**PRESS RELEASE**

CLSA and ACGA's 2005 CG report finds
Singapore and Hong Kong remain top 2 respective winners with minimal difference now between the two

HONG KONG, 22 November 2005 – Leading brokerage house CLSA Asia-Pacific Markets has teamed up once again with the Asian Corporate Governance Association (ACGA) for the sixth annual corporate governance report *The holy grail*, finding that out of ten Asian markets, Singapore, Hong Kong, India respectively hold the top three positions as from last year, with the Philippines, China and Indonesia as the bottom three. Countries ranking in the middle following India were Malaysia, Taiwan, Korea and Thailand in that order.

Using a more rigorous survey methodology this year, country scores overall trended downwards rating on 5 key areas: 1) rules and regulations; 2) enforcement; 3) political and regulatory environment; 4) international accounting and auditing standards; and 5) CG culture. However bottom-up, average CG scores of companies rose for the fourth year in a row, on average by 0.6-ppt compared to 2004, with 496 companies rated for CG. The bigger improvement in company scores was with the larger caps: the top 100 by market cap saw a 1.8-ppt improvement YoY in their average CG score.

In terms of country scores, the gap between Singapore and Hong Kong has narrowed considerably from last year's survey. Singapore's score fell from 75% in 2004 to 70% in 2005, principally because of a fall in its enforcement score, with Hong Kong's score rising incrementally from 67% to 69%. India's score fell slightly, while Malaysia this year scored 56% down from 60% last year, mainly due to weak scores in areas relating to rules and regulations and their implementation. Korea fell below Taiwan in the rankings and now occupies equal sixth place with Thailand. Problems with rules and regulations and an inconsistent approach to both CG policy and enforcement brought Korea's score down.

Overall, scores for the bottom three markets also fell a few percentage points. While China ranked low on the implementation of rules and regulations as well as for accounting and auditing standards, it is expected that China will catch up on CG scores given its continuously improving economic and regulatory regime. WTO rules and competitive pressures that Chinese companies face at home and abroad are also expected to drive the country's CG rating over coming years.

This year's survey reveals financial reporting standards and practices have considerably improved as well as rules of disclosure of price sensitive information. However, common areas of weakness across the region include often poor quality of quarterly reporting; independence of audit committees; partial treatment by

# PRESS RELEASE

regulatory authorities; influence of politics on regulatory action and the limited legal remedies available to minority investors.

This year's report also specifically looks for the first time at the link between CG and financials to arrive at not just high CG companies, but attractive investable stocks.

To do this, CLSA marries CG analyses with "value creators at a reasonable price" to select QARP stocks, ie representing quality at a reasonable price.

Applying the QARP methodology to Asia's large caps, CLSA's report finds strong outperformance that substantially beats picking just stocks that have high CG over the last three years. The 20 stocks that met the QARP criteria, among the 100 largest by market cap last year, came in with an average return of 28.9% - double the return of MSCI Asia ex-Japan, and substantially above the returns of each CG quartile.

Amar Gill, CLSA Head of Hong Kong Research, "Adding a CG screen is an alternative management screen. Companies with good management would tend also to have good corporate governance – particularly as management respond to this being a higher priority for their shareholders and investors. Filtering out companies with strong financials but low CG helps to eliminate the potential value traps and reduces the risk in a portfolio."

Jamie Allen, Secretary General, ACGA, said: "Although corporate governance continues to improve in Asia, especially among large-cap stocks and some selected mid-caps, the majority of listed companies exhibit at best a weak commitment to such reform. We would encourage them to emulate the more successful companies and use the tools of governance to build stronger businesses."

**About CLSA Asia-Pacific Markets**

CLSA is a leading brokerage, capital markets and private equity group in the Asia-Pacific Markets. Founded in 1986 and headquartered in Hong Kong, CLSA is a unit of France's biggest bank, Credit Agricole, which merged in 2003 with Credit Lyonnais, to form the fifth largest bank in the world by Tier One capital and the fifth largest bank in the world by assets. CLSA is 35% owned by CLSA management and staff.

CLSA has over 800 dedicated professionals spread across all Asian and international financial centres. Recognised as one of the top research, sales and execution houses in Asia, CLSA is known for its innovative and independent research. In 2003, CLSA expanded its brand to Japan, offering Japanese equity research an

d sales services to international investors. Additional info www.clsa.com

# PRESS RELEASE

## About the Asian Corporate Governance Association

The Asian Corporate Governance Association (ACGA) is a non-profit, membership association dedicated to promoting substantive improvements in corporate governance in Asia through independent research, advocacy and education. ACGA engages in a constructive and direct dialogue with regulators, institutional investors and listed companies on key corporate governance issues. ACGA has grown to a membership of almost 50 leading investment institutions, professional firms, listed companies and multinational corporations operating within the Asia-Pacific region. Additional info: www.acga-asia.org

## For further information, please contact:

**Grace Hung** (Hong Kong)
CLSA Asia-Pacific Markets
Tel: + (852) 2600-8318
Fax: + (852) 2530-0827
Email: grace.hung@clsa.com

**Jamie Allen**
Asian Corporate Governance Association
Tel: (852) 2872 4048
Email: jamie@acga-asia.org