

CLSA & ACGA release 4th annual Corporate Governance report

Hong Kong, 5 May, 2003: In its fourth annual Corporate Governance report, CG Watch: Fakin' it – Board Games in Asia, CLSA teamed up with the Asian Corporate Governance Association (ACGA) to examine the region's commitment to corporate governance over the long term.

CLSA's findings show general improvement in the regulatory environment and greater efforts being made towards better enforcement in Asia. Overall, investors still need to take action and be wary of corporate shenanigans. The report confirms that corporate governance remains a key to investment decisions and valuation metrics at both the macro and micro levels. But there is little room for complacency – while there have been improvements, some markets have regressed or remain unchanged.

“We noted regulatory improvement and some tightening of enforcement. But avenues for redress by minorities remain lacking; and unless controlling shareholders are ‘disincentivised’ from taking advantage of their listed entities, Asia risks being seen as merely cosmetic in its CG reforms” said CLSA's Head of Hong Kong Research, Amar Gill.

In terms of performance, a longer time horizon is very telling when it comes to the impact of strong corporate governance.

“Over short periods, the outperformance of high-scoring stocks is tenuous. But over the past five years, stocks in the top 25% of the CG survey outperformed their markets by an average of 35 percentage points (ppts), while those in the bottom 25% underperformed by 25 ppts. This performance relationship is clearest in markets where corporate governance is of biggest concern,” added Gill.

There is no question that Asian companies are picking up their game but the depth of their commitment is not yet clear. The corporate governance score for CLSA's universe of companies has on average moved up 4ppts to 62%. In all markets however, cases still abound of egregious transgressions. Still the report concludes that investing in companies with good corporate governance definitely gives investors some protection from the worst blowups.

"While progress has been made, the real substance behind CG changes within companies is hard to measure -- the true test of corporate governance comes when economic conditions are more difficult. It is in times like these when the urgency is greatest for controlling shareholders to use public-listed companies to protect private interest," says Gill.

Many Asian securities regulators have called upon domestic and foreign institutional investors to 'get involved' in the governance of companies in which they invest. The ACGA notes however that institutional investors need to better coordinate their efforts to see better results.

"The attitude of cutting losses and moving on when breaches occur, guarantees recurrence of similar transgressions. If perceived as generally low on corporate governance and relatively high risk, markets in the region will be seen to deserve being at discounts," says Jamie Allen, Secretary General, ACGA.

Both CLSA and the ACGA agree that nothing can compare with the highest standards of transparency and accountability. Quality of management and boards is the key that ties in companies with good CG together with higher financial ratios and share-price outperformance.

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About CLSA Emerging Markets

CLSA Emerging Markets (CLSA) is a leading provider of brokerage, investment banking and direct investment services in the Asia-Pacific markets. Founded in 1986 and headquartered in Hong Kong, CLSA is a unit of France's Credit Lyonnais banking group with substantial staff ownership.

CLSA has over 700 dedicated professionals spread across all Asian and international financial centres. CLSA is consistently recognised as one of the top research, sales and execution houses in Asia and is known for its innovative and independent research. CLSA was recently named the 'Most Independent Research Brokerage House in Asia' for 2002 in both the Asiamoney Brokers Poll and the Asset Equities Benchmark Survey.

Additional information available at www.clsa.com

About ACGA

The Asian Corporate Governance Association (ACGA) is an independent, non-profit membership organisation working on behalf of all investors and other interested parties for the improvement of corporate governance in Asia. ACGA is funded by a growing network of sponsors and corporate members, including many investment funds, financial institutions and intermediaries.

ACGA advocates the competitive benefits of better corporate governance and works closely with institutional investors, regulators and companies to achieve concrete improvements. It is one of the few organizations systematically researching corporate governance developments around Asia, tracking 11 markets and producing independent analyses of new laws and regulations, investor action and corporate initiatives.

Additional information available at www.acga-asia.org

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