the Group.
- Plant in Jarkata.
- Manufactures and markets steel drums.

OPERATIONS REVIEW

Rheem Container Corporation/Pacific Rim Packaging Corporation

The restructuring of the North American operations consolidated the eastern and western business units under one control. This resulted in significantly improved performance through reduced costs and increased market focus.

Utilisation of plants in the eastern region was high during the year and the business benefited from marketing to a quality packaging niche, in what is otherwise a commodity market.

As a result of the acquisition of the minority shareholdings in Pacific Rim Packaging Corporation in December 1988, the western region profited from its first full year of a more focused business approach.

The closure of the old Richmond drum plant, effective from October 1990, and the establishment of new manufacturing and storage areas at Mered in California will improve the productivity of the west coast operation and simultaneously lower overheads.

In Canada operations have contracted, particularly in the eastern region. The free trade agreement between the United States and Canada affected demand for containers in Canada and some customers transferred their business to the United States.

From 1 October, 1990, Rheem Container Corporation changed its name to North America Packaging Corporation and Pacific Rim Packaging Corporation changed its name to North America packaging (Pacific Rim) Corporation.

Bradford-White Corporation

The business, acquired in October 1989, made a positive profit contribution after acquisition interest costs and represents a major step in furthering the Company's plans to establish an international water heater business.

Since its acquisition, Bradford-White has increased its share of the United States water heater market, despite difficult trading conditions brought about by a downturn in the home building industry.

A new plant is under construction in Reno, Nevada, to complement existing Bradford-White facilities in Grand Rapids, Michigan, and to assist penetration of the growing west coast market.

Rheem New Zealand Limited

In New Zealand, the Container, Water Heater, Conform and Rheempak divisions performed well, substantially

increasing profits over the previous year. However, the Hermetic and Zip Housewares Divisions did not achieve budgets, largely due to reduced sales to Australia.

The Water Heater Division achieved higher sales of mains pressure storage units. The plastic tube business sharply increased profitability by exporting a significant proportion of its output to Australia. Parts of the small appliance business were discontinued.

P. T. Rheem Indonesia

The drum manufacturing operations of P. T. Rheem significantly improved sales and profitability as a result of capital investment in the Jakarta plant to supply a new long term contract for the oil industry.

OUR PEOPLE

The efforts of our employees have built the Company into a strong and efficient industrial enterprise and they are our most valuable resource.

Since the mid 1980s the Company's expansion has seen its workforce grow from 600 to over 11,000. This growth and the Company's strong performance has brought with it increased opportunities for personal development, training and advancement for employees.

The Company places the utmost importance on encouraging development in employees through training. An established program, which places emphasis on a wide range of in-house course offered on the basis of needs and requests from Managers/Supervisors, is well supported.

A well-structured performance appraisal system ensures that training and development needs are identified and opportunities are created for advancement within the Company.

S.A. Brewing Holdings continued to employ apprentices in appropriate areas. The Company is committed to train young people for their own personal development and to ensure the Company has employees with appropriate trade skills for the future.

Employees are eligible to join one of the Company's superannuation funds. A new staff fund now includes members of all previous staff funds operated by the companies acquired by S.A. Brewing Holdings.

The Company encourages equity participation by employees through the S.A. Brewing Employee Share Plan. The plan was

established in 1985 to give employees the opportunity to identify more closely with the Company and to share financially in its future.

Under the plan, employees are able to purchase shares in the Company at a discount of up to 15 per cent of market price with a loan from the Company of up to 90 per cent of the purchase price. Currently, 1,600 employees hold shares in the Company under the plan. Due to overseas regulations, not all employees are eligible to participate in the plan.

Equal employment opportunity principles are central to the Company's personnel philosophy. Managing Director and Chief Executive Officer, Mr Ross Wilson, recently released an Affirmative Action/Equal Opportunity policy statement which sets out the Company's policy. This is to fill each position on the basis of merit, by selecting the best available person, qualified in terms of the requirements of the position, regardless of sex, race or disability.

To ensure the effective operation of this policy, an ongoing monitoring program has been established to analyse trends in the Company's employment patterns of men and women, and to provide a basis for the review of personnel policies and practices. An affirmative action plan is in place and is actively pursued.

S. A. Brewing Holdings offers competitive remuneration to attract the right staff. Where possible, preference is given to existing employees.

The Company provides safe and healthy work environments. Workers' compensation legislation has been amended in several States of Australia. The result has been performance-related premiums which lowered the cost of premiums at some of the larger S.A. Brewing Holdings' locations.

Accountability for safety is placed with line management who have the full support of professional safety and training officers. Ongoing training programs for first aid attendants are in place, and most divisions now have occupational health nurses and visiting doctors.

An updated occupational health - safety policy was released during the year to further the commitment to safeguard the health and safety of employees. This is an area in which the Company has an excellent record.

STOCKLAND TRUST GROUP**CHAIRMAN'S REPORT**

On behalf of the Board of Directors and staff, it is my pleasure to present to you this report on the activities and financial position of the Stockland Trust Group for the year ended 30th June 1990.

After-tax profit is \$63.5 million for the year, a 1.1% increase on last year's profit of \$62.8 million. From this profit, we have paid to our Unitholders/Shareholders a total of \$58.5 million by way of Trust distributions and Corporation dividends.

This is an increase of 11% on the total payout of last year. The Directors' Report, which follows, provides details of the activities and results for the year.

We are reasonably satisfied with the profit result, despite the small increase, as the record 1989 result was nearly 30% higher than 1988, reflecting the boom conditions then being enjoyed in our trading activities through Stockland Corporation Limited.

The year just concluded has been much more difficult. The Trust's property portfolio performed well, with net rental income growing as budgeted. As a result of additions to the property portfolio, the Trust had less surplus cash than in previous years, so that interest income declined to be replaced with rental income.

In the short term, this result in lower earnings for the Trust for the obvious reason that interest rates are higher than property yields. However, in the medium to long term, the growth in rental income more than compensates for the initial income reduction to the Trust.

In Stockland Corporation, sales volumes have declined in line with the general reduction in activity in the Australian economy. We are maintaining our profit margins and sufficient sales to at least sustain Corporation's current profit levels. There is now clear evidence that the Government is easing the tight monetary policy that has caused interest rates to remain at unacceptably high levels since early 1989.

Some further reductions in commercial interest rates and the flow-through of the reductions to housing loans, should result in a gradual improvement in our sales volumes and profits. We are well positioned to address the current down-turn in the property cycle:

* The Group has no external borrowings, other than a

\$ 2 million low interest mortgage loan in the Trust, following the repayment of similar loans of \$10.6 million in July.

- * The Group has adequate cash for its requirements and an assured healthy cash flow.
- * There are no outstanding capital commitments of the Trust, other than for minor extensions and refurbishments.
- * Corporation has sold all medium-density housing stocks at good prices and has deferred commencement on two other projects until an improvement in sales expectations is perceived.
- * All properties of the Trust are fully leased with maximum effort being made to retain tenants in a very competitive market.

We have been through many difficult cycles in the property sector in the past and I have every confidence that we can continue to perform well and increase future payouts to our Unitholders/Shareholders. We cannot expect a dramatic profit growth this year, but we can use our considerable experience to hopefully improve our profitability and continue to plan and position the Group for the future.

I would expect some improvement in sales volumes in Corporation from early 1991, with settlements and improved profits being experienced in the 1991-92 financial year. There will be some further decline in interest income for the Trust in the current year, more than offset by net rental growth. In particular, the now fully completed and leased Exhibition Street, Melbourne property will contribute fully to the current years earnings.

Our market price remains depressed as a result of competing high interest yielding investments, adverse publicity on unlisted property trusts and general concerns about property values. There has been some publicity recently on the asset backing of property trusts.

Our published asset backing usually lags that of other trusts. While the majority of trusts have been revaluing property values during the boom, we have retained our policy to revalue each property every three years. With staggered valuation dates and three-yearly delays, we have a more sustainable and consistent growth in asset backing, as can be seen this year, when normal revaluations resulted in an increase in asset backing from \$2.01 to \$2.16 per unit/share.

Through this policy, asset growth will continue to flow through into the current and future periods.

Our philosophy remains simply to ensure the best possible income and capital growth for our owners - not just for one year but for the long term.

As most of you would be aware, some changes were made during the year to your Board of Directors. Colon Borough stood aside as Chairman to allow for a planned progression of responsibility. Peter Daly, who has been with Stockland for more than 18 years, has been appointed Managing Director.

I have moved to a position of Executive Chairman, from which I can still remain involved on a day by day basis, although now in a broader advisory role. I have complete confidence in Peter and the other executive directors to successfully manage the business.

This year has also seen the appointment of two additional external directors, Mr Ken Coles and Mr David Fairfull. We are fortunate to have the benefit of the considerable experience of both new directors, as set out briefly in the Directors' Report on page 36.

I am confident that we will be able to maintain our unbroken record of growth in payout to members. Our Annual General Meeting will be held at the Sheraton Wentworth Hotel on Wednesday, 31st October, 1990.

The formal notice of meeting is included in this mailing.

**THE CO-OPERATIVE GROUP BUILDING SOCIETY OF SOUTH AUSTRALIA
AND SUBSIDIARY COMPANIES****CHAIRMAN'S REVIEW**

1989/90 was indeed a milestone year as The Co-operative Group laid strong foundations in preparation for the exciting decade ahead.

In October 1989, a new corporate image was successfully introduced. The Society and its subsidiaries were positioned in the market-place as "The Co-operative Group", highlighting a shelter specialist organisation with the vision to satisfy the shelter and financial needs of the communities the Group serves.

The Co-operative Group expanded internationally in July 1989, through the establishment of Co-operative Retirement Services of America, a retirement community consulting and management company. This type of international expansion is a first for an Australian building society. The equity investment was US\$3 million.

The restructuring of the Society's capital base was achieved in early 1990 through the issue of 27.8 million Permanent Shares. The Society's capital adequacy ratio of 11.45% (including 7.7% Tier 1 capital) is one of the highest of Australian financial institutions. Our strong capital base of \$84.3 million has enhanced our credit standing and will allow us the opportunity to provide further services to our Members. One of the benefits of a strong capital base will be to obtain more competitive funding arrangements and standby lines of credit.

Your Board is aware the Permanent Share issue introduced a class of Members who have the opportunity to share in the Society's future growth. The issue of Permanent Shares was essential for the future growth of the Society and its subsidiaries and therefore these new Shareholders will be rewarded for providing permanent risk capital.

The Society continues to be a major provider of home finance in South Australia. In the 1989/90 year, despite high interest rates and a depressed property and housing sector, the Society lent \$185 million, down from the boom levels of \$250 million in 1988/89.

Financial Results

The Group net profit after tax of \$4.48 million fell 9.6% on the previous year. It must be noted that this result was after the payment of \$3.142 million in interest to Permanent Shareholders.

This commendable result was achieved in very difficult trading and economic conditions. Although we operate in a deregulated financial environment, housing loan rates were held artificially low during the first eight months of the year as home loan interest rates for building societies are still controlled by the State Government. In an environment characterised by tight monetary policy the net interest rate margin suffered as a result. Towards the end of the fiscal year interest rate margins were gradually returning to more healthy levels.

Economic Outlook

The Federal Government's high interest rate regime has now been in force for well over 12 months. The level of economic activity has clearly fallen. Australia's chronic balance of payment and inflationary problems still remain. However, the economy is unlikely to fall into deep recession. High commodity prices, buoying up a significant segment of the mining and primary industries, are offsetting the recessionary effects of the down-turn in the construction and retail industries. These high commodity prices will stave off a severe recession, and will allow for modest falls in interest rates.

The failure of the Australian economy to undergo any major restructuring over the last decade and the Government's use of monetary policy as its sole policy instrument, means that Australia will follow a boom/bust economic cycle.

While the drop of 1% in interest rates, announced in August by the Reserve Bank, was welcomed by the market-place, the current high interest rate policy is only dampening investment and slowing the re-structuring of the economy. Over the last decade Australia has experienced an explosive growth in credit, due to the deregulation of the banking and financial sector and an over reliance on monetary policy by the Federal Government. Coupled with the lending policies of the banks and other lenders to corporate and entrepreneurial borrowers, these factors resulting in over-speculation and over-inflated asset prices and inflation. The current fall-out in the economy is the direct result of these policies of easy credit.

Massive micro-economic reforms, including taxation, modernisation of transport systems, and a new wage system based on productivity, are now required to move investment dollars towards manufacturing rather than speculation.

Permanent Share Issue

To build on the Society's sound financial status and facilitate growth for the decade ahead the Society restructured its capital base.

The Society's initial move to strengthen its capital base was made in March 1987 when it successfully raised \$23.8 million by way of an issue of 15 year Performance Notes to Members of the Society and the public. By issuing the Performance Notes, the Society was able to satisfy the Tier 2 capital requirement under the proposed new South Australian Building Societies Act.

During the year, financial advisors, BT Australia Ltd., and BZW Australia Ltd., were appointed to assist the Society to raise Tier 1 capital. In January 1990 the Society issued \$24.75 million of Permanent Share capital. The increase in Tier 1 capital further strengthened the Society's credit standing. It also enables the Society to withstand any financial shocks to Australia's financial system. This stability ensures the Society is better able to meet the future needs of its Members.

Policy On Future Returns

The Permanent Share issue in January 1990 created a new class of Permanent Shareholder. It is worth reiterating and confirming the philosophy of the Society and the Board in relation to its Permanent Shareholders. The issue has substantially boosted the capital base of the Society. The 11.4% risk-weighted capital adequacy ratio is one of the highest of Australia's financial institutions. It enhances the credit worthiness of the Society and provides the platform for further sound growth.

We also expect to reap the tangible benefits of more competitive funding facilities and standby lines of credit. Permanent Shareholders must be rewarded in a manner which allows the Society to grow and prosper and at the same time create wealth for Permanent Shareholders. The 13 cents return on Permanent Shares for the first 6 months was paid on 23rd July 1990. The return in 1990/91 will be 26 cents per Share. We anticipate that within three years the dividend pay-out ratio of the Society, whether in the form of interest or dividends, will be dictated by market forces. To this end, the Society, within three years, expects to pay at least the average pay-out ratio that other building societies and trading and savings banks pay to their Permanent Shareholders. Our objective therefore, is to increase the pay-out ratio consistent with proper prudent financial management and growth in reserves of the Society.

Building Society Legislation

The Society has continued to support the introduction of new South Australian building society legislation. This legislation is expected in September/October, 1990. The new legislation will cover such areas as the primary purpose of building societies, capital adequacy requirements, interest rate risk management, and prudential supervision.

The building society industry and the Corporate Affairs Commission have collaborated over a number of years to introduce this new legislation which can be transported to other States to help introduce uniform legislation for building societies nationally. The prudential aspects of this legislation could be controlled either by the States, or at the national level by one body, depending on the requirements of Government regulators and Parliament. The central theme of the new legislation continues to be that building societies should be a provider of home finance for the community, and a safe haven for the public's savings and investments.

Directors and Staff

The past financial year has seen a number of important decisions made regarding the future of the Society come to fruition. The launch of the Society and its subsidiaries as The Co-operative Group, the smooth implementation of new technologies enabling better customer service, and the expansion into the United States retirement market, have all proved a success. This success is undoubtedly a result of the dedicated efforts of both Management and Staff.

On behalf of the Board I thank all Executives and Staff for their contributions, and along with my colleagues on the Board, look forward with confidence to The Co-operative Group further strengthening its financial and market share position in the 1990's.

THE CO-OPERATIVE BUILDING SOCIETY OF SOUTH AUSTRALIA AND SUBSIDIARY COMPANIES

REVIEW OF ACTIVITIES - BY THE GROUP MANAGING DIRECTOR

Despite the Federal Government's policy of tight monetary conditions to restrain economic growth, the 1989/90 year was one of the stable profitability and consolidation for The Co-operative Group. Profitability was protected by the high quality of the Society's lending base, active interest rate management, the rewards from our strategic diversifications and the contribution made by the parent Society's subsidiary operations.

Lending Criteria

Of the Society's \$928 million in loans and investments, some \$825 million are in secured mortgage loans and government or bank securities. The Society has adopted the practice since 1987 of mortgage insuring all owner occupied residential loans. Additionally, there is a statutory obligation to mortgage insure all other loans where the loan-to-valuation ratio exceeds 65%.

The Society is well positioned to satisfy new residential lending opportunities. In addition to innovations in savings products and cash flow generated from repayment of loan principal, the Society was able to, advance \$125 million in new residential loans, \$60 million in commercial loans, and \$15 million in personal loans during the 1989/90 year.

Personal loans and Visa advances represent 2.74% of the Group's total assets. Secured commercial construction loans are a minor portion of the Society's business, and total only \$8.379 million.

Personal loans are conducted through a wholly owned subsidiary, Co-operative Member Services Pty. Ltd. Nearly 70% of all personal loans are advanced for the purchase of a motor vehicle, motor cycle or boat. The Society's high credit acceptance standards means the personal loan portfolio holds very few problem loans.

Financial Results

The net profit after tax was 2.880 million for the Society and \$4.477 million for the Group.

The Society's subsidiaries contributed \$1.597 million to after-tax profits of the Group, which is equivalent to a 15% after-tax return on the parent Society's equity contribution. Operations in the Retirement Services sector contributed 13% per annum on equity and the Protection

Services operations, incorporating the provision of insurance and security alarm services, returned an extremely healthy 23% on the equity contribution.

The parent Society has a total of \$9 million equity invested in Retirement Estate operations. There is a total of \$110 million invested in completed and partially completed residential units for retirement age residents. It is important to note that once Retirement Estate units are completed and occupied, the residents, under the loan and licence arrangements for occupancy, provide 100% of the funding of the Estate, interest-free to the Retirement Estate operator which is wholly owned subsidiary of Co-operative Retirement Services Pty. Ltd.

The current returns from our Retirement Estate operations, while still in the infancy stages, can best be described as pleasing. Retirement Estate investment represents an excellent opportunity for higher long-term rewards over the next 5-10 years and also fulfils our shelter related charter.

Total Group capital reserves represent 11.4% of risk weighted assets, placing The Co-operative Group amongst the elite of Australia's financial institutions in terms of the capital adequacy guidelines. The Group's capital comprises \$53.4 million of Tier 1 capital or 7.7% of risk-weighted assets. This is nearly double the minimum level required by the Reserve bank of Australia for banks and is sufficient in itself to satisfy the total prudential requirement. In addition, The Co-operative Group has \$25.6 million of Tier 2 capital.

Diversification Strategies

In October 1989 the Co-operative Building Society of South Australia and its Subsidiaries were repositioned in the market-place as The Co-operative Group-a unique shelter based organisation with many areas of activity co-operating with each other. The Co-operative Group encompasses four Divisions each headed by a Chief Executive. These Divisions are:
The Co-operative Building Society headed by George Vosvotekas.

Co-operative Retirement Services headed by Ted Heenan.
Cooperative Protection Services Headed by Richard Levy.
Cooperative Retirement Services of America headed by Earl Wade.

During 1989/90, Co-operative Retirement Services (CSR) expanded further into Queensland with the acquisition of three Retirement Estates. The three Estates, previously managed by CRS, were the Aspley Court, Robertson Park and

Carinya Retirement Estates. CRS is also developing a village at Robina on the Gold Coast. These developments have maintained CRS's position as an Australian market leader in the retirement accommodation industry.

Co-operative Protection Services expanded with the acquisition of Beesecure Security services which is now incorporated into Co-operative Security Services(CSR). Further, CSR added to its range of products and services by including the latest in security alarm technology, radio telemetry. The radio telemetry facility is a security alarm option unreliant on a telephone line to communicate when a break-in occurs. This, along with further acquisition, will make The co-operative Group one of the largest and most advanced alarm installing and monitoring companies in South Australia.

Co-operative Retirement Services of America has quickly established a reputation as an industry leader. Located in Memphis, Tennessee, it combines the skills of leading American retirement industry professionals into a unique, full service consultancy operation. Kedney and Associates is the marketing arm, Monarch Management is the retirement community management arm, and financial consultancy is provided by Co-operative Retirement Services of America. This approach is a means of flow risk entry into the American market and will provide a means of learning the potential of this exciting growth market.

Technology

A series of major technological decisions, designed to further enhance the Group's strategic advantage, have been made.

The major emphasis has been placed on streamlining existing manual systems, and developing computer systems which allow us to identify (and fulfil) Members' and customers' needs more effectively. This will enable The Co-operative Group to provide a significantly higher level of service to its customers and Members in future while also enhancing the Group's profitability.

Three significant technological initiatives during 1989/90 included the purchase of the latest IBM Mainframe computer with the Paxus Retail Financial System (RFS). Second, the Society decided to replace the entire Branch computer terminal network with specialist Unisys front counter financial terminals. This equipment represents the latest technology and was chosen specifically to deliver a significantly improved level of service to our customers.

Finally, a decision was made to standardise the personal computer technology throughout the Group. Equipment

replacement to Macintosh commenced in May 1990 and will greatly streamline office administration and internal communication.

Over the next five years the Group has budgeted to invest in excess of \$16 million in technology. This will enable management to improve productivity, customer service and profitability.

Legislation

To carry building societies into the 1990's the Society has continued to support the introduction of a new Building Societies Act in South Australia.

It is important that key areas, such as capital adequacy and the primary purpose of the Societies, are addressed and kept in line with the requirements of the market-place, with sufficient flexibility to allow societies to be competitive with other financial institutions. The proposed national uniform legislation will provide further strength to the building society industry which is an important segment of the Australian finance industry because it both complements and supplements banking.

Industry Direction

In the aftermath of the collapse of certain mortgage trusts, friendly and the Farrow Group, there has been some loss of confidence in non-bank deposit taking institutions throughout Australia. While the public crisis in non-bank financial institutions has had its epicentre in Victoria as its epicentre, the shock waves have unfortunately spread into other States and affected all other non-bank financial institutions to various degrees.

The decision taken by the Co-operative Building Society and other South Australian societies in 1987 to join the National Deposit Insurance Corporation scheme, to protect the holders of withdrawable shares and deposits in building societies, has meant that the industry in South Australia has been able to handle these uncertain times with a great degree of confidence and stability.

Specifically in relation to the Society, the Co-op has one of the highest capital adequacy ratios of any financial institution in Australia. Because of its prudent lending practices, the Society has weathered the storm extremely well and is poised to take advantage of the uncertain financial climate facing non-bank financial institutions.

Notwithstanding this fact, we believe building societies can either continue as regional specialist financial institutions or alternatively, convert into savings banks

and progress either into state savings banks or national savings banks.

the Society is re-evaluating its strategic opportunities and challenges in the light of the most recent shock to the Australian financial sector to determine where the best prospects for growth lie.

Co-operative Foundation

October 1989 saw the Co-operative Foundation, the Group's philanthropic arm, donate its millionth dollar to the South Australian community. A total of \$303,442 was donated to assist 29 organisations in the 1989/90 financial year. Since its inception the Foundation, mainly funded by the Group, has given 367 donations totalling \$1.208 million. In addition to office accommodation, staff services and administrative support, the Group allocates a percentage of its profits to the Foundation. This year's donation, the largest to date, was \$231,560.

Staff

In the previous year, after interviewing all Staff, a Human Relations Consultant submitted a report which analysed issues like morale, aspirations and internal communication. The past year has been a year of addressing these issues by formulating and implementing a three point plan. This three point plan covers strategies, Staff development, and retirement. Part of the strategy has been the introduction of the PRISM Human Resource Computer System. It provides Staff management reports, and also assists managers in the development of Staff. Another advantage is that it removes subjectivity in areas like allocation of developmental skill and career courses. In simple terms, the Group is able to find a position to assist in the career paths of Staff Members rather than just trying to fit Staff to fill available positions.

The Group has also taken a proactive initiative in Staff recruitment, by interviewing and recruiting junior Staff before a vacancy arises. This ensures a continuity of Staffing, results in better customer service, and provides a wider range of job opportunities for junior Staff within our organisation.

The Co-operative Group looks to the decade ahead with confidence. We are well structured to expand on our already successful strategies and well positioned to take advantage of opportunities in the market place as they occur.

CHAIRMAN'S STATEMENT (Outlook for the nineties).

In late July, 1989, when the Northwest Sunderling slipped her mooring lines and commenced her historic inaugural voyage to Japan, the curtain was being raised on an exciting phase of development for Woodside.

As a new decade was about to dawn, so too was a new era for Woodside and the North West Shelf Project (the Project).

The 1980's has been decade of intense construction activity. The early focus offshore was on the fabrication, installation and hook-up of the North Rankin A platform, whilst onshore the emphasis was on site preparation, construction of the Domestic gas Plant and condensate handling facilities. Production commenced in 1984 with the first supplies of natural gas to the State Energy Commission of Western Australia (SECWA) in August that year.

The latter half of the decade saw Australia's largest ever construction project, the first two processing trains of the Liquefied Natural Gas (LNG) Plant, being undertaken on the Burrup Peninsula.

This project came in ahead of time and under budget, an enormous tribute to all those involved with the design, construction, commissioning and operation of the plant.

During 1989 we commenced work on Phase III of the Project. The facilities in this phase consist of a third LNG train (LNG Train III) and a second offshore drilling and production platform (Goodwyn A) and a probable third offshore facility. These facilities will be required to meet our commitments to our two, 20 year contracts to supply gas to the State of western Australia and to our customers in Japan.

What are our opportunities during the next decade?

You read elsewhere in this report that markets for both LNG and Domestic Gas look promising. If these opportunities can be exploited they will considerably enhance the return on your investment.

Additionally the gas/condensate discovery at Echo followed by the significant oil discoveries at Wanaea and Cossack have the potential for profitable and innovative new offshore developments.

At present we are examining ways these discoveries can best be developed. Naturally, further evaluation and

appraisal will have to be made of these fields before we can commit to develop any such new projects.

Following the settlement of the long standing dispute between Australia and Indonesia over the development of the Timor Gap area, Woodside now hopes to resume exploration in this prospective area towards the end of 1990.

During 1989, Woodside refinanced its credit facility. The new US\$1.75 billion facility, which provides greater flexibility, will allow Woodside to take advantage of opportunities as they arise.

Woodside has been fortunate over the past decade to have been rewarded with a competent and stable management team supported by a workforce that has strived for quality in all its endeavours.

With the prospect of new horizons during the nineties Woodside has developed a new corporate image to reflect the reality that your Company is now a major force in the Australian energy scene and our new slogan "WOODSIDE....AUSTRALIAN ENERGY" depicts this emphasis.

We have emerged from the past decade, despite its difficulties, strong and stable. Ahead of us is a challenging decade, one in which we need to consolidate our developments so far, but one which represents a multitude of new opportunities for the continued growth of the Company on a sound financial and commercial basis.

APPENDIX C

BHP**CORPORATE REVIEW**

BHP performed well in the past year. Profits, sales and earnings per share all reached record levels. The strong result reflected the cumulative strength of BHP's businesses.

The Minerals and Petroleum business recorded solid growth, assisted by generally buoyant commodity prices.

Steel maintained profits at near record levels despite a slow-down in demand in Australia in the second half of the year.

Units outside of the main businesses again contributed to the overall results.

Strategies

BHP is benefiting from expansion of its international businesses.

The Company's world class mineral deposits, modern plant, and skills in steelmaking provide the capacity to develop, produce and market a superior range of quality steel products and steelmaking raw materials.

Diversification into other minerals and petroleum has lessened our vulnerability to cyclical downturns and contributed to overall stability and financial strength.

More than a third of BHP's assets are now located outside Australia and two thirds of sales are priced in, or related to, the US\$. This international orientation provides access to a range of market opportunities and a degree of insulation against regional volatility.

Development and Exploration

BHP's investment in new steelmaking technology and equipment has been vigorous and sustained.

Over the past six years, a major restructuring of our steel business has enabled it to become competitive across a wide range of steel products, particularly in high value added steels. Steel capital expenditure including investments totalled \$664 million during the past year.

This continuing modernisation is allowing us to compete for international markets.

BHP's search for new minerals and hydrocarbons is large by world standards. In the past year, \$295 million was spent on exploration.

Although the bulk of exploration activity in the past year was in Australia and North America, an increasing proportion was in relatively unexplored areas in North Asia, Africa, South America and Indonesia.

The Escondida copper project in Chile and Timor Sea oil developments in northern Australia are examples of our strength in exploration and development.

Investments and Divestments

BHP's strong financial position enabled it to make further strategic acquisitions.

These included 31% of the ordinary capital of New Zealand Steel Holdings Limited, the sole manufacturer and major supplier of steel to the New Zealand market. BHP also acquired the remaining 70% of Mt Goldsworthy Mining Associates to add to its iron ore interests in the Pilbara region of Western Australia.

Shortly after the end of the year, BHP sold three quarters of its stake in Woodside Petroleum Ltd, the operator of, and one of our co-venturers in, the North West Shelf Project. The sale realised \$525 million. We retained a 10% interest in Woodside as well as our direct participating interest in this major project.

The Company has a 50% interest in the ordinary share capital of Beswick, which holds 322.6 million BHP shares. It is the Company's intention that there will be no change in this investment.

BHP's investment in Harlin has received some attention. Harlin's main asset is Elders IXL shares. The Company is confident that the underlying value of the asset is sound and that the investment will be repaid.

Business Environment

The world economy recorded its seventh consecutive year of growth last year. Strong investment spending contributed to firm demand for minerals and steel.

The Asian region, led by Japan and the newly industrialising countries (South Korea, Singapore, Taiwan and Hong Kong), continued to outperform the rest of the world. This dynamic, rapidly expanding region is now more than half as large an economic unit as the USA. It is an important market for a wide range of BHP's products.

Conditions in Australia were less favourable. An extended period of high interest rates has led to a slow-down in economic growth and a contraction in many interest rate sensitive sections of the economy.

Outlook

We expect a satisfactory performance in the ahead despite a slower pace in world economic growth.

Modest growth in demand in international markets for commodities and steel is expected, with the strongest demand in the expanding Asia markets.

In the short-term, we expect the impact of the slow-down in growth in Australia steel demand to be absorbed by increasing exports; when market conditions stabilise exports will remain a central part of our strategy.

Against this background, we are continuing a major investment program, including the Escondida copper project in Chile; the North West shelf Liquefied Natural gas (LNG) project; oil developments in northern Australia; and a modern, competitive steel industry.

People

The dedication and professionalism of BHP's 52 000 employees is one of our main strengths. As a result, the Company is in a strong position and able to provide rewarding and satisfying careers to its people.

Continuing emphasis on training and development reflects our belief that world class skills are necessary if we are to remain internationally competitive in each of our businesses.

Employee shareholding in BHP increased to 56% of employees now holding shares through the Employee Share Plan, up from 50% last year. The Plan enables employees to identify more closely with the performance of the Company.

CALTEX AUSTRALIA LIMITED**CHAIRMAN'S REPORT TO SHAREHOLDERS**

While 1990 was one of the most volatile periods in company's recent history, our performance showed an improvement over 1989.

Our after tax earnings of \$92.0 million was an increase of \$39.7 million over 1989, a continuing benefit of the restructuring of the organisation mentioned in the 1989 Annual Report.

It was pleasing that the company is moving towards the level of returns that our shareholders should reasonably expect. For several years the downstream oil industry in Australia has had a less than satisfactory financial record, achieving about half the return on funds employed of companies in the manufacturing area.

A portion of after tax earnings is the result of inventory gains caused by the sharp increase in crude oil costs and product prices caused by the Gulf crisis. With the crude oil market returning to more normal levels it is expected that compensating losses will occur.

Our earnings were also affected by the returns from our divestment of surplus assets being considerably less than anticipated. The cause was the continuing depressed state of the property market.

Return on capital employed has remained steady, reflecting the Directors' decision to bring to account the current value of land and buildings. This revaluation element incorporates the assessment of both external valuers and those of the Directors after taking into account the values attributed by State valuers General. In making this decision, Directors considered that a more realistic view of the company's performance could be made when judged against current asset value.

The economic conditions in Australia during 1990 were extremely difficult. High interest rates caused a significant business downturn which was reflected in the consumption of petroleum products. The consumption of petrol declined and automotive diesel was only marginally above 1989 figures.

On the world scene the economic effects of the Middle East conflict had a damaging impact on global economic growth. In spite of the Gulf crisis and the strike by Esso employees in Victoria, which caused interruption to crude oil and feedstock supplies to our refinery, we managed to maintain product supplies to the market.

The company's management established tight financial control in all areas of our operations to ensure that earnings and cash programs achieved budget in these difficult economic conditions. However, the large increase in crude prices with its consequential impacts on working capital saw a growth in borrowings since August 1990 to a year end figure of \$550 million.

The company continued its strong investment program in 1990. Over \$120 million was invested during the year including approximately \$40 million for modern technology at the refinery and in the environmental area. One of the major objectives of the program is to ensure that the Kurnell refinery becomes internationally competitive plant. There are no tariff barriers to imports which, if we are not competitive, would erode the \$1.5 billion 'added value' that Australia refineries contribute to the economy.

The growth of other Pacific Basin economies will provide export opportunities in future years for refineries that are modern, cost efficient and enterprising. This requires not only investment in plant but also changes in work practices.

It was most concerning to experience the 21-day freeze on petrol and automotive diesel prices which came into effect following the Iraqi invasion of Kuwait. This kind of action not only had a damaging effect on the company's earnings but also subverts the confidence of investors. To ensure that the Federal Government was aware of these consequences the company's management held discussions with the Treasurer in October 1990.

We were also disappointed with the findings of the report into petroleum product pricing published by the Prices Surveillance Authority. The report failed to recognise the need for our company to generate adequate cash flow from its operations to fund working capital, the need for refinery investment and the need for proper compensation for losses incurred during the 21-day price freeze. The economy of any country, particularly Australia's is fundamentally dependent on the availability of a competitive and efficient energy supply.

The Esso dispute in Victoria during October which prevented our company, and innocent party, from obtaining Bass Strait crude oil for over four weeks caused a severe disruption to our production. Our refinery's output was more than halved and the cost of ships lying idle was significant. We are currently involved in action to ensure that appropriate procedures are adopted in the future.

which will result in the supply of crude oil to the market being unhindered if similar disputes occur again.

The introduction of Total Quality management principles and procedures mentioned in last year's Annual report is proceeding according to plan. we are already seeing early benefits and our company has been chosen as the subject for a case study which will be presented at the Total Quality Management Institute conference in 1991.

We ingoted additional environmental, health and safety programs during 1990 that will continue over the coming years. One of these programs was the establishment of the Health, Environmental and Loss Prevention department at Kurnell.

Bayswater Colliery enjoyed another successful year, a highlight being the signing of a five-year contract with Pohang Iron and Steel in Korea. Towards the end of 1990 we were advised by the New South Wales Department of Minerals and Energy that our application for an Authority to Prospect for coal at Glen Munro in the Hunter Valley should be granted.

The Australian Lubricating Oil Refinery Limited (ALOR) earned \$4.5 million after tax and exceeded its business plan target. Due to the Middle East uncertainties, lube supply worldwide was tight. ALOR was able to expand its export business and expects this to continue.

This will result in the lube refinery running to full capacity. Throughput for the year exceeded one million barrels for the first time in many years. Additionally the lube refinery ran for the calendar year without a lost time injury.

During 1990 several changes to our Board of Directors occurred. Messrs R F Johnson AO, Chairman and Chief Executive Officer of Caltex Petroleum Corporation, S S Miller, Vice Chairman of Caltex Petroleum Corporation, and R J McTaggart, General Manager manufacturing And Supply, all Executive Directors, and J M Cocks, a Noon Executive Director of our company, retired from the Board.

Each of these directors gave valuable service to the company for which we are deeply grateful.

Two new Executive Directors were appointed to our Board. They were G P Shiels, General Manager, Manufacturing and Supply, and A R Lindsay, General manager, Planning and Resource Trisection.

M G Irving, who was Managing Director of CIBC Australia Limited and Vice President Far Eastern Operations of the

Canadian Imperial Bank of Commerce until his retirement,
was appointed a Noon Executive Director.

We achieved a great deal in 1990, a year of unparalleled
volatility. These achievements are a result of the hard
work, dedication and commitment of our employees. I
sincerely thank them for their contribution.

REVIEW OF ACTIVITIES

- ENVIRONMENT, HEALTH, SAFETY AND THE COMMUNITY

During 1990 Caltex placed increased emphasis on occupational health, safety, protection of the environment and fire prevention.

Resources within the Company for management of environment and occupational health issues were significantly strengthened. A small specialised group was formed within the corporate division to maintain an overview on these matters, and provide specialised assistance throughout the company. Substantial changes were also made in the management structure within the Marketing and Manufacturing Business Units.

Caltex has been proactive during the year in working with authorities to develop practical approaches that will ensure that operations are maintained at very high standards of environment protection and occupational health and safety. The benefits of these efforts are now becoming apparent.

The highlights of this year's performance were -
>Marketing Business Unit Operations. Lost time injuries dropped by 18% compared to the previous year, continuing a significant downward trend. This result reflects the increased effort that is being made to promote safety awareness within the Marketing Business Unit, but some areas remain where improvement is required.

> ALOR. For the first time in many years ALOR operated for the entire 12 months without any lost time injuries. The planned improvement in safety performance at CRL was achieved, though much remains to be done to realise a zero lost time injury performance at this location.

> Oil Spill Response. A major event was the Southampton Oil Spill Service Centre response course, sponsored and organised by Caltex. In addition to classroom sessions, participants took part in an exercise which simulated the clean-up of an oil spill.

Organisations involved included the Federal Department of Transport and Communications, the Australian Institute of Petroleum, the International Tanker Owners' Pollution Federation, The National Plan to Combat Pollution of the Sea by Oil, the NSW Maritime Services Board, The State Pollution Control Commission as well as Caltex representatives from Australia, the United States and New Zealand.

The course thoroughly tested existing procedures and increased participants' knowledge of equipment, facilities and emergency communications.

> Waste Water Treatment. Another environmental project involved waste water containing phenols (a licensed restricted chemical compound) which had built up following a shut down of the Yena Gap outflow system and abnormally heavy rain.

Caltex developed a process using hydrogen peroxide to oxidise the phenols. The phenol content in two million litres of water was reduced from 60 parts per million to 2 parts per million in less than a week. This was well below the licence limit.

>Security and Emergency Response. An exercise, code-named Green Star, tested the refinery's emergency response procedures and security systems.

The exercise involved Caltex employees as well as the New South Wales Police, the New South Wales Fire Brigade, the Ambulance Service, the State Emergency Management Organisation and an Army emergency squad with tracker dogs.

The results of the exercise have been used to further improve the refinery's emergency response procedures.

>Asbestos removal. In 1990 Caltex began a five year program to completely remove asbestos from the refinery. This program which is expected to cost over \$15 million replaces procedures which entailed partial removal and sealing.

>Exposure monitoring. An occupational health program that closely monitors the exposure levels of employees to chemicals was accelerated. The chemical monitoring program, which is a vital part of the Caltex occupational health program, will continue throughout 1991 and beyond.

The company continues to support the Health Watch Program operated jointly by the Australian Institute of Petroleum and the University of Melbourne.

Community

Caltex continued its tradition of involvement in the community with support of a number of interesting programs.

Among these were:

> Discovery Centre. Caltex, the Federal Government and the New South Wales Government were the main sponsors of a new visitors centre, wetlands exhibition and field studies facility in the Botany Bay National Park. Known as the Discovery Centre it was opened by The Hon. Nick Greiner, the Premier of New South Wales.

> University Scholarship. Caltex continued to take a deep interest in the Australian community in 1990 by awarding a range of scholarships.

The most prestigious, the Caltex National Scholarship for Women, was awarded to Sharon Kaye Parker of Kojanup in Western Australia.

Sharon, a science graduate from the University of Western Australia, is using the \$48,000 scholarship to complete a post-doctorate degree at the Social and applied Psychology Unit at Sheffield University in England.

Sharon had graduated as a Bachelor of Science with a First Class Honours in Psychology for the best honours thesis.

A panel sitting at the University of Sydney selected Sharon for the 1990 Caltex National Scholarship for Women from six finalists.

Finalists were selected from universities throughout Australia based on their scholastic achievements, ability to communicate, social awareness, community service, sense of purpose, non-academic interests and career plans.

MANUFACTURING

1990 saw the continuation of a major program which will increase the efficiency and productivity of the Kurnell refinery so that it can compete more effectively in world markets.

Known as Pacesetter, the program began in 1989. Implementation started in 1990 after hearings in the New South Wales Industrial Relations Commission. The first phase of the program involved extensive re-training and some manpower reductions. Efficiency improvement will then be ongoing.

During the second half of 1990, the Australian Workers Union and management worked together to draw up a basis for a new industrial agreement incorporating world-class objectives.

Phases two and three of the Pacesetter program will involve the introduction of advanced technology and the expansion of the responsibilities and skills of our

employees. This program will continue throughout 1991 and into the following year.

Major investment

Another major investment proposed at the refinery is the \$50 million revamp of the Number 1 Fluid Catalytic cracking Unit. When completed in 1992, the unit will provide greater capacity and be more reliable, significantly enhancing the refinery's competitiveness.

Focused organisation

Following the restructuring of the company into two major business units in 1989, the management of the Manufacturing and Supply Business Unit undertook an indepth review of the refinery's organisation structure.

A highly focused organisation with vertical accountability has been created with particular emphasis on core refining activities, health, the environment and loss prevention. management also drew up a Mission Statement for the refinery flowing from the Corporate Vision Statement.

Quality management

As part of the reorganisation of the operating department, refinery management created a project team with the task of upgrading procedures and providing high quality training.

Teams have also begun working on quality management issues associated with their own work areas.

The work of these project teams is consistent with Caltex Quality Methods, formulated from Total Quality Management, which are being introduced and promoted in the refinery.

Investment will also be made in another operator training simulator.

Gulf crisis

The Gulf crisis caused substantial volatility in the local and worldwide markets for crude oil.

In addition to the Bass Strait dispute, which prevented Caltex from loading its ships for over four weeks from October, caused added disruption. As result of this disruption Caltex has taken action to ensure that appropriate procedures are adopted in the future which will result in the supply of crude oil to the market being unhindered if similar disputes occur again.

Full capacity

One unexpected aspect of the Gulf crisis was the disruption of the worldwide Caltex lubricating oil supply position.

This was caused by the cessation of the delivery of base oil from Iraq.

The Australian Lubricating Oil Refinery (ALOR) immediately began working at full capacity to meet the increased demand for base oil and continued through the Christmas break to produce over 20, 000 tonnes of export base oil.

This extended operation was made possible through the cooperation of the various unions involved and the staff at ALOR.

For the first time in 10 years ALOR manufactured one million barrels of lubricating oil base stocks in 12 months and the company is expected to operate at full capacity throughout 1991.

Volatile markets

The volatility of the crude and product markets caused Caltex to engage in trading opportunities to offset the adverse results which could have occurred as a result of that volatility.

Trading results were very encouraging.

The Commercial Group expanded sales of refinery products and was particularly successful in the sales of lubricating oils in a difficult period mid-year when inventories became high due to short lifting of contracted volumes.

Interrupted supply

Significant, unanticipated events like the invasion of Kuwait, the Esso dispute in Bass Strait and floods in Queensland and New South Wales have had a major impact on supply during the year.

However, a general slowdown in the economy in the latter part of the year enabled product inventories to be restored by year end.

Australia Star - Australia Sky

The 'Australia Star' made a round-the-world voyage during which it delivered Bass Strait crude to the United States Gulf Coast.

Several other cargoes were loaded and delivered before she finally returned to Kurnell with Barrow Island crude.

The 'Australia Sky' continues to perform according to our expectations, while the ship's high technology systems are proving invaluable.

The 'Australia Sky' is recognised as one of the world's most environmentally safe refined product tankers and has many high technology and safety inclusions.

Sydney-Newcastle Pipeline

In mid-1990, Caltex purchased the Australian Interstate Pipeline Co. Pty. Limited's 90% interest in Newcastle Pipeline Co Ltd and its 40% interest in the Hunter Pipeline Co Ltd.

This gave Caltex full ownership of the Silverwater-Plumpton and the Plumpton-Newcastle sections of the Sydney to Newcastle products pipeline. Caltex has managed the pipeline system since its completion in the early 1980s. The pipeline is an environmentally and economically sound method of moving product and is seen to be of long term strategic value to Caltex.

MARKETING

In 1990 Caltex continued with extensive franchisee training programs as part of its commitment to the Caltex petroleum products franchise.

As part of the drive to improve the level of customer service we introduced a customer standards program which aimed at determining a standard welcome or greeting, the introduction of a secondary sale and a courteous farewell.

This customer standards program was monitored and evaluated by a mystery shopper over the six months of the program and the results fed back to the franchisees by their Territory Supervisors.

Reseller Conference

Approximately 500 service station operators and distributors from around Australia attended our first "Resellers" conference in Thailand in October 1990.

This combined conference was very successful in further explaining Caltex's corporate vision to our valued business partners and all participants were challenged to 'dare to Excel'.

The Keynote address was given by Neil Armstrong, the first man on the moon, who himself had taken the challenge to 'dare to Excel'.

Other speakers included Evan Green on the future of the motor car, and Professor Y T Kee who spoke on serving the customer of the future.

Shop Stop

Phase two of the Phase Stop Franchise was introduced to Caltex franchisees and dealers in May. The Shop Stop Franchise enables franchisees to take advantage of favourable buying prices from a group of national suppliers and includes monthly promotional activities and merchandising programs. In the highly competitive retail market, Caltex franchisees' profitability is enhanced by major Shop Stop activity.

The Shop Stop program was recognised by way of a favourable mention in 1990 Retailer of the Year awards, conducted by the Australian "Retail Week" publication.

Highway Restaurants

Caltex Highway Restaurants, well appointed and designed to offer high quality, reasonably priced meals to customers, were opened in Albury and Macksville. Further development of this network will take place in 1991.

Expansion of the Quick Bite Restaurant chain continued in 1990 with 38 outlets now operating. Our national consultants continued to provide training and on-site assistance to Quick Bite franchisees to ensure that the high standards in food and service are maintained. Our other food outlets continued to be upgraded to meet the needs of the motoring public.

Convenience Stores

During 1990 our relationship with Pacific Seven progressed significantly as the 7 Eleven franchise operations were introduced into 41 Caltex service station locations. The successful performance of these stores attests to the strength of the 7 Eleven brand and the efficiency of their franchise system. The excellent facilities and 24 hour service provided to customers have brought significant benefits for our franchisees.

Distributor Marketing

1990 saw the introduction of a new depot and truck image for the Caltex network of 118 distributors.

The objective of this program is to improve the visibility of the distributors in the market place by providing a distinctive, consistent image, built around the use of the Caltex Star as the prime identification for the depot. Our distributors deliver a very significant volume of product, both to their own end user customers, as well as sales to Caltex contracted accounts. As such, they are regarded as very valuable business partners and this program is designed to assist in achieving our common business objectives.

Sales Force Network

Caltex continues to intensively use the technology employed in our point of sale network by adding field staff to the real time communication loop. Territory Supervisors are now equipped with laptop PCs and cellular mobile telephones. The PCs can be used to "dial up" any appropriate mainframe application enabling the Territory Supervisor to access all the current data applicable to his or her customer base. The application of technology is designed to minimise administration time and maximise selling and marketing effort while improving the quality of field service to our customers.

Franchisee "Back Office" System

A further building block in Caltex's communication strategy commenced development in 1990. This was the PC based business management system, designed by Caltex together with a group of its franchisees, which is to be installed at franchisee locations commencing in the first half of 1991. To ensure that a distinctive difference is maintained in Caltex's system development for its customers, this system will also include a new form of training and presentation software, have a financial forecasting capability and an electronic communications facility allowing two way communication between franchisees and Caltex.

Each of these initiatives is consistent with Caltex's long term strategy of innovatively using technology to forge strong links with its business partners and improve overall levels of performance.

Electronic Marketing System

Caltex continued to expand its point of sale and electronic communications network throughout its reseller customer base. By the end of the year, the bulk of our service stations were connected to the network, over which

real time processing of business data and financial card transactions take place. This leading edge technology facilitates the ongoing development of a strong business and trading bond between Caltex and franchisees. Confidence by customers using the new technology is bolstered by a comprehensive 24 hour, 7 day a week support infrastructure.

Airport Fuel

Airport Fuel Service Pty Ltd (AFS) was formed by Caltex and Ampol on 1 August 1990 - initially to provide into-plane service on behalf of its shareholders at Sydney Airport. Caltex and Ampol each hold 50 percent of the new company's equity.

The main benefits derived from establishing AFS are economies of scale of the combined operation and security of employment for the refuelling personnel.

BAYSWATER COLLIERY

in 1990 bayswater colliery signed a major contract with overseas steel mills and began deliveries to the NSW Electricity Commission under a new 10 year contract.

Bayswater Colliery, in which Caltex has a 55 percent interest, had a successful year. This was despite production being slowed in the first six months by extremely wet weather and adverse exchange rates occurring in the latter part of 1990.

A world oversupply of steaming coal kept spot prices depressed during 1990. The colliery continues to operate profitably but the return on funds was below expectations.

First ELCOM Deliveries

A major event in 1990 was the first deliveries of steaming coal to Bayswater Power Station under a new contract with the Electricity Commission of New South Wales.

Over the next ten years the colliery will deliver 5 million tonnes of steaming coal by conveyor belt to the power station.

New Contracts

Bayswater's reputation for being a reliable supplier of high quality coal enabled the company to secure a five year contract with Pohang Iron and Steel of Korea for semi-soft coking coal as well as renewing 12 month contracts with Nippon Steel, Kobe Steel, NKK, Kawasaki

Steel and Sumitomo Metal Industries of Japan. Two new steaming coal customers, Daicel and Mitsubishi Kasei, were also gained.

Additional Coal Reserves

We believe that the colliery's search for additional coal reserves will be successful in early 1991 when Bayswater is granted an authorisation to prospect by the New South Wales Department of Minerals and Energy for new coal reserves at the Glen Munro area located to the west of the existing mine.

Quality Control

as part of a program to make the coal preparation plant more effective, Bayswater completed a \$2.65 million upgrade during 1990. The systems installed more accurately monitor the ash level, moisture content and size distribution of coal to ensure it complies with customer requirements which are becoming more stringent due to environmental concerns. The upgrade also included the installation of larger capacity product bins and changes to the flow of coal within the plant to improve efficiency.

Open Day

In May, Bayswater hosted the Hunter Valley Mines Rescue Competition in which 25 teams from Queensland, Western Australia and New South Wales mines took part.

The event was attended by The Hon. Neil Pickard, the New South Wales Minister for Minerals and Energy, who presented prizes to the winning teams. This event, which included an open day for employees and their families, was made a success by the number of employees who volunteered their services for the day.

Industrial Relations

Throughout the year industrial relations at Bayswater were excellent and the continued success of the colliery is to a great extent due to the commitment of Bayswater employees. Only two days were lost during 1990 related to domestic issues, well below the industry average.

COCA-COLA AMATIL: CHAIRMAN'S REVIEW

Nineteen-eighty-nine was a year in which we accomplished a major reorganisation of our company. We began the year in the tobacco, beverage, snack foods, communications and packing, and poultry businesses, with B.T.A. Industries as our major shareholder. We ended the year as Coca-Cola Amatil, a company emphasising three main businesses - beverages, snack foods and communications and packaging - with The Coca-Cola Company as our major shareholder.

In this year of transition, our business achieved satisfactory results. Sales declined slightly on 1988, due to the divestment of our tobacco business in August. Sales for the 12 month period to December remained above the \$2 billion mark, with the non-tobacco operations up 23 per cent on 1988, including the impact of acquisitions. Trading profit was up 6 per cent for the company as a whole, but net profit declined, reflecting funding costs associated with the change in the company's financial structure.

During the year, we continued to expand our beverage business both in Australia and overseas. We purchased the remaining 51 per cent of Ecks (NSW); a small Coca-Cola franchise in Inverell; the Landegg and Steyr Coca-Cola franchises in Australia; and entered into an agreement to purchase 50 per cent of a joint-venture company holding the Coca-Cola franchise for the majority of New Zealand. The latter initiative remains subject to shareholder approval at the Annual General Meeting.

In Australia, our beverage business achieved significant volume growth in established operations, despite adverse weather conditions in the eastern states. We also gained share in a very competitive market. Sales in Australia increased 17 per cent in 1989, and at a similar rate in our overseas operations.

The earnings of our Australian beverage business did not keep pace with our increased sales revenue due to a number of factors, including the influences of higher sugar costs flowing from deregulation and a peak summer sugar strike. Despite the effects of the above, we ended the year in our strongest competitive position ever.

Our overseas beverage operations continued to show significant increases in trading profit.

CCA Snack Foods made major market share gains in spite of intense competition. Established brands, notably Smith's Crisps and Twisties, were star performers during the year. Volume sales were up significantly, due in part to the successful introduction of the 50 gram pack size.

CCA Snack Foods operations in Europe and Asia continued to show excellent growth. During the year, we purchased the remaining 51 per cent of our Malaysian snack food operation, consolidating our position in that market. Overall, the snack foods business increased sales by 16 per cent on 1988.

Strong profit growth by our overseas snack food operations partially offset our lower profits in Australia, which were affected by high potato prices and the cost of meeting a greatly increased level of competitive activity. However, with improved trading conditions in the latter part of the year, the outlook for 1990 is encouraging.

Communications and Packaging's sales were up 44 per cent in 1989. As a result of the purchase and successful integration of CPE Australia Limited, the company is now the largest non-government printer of security products in the Asia/Pacific region. Our packaging business also showed satisfactory growth as we expanded further into the Asia/Pacific market. Pacific Secure Systems capitalised on the increased popularity of scratch-off lottery tickets, both in Australia and overseas.

The Reorganisation. While the reorganisation involved significant change in the company, it is important that it is viewed not as an isolated event but as the continuation of our basic long term strategy. Our aim is to capitalise on strong brands positioned in growing markets to provide the performance necessary to increase the value of the company to our shareholders. There is no stronger brand in the world today than Coca-Cola.

Our new relationship with The Coca-Cola Company provides further opportunity to expand our successful beverage operations offshore. The snack food market also presents substantial growth opportunities. Under the new structure, we are now giving greater emphasis to the potential of these businesses to ensure that we achieve the growth and performance necessary to continue to provide the superior return on investment our shareholders have experienced in past years.

The reorganisation plan was devised in line with our long term commitment to increase the value of our shareholders' investment in the company. It was specifically designed to be fair to all shareholders. The plan gave B. T. A. Industries the opportunity to assume majority ownership of the tobacco operations. It also gave shareholders the opportunity to participate at all levels of the transaction. This meant they could elect to retain their interest in the tobacco operation; elect to retain their shareholding in AMATIL; elect to accept a cash offer and thereby sell any number of their shares; or elect to avail

themselves of all three investment alternatives. By choosing to exercise these options according to their individual preferences, these changes provided Coca-Cola Amatil with the opportunity to concentrate its growth strategy on its beverages and snack foods businesses. It is looking to these areas for future growth with the support of a partner whose interests are more directly aligned with its own.

Basically, the reorganisation of Coca-Cola Amatil involved three major steps: the addition of our major new investor, The Coca-Cola Company; the sale of the tobacco division; and the sale of our share in Australian Poultry Limited. To take added advantage of our new arrangement with The Coca-Cola Company, it was decided to change the name of the company to Coca-Cola Amatil Limited. This will greatly increase our recognition in international markets. Also, an invitation was extended to four senior executives of The Coca-Cola Company to join our board. All these initiatives were achieved with strong shareholder support.

I take this opportunity to thank the management and staff for their contribution to the achievement of this complex and highly beneficial step in our company's development.

Strong domestic beverage growth. Coca-Cola Amatil has a very strong and well established position in the beverage industry in Australia, which is a proven growth market. During 1989, consumer spending on all commercial beverages in this country was almost \$15 billion. At five per cent of Gross Domestic Product, that was more than Australians spent on new motor vehicles or new housing over the same period.

Soft drink is the driving force in the Australian commercial beverage industry. In the last decade, soft drinks' share of the total beverage market grew from 11 per cent to 18 per cent (it is estimated that the total volume of all soft drinks consumed in this country will overtake beer within the next three years). In five years, the Australian soft drink market has grown by over 50 per cent in volume and more than doubled in retail value to \$2.5 billion. During the same period, via organic growth and acquisition, the volume of Coca-Cola Amatil's soft drink brands has almost tripled. The majority of this growth was accounted for by Coca-Cola brand name products, most notably Coca-Cola, diet Coke and, more recently, Sprite and Diet Sprite. We now hold over 50 per cent of the Australian soft drink market.

The Coca-Cola brand drives the soft drink market in Australia. Coca-Cola is far and away the largest selling beverage brand in this country. This year it became the first packaged goods brand in Australian history to pass

the \$1 billion retail sales mark. The total value of retail sales of Coca-Cola has more than trebled over the past five years.

The outstanding performance of Coca-Cola has been supported by another prominent Coca-Cola trademark, Sprite. Since the national launch of Sprite (and more recently diet Sprite) this contemporary lemonade brand has become the number one selling lemonade in Australia.

The premier performer in the mineral water market is also a Coca-Cola Amatil brand name product - Deep Spring Mineral Water. The low joule version of Deep Spring, Diet Deep Spring, has been enthusiastically accepted by consumers since its launch in September 1989.

Australian beverage market leader. Through its activities in Austria, the company has established an expanding presence in the growing beverage market in that country. During the year, we acquired two new Coca-Cola franchises, Lendegg and Steyr. Since the end of the year we have also acquired the Gmunden franchise. Our franchise territory now covers 55% of the Austrian population. Despite a poor summer and the entry of a strong new competitor into the market, the total volume of CCA Beverage sales in Austria increased by 11 per cent on 1988. Trading profit rose by 17 per cent over the same period. Our success in the manufacture and marketing of soft drinks in Austria since the purchase of our first Coca-Cola franchises in 1982 provides a solid base from which we can expand and grow.

In the South Pacific region, the beverage businesses acquired in Fiji and New Zealand during 1988 both performed very strongly.

We are confident that, by broadening the image and appeal of products bearing the Coca-Cola trademark, and by continuing to use brand Coca-Cola and diet Coke to drive growth in the consumption of soft drinks, we can further strengthen our leadership position in soft drink markets.

Increase in snack food market share. Coca-Cola Amatil's share of the overall Australian snack food market has shown consistent growth over the past five years. Despite major competitive activity, significant market share gains were made in 1989. Considerable sales growth was achieved during the year through the continued popularity of our established brands.

For many years Smith's Crisps has been an extremely popular brand in NSW. However, following the successful test market of a range of new adult oriented flavours (in a new range of package sizes) in Western Australia, we established Smith's for the first time nationally with the

aid of a new advertising campaign. As a result, Coca-Cola Amatil now has another national snack food brand. Given that potato chips represent such a large proportion of the total snack food market, the success of Smith's has played a major role in further increasing Coca-Cola Amatil's snack food market share.

1989 was also the first full year of trading and sales under Coca-Cola Amatil's management of Planters Nuts. Acquired by licence in July 1988, this very well respected brand provided the company with a leadership position in the packaged nut market. It also provides a firm base for future growth through the marketing of products with adult appeal. The snack food market in Australia is growing at twice the speed of the total market for other grocery products. Coca-Cola Amatil's share of that market is forecast to continue to grow into the foreseeable future.

Italy's number one cereal snack.

Turning to our well-established offshore activities, it may not be widely known the Fronzies, A Coca-Cola Amatil product, is the number one selling cereal snack food in Italy, and has been for the past four years. Launched by AMATIL in the Italian market in 1979, Fronzies accounts for more than one third of cereal snack segment value. This level of consumer acceptance is largely the result of the application of Coca-Cola Amatil's marketing practices to a particularly testing international market. When we compare the Italian per capita consumption levels to those of developed snack food markets such as Australia, we believe there is plenty of room for us to grow.

We have had a presence in the Asian snack food market for over 15 years. During 1989 we consolidated our position in the area by acquiring the remaining 51 per cent of our Malaysian operation. This gives us the ability to co-ordinate the management of that business with our wholly owned Singapore snack food operation. The acquisition of a major competitor in Papua New Guinea in June added valuable brand names to our existing product range. We believe overseas snack foods markets represent on-going opportunities for Coca-Cola Amatil.

Communications and Packaging.

The Communications and Packaging group, trading as Leigh-Mardon Pty Limited, had a successful year. Sales grew by 44 per cent with trading profits up 29 per cent.

This performance was enhanced by the acquisition in late 1988 of CPE Australia Limited. The security products section of the business services clients of the standing of Australia Post, New Zealand Post, Communications Authority of Thailand, Hong Kong Post, Singapore Post, National Australia Bank, Westpac Banking Corporation and

ANZ Banking Corporation. We hold a major share of each of these customers' security printing business. During the year, Communications and Packaging also became Australia's largest manufacturer of plastic cards (credit cards, ATM cards, club cards, etc), driving licences and airline tickets.

Sales of scratch-off tickets grew solidly in 1989. Western Australia and Victoria were added to our client list, and our proposal to supply the tickets for the launch of the first instant lottery game in New Zealand was accepted.

In packaging, we advanced in the Asia/Pacific market with the purchase of a facility in Hong Kong and the remaining shareholding in our Singapore operation. To satisfy our expanding customer base in the region, a state-of-the-art gravure press has been ordered for Singapore. In Australia, we installed a 'calendering' facility at our Botany plant to enable the economic production of superior finishes of printed folding cartons.

Funding. The net effect of the reorganisation of the company was to increase our overall debt level by some \$140 million. This equates to the difference between the \$550 million returned to shareholders, and the proceeds from the sale of our tobacco operations and our share of Australian Poultry Limited. While at present our gearing is higher than in the past, our businesses have a history of producing strong cash flows which are adequate to service our requirements.

The Future. Coca-Cola Amatil's past success has been based on our strengths in manufacturing, marketing and distribution across our range of businesses. We have established a strong Australian base from which we have expanded overseas.

We are now positioned to embark on a new era of growth. The reorganisation will enable us to combine our existing management and resources with the international strengths of The Coca-Cola Company to form a new Australian-based international, Coca-Cola Amatil.

In future, management will concentrate its efforts on the successful expansion of our businesses from established bases in the South Pacific, South East Asia and Europe. At the same time, we will continue to grow our domestic operations in order to generate the sustainable growth in earnings necessary to continue to increase the value of Coca-Cola Amatil to its shareholders.

COLES MYER LTD**CHAIRMAN'S REVIEW**

The 1989/90 trading year has been the most difficult period for the retail industry in Australia since the Second World War.

The depressed economy and historical low levels of consumer confidence have had a significantly adverse effect on consumer demand. The situation was aggravated by the prolonged disputes affecting Australia's domestic airlines, together with industrial disputation in several other areas, particularly public transport.

The purchasing power of most consumers fell as interest rates and a wide range of Government taxes and charges increased. Against this background, a number of small and medium sized retailers failed and the retail sector overall experienced profoundly difficult trading conditions. The response of many retailers was to reduce prices to maintain market share and this also impacted on profitability in the industry.

Despite the adverse environment, your company achieved a sales increase in comparable terms of 5.1% over the previous year. Although this was below the rate of inflation it is considered a reasonable result under prevailing economic circumstances.

It is interesting to note that according to the Australian Stock Exchange Limited, returns to shareholders in Coles Myer Ltd. over the decade to June this year have comfortably exceeded the average return on share investments over the same ten year span. Coles Myer Ltd. shareholders over this period earned an average return on their investment of 24.66% per annum compared with an average increase of 13.99% per annum in the Australian Stock Exchange All Ordinaries Accumulation Index.

Each \$1000 investment in Coles Myer Ltd. ordinary shares at 30 June 1980 would have been worth \$9,094 by 30 June 1990, if all dividends and proceeds from the sale of rights had been reinvested in the company.

It should also be noted that the company's debt levels are well controlled - an important factor in maintaining financial strength and stability during periods of prolonged high interest rates. The gearing ratio improved further during the current year.

The company is continuing a program of substantial capital investment to ensure the ongoing growth and development of our businesses. During the past three years we have

implemented the most significant store refurbishment program in the history of the company. In addition an active program of new store development has continued including the opening of major new department stores in Brisbane, Perth and, early in 1991, Adelaide.

Our investment in new technology has also continued and this will generate improved productivity in future years.

The condition of stock throughout the company is excellent and a concentrated effort is being made to reduce stock levels in order to control operating costs.

A stringent cost reduction program within the company has also achieved worthwhile savings, but the benefit of this has largely been offset by increases in other costs. Of particular concern is the rapid rise in Government taxes, fees and charges. The impact on Coles Myer Ltd. of increases in land tax and payroll tax alone will add more than \$30 million to our costs in the current year. Total State and Federal taxes paid by the company are approaching \$1 billion annually. These costs must inevitably be reflected in higher prices. There is an urgent need for Governments at all levels to control expenditure and reduce the burden of taxes and charges on both companies and individuals.

During the year there has been a significant change in the ownership of the company with the sale of 24.6 million shares representing 5.89% of issued ordinary shares to the Australia and New Zealand banking Group Limited, by interests associated with the company's Vice Chairman, Mr Solomon Lew.

A number of changes took place to the Board of Directors which are detailed on page 32.

I would like to express my sincere thanks to members of the Board, executive Committee, senior management and staff for their efforts during an extremely difficult time.

Although I cannot confidently predict a substantial recovery in sales in the short term, the company is committed to a series of programs designed to improve profitability and to ensure continued growth in capital value and dividends. I am confident that we are well placed to take full advantage of future economic recovery.

COLES MYER - DIRECTORS' OPERATING REVIEW**SALES**

Directors report a sales increase of 5.1% to \$14.72 billion.

Coles Myer Ltd. continues to have the largest sales within Australasia of any corporation. Total sales during 1989/90 rose by \$712 million or more than \$13 million per week above the previous trading year.

Although the sales increase was reasonable under the difficult economic circumstances which prevailed, profit after tax dropped by 5.9% (equity consolidated) to \$365.1 million from \$388.1 million as a result of depressed sales growth, high levels of competition and substantial increases in costs - particularly government taxes and charges.

Retail trading continued to weaken throughout the 1989/90 year and depressed levels of demand have continued through the early weeks of the current financial year. Individual business performances are detailed later in this report, but in broad terms the decline has been felt across the entire spectrum of the company's retail operations. The depressed economy and the reduction in household disposable income have been reflected in comparatively stronger sales in the most price competitive businesses including the Bi-Lo and 3 Guys budget supermarket groups and the Target and Coles-Fossey chains.

TRADING HOURS

State Governments are increasingly recognising the importance of extended trading hours to meet consumer needs. The provision of longer hours enables retailers to compete more effectively with other sectors of the economy. Although longer hours have generated additional sales, a change in the school holiday structure has had some adverse effects including a reduction of pre-Christmas sales volumes. This was to some extent offset in 1989/90 by extremely strong trading in the period immediately following Christmas.

CAPITAL EXPENDITURE

The company continued a significant program of capital investment with the opening of 79 new stores. A total of 28 stores were closed. Details of current store numbers are shown on page 45.

Total capital investment in the future development of the company including stores, distribution centres and new

technology remained at high levels - \$421.4 million in 1989/90 compared with \$425.5 million the previous year.

DIVIDEND POLICY

The company introduced a new dividend policy this year under which the proportion of total dividend paid as interim dividend was substantially increased. Directors believe that it is appropriate to, pay a larger dividend in the first half of each financial year, in which the major portion of the profit is generated. Directors have determined a final dividend for the year of 16.0 cents per share giving a total dividend for the year of 37.0 cents compared to 36.5 cents last year.

Shareholders should note the requirement of the Federal Government to notify the company of tax file numbers. From July 1, 1991 the company must deduct income tax at the highest marginal rate from the unfranked portion of dividends payable to shareholders who have not forwarded their tax file number to our Share Department. The requirement also applies to holders of convertible notes and debentures.

EXTRAORDINARIES

The 1990 extraordinary items of \$30.4 million largely represent additional provisions for costs and losses associated with the merger of the department store operations.

ASSET BACKING

Net tangible asset backing has increased to \$4.09 per share in 1990 from \$3.82 per share in 1989.

GEARING RATIO

The company's gearing ratio proved to 58.00% from 59.71%, well within the company's objectives. Stringent control over debt levels is one of the underlying reasons for the company's financial strength and high credit ratings.

OTHER ITEMS

Other items of interest during the year and to date include:

- > Restructuring of management continued at both corporate and business level with a reduction in staff numbers and associated costs.
- > The company received preliminary approvals from State Governments which will allow a consolidation of the legal

structure of the corporation and then elimination of a number of costly and unnecessary subsidiary companies.

> The company's Chairman and Chief Executive, Mr Brian Quinn A. O. was selected as Businessman of the Year by Australian Business magazine.

> A review of the company's risk management policies has resulted in improved efficiencies and reduced insurance costs.

> The process of transferring responsibility from the corporate head office to its constituent businesses has continued.

> In August 1990 the company's travel joint venture Coles Myer Ansett Travel Pty. Ltd. acquired the business of ANZ Travel, resulting in a doubling of the number of outlets to 93.

FUTURE PROSPECTS

Sales growth will continue to be affected by economic conditions for the current half-year and probably for the full year. Directors nevertheless believe that despite the poor sales trend the decline in profitability can and will be corrected. The company should begin to derive financial benefits from the merger of the Myer and Grace Bros department store groups and from the increasing use of modern technology throughout the businesses. Further reductions in interest rates would also have a beneficial effect on the company's costs as will the comprehensive cost reduction program now being implemented.

Coles Myer Ltd. continues to achieve significantly higher net profit per sales dollar than its major competitor, and it is expected that this will continue in the future.

Your directors will continue to examine every avenue for increasing sales, reducing costs and maximising profitability. The combination of strong assets, significant market share and sound retail skills guarantee the future of the company as one of the world's leading retailers.

COLES NEW WORLD

The company's premium supermarket group, Coles New World, was affected by continuing high levels of competition in the food sector throughout the year.

An increase in sales above the company average was nevertheless achieved and profit before tax was ahead of budget.

The national chain of 386 Coles New World stores continues to be a market leader in Australian food retailing.

Under the leadership of Mr Russell Stucki, the business carried out a substantial management restructure involving a reduction in the number of management levels. This has improved productivity, reduced costs and concentrated management focus on customer service.

Considerable improvements in inventory control were achieved and the implementation of electronic scanning throughout the chain was successfully completed.

The food component of 34 former Super Kmart stores was integrated into the Coles New World network.

Other achievements during the year included:

- > Improved labour scheduling at store level.
- > Repositioning and repackaging of a wide range of both "Farmland" and "Savings" house brand merchandise and the introduction of a number of successful new house brand products including pre-prepared meals and additional lines in the successful Farmland Cookies range launched last year.
- > Introduction of the category management concept to better manage the purchase and marketing of products.
- > Successful trials of electronic funds transfer at point of sale and commencement of a major implementation program.

Management will continue to ensure that the marketing policies and pricing strategies of the business are designed to meet customer needs, achieve the best possible returns and ensure a continuing strong performance from Coles New World supermarkets.

FOOD AND LIQUOR RETAILING

BI-LO

The Bi-Lo chain of discount supermarkets continued to expand with 22 new stores opened during the 1989/90 year.

Sales growth for Bi-Lo has continued to outstrip both the company average and the industry average confirming both the accuracy of the positioning of these stores, and the current high level of price consciousness in the community.

All of the 116 Bi-Lo stores have installed scanning equipment linked to a central computer network. The system will generate improved efficiencies in both buying and inventory control.

New store development will continue with an additional store in Victoria, three new stores in South Australia, four in Queensland and two in New South Wales planned to open during the current year.

LIQUORLAND

Liquorland remains one of the major liquor retailing organisations in Australia, operating a total of 283 stores in all States except Queensland and Tasmania.

A further seven new stores will be opened during the current year and the chain will continue to invest in store refurbishment and new technology. All Liquorland stores are expected to introduce new electronic point of sale equipment incorporating laser scanning by September 1991.

The program to upgrade both the external livery and internal decor of all Liquorland stores should also be completed by July 1991.

Although the consumption of liquor, particularly beer and wine, has declined and liquor retailing remains extremely competitive, Liquorland is retaining its market share.

Liquorland has now been appointed to operate the Wine Club business for American Express - Australia's largest direct market wine club.

RED ROOSTER

Red Rooster is the largest Australian-owned fast food chain. The group comprises 133 stores, operating mainly in Victoria, New South Wales and Western Australia.

In September 1989 a further seven Big Rooster stores in the Wollongong area were acquired completing the acquisition of the Big Rooster chain throughout New South Wales. All former New South Wales Big Rooster stores have now been converted to Red Rooster.

Red Rooster has expansion plans for stores in Queensland, South Australia and the A. C. T.

New product development is an important aspect of success in the convenience food market. This year the launch of a new menu item comprising fresh spaghetti bolognaise and

barbecue chicken marketed under the name "Chickette" has been well received.

SANDHURST FOODS

Sandhurst Foods produces milk and beef for Coles New World supermarkets and for sale to other retailers.

Charlton Feedlot sales of beef cattle increased during the year due to the development of export sales.

Milk sales continue to increase particularly following the re-launch of "PhysiCAL" and the release of "PhysiCAL Skim".

The Charlton Holstein dairy herd business has been sold.

Although Sandhurst Foods recorded a small loss in 1989/90, action has been taken to improve the performance of the business which has been trading profitably in the early part of the current year.

DEPARTMENT STORES

The program to merge the administrative functions of the Myer and Grace Bros department store groups continued throughout the year. The merger imposed considerable costs but will generate substantial on-going savings.

During the year new Grace Bros stores opened in Canberra and at Hurstville in Sydney. A new Myer store opened at Loganholme near Brisbane.

The new Myer city store in Adelaide will open early in 1991. It will be the largest Myer store after the Melbourne city store and will be of world class standard in design and presentation.

The company continued to place emphasis on management development during the year, providing programs tailored to the needs of people from trainee manager level to top management. These programs play a key part in preparing people who have been identified as able to assume broader responsibilities, and entry is based on performance.

The group has continued to fine-tune the range of products and services offered in order to have a clear positioning throughout Australia, and to concentrate resources in areas most appropriate for department stores.

This program involves Grace Bros withdrawing from most hardware and liquor retailing by mid-1992.

All stores have commenced bar code scanning of selected merchandise at point of sale and will be able to scan virtually all items by August 1991. Together with better ordering and distribution systems this will help to achieve improved inventory management and control for the company's department store business. It will also facilitate the development of electronic data interchange (EDI) and quick response merchandise management systems.

The only remaining Myer store in New South Wales (apart from Albury on the Victoria/New South Wales border) at Chatswood in suburban Sydney, has now been converted to Grace Bros.

The only Grace Bros store in Victoria, at Bairnsdale, has been converted to Myer. The Grace Bros name will remain as the company's department store banner in New South Wales with the Myer name used in all other States.

the Myer Direct mail order service, established last year, which offers a range of quality merchandise through direct response catalogues, is recording steady sales growth.

KMART

Kmart is Australia's largest discount department store chain comprising 138 stores operating in all States and territories.

During the year Kmart absorbed the general merchandise component of 34 former Super Kmart stores. Five new stores were opened at Loganholme, Forest Hill, Keilor, Mirrabooka and Hurstville. The Southport store was relocated to new premises.

Sales were disappointing due to the economic situation, high levels of competitive activity, and the delayed openings of centres in which new stores are located. The sales result led to a profit which was below expectations.

Kmart has continued a program of progressive store refurbishment and the introduction of new technology. Electronic scanning will be operating in a majority of stores by Christmas 1990 and the conversion program will be completed by the end of 1991. A trial program of electronic data interchange (EDI) involving 40 suppliers has been successful and the network will be expanded to include most major suppliers in the current year.

Efficiency will be further improved with the opening of a new distribution centre at Hoppers Crossing (Victoria). This will be the largest single retail general merchandise warehouse in the southern hemisphere and will have direct links with scanning stores and the EDI network.

A revised management structure has improved efficiency, created better career paths and concentrated management attention on providing improved customer service.

The development of executives for more responsible roles and training to strengthen skills at every level of the business is a continuing priority.

New product development continued with the introduction of popular exclusive ranges including River Gum apparel for men, Regency Classics for women, Pro Choice hand tools and hardware and Computec computer accessories and supplies.

Kmart has been at the forefront of developing environmentally friendly products. A range of K Green house brand products was introduced together with promotional support for environmentally acceptable brand name products. A plastic bag recycling scheme has already eliminated more than two million bags from the waste stream and also provides financial support for conservation programs. Kmart has also, introduced a program to recycle motor vehicle oil and to sell re-refined oil through Kmart stores.

Although sales are expected to continue to be affected by the current unfavourable trading conditions ion the short term, the introduction of modern technology should improve efficiency and profitability in future years.

SPECIALITY STORES

COLES - FOSSEY

The Coles - Fossey business was created through the merger of the former Coles Variety Stores with the Fosseys chain of softgoods stores. The merger of the group under the Coles-Fossey name has been well accepted by customers and some 150 stores now stock the combined apparel, manchester and variety ranges. Coles-Fossey is particularly strong in country areas and rural stores achieved a sales increase substantially above average.

Electronic point of sale scanning equipment has been installed in 42 stores and it is expected that 100 stores will be converted by July 1991.

The group has taken a number of marketing initiatives during the year including the development of the "Kidstown" infants' and children's wear department and the introduction of a cross-marketing program with the company's Red Rooster fast food group, involving the release of a range of "Little Rooster" children's merchandise.

After a period of consolidation the Coles-Fossey business is performing well. As a result of a continuing program of rationalisation the business is on an increasingly sound footing for the future.

Coles-Fossey is a major national sponsor for the effort to raise funds for research into the Sudden Infant Death Syndrome.

KATIES

The Katies chain of ladies fashion apparel stores produced disappointing results for 1989/90. Both sales and profits were below expectations. Action has been taken to improve both merchandise and promotional activities and sales for 1990/91 have commenced strongly.

Six stores were added in Australia during the year including five which were formerly independently operated and licensed to sell Katies merchandise but which are now managed by the company. The first two Katies outlets opened in New Zealand. These stores, one in Auckland and one in Wellington, have been very well received by customers and five more outlets will open in New Zealand during the current half year.

TARGET

The Target discount store chain performed well during the year despite intense competition. Both sales and profits were above expectations.

A new Target store at Fountain Gate in Victoria was opened early in the financial year followed by the first Target unit in Canberra. The existing standard unit at Franston, Victoria, will be replaced later this year with a full line store.

Target has continued the introduction of enhanced electronic point of sale equipment and the program to introduce scanning in all stores is virtually completed. Electronic funds transfer will be introduced early in 1991 as a further service to customers.

Target continue to perform particularly well in apparel and softgoods and has developed strong consumer loyalty for Target house-brand merchandise.

Australian-made products feature strongly in the Target range, with around 75% of merchandise sold being locally sourced. A recent success was the introduction of a new range of coordinated ladies lingerie in pure silk, stretch lace and "liquid" satin.

The chain is supported by an aggressive promotional program. An advertisement highlighting Target's quality control standards was selected as Retail TV Commercial of the Year by the Federation of Australian Commercial Television Stations.

Target has organised an intensive program of management development. This has included a Store Managers' Training Program involving all store managers and an Executive Development Program as well as individual training and development programs.

NEW ZEALAND

FOODTOWN

The company's chain of 30 Foodtown supermarkets is one of New Zealand's premier retail groups. Competition in this segment and the impact of a store refurbishment program had an adverse effect on sales for the year. Eight stores were refurbished during the year and a new unit opened at Wanganui. Foodtown will also be represented in the new Kmart Plaza complex at Porirua scheduled to open in November 1990.

Improved productivity allowed Foodtown to reposition itself competitively and at the same time improve profitability. The chain won several major awards this year for new product packaging and advertising.

3 GUYS

The 3 Guys discount supermarket chain continued to show outstanding growth during 1989/90. The success of the chain again demonstrates the strong element of price consciousness amongst customer as a result of the depressed economic conditions. During the year Mr Brian M. Stanton retired as Managing Director of 3 Guys. He was replaced by Mr Malcon C. Daviess. Mr Daviess had almost 30 years experience with the company in Australia and held a senior role with Coles New World prior to transferring to New Zealand.

GEORGIE PIE

The seven store chain of fast food outlets improved sales, but further growth will be required before acceptable profitability can be achieved.

KMART

The company's second Kmart was opened at Wanganui in November 1989. Both this store and the existing store at Henderson are trading well.

New Zealand's third Kmart will open at Porirua in November 1990.

A fourth Kmart store will be included in a significant development in South Auckland expected to open in October 1991. The centre at Hunters Corner, Papatoetoe, will be one of the most modern shopping centres in New Zealand and will also include a Foodtown supermarket and 60 specialty stores.

A new head office and distribution centre in Auckland has improved efficiency and provided considerable growth potential.

KATIES

The first New Zealand Katies stores were opened in Auckland and Wellington and both have been well received by New Zealand customers. A further store opened early in the current year is also enjoying excellent sales. A number of additional units are planned for this chain in New Zealand.

All of the company's businesses in New Zealand will benefit from the deregulation of the trading hours in New Zealand. Retail stores in New Zealand are now free of significant trading hours controls.

PROPERTY

The company's property management and development subsidiary, Landplan Holdings, has been renamed Coles Myer Properties New Zealand Ltd. Details of property development activities in New Zealand are included on page 27 of this report.

FINANCE AND ADMINISTRATION

FINANCING

During the 1989/90 year, Coles Myer Ltd. arranged a number of new borrowing facilities and structured financings. In the domestic market, \$400 million in stand-by facilities were arranged to support issues of short-term domestic debt securities. A \$750 million refinancing was also arranged, following the restructure of Australian Retail Financial Network Ltd., and structured financings were established for various joint venture property developments.

Implementation of a A\$500 million domestic Medium Term Note program was commenced following year end. This will provide access to longer term funding in the domestic

market, supplementing the company's offshore facilities. The equivalent of A\$67.6 million of securities issues under the existing US\$500 million Euro Medium Term Note program, achieved at favourable pricing levels, assisted in extending the maturity pattern of the company's borrowings.

Throughout the year, financial exposures were managed to ensure compliance with approved policies and risk management profiles, particularly interest rate and foreign exchange exposure risks.

CREDIT RATINGS

Despite the difficulties of the Australian market in the past year, Coles Myer Ltd. retained its high domestic and international credit ratings. With long-term international credit ratings of AA-/Aa3, short-term ratings of A1+/P1 and domestic ratings of AA/A1+ Coles Myer Ltd. remains one of Australia's highest rated companies.

CONSUMER FINANCIAL SERVICES

Following preliminary discussions with financial service providers, planning and research work will commence next year, for a joint venture with one of Australia's major banks, to offer financial services in some stores.

ACCOUNTING

Following changes in accounting standards, goodwill related to acquisitions will now be amortised over 20 years. Discussions have also taken place regarding changes to the standards on treatment of intangible assets. At this time the company does not incorporate any value for Australian intangible assets in its accounts.

Considerable progress has been achieved in the establishment of uniform management accounting reporting systems and a standard chart of accounts now operates throughout the company. The company is well advanced in a program to rationalise the number of subsidiaries and relate the corporate structure more closely to the individual trading businesses.

TAXATION

The company is introducing a computerised corporate tax management system which will improve efficiency and data availability. The cost of tax compliance and audit activity is substantial as the company is one of the nation's largest taxpayers.

AUSTRALIAN RETAIL FINANCIAL NETWORK LTD.

A.R.F.N. is an associated company providing credit card services for Coles Myer Ltd. businesses and external clients. During the year Myer, Grace Bros and Katies credit card portfolios were converted to the new Cardpac computer management system which will improve efficiency and reduce costs. the Target card has also recently been converted.

E F T P O S

Finance department is working closely with Corporate Management Information Services, individual businesses, financial institutions and suppliers in developing electronic funds transfer at point of sale (EFTPOS) systems for our stores.

PLANNING AND DEVELOPMENT

The corporate planning function has been substantially restructured and is concentrated on detailed assessment of the performance of each segment of the company, combined with continuing analysis of future development options. The successful introduction of the value based management system is enabling the company to assess both existing business activities and new expansion opportunities more accurately in terms of their potential for increasing future returns to shareholders.

INFORMATION SERVICES

The company is continuing the rapid implementation of point of sale technology, with most businesses at an advanced stage of electronic scanning installation.

During the year Corporate Management Information Services developed the infrastructure requirements to commence the introduction of electronic data interchange in the major businesses. This will allow the replacement of a high proportion of paper documentation with rapid electronic communication. The EDI system will improve the lead time and efficiency of merchandise ordering, as well as reducing administrative costs.

The company is also proceeding with the introduction of EFTPOS systems throughout its retail businesses. The first business to introduce this service will be Coles New World which is expected to convert more than 100 stores during 1990 and will continue conversions in 1991. The target chain is expected to have EFTPOS in all stores during 1991 with Kmart and the company's department stores following.

Customers will be able to use more than 100 debit or credit cards from all major financial institutions in

company stores. The average completion time for customer transactions under this system is less than 15 seconds.

Other developments in technology have included the installation of a new private telecommunications network covering more than 350 Coles New World stores and the expansion of the Coles Myer private voice network. An internal electronic office system was also further developed.

PROPERTY

Coles Myer Ltd. remains a major property owner with a portfolio valued in excess of \$1.2 billion. These include many of its retail stores and a number of shopping centres. Coles Myer also provides management services for independently owned shopping centres, as well as for its own properties.

Property activities during the year included:

- > An additional joint venture between Coles Myer Properties (N.Z.) Ltd and a subsidiary of the State Bank of South Australia to develop and own the proposed shopping centre at Papatoetoe in South Auckland, New Zealand.
- > Development by the company of a shopping centre in the Wellington suburb of Porirua.
- > Property sales of more than \$41 million, including sale and lease back of more than 100 residences occupied by company staff.

COMMUNITY RELATIONS

The company participates in the wider community in a number of ways. During the year the Executive Committee reviewed our corporate philosophy and reaffirmed the importance of maintaining and extending relationships with all of the company's stakeholders including customers, shareholders, staff, suppliers and the community overall.

As Australia's largest company in terms of domestic sales and the largest private sector employer, Coles Myer Ltd. continues to be involved with a wide range of external organisations and with all levels of government.

Considerable time and effort is required to monitor and react to the increasing range of legislative controls and restrictions, many of which unnecessarily hamper business growth and development.

The company's involvement with environmental issues continued with the release of a number of additional environmental products through Coles New World supermarkets and the introduction of the K Green range of products through Kmart.

The company again provided significant financial support for a wide range of community organisations including the National Association for the Prevention of Child Abuse and Neglect, Austin Hospital Melbourne, The State Library of New South Wales, the Howard Florey Institute, the Royal Children's Hospital, the Australian Opera and the Victoria State Opera.

Funds were also provided for a range of social welfare activities and for assistance to the victims of natural disasters, including floods and the Newcastle earthquake.

In addition to direct contributions from the company, individual businesses supported staff fund-raising activities. The Grace Bros Staff Aid to Charities program in New South Wales and a joint project in Queensland between Coles New World and Kmart each raised more than \$500,000.

PERSONNEL

Employment this year fell by more than 8000 with a total of 158,707 employees at year end, compared to 166,755 last year. This reflects the need to control costs during the present period of reduced sales growth.

Although the new structural efficiency principle appeared to provide a significant opportunity for change, little change of long term benefit meeting the particular needs of retailers has yet been achieved.

SUPERANNUATION

Changes to taxation laws and regulations governing superannuation funds not only made it increasingly difficult for members to understand their benefits, but have significantly added to the workload of our superannuation administration.

Whilst the company supports the need for Australians to make greater provision for their retirement income, it is concerned that the current system has become unduly complicated.

The company remains committed to the provisions of comprehensive retirement plans for its employees.

TRAINING

On 1 July 1990 the Training Guarantee (Administration) Act 1990 came into force. Coles Myer Ltd., whilst not opposed to the philosophy behind the legislation, that of training employees, is opposed to the imposition of a levy which emphasises quantity rather than quality of training. The legislation also imposes a costly requirement to keep complex records, subject to audit by the Australian Tax Office. The level of training within Coles Myer Ltd. is already ahead of that sought by the legislation and the attitude that Government should control business decisions in areas such as training is to be deplored, as is the imposition of substantial additional administrative costs.

Significant achievements have been made in the implementation of an integrated management development program. Each of the constituent businesses have introduced or are planning management development programs.

The company has worked closely with external institutions, particularly Monash University, and has also provided funds to the Melbourne University Graduate School of Management which will enable the creation of the Coles Myer Chair in Retailer and Marketing.

HEALTH AND SAFETY

Coles Myer Ltd. has made submissions to the National Occupational Health and Safety Commission's Review of Occupational Health and Safety Delivery, and on the Draft National Model Regulations top Control Workplace Hazardous Substances. Increased focus on the company's health and safety practices has resulted in a significant improvement in this area.

EQUAL OPPORTUNITY

Constituent businesses continue to focus on the promotion of equal opportunity, and an increasing number of women are being appointed to both store management and senior executive positions.

INDUSTRIAL RELATIONS

Apart from industrial action in some Coles New World distribution centres in New South Wales, businesses experienced no significant industrial disputes this year.

OPSM INDUSTRIES LIMITED: CHAIRMAN'S REVIEW

I am pleased to be able to report to our shareholders that the financial year which ended June 30, 1990 was another period of growth for OPSM Industries.

The inherent strength of the company and the excellent market position of its two divisions have enabled it to grow, despite increased competition in the marketplace and the difficult times that have affected the whole economy.

The success of your management's strategic planning is seen in the very good profit result of \$40.24 million before tax and abnormal items, an increase of 12.5 per cent over the previous year.

Dividend

A final ordinary dividend of 6.5 cents a share, fully franked, has been declared, payable on November 2, 1990. The total dividend for the year will be 12.5 cents a share, fully franked, which represents an increase of 8.7 per cent over the previous year.

A recent notice from the Australian Stock Exchange highlighted the return on investment to OPSM shareholders.

Over the 10-year period ended June 30, 1990, OPSM returned an average of 18.15 per cent per annum, compared with the All Ordinaries Index average of 13.99 per cent. Each \$1,000 investment in OPSM at June 30, 1980 would have been worth \$5,303 one decade later. OPSM is proud of this record and will continue to work to produce good returns for its shareholders.

Trading

Both divisions again traded profitably. Sales were very satisfactory for our continuing businesses, with an increase of 13 per cent.

In the Optical Division, we have added new stores in South Australia through the acquisition of J. Holland and, since June 30, Optik 2000 in Western Australia. We also continued to open new superstores in line with our development programme. The acquisitions and the superstores paved the way for the rationalisation of laboratories and less profitable or poorly located retail outlets.

Our Protector Safety Division had an excellent year in Australia and New Zealand, and proceeded with plans to strengthen its European operations through relocation and rationalisation.

Our debt reduction programme has continued to contribute to the company's overall strength and I am pleased to report that £19 million of debt was retired.

Dividend reinvestment plan

We continue to operate our dividend reinvestment plan whereby shareholders can elect to receive all or part of their dividends in the form of shares.

Under the plan, shares are issued free of transaction costs such as brokerage and stamp duty and at a discount of 5 per cent off the weighted average ex-dividend market price.

If you do not already participate, I commend the plan to you as a cost-effective way of increasing your equity in OPSM Industries.

Abnormal items

In the past, our policy has been to write off premiums paid on the acquisition of strategic, independent optical businesses in Australia. To comply with new accounting standards, these amounts are now amortised against operating profits. The abnormal amount of £3,250,000 written off arises from losses on the disposal of safety and health businesses in Europe and further rationalisation and factory closures in Australia and Europe.

Retirement

Paul Davis retired as an executive of the company at the end of August after 49 years of service. I would like to thank him for his unprecedented contribution to our optical business and am delighted to say that he will remain on the board as a non-executive director. A separate tribute to Paul is included in this annual report.

Employees

The dedication and expertise of all our staff has been essential to our success in the past year, and I would like to thank them warmly for their support.

CHIEF EXECUTIVE'S REPORT

Last year, we continued to move steadily towards our objectives of improving the quality of our performance.

Greater efficiencies have been achieved throughout both our Optical and Protector Safety Divisions. In all sectors and countries in which we operate, we have sought sensible rationalisation.

All rationalisation has had one end in view: to give our sales, manufacturing and retail operations greater

efficiency and profitability, in order that we might serve better the needs of our customers and the interests of our shareholders.

The reports on our divisions which follow give details of the changes and improvements they are making.

Crucial to the success of these changes has been the dedication and commitment of our staff to OPSM and to the communities they serve. They are distinguished in both the optical and safety industries as professional and well trained, and are second to none in their fields.

I would like to thank them all for their outstanding contribution to the year's result. We continue to support their high level of service to our customers with on-going staff training programmes.

Optical Division

OPSM's Optical Division continued to make excellent progress in Australia last year, with record sales increasing more than 16 per cent over the previous year.

This growth was achieved despite difficult trading conditions, vigorous competition and a fall in retail demand.

We increased our national market presence with the acquisition of J. Holland business in South Australia, which has a fine reputation for quality, service and professionalism and is an important addition to our company.

At the end of the financial year, we had also reached agreement to buy the Optik 2000 chain in Western Australia.

The two groups add 24 outlets to our branch network. Both these business operate in quality retail locations where we were either not represented or had only a minor presence.

In line with our growth plans, we opened another 10 superstores during the year. With the 11 opened last year, we had 21 superstores at the end of the financial year and more are scheduled. We continued to write off superstore start-up and promotional costs as they occurred.

Superstores, introduced in 1988-89, provide a one-hour service for most prescription glasses and offer a bigger selection of frames. Since their inception, they have added significant momentum to the optical division. All the new outlets traded profitably for the year and, in fact, exceeded expectations. We believe that these good

results indicate a high level of consumer enthusiasm for our superstore services.

At the same time as we continued building superstores, we were able to close 27 conventional outlets, resulting in significant cost savings. At the year end, the division operated 264 retail outlets, compared to 256 at the end of the previous year.

The on-site optical laboratories in superstores have enabled us to rationalise our mainstream central processing laboratories. During the year, we closed laboratories at Surry Hills in New South Wales and Boronia in Victoria. We now have central laboratories in Melbourne, Brisbane, Adelaide, Perth and Penrith, New South Wales.

About 35 per cent of lens grinding for our conventional outlets is now undertaken in superstore laboratories, enabling us to offer faster service in those outlets and improve efficiencies in superstores.

The J. Holland and Optik 2000 acquisitions in South Australia and Western Australia, the development of the superstore network and the consequent rationalisation in both retail outlets and laboratories have given us a stronger, more efficient retail system and a solid base for future growth. We are better positioned than ever to service the dispensing needs of ophthalmologists' patients and to increase our share of dispensing the growing volume of optometric prescriptions.

The regulatory framework in which we operate varies significantly between States. The legislation is often unjustifiably complex and anticompetitive, thereby imposing unnecessary constraints and costs with inevitable disadvantages to consumers.

We therefore continue to press for more rational legislation which removes needless constraints, diminishes costs and fosters healthy competition, while preserving the high standard of eye care and eyewear already enjoyed by the Australian community.

Protector Safety Division

The Protector Safety Division had an excellent year, with all regions - Australia, New Zealand and Europe - contributing to the result.

During the year, we placed a high priority on improving margins. Much has been achieved through enhanced efficiencies and productivity and through the rationalisation of product ranges and businesses.

Our drive for greater efficiencies has encompassed our branches and subsidiaries in all countries. Most noteworthy are:

- In Australia we are beginning to enjoy the benefits of the detailed review of our operations. These have included the decision to consolidate our apparel factories in one location in Adelaide, which will significantly improve productivity.
- We have started construction of a new factory and office complex in the United Kingdom, our European headquarters.

This will consolidate our UK operations and improve efficiency. The location of the new premises means we shall retain most of our trained labour force.

- Business disposals in Europe, which have been taking place for the past two years, were completed with the divestment of Optic in Germany. The Protector business in Germany will now be centred on our subsidiary, Fondermann & Co. GmbH in Haan. Fondermann is expected to relocate to new premises next year.

Our Australian operations had a highly successful year. Sales and profits continued to grow strongly, branch operations were expanded and export volume continued to increase.

A new branch was opened in Henderson, Western Australia, and has made a most encouraging start. Our Portland, Victoria, branch has moved to new custom-built premises so we may service the growth we are achieving.

Healthy sales increases have been achieved in the home handyman market. Many major hardware retailers now carry The Protector Safety range for the do-it-yourself market providing a solid base for further growth.

The rural sector is also believed to have the growth potential, and successful promotions were run during the year.

In New Zealand, Protector Safety had another buoyant year, in spite of the country's difficult economic conditions and the impact on the safety market of industrial restructuring in the public and private sectors.

Against this generally adverse background, we improved manufacturing efficiency in Protector Safety factories and increased sales of our manufactured products, all of which contributed to an excellent profit increase. During the year, a new branch was established at Tokoroa.

Protector Safety's European operations continue to strengthen.

In the United Kingdom and Ireland, results were satisfactory and reorganisation is establishing a firm platform for further improved performance. The new sales branch in South Wales is making satisfactory progress. Exports from the UK have increased, especially to Italy, Holland and Scandinavia.

During the year, much of our effort in Germany was focussed on the rationalisation of our businesses.

At the same time, Fondermann secured a good increase in sales and profits. With the relocation mentioned earlier, further streamlining of our operations in Germany will be achieved.

The outlook for our European businesses is good and, with our three centres working together, we shall be able to optimise the use of our resources to take advantage of emerging opportunities.

EMPLOYEE REVIEW

In this section of the annual report, OPSM Industries pays tribute to its staff: their outstanding achievements, their long years of service and the loyalty and hard work that all contribute to the success of the Protector Safety and Optical Divisions.

Last year, OPSM Industries continued to be a major employer in Australia in both the optical and the health and safety industries with a total of 2,352 staff. The group also has significant operations overseas. Protector Safety employs 339 people in New Zealand and 303 people in Europe, while the Optical Division has a staff of 34 at its manufacturing facility in Singapore.

The group has an impressive level of staff retention, and more than 650 of those employed at June 30, 1990 had over 11 years' service. A number of people in both divisions received tributes for 20 years of service and are listed on the following page.

OPSM Industries is also proud of the staff it trains and the programmes it implements for them. Each year, the group has several outstanding young trainees who receive industry awards and their achievements are also listed.