Perhaps one of the most surprising features of the Award insofar as "competitive business enterprises" were concerned, was the failure of one of the logical favourites for the top award to gain any prize at all. In the writer's view the veteran Collins St. performer, North Broken Hill Ltd., cantered in the event by ten lengths only to be disqualified for weighing in half a gram light! The adjudicators' report noted that the weakness of the reports in the mining and oil exploration group included "reluctance to follow Institute of Chartered Accountants recommended accounting standards - e.g. capital profit transferred direct to reserves without passing through the profit and loss account". Although not spelt out in the report, this was the unforgivable crime committed by Norths. (Ironically, the year before Norths treated capital profits on the sale of investments in an identical fashion, and still got a silver award).

The adjudicators are to be congratulated for publishing this year the special criteria used for making each industry grouping's annual reports. For the mining and oil exploration category, the special criteria are set out in considerable detail and do not differ significantly from those used the year before. Whilst Norths 1971/72 report was a clear winner last year in the mining industry group, its 1972/73 report contained many significant improvements, including:

i) a more detailed section on its exploration activities, including several individual location maps. (The company for many years has provided excellent full page cross sectional diagrams of its main orebodies.)

ii) an extremely detailed breakdown of the gross and net revenues obtained from the sale of individual metals. In the 1972 accounts Norths revealed the gross value of all metals in concentrates, and gave details of total smelting charges incurred and total railage and handling charges incurred. In the latest accounts these details are provided in three individual categories - lead concentrates, zinc concentrates and low grade concentrates. Such valuable details are quite unique in Australian mining company reports.
iii) more detailed information on its investments in other companies. In a schedule now spread over two pages, Norths revealed the following: % of issued shares held; latest published net profit or loss; capital subscribed in 1972; shareholders funds in 1972; and dividend received in the year ended 30/6/73. The last 3 items were added in the latest accounts.

In addition, and for the first time, the 1973 directors report of Norths gave brief operating details of unlisted companies in which it has important holdings. (This information in prior years was given in the chairman's address.)

In the Adjudicators Report it was stated under Division A:

"It is disappointing that the reports in this division generally failed to maintain the improvement shown last year apart from the statutory requirements".

The report then listed seven areas of common weakness.

In 1973 the Institute made 44 awards in Division A compared to the 38 awarded in 1974. In 1973 the Agricultural and Rural Industries and the Banking Industry provided five award winners while no company in 1974 from these industries were up to the adjudicators' standard.

Therefore despite the generally disappointing annual reports that did not "maintain the improvement shown last year" virtually the same number of awards were made in 1974, indicating a lowering of standards acceptable to the adjudicators.

In 1974 Pye Industries Limited won the coveted Gold Award in Division A. For the first time the 'Basic Criteria' used by the individual judging panels in evaluating the merits of each annual report were published.

Whilst the 1974 Pye Annual Report was a big improvement on that company's 1973 effort and was perhaps the best of what the adjudicators admitted were a disappointing crop of reports in terms of improvement, it does appear difficult to justify how the company's report qualified for a gold award. It would appear that the evaluation should have been made against the 'Basic Criteria' and not against the other entrants on a relative basis.

The Gold Award is made to the best annual report provided that such report
meets a required standard of excellence. It would appear that the Institute's required standard of excellence fell in 1974, since the Pye report fell short of the stated Basic Criteria in respect of the following factors:

i) Basic Criteria stated under "Highlights"
   (a) Profit & Loss: the companies should include:
       - sales
       - profit before and after tax
       - earnings per share (on average issued capital)
       - dividends per share and dividend cover
       - percent return (after tax) on shareholders funds.

   Pye did not include earnings per share, dividend per share or dividend cover. (These were, however, included in the company's 10 year statistical review.)

ii) Basic Criteria - Review of Operations.
    Not included by Pye were:
    (a) expression of "key figures in values, absolute and per share".
    (b) divisional progress during the year including sales growth, market share, plant utilisation, orders on hand and outlook.

iii) Little mention is made on management development, staff training, industrial and employee relations.
    No organisational structure was included.

iv) No comments are made on the outlook for the national economy; on research and development; or on the possible effects of technological change.

v) The Profit & Loss Account did not break up major expense items into those suggested - "raw materials, labour, depreciation, amortisation of research and development".

vi) Statistical summary is excellent. However, due to the change in accounting principles in 1969, to current value accounting, the table prior to 1969 is not comparable to the table since 1969.

EARNINGS PER SHARE DON'T COUNT

The tenor of this article by J.M. Stern is summed up in its two opening paragraphs -
"Any evaluation of corporate policies in terms of their impact on earnings per share (EPS) is fraught with danger. EPS is too often a misleading indicator that can result in costly decisions that short-change the common shareholders.