OM

Asia Briefing

BNY MELLON

Oxford METRICA

Asia Briefing

NOVEMBER 2008

CONTENTS

Our partner in developing this research paper....

OXFORD METRICA

This study provides compelling evidence that when Asian firms choose to establish a depositary receipt (DR) programme, they enjoy a value premium. In addition, when the impact of DR programmes on local market liquidity is analysed, we can see that improved trading levels result.

In these times of extreme turbulence, firms with established depositary receipt programmes showed significant resilience. In particular, Chinese DRs suffered less than their counterparts without DRs.

The DR programmes of 596 Asian firms were analysed, covering the period 1980-2008 . The key conclusions from the research are presented below.

- DRs prove to be resilient in turbulent markets, illustrated well by Chinese DR performance relative to the broader Chinese stock market.
- Listed (Levels II & III) DRs add over 10% of shareholder value to Asian firms (on average) in their first year of trading, as markets welcome the increased financial transparency and signal of superior governance.
- Equally, OTC (Level I) DRs add over 10% of value on average to Asian companies.
- Chinese companies are a dramatic example of the success of DR programmes, adding approximately 40% of value from listed programmes and over 30% of value from OTC programmes.
- Asian firms delisting a DR programme from listed status to the over-the-counter market destroy 25% of value on average, as the greater financial disclosure is withdrawn.
- Listed (Levels II & III) DRs more than double the liquidity in Asian local markets, as the local shares increase their visibility and are covered more widely by equity analysts. OTC (Level I) DRs improve local Asian market liquidity by 31% on average.

When Asian firms establish listed (Levels II & III) and OTC (Level I) DR programmes, it yields significant benefits for both issuers and investors. There is clear evidence that when Asian firms establish such programmes, they receive considerable value and liquidity advantages, as the market welcomes the voluntary increase in financial disclosure and reporting standards. By demonstrating their compliance with superior governance, Asian firms enhance their reputation with investors and experience sustained shareholder value benefits.

THE BANK OF NEW YORK MELLON

Foreword

At the time of publishing this study the world's financial markets are experiencing considerable volatility. Chief Executives of corporations and their board of directors need to consider the costs and benefits of internationalising their shareholder base ever more carefully. There are several routes open to achieving this objective, from attracting foreign investors to the local market to selling shares in an international public offering. If choosing to go abroad, the choice between a stock exchange listing and an over-the-counter (OTC) quotation platform is necessary. Finally, a choice on jurisdiction is required. Each one of these choices entails careful consideration. This has become ever more relevant as the perceived cost in international regulatory compliance has increased, particularly in the United States.

All data underlying this study are publicly available and were obtained from a variety of online sources including, but not limited to, the websites of the US Securities and Exchange Commission (SEC), stock exchanges Dubai International Financial Exchange (DIFX), the London Stock Exchange (LSE), Luxembourg Stock Exchange (LuxSE), NASDAQ, the New York Stock Exchange (NYSE), Singapore Exchange, and the leading depositary banks. The raw data on local and US share prices, market indices, trading volumes, market values and exchange rates were obtained from Bloomberg financial database.

The most popular route to access the international equity capital markets in the last quarter century has been the depositary receipt. This instrument enables corporations from around the world to offer international investors access to foreign shares in the form of a security local to the investor. Generally, when the depositary receipt is primarily traded in the U.S., the securities are called American depositary receipts (ADRs). When the securities are primarily traded outside the U.S. they are called global depositary receipts (GDRs). Both ADRs and GDRs may be listed on a stock exchange or traded over-the-counter. For simplification, we refer to ADRs and GDRs collectively as “DRs.”

The ultimate criterion by which these alternatives should be evaluated is the value created by the programme. Any sensible board of directors would expect to take an evidence–based decision in order to ensure that a programme of internationalisation added value net of costs for the shareholders. Measurement issues aside, such decisions are difficult as they are often one-off and, therefore, the company has no specific experience on which to draw. This problem is particularly felt in so-called Emerging Asia. The best proxy for your own experience is to understand what has happened to others. In the case of Emerging Asia, no comprehensive source of information on the impact of depositary receipts on share price has been available to assist boards in this crucial area.

At Oxford Metrica, we have been researching and analysing international equity markets for nearly a decade. With data and input from The Bank of New York Mellon, we are delighted to make available this report on the impact of establishing a DR programme on stock price and liquidity for Asian markets. The report is a rigorous analysis of all Asian DR programmes established from January 1980 to the present. The study is based on our comprehensive database of all the companies which have created such instruments.

The results are striking. DR programmes demonstrably add considerable value across markets, regions and types of instrument (listed or OTC). In addition, the results clearly show that there continues to be a lively demand for the DR with a strong showing of new programmes every year. Obviously the impact on a particular company's share price will be unique. However, we aim to provide this report to support the decision to establish a DR programme. The specific circumstances of each corporation need to be considered when placing a company in the context of these results.

A significant insight from the study is that, not only were Chinese companies rewarded with a significant increase in value for establishing DRs, but the value differential over other Chinese listed companies was substantially retained in the recent market retreat.

We gratefully acknowledge the assistance of The Bank of New York Mellon, a leading player in the Depositary Receipt industry, for agreeing to underwrite this project.

Rory F Knight

Dr Rory Knight
Chairman, Oxford Metrica

OXFORD METRICA

Executive Summary

In these times of extreme turbulence firms with established Depositary Receipt programmes show significant resilience. In particular Chinese DRs suffered less than their counterparts without DRs.

The research summarised in this briefing provides compelling evidence on the value premium achieved for Asian firms which choose to establish a depositary receipt (DR) programme. In addition, the impact of DR programmes on local market liquidity is analysed and found to result in improved trading levels.

The DR programmes of 596 Asian firms were analysed, covering the period 1980-2008[1]. The key conclusions from the research are presented below.

Key Conclusions

1 DRs prove to be resilient in turbulent markets, illustrated well by Chinese DR performance relative to the broader Chinese stock market; Figure 14.

2 Listed (Levels II/III) DRs add over 10% of shareholder value to Asian firms (on average) in their first year of trading as markets welcome the increased financial transparency and signal of superior governance; Figure 2.

3 Equally, OTC (Level I) DRs add over 10% of value on average to Asian companies; Figure 6.

4 Chinese companies are a dramatic example of the success of DR programmes, adding approximately 40% of value from listed programmes (Figure 4) and over 30% of value from OTC programmes; Figure 8.

5 Asian firms delisting a DR programme from listed status to the over-the-counter market destroy 25% of value on average as the greater financial disclosure is withdrawn; Figure 10.

6 Listed (Levels II/III) DRs more than double the liquidity in Asian local markets as the local shares increase their visibility and are covered more widely by equity analysts; Figure 11. OTC (Level I) DRs improve local Asian market liquidity by 31% on average; Figure 12.

The establishment by Asian firms of listed (Levels II/III) and OTC (Level I) DR programmes have yielded significant benefits for both issuers and investors. There is demonstrated to be considerable value and liquidity advantages for Asian firms from establishing such programmes as the market welcomes the voluntary increase in financial disclosure and reporting standards. The signal of superior governance serves to enhance Asian firms' reputation with investors and offers sustained shareholder value benefits.

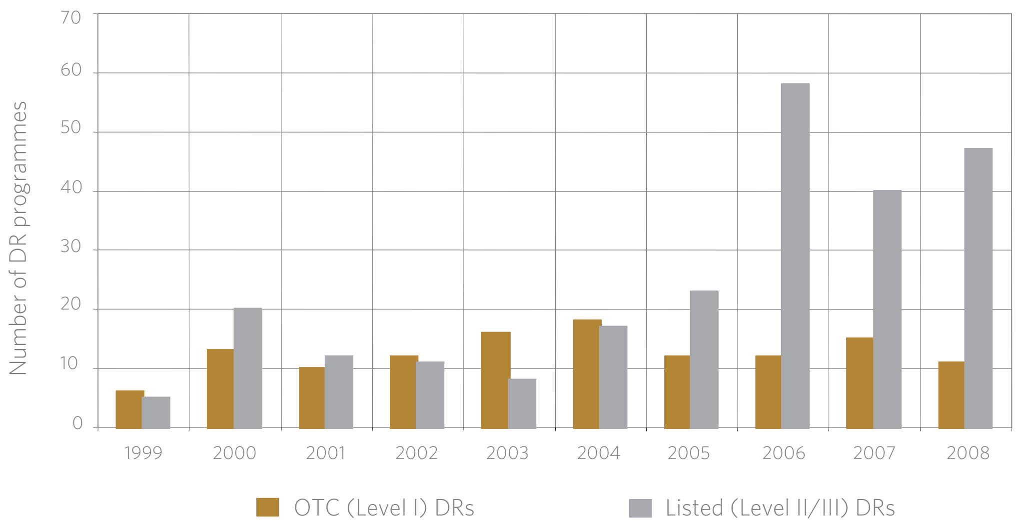
1 to 31 July 2008

1. Introduction

This report presents empirical evidence on the value and liquidity effects on local shares of establishing or delisting a Depositary Receipt (DR) programme[2]. The full history of DRs is analysed, from 1980 to 2008. This report focuses on Asia; the constituent countries of the region are listed in the Appendix.

Shown in Figure 1 is the number of DR programmes by year of establishment, over the last decade[3]. A Level I DR programme trades in the over-the-counter (OTC) market and is exempt from US reporting requirements and from complying with US GAAP. In contrast, listed (Levels II/III) DRs require full SEC registration, reconciliation with US GAAP and annual reporting with a Form 20F filing.

Figure 1: A decade of success in DRs



The graph shows clearly the continued interest in Level 1 DRs and the dramatic growth in listed programmes. The following sections of this report measure the value and liquidity benefits of both OTC and listed programmes.

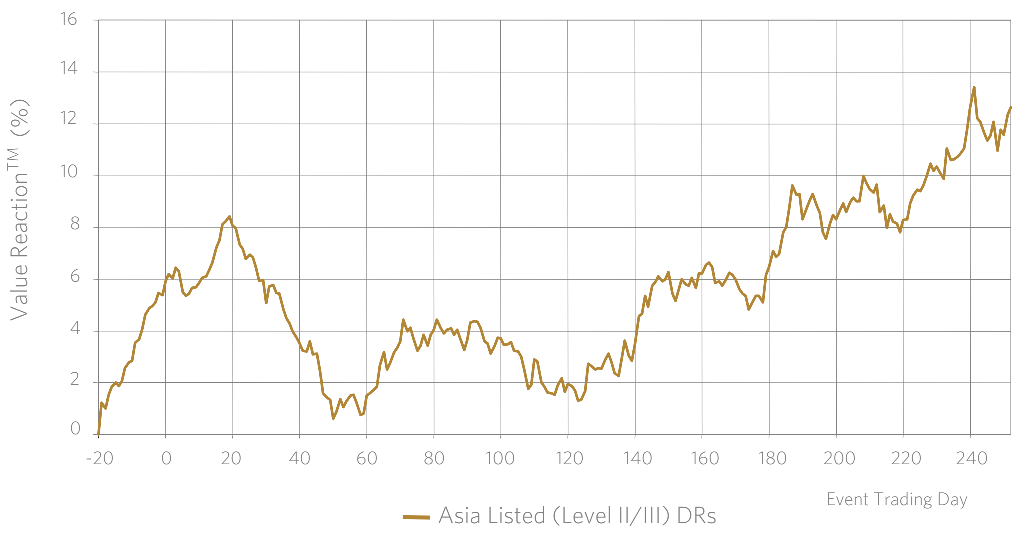
2. Performance of Listed DRs

This section presents empirical evidence on the value to Asian companies of establishing a listed (Levels II/II) depositary receipt programme. Figure 2 shows the average value impact on share prices in the issuers' local markets across 279 listed programmes.

2 For definitions of industry terminology, see A Glossary of Terms

3 Where the year runs from 1 August to 31 July, thus the graph shows DRs from 1 August 1998 to 31 July 2008.

Figure 2: Over 10% added value from Listed (Levels II/III) DRs



The graph shows a modelled share price reaction (using local share prices), where market-wide influences have been stripped out and the returns are risk-adjusted[4]. The programmes analysed cover a range of market cycles ensuring robust methodology. The dates on which the new programmes started trading have been aligned to event day zero; the graph reflects one calendar year. A degree of information leakage to the markets is evident as the additional value becomes apparent over the twenty trading days prior to Day 0[5].

By the end of the first year's trading, in an equally-weighted investment strategy, investors have added over 10% (equivalent to US$83 billion) to their portfolios.

Figure 3 shows the value reactions for Emerging Asia as a sub-region (defined in the Appendix). Figures 4 to 6 show the value reaction across selected countries.

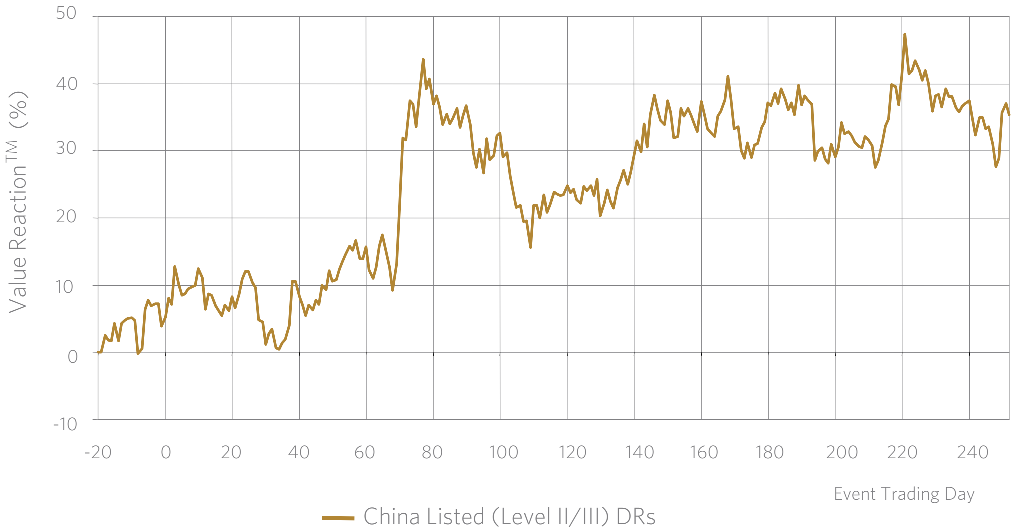
4 Market-wide factors removed include all those which are found, statistically, to be influencing all stocks in that market or sector. They include, for example, macroeconomic changes such as interest rate movements and core economic trends, and key industry-wide events. All returns are presented on a risk-adjusted basis. That is, the returns are adjusted to take account of the stock's price sensitivity to the market as a whole; the firm's beta. The result of these modelling procedures is a daily impact of the establishment of the DR programme on a firm's local share price; Value Reaction™. The metric captures a firm's shareholder value performance, relative to investors' expectations, in the domestic stock market. By making the necessary adjustments, ValueReaction™ captures a very clean measurement of impact; the firm-specific value response to establishment of the DR programme.

5 For DR programmes involving Initial Public Offerings (IPOs) where data is not available before the date of DR establishment, the average figures in the graph have been adjusted accordingly.

Figure 3: Strong Value added from Emerging Asian companies

Over 15% of value is added to the Emerging Asian portfolio of listed DR programmes, equivalent to US$47 billion in an equally-weighted investment portfolio. Particularly strong value was realised in China, India and, from Mature Asia, Japan; Figures 4 to 6.

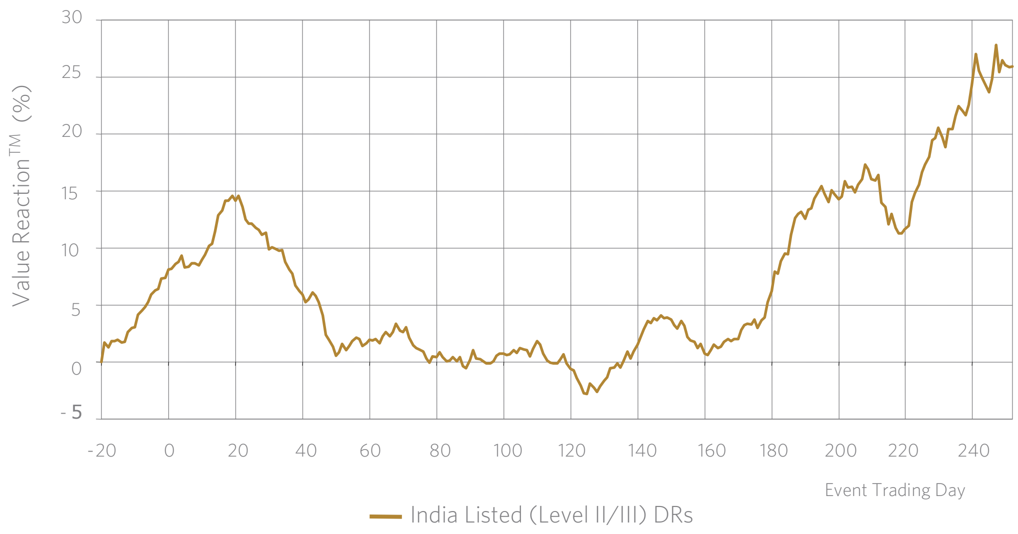
Figure 4: Dramatic value added for Chinese companies



Chinese companies choosing to establish a listed (Levels II/III) DR programme saw value increases of over 30% over the year following establishment. For these purposes, China is considered as mainland China and excludes Taiwan (and Hong Kong, considered a mature market). The vast majority of listed programmes established by Chinese companies are American Depositary Receipts, trading in NASDAQ and the NYSE.

Indian companies also witnessed strong growth in value, increasing steadily over the year.

Figure 5: Strong value added in India



Indian companies have chosen a wide range of stock exchanges on which to list; represented on Dubai International Financial Exchange, London Stock Exchange, Luxembourg Stock Exchange, NASDAQ, New York Stock Exchange and Singapore Exchange. Luxembourg has emerged as a popular destination.

3. Performance of OTC DRs

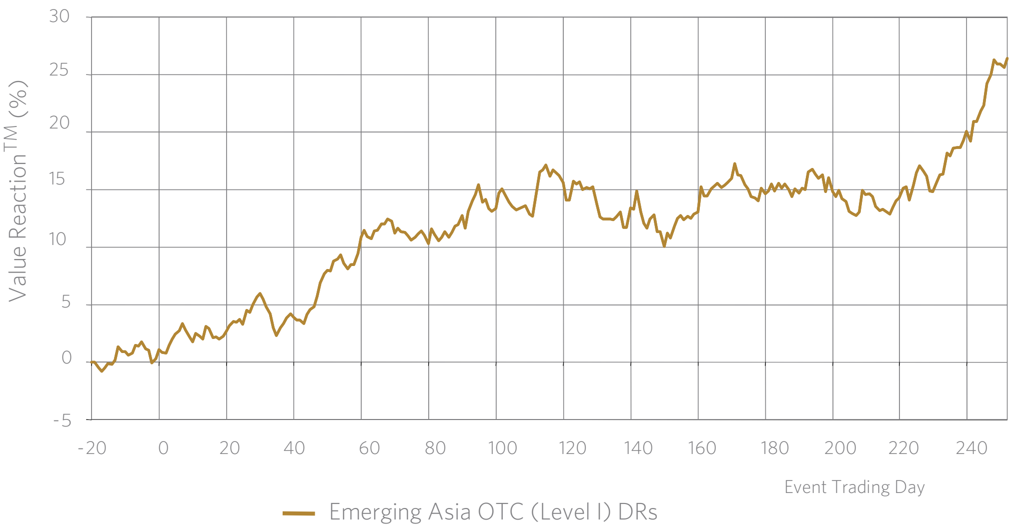
Presented in this section is empirical evidence on Asian firms' local share price performance following the establishment of an over-the-counter (Level I) DR programme. Unlike their listed counterparts, OTC programmes are exempt from US reporting requirements and from US GAAP compliance.

Shown in Figure 6 is the value reaction to 317 firms across Asia as they establish an OTC (Level I) programme. In an equally-weighted investment strategy, this is equivalent to US$74 billion of value added to the portfolio.

Figure 6: Over 10% value added from OTC (Level I) DRs

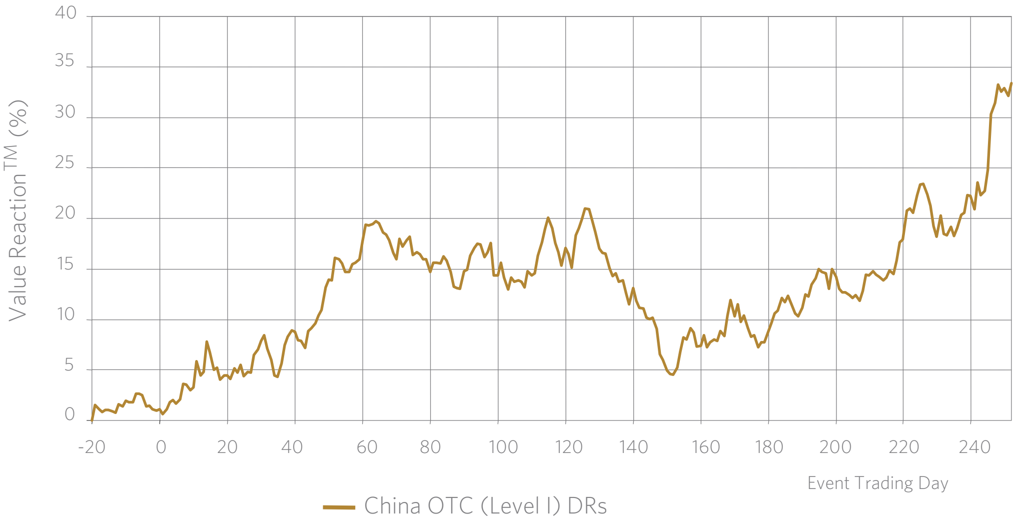
Figure 7 shows the value reaction to firms from Emerging Asia choosing to establish an OTC (Level I) depositary receipt programme. A significant 25% of value is added to these firms.

Figure 7: 25% value added across Emerging Asia



Depicted in Figure 8 shows the powerful value effects in mainland China due to establishing an OTC (Level I) DR programme.

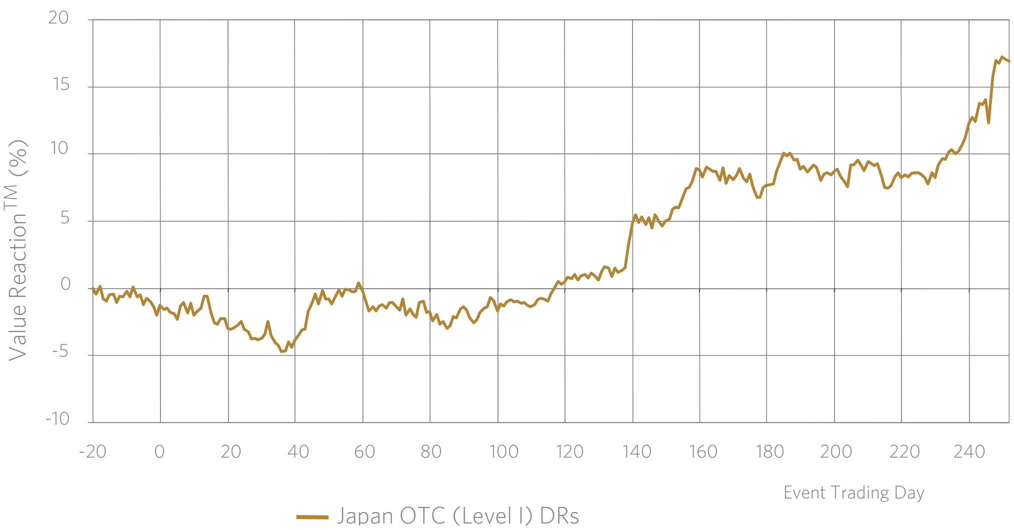
Figure 8: Strong performance in China



By the end of the year following establishment of such a programme, Chinese companies on average add over 30% of value to their local shares.

In the more developed market of Japan, 15% of value is added to local shares of firms which establish an OTC (Level I) DR programme; Figure 9.

Figure 9: Higher valuations in Japan



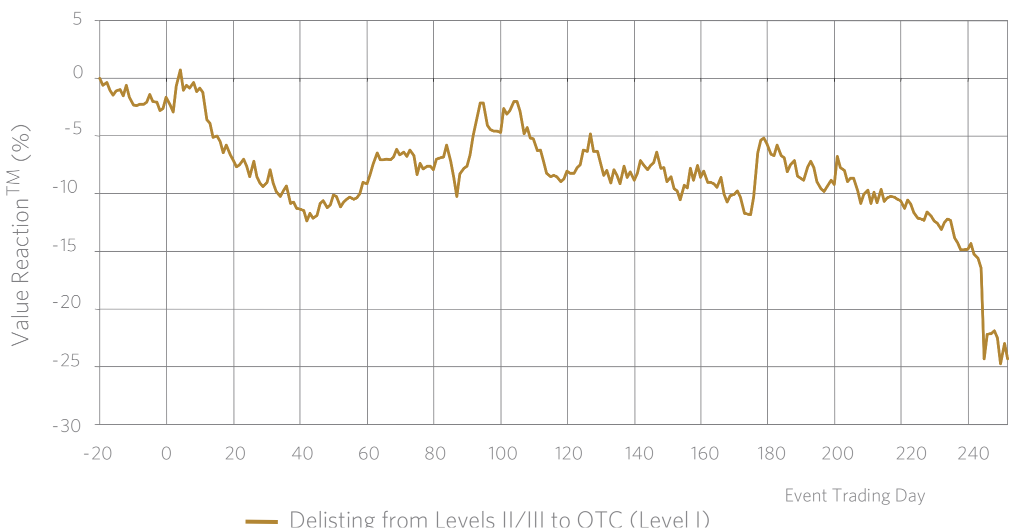
Over-the-counter DR programmes have proved to be particularly popular with the more mature markets of Japan, Hong Kong and Singapore. The evidence presented herein demonstrates that there are significant value advantages from establishing these programmes.

4. Impact of Delisting

The increased regulatory burden and cost of listing has prompted some firms to review their listed status and even to consider delisting. This section measures the impact on shareholder value for firms which have chosen to delist their depositary receipt from a listed (Levels II/III) programme to an OTC (Level I) programme.

Figure 10 measures the value destroyed by a portfolio of Asian firms which chose to delist their DR programmes.

Figure 10: 25% value destroyed by delisting



The aggregate result indicates that investors respond negatively to the withdrawal of financial disclosure and that, therefore, managers should consider carefully the possible market fallout from a delisting.

5. Evidence on Liquidity Improvement

Demonstrated in this section is the impact on Asian local market liquidity of establishing a DR programme. There has arisen debate as to whether a cross-listing detracts from trading in the local market. The evidence suggests that, far from diluting home market liquidity, the establishment of a DR programme triggers significant increases in trading in the local shares.

The Trading Volume Multiplier is defined as the multiple of the previous year's average daily trading volume in ordinary (local) shares. Thus a Trading Volume Multiplier of one indicates normal trading volumes and no significant impact on liquidity. Figures 11 and 12 illustrate the positive (above one) impact on home market liquidity from establishing a DR programme; listed (Levels II/III) and OTC (Level I) DRs, respectively.

Figure 11: Listed DRs improve home market liquidity by 112%

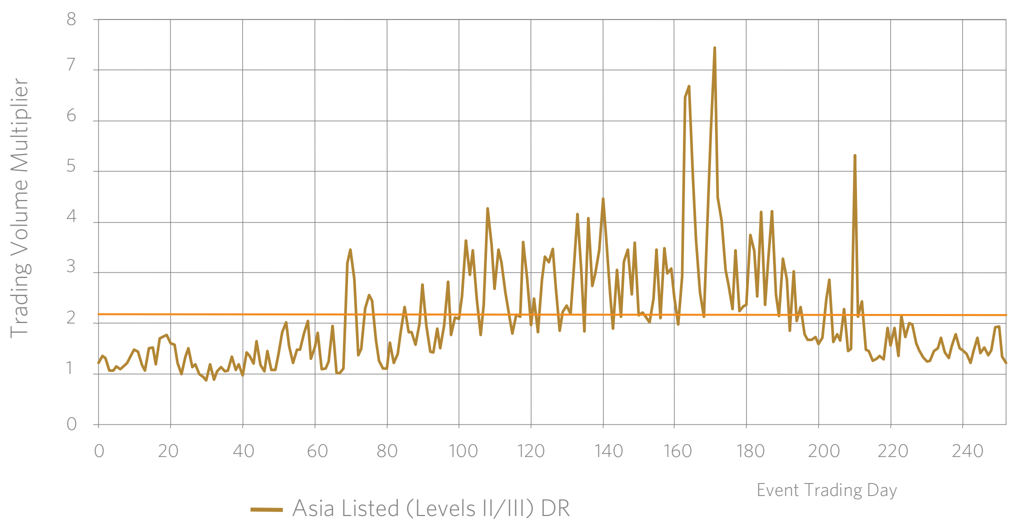
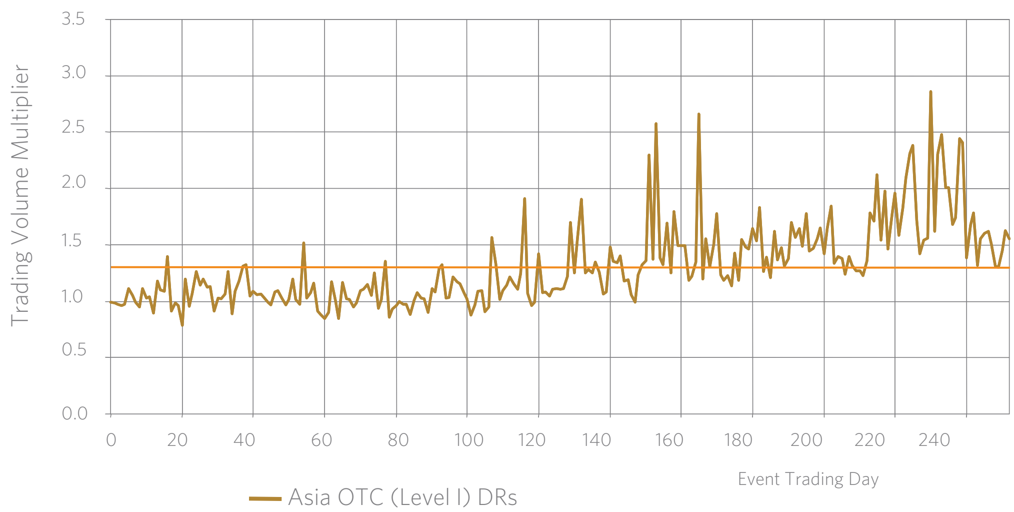


Figure 12: OTC DRs improve home market liquidity by 31%



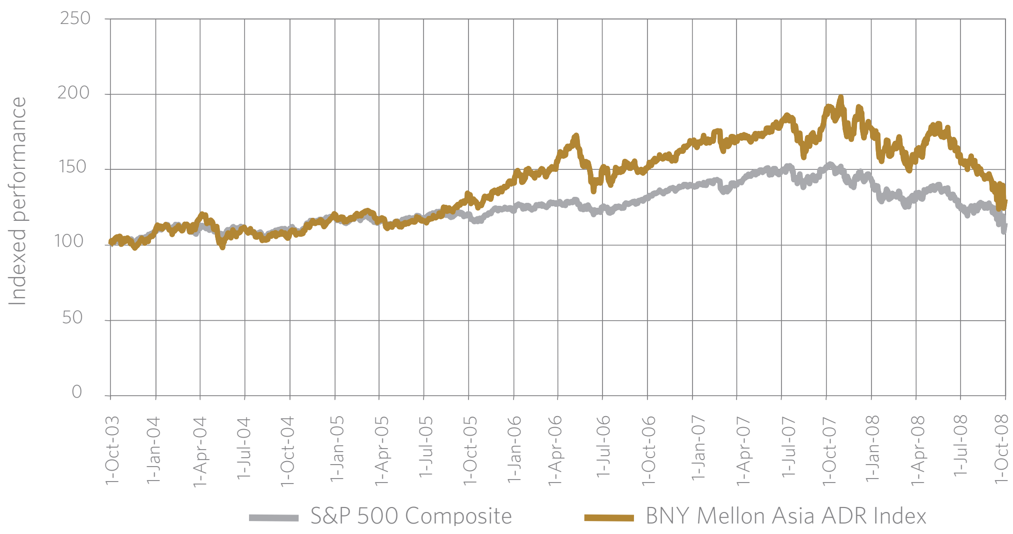
The research provides compelling evidence of increased local share trading for Asian companies which choose to establish a DR programme. The increases in home market liquidity from doing so are clear and considerable.

6. Summary and Conclusions

The research results presented in this report demonstrate that, on average, there are significant value and liquidity advantages to be gained by Asian companies which choose to establish a depositary receipt programme. The success of The Bank of New York Mellon's ADR indices suggest that these shareholder benefits are sustainable over the long-term.

Figure 13 shows the DR performance for Asian companies over the last five years against the S&P 500 Composite Index. An investment of US$100 million in the Standard and Poors 500 Composite Index over the last five years would be worth US$115 million at the end of the period. A similar investment in The Bank of New York Mellon's Asia ADR Index would be worth US$130 million.

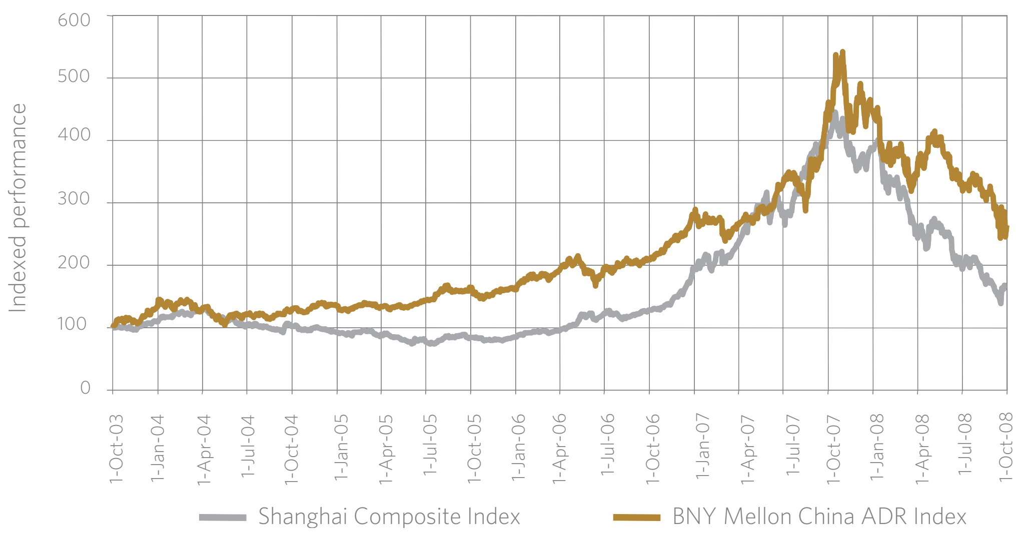
Figure 13: Sustained performance over time



Depositary receipt programmes offer Asian companies considerable value and liquidity advantages. Investors have greater confidence in management willing to raise voluntarily their standards of financial disclosure and reporting, increase their visibility and widen their investor bases.

Figure 14 presents some striking new insights on the resilience of the Chinese DRs in the context of recent market turbulence.

Figure 14: Chinese DRs show resilience in recent turbulence



Not only have DR programmes added around 35% in value as a direct consequence of the establishment of the programme, but this value has been retained relative to non-DR Chinese listed firms. Thus \$1,000 invested in each of a portfolio of Chinese DRs and the Shanghai Composite Index would have grown to \$2,640 and \$1,680 respectively. The former is down by considerably less than the latter. This demonstrates powerfully the benefits of DRs in difficult times.

A Glossary of Terms

Delisting	The downgrading of a DR programme from listed (Levels II/III) status to OTC (Level I) status.
Depositary Receipt (DR)	A negotiable receipt, denominated in US dollars and issued as a certificate, that represents some number of a non-US firm's publicly-traded shares in its home market and is sponsored by a US depositary bank.
Listed (Levels II/III) DRs	Depositary receipts that are listed on a US exchange (NYSE, NASDAQ or AMEX) and require, therefore, full SEC registration, reconciliation with US GAAP and annual reporting with a Form 20F filing. Level III DRs additionally raise capital.
OTC (Level I) DRs	Depositary receipts that trade in the "over-the-counter" OTC market and are exempt from US reporting requirements and from complying with US GAAP.

Appendix

For the purposes of the research presented herein, Asia is defined as the following countries: Bangladesh, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan and Thailand. Of these, and in accordance with MSCI index construction, Hong Kong, Japan and Singapore are considered 'Mature Asia' while the remaining countries are considered 'Emerging Asia'.

Presented in Figures 15 and 16 respectively are the distributions by country of listed (Levels II/III) and OTC (Level I) DRs[6] .

Figure 15: Listed (Levels II/III) DRs by country

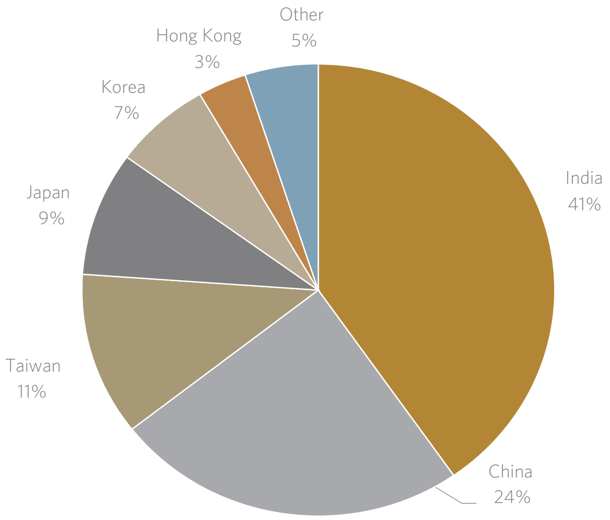
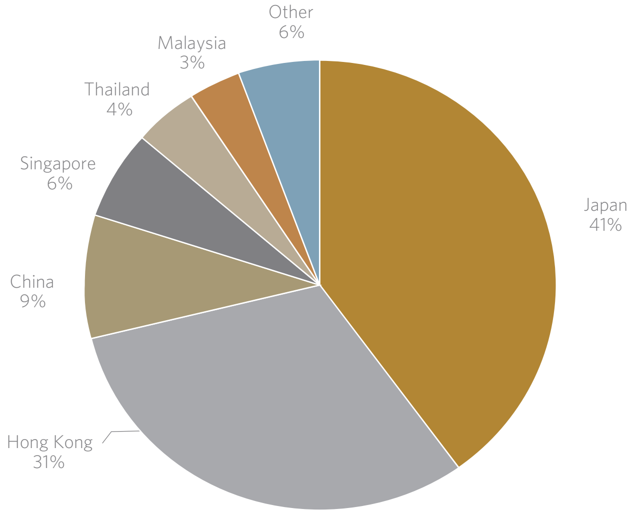


Figure 16: OTC (Level I) DRs by country



6 at 31 July 2008

Oxford Metrica

Oxford Metrica is an independent research and analytics firm in corporate reputation and international investments. The firm provides evidence-based support for key management decisions, and is focused on helping clients build reputation and value. Oxford Metrica also provides performance analytics to several hedge fund managers, particularly those involving in emerging markets and multi-manager strategies. We would be happy to discuss the implications of this current report for your company. For further information, please visit our website at www.oxfordmetrica.com

The Bank of New York Mellon

The Bank of New York Mellon acts as depositary for more than 1,300 sponsored American and global depositary receipt programs, acting in partnership with leading companies from 64 countries. With an unrivaled commitment to helping securities issuers succeed in the world's rapidly evolving financial markets, the Company delivers the industry's most comprehensive suite of integrated depositary receipt, corporate trust and stock transfer services. Additional information is available at www.bnymellon.com/dr.

The Bank of New York Mellon Corporation is a global financial services company focused on helping clients manage and service their financial assets, operating in 34 countries and serving more than 100 markets. The company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset management and wealth management, asset servicing, issuer services, clearing services and treasury services through a worldwide client-focused team. It has $22.4 trillion in assets under custody and administration, approximately $1.1 trillion in assets under management and services approximately $12 trillion in outstanding debt. Additional information is available at www.bnymellon.com.

THE BANK OF NEW YORK MELLON

bnymellon.com

www.oxfordmetrica.com