Corporate Governance Leaders in Asia:

What do they know that you don't know?

Presentation by:
Jamie Allen, Secretary General, ACGA

IR Asia & ACGA Breakfast Meeting
The American Club, Hong Kong
October 31, 2003

Agenda

1. What are the minimum requirements of good corporate governance (CG)?
2. Who is embracing CG best practices in Asia?
3. The business case for good governance: Why are these leading companies doing more than the minimum required by law?
4. How they redefine “Corporate Governance”.
5. In summary

1. Minimum requirements

Definition of CG as "compliance and control":

At a minimum, CG involves organisational structures and rules of conduct that act as a check on insiders misusing their position or knowledge against the interest of other shareholders.

Examples of minimum requirements:

- Minimum number/percentage of independent directors on boards of directors (generally three or 33%).
- Companies must have an audit committee (mandatory in Asia except HK and Japan). This will soon change in HK.
- Quarterly reporting (increasingly mandatory, except HK and Japan).

"Required practice" vs "best practice"

Which rules must you comply with?

- What's required by law ✓
- What must be "complied with or explained" ✓
- Emerging guidelines or "best practices" ✗

Examples of emerging "best practices":

- Separation in role of CEO and Chairman of the board
- Expensing stock options

2. Embracing CG best practice in Asia

Who? A small percentage of Asian companies are embracing CG best practice and doing *more* than the regulatory minimum.

Their typical characteristics:

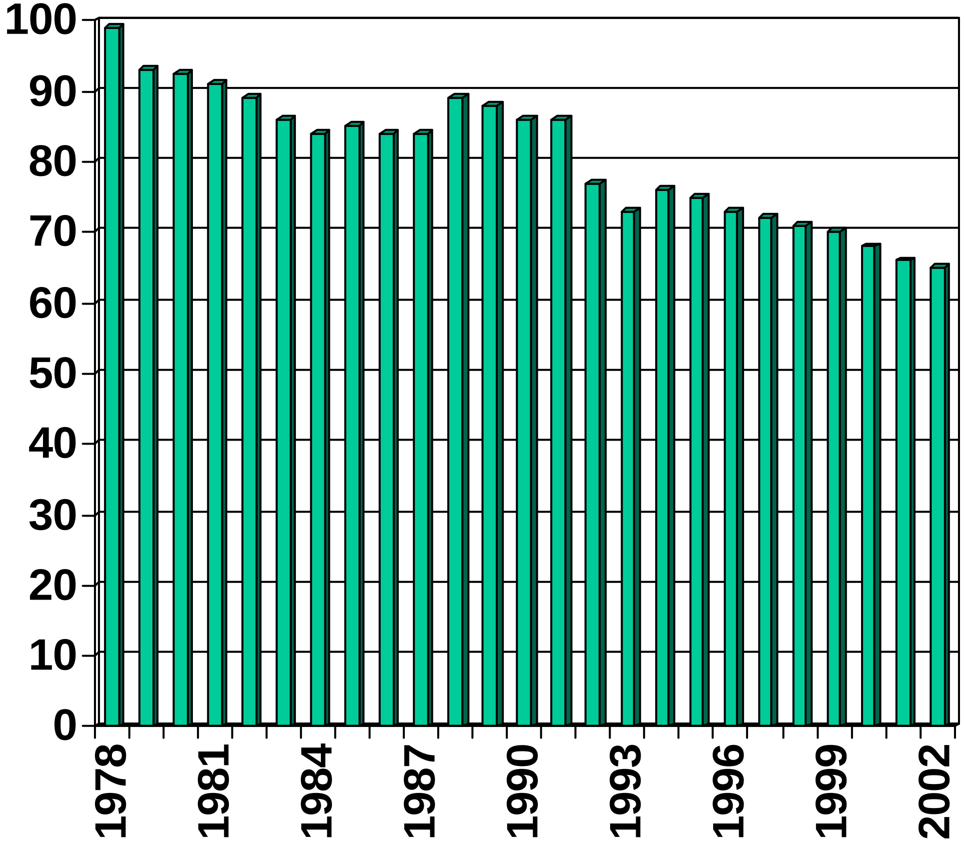
- Operating in highly competitive international markets for capital, customers, talent.
- Usually not protected or financed by a large conglomerate.
- Probably in hi-tech, banking/finance, retail sectors.
- Country of origin does not seem to be an issue.
- But outward-looking, open-minded executives (3G) and a diverse shareholder base are issues.

Top 10 CG stocks among large caps in Asia

Company	Country	Quartile ranking	Rec
HSBC	Hong Kong	First quartile	BUY
Infosys	India	First quartile	BUY
Wipro	India	First quartile	SELL
TSMC	Taiwan	First quartile	BUY
KT Corp	Korea	First quartile	BUY
KT&G	Korea	First quartile	BUY
Kookmin Bank	Korea	First quartile	SELL
Samsung Fire	Korea	First quartile	BUY
BAT Malaysia	Malaysia	First quartile	O-PF
Public Bank	Malaysia	First quartile	BUY

Source: “CG Watch 2003”, CLSA Asia Pacific Markets/ACGA

How one company has improved gradually

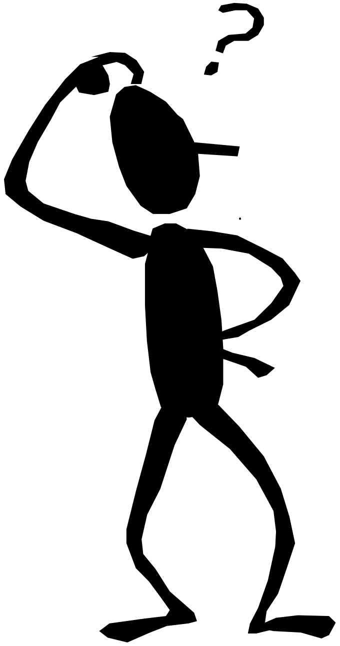


Swire Pacific is reporting much faster than is required by law.

Source: JP Morgan, "When Will I Hear About the Money?, August 2003

3. Why do more than the minimum?

Why issue
your annual
report faster
than required?



Why require your
new directors to
attend an induction
course if there are no
mandatory training
requirements?

Why disclose director remuneration on an individual basis if
disclosure in the aggregate is enough?

The business case for good governance

Four types of incentives:

Financial	Commercial
HR	Reputational

Financial incentives

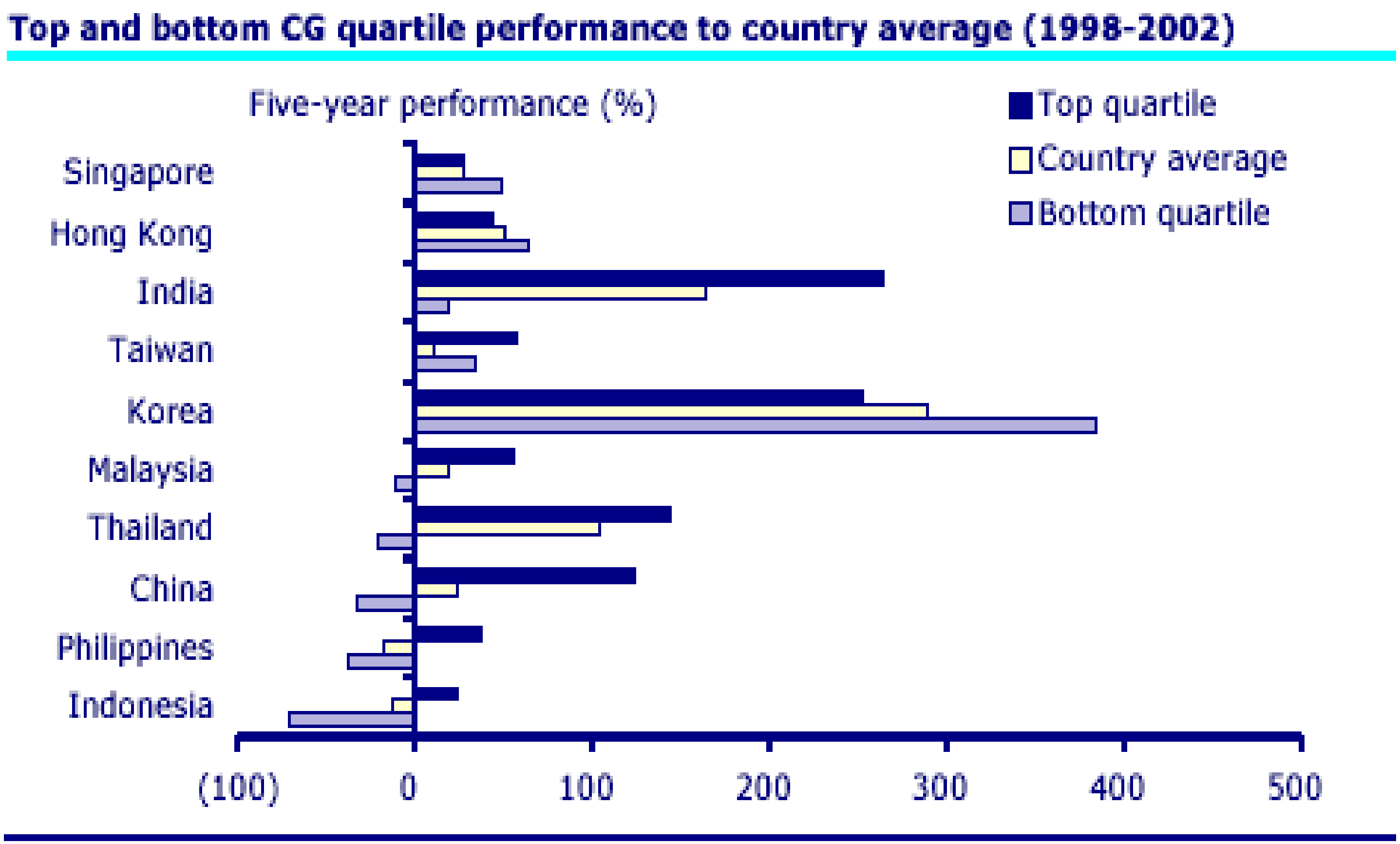
- **Lower cost of capital**: Higher IPO valuations (eg, PRC listings in HK); avoid market discount (eg, 8x in Korea); lower interest on debt (eg, Aneka Tambang in Indonesia).
- **Access to international capital markets**: ADRs, bonds.
- **Longer term investors + better relationships:** The "patient capital" argument (ie, institutional investors).
- **Better risk management and internal controls:** Especially relevant to banks, but applies to all companies.
- **Control rising cost of D&O insurance:** Premiums have risen 20-100% for many companies and 300-400% for a few. Some companies in HK pay more than US$1 million pa.

Findings of CLSA/ACGA "CG Watch 2003"

The link: Strong CG and strong performance

- Over past five years, stocks in the top quartile *outperformed* their markets by an average of 35 percentage points.
- Those in the bottom quartile *underperformed* by an average of 25 ppts.
- Relationship is clearest in markets with poor corporate governance.

Five-year performance (1998-2002)



Source: CLSA/ACGA "CG Watch 2003", May 2003.

Commercial incentives

- **Become a preferred supplier:**
  - Good governance helps to build credibility among customers, especially in North America; they know more about you and have greater faith in your capacity to deliver.
  - Infosys, India; Li & Fung, Hong Kong; Esprit, Hong Kong; TSMC, Taiwan.
- **Become a preferred partner:**
  - Strategic investors increasingly want better financial reporting and accountability from JV partners.
  - IMC Pan Asia Alliance, Singapore/Hong Kong: no longer listed, yet strong governance pressure from several new MNC partners (eg, monthly reporting).

Human Resource incentives

- **Good governance can strengthen the employer-employee relationship:**
  - Good Morning Shinhan Securities, Korea, found that more transparency led to greater employee trust in management.
  - Hsin Chong Construction, Hong Kong: fair treatment of employees, as well as suppliers, creditors and shareholders, is part and parcel of good governance.

- **Better governed companies are often preferred employers too:**
  - Infosys, India: operates in a highly competitive global market for talent (software).
  - Strong CG also enhances your chances of finding good independent directors.

Reputational incentives

- **Good governance can help to build a respected regional or global brand:**

  - Many China SOEs and Singapore GLCs are acutely conscious of image and reputation. Better governance is part of their quest.

  - Also PRC private companies. See the AsiaInfo chapter in a new book called “China Brand Warriors”.

  - Listed companies around the region do not like scoring badly in CG surveys! Many are learning to play the game.

4. How they redefine "Corporate Governance"?

"Compliance" definition of CG:

CG involves structures and rules of conduct that act as a check on insiders misusing their position or knowledge against the interest of other shareholders.

"Competitive" definition of CG:

CG involves structures and rules of conduct that incentivise management to improve business performance and create new business opportunities.

5. In summary

- Companies that go beyond compliance and do more than the regulatory minimum stand to gain competitive advantages—if they intelligently incorporate governance into their overall strategy and operations.
- The competitive advantages of CG best practice are:

Financial	Commercial
HR	Reputational

ACGA Website

Go to

www.acga-asia.org

to keep track of corporate governance developments in Asia, ACGA activities, and governance events.

Contact details

Jamie Allen
Secretary General
Asian Corporate Governance Association Ltd

Room 3403, Citibank Tower
3 Garden Road
Hong Kong

Tel: (852) 2878 7788 (general)
Tel: (852) 2872 4048 (direct)
Fax: (852) 2878 7288
Email: jamie@acga-asia.org
Website: www.acga-asia.org