Does Quality of Accounting Standards Improve Value-Relevance of Accounting Information in Emerging Markets? Evidence from China's A-, B-, and H-share Markets

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Does Quality of Accounting Standards Improve Value-Relevance of Accounting Information in Emerging Markets? Evidence from China’s A-, B-, and H-share Markets*

Abstract

This paper examines the relationship between the quality of accounting information and its value-relevance using the setting of three different markets of China-originated stocks: A-, B-, , and H-shares. All three types of shares are issued by companies in China, but they are traded in different markets and by different participants. A-shares are traded in China’s stock markets in Shanghai and Shenzhen by domestic investors, B-shares are traded in the same two markets by foreign investors, and H-shares are traded in Hong Kong. In order to meet the demand of different investors, the three types of companies follow different accounting standards and undergo different auditing processes. A-share companies report financial statements based on the Chinese Accounting Standards (CAS), B-shares on the International Accounting Standards (IAS), and H-shares on the Hong Kong Accounting Standards (HKAS). A-share companies are audited by domestic accounting firms, B-share by international accounting firms in China, and H-share by international accounting firms in Hong Kong. In addition, H-share companies are subject to the disclosure rules in Hong Kong, which are more rigorous than those in China.

The differences in accounting standards, auditing processes, and disclosure rules naturally lead one to expect the accounting information of B- and H-share companies to be more value-relevance than that of A-share companies. Surprisingly, this expectation is not supported by the findings in this study. The finding that the accounting information of B-share firms is not more value-relevant than that of A-share firms indicates that the quality of accounting information is not perceived as important by participants in China markets. The similar value-relevance of accounting information between H- and A-share firms could be due to the fact that most of H-share companies are not listed in their domestic market. This creates a wide information gap between management and investors, and reduces investors’ confidence in accounting information. In summary, our results point out clearly that the quality of accounting standards and audit firms, and the transparency of disclosure alone are not sufficient to enhance the value-relevance of accounting information is an emerging market like China.
1. **Introduction**

This paper examines whether or not the quality of accounting standards and auditors and the transparency of disclosure enhance the value-relevance of accounting information. The setting of China’s three types of shares facilitates this examination. Specifically, China’s enterprises at present are listed in three forms: A-shares, B-shares, and H-shares. By design, they are traded in different markets by different investors. A-shares are traded in China’s two stock exchanges in Shanghai and Shenzhen by domestic investors, B-shares are traded in the same two exchanges by foreign participants, and H-shares are traded in Hong Kong by Hong Kong local investors and international investors operating in that territory. The companies of A-shares, B-shares, and H-shares follow the Chinese Accounting Standards (CAS), the International Accounting Standards (IAS), and the Hong Kong Accounting Standards (HKAS), respectively. In addition, A-share companies are audited by China domestic accounting firms, B-share are audited by international accounting firms operating in China, and H-share are audited by Hong Kong accounting firms, mostly local affiliates of Big Five. Thus, these three types of shares have distinct investors, accounting standards, auditors, and disclosure requirements.

The value-relevance of accounting information, primarily earnings and book values, has been extensively studied in the U.S. (see, for example, Easton and Harris 1991). More recently, a great deal of similar research has been done on international data (see the extensive review in Alford, Jones, Leftwich, and Zwijewski 1993) and on cross-listing setting (Amir, Harris and Venuti 1993, Chan and Seow 1996, among others). However, to the best of our knowledge, there has been no study on the value-relevance of stocks originating from the same country but under different disclosure and auditing environments. The different
types of Chinese shares provide a unique setting to examine two interesting issues. First, many B-share companies also issue A-shares to domestic investors. As a result, in comparison to firms that issue only A-shares, firms that issue both A- and B-shares (A/B-shares hereafter) have to pay a much higher audit fee and undergo a supposedly more rigorous auditing process. Whether or not the resulting accounting information for firms that issue both A- and B-shares is more value-relevant than that for firms that issue only A-shares provides an indication of the value of a more rigorous auditing process.

Second, most H-share companies do not issue A-shares to domestic investors. This is unlike the case of cross-listings, in which a listed company in one country is also listed in another country. Without a cross listing, H-share investors do not have the price information from the indigenous market as the benchmark. Thus, investors in Hong Kong have to evaluate companies in another economy (i.e., China) solely based on information provided from the other side of the border. Even when managers and investors reside in the same economic environment, there still exists the issue of information asymmetry. In the case of H-shares, this problem should exacerbate. As a result, it is possible that the accounting information of H-share companies might be less value-relevant than that of A-share companies. On the other hand, several factors, including Hong Kong's better quality of regulatory environment and more transparent disclosure rules, support the expectation that the accounting information of H-share companies should be more value-relevant than that of A-share companies. Therefore, the comparison of the value-relevance between H- and A-share companies allows us to test these competing hypotheses.

Our results show that the value-relevance of accounting information, including earnings and book values, of firms that issue both A- and B-shares are not higher than that of

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1 Haw, Qi, and Wu (1998) investigate the incremental value-relevance of the International Accounting Standards (IAS) and the Hong Kong Accounting Standards (HKAS) to the Chinese Accounting Standards (CAS) for B-shares and H-shares. They find that the domestic earnings reported in the CAS are value-relevant, while the disclosure mandated by the IAS or the HKAS appear to have limited incremental information content.
firms that issue only A-shares. This could be due to two possible reasons. First, investors in China might not be capable of distinguishing the higher quality of accounting information resulting from a more rigorous audit. Second, the service provided by the international accounting firms is not perceived by the market participants in China to be valuable in enhancing the quality of information.

We also find that the accounting information of H-share companies is not more value-relevant than that of A-share companies. This indicates that the information gap caused by the distance between listed companies and investors out-weights the advantages of being traded in a market with a more rigorous regulatory and accounting environment.

In summary, our results show that higher quality of accounting information and more transparent disclosure requirement do not necessary lead to higher value-relevance. This finding has two important policy implications for emerging markets. First, after the 1997 East Asian financial crisis, there has been a great deal of concerns about the quality of accounting and auditing standards in the countries involved. For example, in September 1998, the World Bank urged the Big Five not to sign off the accounts of Asian countries unless they are based on the International Accounting Standards (Kelly 1998). Our results from B-share companies appear to indicate that just applying the International Accounting Standards and requiring the audit of more reputable accounting firms are not sufficient to enhance investors’ confidence in financial information.

Second, the results of H-share companies show that listing a company in another jurisdiction without first listing in its own market might create too wide a gap between the providers and users of accounting information. As a result, these companies’ valuation might not properly reflect the fundamental factors. This is an important cost that one should consider in the experimentation of a direct cross-listing.
The remainder of this paper is organized as follow. Section 2 discusses the backgrounds of the three types of markets. Section 3 describes the data. While Section 4 reports the results based on a return model, Section 5 presents the results based on a price model. Finally, Section 6 provides possible explanation and concludes the paper.

2. Institutional Backgrounds

2.1. The Stock Markets for A-shares, B-shares, and H-shares

To promote a free-market economy and to speed up the privatization process of state-owned enterprises (SOEs), China has been developing its securities markets since the mid-1980s. The Shanghai Securities Exchange was formally opened on December 19, 1990, followed by the Shenzhen Stock Exchange on February 21, 1992. Ownership of these common stocks (called A-shares) was initially allowed only to domestic investors. To attract foreign capital and to improve management quality, a special type of shares, called B-shares, were offered to foreign investors in 1992. This type of shares can only be owned and traded by foreign investors (including Hong Kong residents). A similar type of shares solely for foreigners was created in 1993 when Chinese SOEs started to issue H-shares on the Stock Exchange of Hong Kong (SEHK).²

2.2. The Accounting Environments

The accounting standards in China are promulgated by the Ministry of Finance. With the implementation of Accounting Standards for Business Enterprise: Basic Standard in 1993, China embarked on the process of convergence to the Western financial accounting system. The Basic Standard prescribes the basic accounting assumptions and conventions

² Chinese SOEs also issued security depository receipts (SDRs) in Australia, Japan, London, New York (where they are called N-shares), and Singapore. However, the trading activities outside Hong Kong and China have not gained popularity.
and general requirements of financial statements. Starting from 1997, the Ministry has issued a series of standards dealing with specific accounting issues. So far, eight such standards have been issued, covering topics like related party transactions, subsequent events, statement of cash flows, etc. Many fundamental issues in accrual accounting, however, have not been resolved. For example, whether or not the lower of cost or market (LCM) rule should be applied to the inventory valuation by all listed firms is still uncertain. Thus, the accounting standards in China are primitive compared with most Western economies. This is why when China started the B-share market for foreign investors, it required issuing companies to follow the International Accounting Standards (IAS), presumably to secure investors’ confidence in financial reports.

On the other hand, the reporting practice of H-share companies is quite clear-cut. Subject to the regulation of the Stock Exchange of Hong Kong, H-share companies have to follow the Hong Kong Accounting Standards. The Hong Kong Accounting Standards are promulgated by the Hong Kong Society of Accountants (HKSA), the local Certified Public Accounting (CPA) association. In reality, the HKSA followed the UK accounting standards until 1994, and switched to the IAS afterwards. Therefore, the accounting standards for H-share companies are more or less the same as the IAS.

There is a big difference in the auditors of these three types of companies. A-share companies are audited by China’s fledging CPA firms, whose professional standards are still in the developing stage. In addition, until recently, those local firms are affiliated with certain governmental agencies. As a result, their independence is questionable. On the other hand, the financial statements of B-share companies are audited by international CPA firms operating in China. Their professional standards and level of independence certainly are superior to those of local CPA firms. Finally, the auditors for H-shares are normally Hong Kong-based international CPA firms. As a result, it is easy to argue that the quality of
accounting information provided by B- and H-share companies is better than that by A-share companies.

3. **Data Description and Variable Definition**

The data used in this study include all A-share and B-share companies listed on the Shanghai Securities Exchange and the Shenzhen Stock Exchange, and H-shares listed on the Stock Exchange of Hong Kong. The study period is from 1994 to 1997. The annual stock returns, market values, book values, earnings, number of shares outstanding, dividends, and adjustment factors are obtained from the Taiwan Economic Journal (TEJ) database for A-shares and B-shares and from Datastream for H-shares. We drop firms from the sample for a particular year, if any of the variables in the regression is missing. Since B-shares are quoted in US dollars on the Shanghai Securities Exchange and in Hong Kong dollars on the Shenzhen Stock Exchange, we convert them into Chinese currency (Renminbi) based on the exchange rate at the end of April of each year.

The annual stock returns are computed as the cumulated market-adjusted returns for 16 months from the beginning of the fiscal year to four months after the end of the fiscal year. The market returns for each type of shares are those of each type of markets, namely, the Shanghai A-share index, the Shanghai B-share index, the Shenzhen A-share index, the Shenzhen B-share index, and the Hong Kong H-share index, with dividends included.

As mentioned above, companies that issue different shares follow different accounting standards. Companies that issue both A- and B-shares have to issue two sets of financial statements. The difference in reported net income numbers between the IAS and the CAS during 1994-96 are summarized in Table 1. In aggregate, the IAS income is lower

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3 To overcome the extreme values, we truncate the market-adjusted returns to 5.00 (five times). There is one case for A-shares.
than the CAS counterpart by 20 to 30 percent in these three years. The major differences include bad debt expense, income or loss in equity investments, and inventory write-down. It is clear that the failure of the CAS to record these items should reduce its value-relevance. However, the result in Table 1 shows that the two sets of accounting numbers are very highly correlated. The correlation coefficients between the two ROE (return on equity, defined as net income divided by the year-end common equity) measures are consistently higher than 0.90 in all three years. As a result, in cross-sectional tests, the two versions of accounting numbers are not likely to result in significant differences. In the tests that follow, we use the CAS accounting numbers when they are regressed on the A-share returns, and the IAS ones when regressing on B-share returns. For firms issuing A/B- and H-shares, the CAS and the HKAS accounting numbers are used, respectively.

[Insert Table 1 here]

Table 2 reports the correlation coefficients between returns, earnings and changes in earnings over the period from 1995 to 1997. There are 1,027 firm years for all A-shares, 151 for all B-shares, and 66 for all H-shares. The numbers without brackets are Pearson correlation coefficients. Earnings and changes in earnings are highly correlated for all types of shares. Returns are highly correlated with earnings and changes in earnings for both A-shares and B-shares. There are negative but insignificant correlations between returns and earnings and changes in earnings for H-shares. The Spearman rank-order correlation coefficients shown in brackets are about the same as the Pearson correlations for A- and B-shares. However, these two sets of correlations are quite different for H-shares, indicating that extreme values are more problematic for H-shares. In particular, the correlations between returns and earnings and changes in earnings become positive with the latter being significant.

[Insert Table 2 here]
4. **Results from the Return Model**

4.1. **Return Model**

We first analyze the value-relevance of earnings. Following Easton and Harris (1991) and Amir, Harris, and Venuti (1993), we regress returns on earnings levels and changes in earnings as follows:

\[
R_j = \beta_0 + \beta_{1t} \frac{E_{jt}}{P_{jt-1}} + \beta_{2t} \frac{\Delta E_{jt}}{P_{jt-1}} + \epsilon_{jt},
\]

(1)

where \(R_j\) is the market-adjusted returns as defined in the previous section, \(E_{jt}\) is annual earnings per share, \(P_{jt-1}\) is the price of equity at the beginning of the fiscal year adjusted for the adjustment factor, \(\Delta E_{jt}\) is the change in annual earnings per share, and \(\epsilon_{jt}\) is the error term.

4.2. **Comparison of A-Share Returns for A/B-Share Firms and A-Share-Only Firms**

Table 3 compares the value-relevance of earnings information between firms that issue both A- and B-shares (referred to as “A/B-share firms” hereafter) and firms that issue only A-shares (“A-share-only firms”), using A-share returns as the dependent variable. In this test, we divide the whole universe of A-share firms into two groups: A/B-share firms versus A-share-only firms.

[Insert Table 3 here]

The return regression model might not perform well due to several reasons. First, extreme values in any variable will make the result unreliable. Second, earnings-return relationships are known to be different for positive and negative earnings (e.g., Hayn (1996)). Thus, in Table 3, two types of regressions are reported: one using the raw values and the other using the rankings of all variables included (the rank variables are normalized by dividing by the number of observations used in each regression).
For the raw value regressions in the pooled samples, the total earnings response coefficient (ERC, the sum of $\beta_1 + \beta_2$) for A/B-share firms is 5.12, lower than the ERC of 5.92 for A-share-only firms. However, when rankings are used, the ERC of 0.53 for A/B-share firms is greater than the ERC of 0.48 for A-share-only firms. The comparison of adjusted R-squares also shows mixed results. The R-square using raw values is slightly lower for A/B-share firms than A-share-only firms, whereas using the rankings, the R-square of A-share-only firms is slightly lower than that of A/B-share firms. Based on these results, we conclude that for A-share firms, the value-relevance of earnings does not improve by issuing B-shares. This is surprising since the accounting information of A/B-share firms is supposed to be more reliable. Our results appear not to support the hypothesis.

4.3. Further Analysis of A-share Returns Controlling for Size and Industry Effects

The results in Table 3 may be due to the different nature of the two sets of firms, e.g., different industry concentration and size. In particular, A/B-share firms are on average larger than A-share-only firms. As a result, it is necessary to control for size and industry effects. Table 4 reports the regression results of A/B-share firms and the control sample of A-share-only firms. The control sample is formed by selecting one firm from the A-share-only sample to match each of the A/B-share firms, using industry and market capitalization as matching criteria.4

[Insert Table 4 here]

The result from Table 4 indicates that, for pooled samples, the ERC of 4.42 for A/B-share firms is still lower than the ERC of 6.45 for A-share-only firms. In the rank regression, the ERC of both samples are the same. The R-square statistics also confirm the results.5

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4 For size-matching, we require control firm to be within 80% to 120% of the market capitalization of the A/B-share firm. The observations are deleted if no matching firms are found. Hence, we have different sample sizes of A/B-share samples in Tables 3 and 4.

5 Now the comparison of R-squares is meaningful, since both samples have identical sample size.
particular, the R-squares are higher for A-share-only firms than A/B-share firms in both the raw value sample and the ranking sample. Thus, after controlling for industry and size effects, the findings in Table 3 remain the same. Our results show no evidence of improvement in the value-relevance for A share firms that also issue B-shares.

In Tables 3 and 4, we use the A-share returns for the A/B-share companies as the dependent variable. Since all A-shares are traded by domestic investors, it is possible that they are not sophisticated enough to appreciate the additional value of the International Accounting Standards and the higher quality auditing process. Because B-shares are intended to be traded by foreign investors, mostly foreign funds, B-share prices should reflect more of the fundamental values. In Table 5, we compare the value-relevance of earnings information between the A- and B-share returns for the firms that issue both A- and B-shares.

[Insert Table 5 here]

In the regressions, the accounting information of A-share firms is based on the IAS, whereas that of B-share firms is based the CAS. The results in Table 5 show that for the pooled regressions using raw values, the slope coefficient on earnings are negative but insignificant for both A-share firms and B-share firms. The total ERC for A-share firms is 4.80, which is higher than the total ERC of 1.31 for B-share firms. From the ranking regressions, the total ERC of 0.54 for A-share firms is higher than the total ERC of 0.47 for B-shares. The R-square statistics also confirm the findings. All these results indicate that B-share firms are not of more value relevance of earnings than A-share firms. It is surprising given the fact that B-share prices should reflect more of the fundamental value than A-share prices and that the IAS should have of the higher auditing quality than the CAS.

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6 We also replicate the same regressions using the CAS earnings for B-share firms. The results are essentially the same.
4.4. Comparison of H- and A-Shares

Table 6 compares the value-relevance of earnings information of H-share companies versus A-share companies. Again, two sets of regressions, based on raw values and ranks, are reported. In the raw-value regressions, the H-share sample performs rather poorly. The adjusted R-square is negative in 1995 and close to zero in 1997. The earnings level variable has the wrong, negative sign in 1996, 1997, and the pooled model. On the other hand, the signs of regression coefficients and the adjusted R-square values are quite reasonable for the A-share sample (except in 1997). Based on these regression results, the earning of H-share companies explain less of the variation in stock returns than the earnings of A-share companies.

[Insert Table 6 here]

The rank regressions in Table 6 show a significant improvement for H-shares. For example, in the pooled model, the R-square increases from 0.02 to 0.7, and both slope coefficients are positive in all regressions. But, in comparison to the rank regressions for the A-share sample, there is no indication that H-share firms perform better than A-share firms. The R-squares are lower in the H-share samples than in the A-share samples in all four cases. All these results indicate that the value-relevance of earnings is poor for H-share firms, whereas it is very reasonable for A-share firms.

5. Results from the Price Model

5.1. Specification of the Price Model

We next analyze the value-relevance of earnings and book values using a price model. In many studies using the price model, all variables are converted to per share basis. Since

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7 One may argue that size, profitability, and/or leverage may have effects on the performance of value-relevance of earnings. A careful inspection indicates that H-share firms are on average larger, more profitable, and less leverage than their A-share counterparts. This indicates that size, profitability, or leverage cannot be the source of underperformance of value-relevance of earnings for H-share firms.
the number of shares is arbitrarily set by each firm, this approach results in a scale bias. That is, given the same company size, firms with smaller number of shares will have larger amount of every variable on a per share basis. Easton (1999) suggests using book value of equity as the common deflator in a price model including earnings and book values. The equation is:

$$\frac{P_{rt}}{BV_{rt-1}} = \beta_{0t} + \beta_{1t} \frac{BV_{rt}}{BV_{rt-1}} + \beta_{2t} \frac{E_{rt}}{BV_{rt-1}} + e_{rt},$$

where $P_{rt}$ is the price at the end of the fiscal year, $E_{rt}$ is annual earnings per share, and $BV_{rt}$ is the book value of equity per share at the end of the fiscal year $t$, and $e_{rt}$ is the error term.

5.2. Comparison of A-Share Prices of A/B-Shares and Matched A-Shares-Only Firms

Table 7 reports regression results of prices on earnings levels and book values for A/B share firms and A-share-only firms matched by industry and size. The results indicate that book value is more value-relevant than earnings level for firms that issue both A- and B-shares, whereas the opposite is true for A-share-only firms except in 1995. While the regression coefficient on book value is higher for A/B-share firms than for A-share-only firms except in 1995, the opposite is true for the regression coefficient on earnings level. There is no clear evidence to show which type of shares is more value-relevant. The results from R-square statistics also show mixed results. Based on the regression results of prices on earnings and book values, there is not clear evidence of improvement in value-relevance for A-share firms that also issue B-shares.

[Insert Table 7 here]

5.3. Comparison of A-Share and B-Share Prices of Firms that Issue both A- and B-Shares

As discussed early, B-shares are intended for foreign investors, mostly foreign mutual funds, B-share prices should reflect more of the fundamental values. In addition, the B-
shares’ IAS should be of higher auditing quality than the A-shares’ CAS: Based on investors’ attitude and auditing quality, one would expect that B-share firms should exhibit of more value-relevance than A-share firms. Table 8 reports regression results of prices on earnings levels and book values for A-share and B-share firms that issue both A- and B-shares. The regression slope coefficients for both A-share and B-share firms have correct signs in all cases. However, from pair-wise comparison, we find that both regression coefficients on earnings and book values are higher for A-share firms than B-share firms in all four cases. The R-square statistics also confirm the findings except in 1995. In sum, the results based on the price regressions on earnings and book values cannot support the hypothesis that B-share firms are more value-relevant than A-share firms.

[Insert Table 8 here]

5.4. Comparison of A-Share and H-Share Firms

H-share firms are based on the HKAS and are traded in Honk Kong, whereas A-share firms are based on the CAS and are traded in China. The auditing standard is higher for the HKAS than the CAS. Besides, the SEHK requires firms to have more transparent disclosure than the two exchanges in China. Based on the regulatory standard and auditing quality, one would expect that H-share firms should be of more value-relevance than A-share firms. Table 9 reports the results of prices regressed on earnings level and book value. The results show that regression slope coefficients have correct signs for both A-share and H-share firms in all cases. However, the results from the pair-wise comparison indicate that both the earning and book value coefficients are higher for A-share firms than H-share firms in all samples. The number of significance and the significance level also confirm the results. Remember that the R-square comparison is not meaningful in this case, since the sample size differs substantially. Based on these findings, we conclude that H-share firms are not of more value-relevance than A-share firms.
6. Interpretations and Concluding Remarks

This study shows that, between A/B-share and A-share-only companies, there is no clear difference in the value-relevance of accounting information. Similar results are found between H- and A-share companies. In general, the degree of accounting information's value-relevance depends on (1) the accounting standards underlying the information, (2) the quality of audit, (3) the sophistication of investors, (4) the disclosure requirement, and (5) the nature of listed companies, among other factors. These five main factors can be used as the basis to interpret the results found in this study.

In our tests of A/B-share and A-share-only firms, the independent variables are earnings and earnings change based on the CAS for both types of firms. In addition, we use the returns of A-shares for these two types of companies as the dependent variable to equalize the market participants. Finally, we attempt to match A/B- and A-only-companies by size and industry, the two firm characteristics believed to affect the value-relevance of accounting information (Biddle and Seow 1991 and Alford et al. 1993). Thus, these two sets of firms are different only in the quality of auditors. The finding that their accounting information has the same value-relevance could be due to two possible reasons. First, A-share investors generally are not sophisticated enough to appreciate the value of higher-quality audit service. Second, they are sophisticated enough, but do not perceive the value of international accounting firms’ service as significant. It is difficult to distinguish these two possibilities. But, either way, our results call into question the value of the quality of audit service in an emerging market like China. An international accounting firm’s signature might be necessary for a firm to issue new shares. Investors, however, do not seem to give higher credibility to the accounting reports the auditor signs off.
A-share and B-share firms that issue both A- and B-shares examined in this study differ in the accounting standards, the quality of audit, and the sophistication of investors, but they have the same the disclosure requirement and identical firms. The finding that B-share firms are of less value-relevance than A-share firms is little puzzling. The only explanation is that since the B-share investors reside out of China and their investments in B-shares are relative small in terms of percentage in their portfolios, they do not pay much attention to the accounting information.

The H- and A-shares examined in this study differ in all five aspects discussed above. All five factors clearly lead one to expect a higher value-relevance for H-shares’ accounting information. The accounting standards, audit firms’ reputation, and disclosure requirement in Hong Kong are certainly much more established than in China. Stock investors in Hong Kong are also arguably more knowledgeable and experienced than stock investors in China. H-share companies are typically larger than A-share. It is not likely that the accounting information of the former is inherently less value-relevant than the latter. Thus, the explanation for the finding that H-share firms are of less value-relevance than A-share firms lies in other factors. One likely reason is that H-shares’ investors and management operate in different economies. The information asymmetry between these two parties should be larger than the typical setting in which investors and management reside in the same economy. H-shares’ environment is also different from the typical cross-listing of shares. In the latter case, a company is listed in its domestic market before cross-listing in another. As a result, the valuation has been established in the domestic market and can serve as the benchmark for foreign investors. H-shares’ investors, on the other hand, have to solely rely on the information provided by management in a different market. The use of Hong Kong GAAP and auditors do mitigate this information gap. Our finding that H-shares’ accounting information has the same value-relevance as A-shares’ indicate that the benefits of higher
quality in accounting standards and auditing are offset by the higher information asymmetry. This lead to the implication that the direct cross-listing like H-shares is costly in terms of creating a wide information gap between management and investors.

In interpreting our results, several caveats are in order. First, we define value-relevance in terms of the relationship between earnings and book values and stock prices or returns. But earnings and book values are but two items reported in financial statement. Other information, inside or outside financial statements, is not examined. Second, accounting information's usefulness is not limited to stock valuation. In an emerging market, more fundamental uses, such as identifying financial difficulties, are at least of equal importance. The comparison of accounting information in different uses, of course, has to defer to further research.
REFERENCES


Table 1
Difference Between Aggregate 1996 Net Income Numbers Based on the Chinese and the International Accounting Standards (CAS and IAS), for Firms with A- and B-shares Listed on the Shanghai Stock Exchange

<table>
<thead>
<tr>
<th>CAS-based Net Income(^a)</th>
<th>1996 Number of Firms with Positive adjustment</th>
<th>Negative adjustment</th>
<th>1996 Amount</th>
<th>1995 Amount</th>
<th>1994 Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted to IAS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>1</td>
<td>29</td>
<td>(263)</td>
<td>(290)</td>
<td>(59)</td>
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<tr>
<td>Gain/loss from foreign</td>
<td>5</td>
<td>19</td>
<td>(194)</td>
<td>(408)</td>
<td>(300)</td>
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<tr>
<td>currency transactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity income (loss)</td>
<td>6</td>
<td>12</td>
<td>(97)</td>
<td>(68)</td>
<td>(12)</td>
</tr>
<tr>
<td>Inventory write-down</td>
<td>0</td>
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<td>(92)</td>
<td>(61)</td>
<td>(29)</td>
</tr>
<tr>
<td>Interest expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>capitalization</td>
<td>0</td>
<td>7</td>
<td>(78)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3</td>
<td>20</td>
<td>(43)</td>
<td>(9)</td>
<td>1</td>
</tr>
<tr>
<td>Other adjustments, net</td>
<td></td>
<td></td>
<td>2</td>
<td>(87)</td>
<td>(136)</td>
</tr>
<tr>
<td>Total adjustment</td>
<td></td>
<td></td>
<td>(765)</td>
<td>(923)</td>
<td>(535)</td>
</tr>
<tr>
<td>IAS-based Net Income</td>
<td></td>
<td></td>
<td>2,647</td>
<td>2,146</td>
<td>2,451</td>
</tr>
<tr>
<td>Number of firms in the above comparison(^b)</td>
<td></td>
<td></td>
<td>43</td>
<td>38</td>
<td>34</td>
</tr>
<tr>
<td>Correlation between CAS- and IAS- ROEs(^c):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson</td>
<td>0.98</td>
<td></td>
<td>0.93</td>
<td>0.93</td>
<td></td>
</tr>
<tr>
<td>Spearman (rank-sum)</td>
<td>0.96</td>
<td></td>
<td>0.97</td>
<td>0.91</td>
<td></td>
</tr>
<tr>
<td>Number of firms in calculating correlations(^d)</td>
<td>61</td>
<td></td>
<td>53</td>
<td>47</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
\(^a\) The reconciliation between CAS- and IAS-income numbers are provided by the Shanghai Stock Exchange.
\(^b\) Include firms listed on the Shanghai Stock Exchange.
\(^c\) ROE = net income divided by year-end common equity.
\(^d\) Include firms on both Shanghai and Shenzhen Stock Exchanges.
Table 2
Descriptive Statistics and Correlation Matrices of Variables Used

Table 2 reports the correlation coefficients for China-originated stocks during the 1995-1997 period. The Pearson correlation coefficients are shown at the top and the Spearman correlation coefficients are reported in brackets. Returns are the cumulated market-adjusted returns from the beginning of the fiscal year to four months after fiscal year end, and E/P (ΔE/P) is the annual earnings (changes in annual earnings) divided by the market value of equity at the beginning of the fiscal year. Q1 is the first quartile (25%), while Q3 is the third quartile (75%). ** and * represent significance at the 0.05 and 0.10 levels, respectively.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Q1</th>
<th>Median</th>
<th>Q3</th>
<th>Return</th>
<th>E/P</th>
<th>ΔE/P</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: Whole A-Share Sample (N = 1,027)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return</td>
<td>0.1292</td>
<td>-0.2994</td>
<td>-0.0242</td>
<td>0.3908</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E/P</td>
<td>0.0233</td>
<td>0.0121</td>
<td>0.0254</td>
<td>0.0387</td>
<td>0.292**</td>
<td>1.000</td>
<td>[0.354**]</td>
</tr>
<tr>
<td>ΔE/P</td>
<td>-0.0058</td>
<td>-0.0128</td>
<td>0.0003</td>
<td>0.0072</td>
<td>0.328**</td>
<td>0.648**</td>
<td>1.000</td>
</tr>
<tr>
<td><strong>Panel B: Whole B-Share Sample (N = 151)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return</td>
<td>0.0417</td>
<td>-0.2034</td>
<td>0.0133</td>
<td>0.2775</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E/P</td>
<td>0.0448</td>
<td>0.0175</td>
<td>0.0604</td>
<td>0.1040</td>
<td>0.202**</td>
<td>1.000</td>
<td>[0.180**]</td>
</tr>
<tr>
<td>ΔE/P</td>
<td>-0.0244</td>
<td>-0.0397</td>
<td>-0.0088</td>
<td>0.0123</td>
<td>0.338**</td>
<td>0.551**</td>
<td>1.000</td>
</tr>
<tr>
<td><strong>Panel C: Whole H-Share Sample (N = 66)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return</td>
<td>0.0390</td>
<td>-0.1712</td>
<td>-0.0183</td>
<td>0.1322</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E/P</td>
<td>0.0464</td>
<td>0.0168</td>
<td>0.0558</td>
<td>0.0746</td>
<td>-0.188</td>
<td>1.000</td>
<td>[0.134]</td>
</tr>
<tr>
<td>ΔE/P</td>
<td>-0.0454</td>
<td>-0.0675</td>
<td>-0.0268</td>
<td>0.0022</td>
<td>-0.038*</td>
<td>0.645**</td>
<td>1.000</td>
</tr>
</tbody>
</table>
TABLE 3
Regression Results of Market-Adjusted Returns on Earnings Level and Change:
Comparison of A-Share Returns of A/B-Share vs. A-Share-Only Companies

This table reports the results from the return regression model of

\[ R_p = \beta_0 + \beta_{1t} \left( \frac{E_t}{P_{p,t-1}} \right) + \beta_{2t} \left( \frac{\Delta E_t}{P_{p,t-1}} \right) + \epsilon_p \]

where \( R_p \) is the cumulated market-adjusted returns for 16 months from the beginning of the fiscal year to four months after the end of the fiscal year, \( E_t \) is annual earnings, \( P_{p,t} \) is the market value of equity at the beginning of the fiscal year, and \( \Delta E_t \) is the change in annual earnings. Earnings and changes in earnings are based on the CAS. N is the number of firms available. "Raw" means that all variable values are based on raw values, whereas "Ranking" means that all variables are based on rankings that are normalized by dividing the ranks by the number of observations. The universal of A-share firms is classified into two groups: firms that issue both A- and B-shares and firms that issue only A-shares. Panel A reports the results from the former, while Panel B reports the results from the latter. t-statistics are in parentheses, and ** and * indicate significance at the 0.01 and 0.05 levels, respectively.

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Form of Market-Adjusted Return</th>
<th>Intercept</th>
<th>( \frac{E_t}{P_{p,t-1}} )</th>
<th>( \frac{\Delta E_t}{P_{p,t-1}} )</th>
<th>( R^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel A: A-Share Companies that Issue both A- and B-Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>50</td>
<td>Raw</td>
<td>-0.45(-8.46)**</td>
<td>6.63(8.12)**</td>
<td>2.00(1.57)</td>
<td>0.61</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.10(1.44)</td>
<td>0.68(6.48)**</td>
<td>0.12(1.12)</td>
<td>0.50</td>
</tr>
<tr>
<td>1996</td>
<td>55</td>
<td>Raw</td>
<td>-0.12(-0.88)</td>
<td>1.65(0.49)</td>
<td>3.32(0.83)**</td>
<td>0.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.18(2.63)**</td>
<td>0.18(1.13)</td>
<td>0.47(3.02)**</td>
<td>0.34</td>
</tr>
<tr>
<td>1997</td>
<td>63</td>
<td>Raw</td>
<td>0.11(1.68)*</td>
<td>-0.15(-0.05)</td>
<td>3.00(0.92)</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.38(4.64)**</td>
<td>-0.00(-0.04)</td>
<td>0.24(1.76)**</td>
<td>0.03</td>
</tr>
<tr>
<td></td>
<td>168</td>
<td>Raw</td>
<td>-0.07(-1.49)</td>
<td>1.74(1.66)</td>
<td>3.38(2.48)**</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.24(5.20)**</td>
<td>0.31(3.95)**</td>
<td>0.22(2.86)**</td>
<td>0.20</td>
</tr>
<tr>
<td>Panel B: A-Share Companies that Issue Only A-Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>193</td>
<td>Raw</td>
<td>-0.21(-3.37)*</td>
<td>5.12(5.40)**</td>
<td>0.22(0.21)**</td>
<td>0.20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.24(5.80)**</td>
<td>0.44(6.13)**</td>
<td>0.08(1.12)</td>
<td>0.23</td>
</tr>
<tr>
<td>1996</td>
<td>241</td>
<td>Raw</td>
<td>0.11(1.48)</td>
<td>3.08(1.76)*</td>
<td>5.16(2.22)**</td>
<td>0.18</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.19(5.76)**</td>
<td>0.38(5.51)**</td>
<td>0.23(3.30)**</td>
<td>0.31</td>
</tr>
<tr>
<td>1997</td>
<td>425</td>
<td>Raw</td>
<td>0.24(7.42)**</td>
<td>0.83(0.83)</td>
<td>2.38(2.61)**</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.31(10.87)**</td>
<td>0.09(1.51)**</td>
<td>0.30(4.97)**</td>
<td>0.13</td>
</tr>
<tr>
<td></td>
<td>859</td>
<td>Raw</td>
<td>0.14(4.78)**</td>
<td>2.15(3.39)**</td>
<td>3.77(5.45)**</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.26(13.43)**</td>
<td>0.27(6.91)**</td>
<td>0.21(5.45)**</td>
<td>0.18</td>
</tr>
</tbody>
</table>

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TABLE 4
Regression Results of Market-Adjusted Returns on Earnings Level and Change:
Comparison of A-Share Returns of A/B-Share vs. A-Share-Only Companies,
Matched by Size and Industry

This table reports the results from the return regression model of

\[ R_{it} = \beta_0 + \beta_{11} \left( \frac{E_{it}}{P_{p_{i,t}}} \right) + \beta_{12} \left( \frac{\Delta E_{it}}{P_{p_{i,t}}} \right) + \epsilon_{it} \]

where \( R_{it} \) is the cumulated market-adjusted returns for 16 months from the beginning of the fiscal year to four months after the end of the fiscal year, \( E_{it} \) is annual earnings, \( P_{p_{i,t}} \) is the market value of equity at the beginning of the fiscal year, and \( \Delta E_{it} \) is the change in annual earnings. \( N \) is the number of firms available. “Raw” means that all variable values are based on raw values, whereas “Ranking” means that all variables are based on rankings that are normalized by dividing the ranks by the number of observations. Earnings and changes in earnings are based on the CAS. Panel A reports the results from A/B-share firms, while Panel B reports the results from the matching firms. A/B-share firms (i.e., firms that issue both A- and B-shares) are size- and industry-matched with A-share-only firms. For size matching, a qualified A-share-only matching firm must be within 80% to 120% of the market capitalization of the A/B-share firm. The observations are deleted if no matching firms are found. t-statistics are in parentheses, and ** and * indicate significance at the 0.01 and 0.05 levels, respectively.

<table>
<thead>
<tr>
<th>Year</th>
<th>Panel A: A-shares Companies that Issue both A- and B-Shares (A/B-share Companies)</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year</td>
<td>N</td>
<td>Form of Market-Adjusted Return</td>
<td>Intercept</td>
<td>( E_{it}/P_{p_{i,t}} )</td>
</tr>
<tr>
<td>1995</td>
<td>39</td>
<td>Raw</td>
<td>-0.47(-6.87)**</td>
<td>6.64(7.24)**</td>
<td>1.79(1.22)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.11(1.33)</td>
<td>0.67(5.48)**</td>
<td>0.11(0.90)</td>
</tr>
<tr>
<td>1996</td>
<td>47</td>
<td>Raw</td>
<td>-0.18(-1.35)</td>
<td>2.06(0.63)</td>
<td>1.27(0.30)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.21(2.63)**</td>
<td>0.12(0.71)</td>
<td>0.48(2.86)**</td>
</tr>
<tr>
<td>1997</td>
<td>60</td>
<td>Raw</td>
<td>0.14(2.07)**</td>
<td>-0.48(-0.16)</td>
<td>0.37(1.04)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.40(4.69)**</td>
<td>-0.05(-0.35)</td>
<td>0.27(1.86)*</td>
</tr>
<tr>
<td></td>
<td>Pooled</td>
<td>Raw</td>
<td>-0.05(-1.10)</td>
<td>1.43(1.37)</td>
<td>2.99(2.17)**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.26(5.24)**</td>
<td>0.25(2.88)**</td>
<td>0.23(2.72)**</td>
</tr>
<tr>
<td></td>
<td>Panel B: A-share Companies that Issue Only A-Shares and are Size- and Industry-Matched with A/B-Share Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>39</td>
<td>Raw</td>
<td>0.02(0.17)</td>
<td>3.17(1.66)</td>
<td>0.29(0.12)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.24(2.61)**</td>
<td>0.40(2.08)**</td>
<td>0.14(0.71)</td>
</tr>
<tr>
<td>1996</td>
<td>47</td>
<td>Raw</td>
<td>0.19(1.01)</td>
<td>2.73(0.73)</td>
<td>8.61(1.58)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.16(2.19)**</td>
<td>0.36(2.15)**</td>
<td>0.33(2.00)*</td>
</tr>
<tr>
<td>1997</td>
<td>60</td>
<td>Raw</td>
<td>0.24(2.03)</td>
<td>-11.83(-2.26)**</td>
<td>12.58(2.65)**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.38(4.61)**</td>
<td>-0.06(-0.40)</td>
<td>0.32(2.10)**</td>
</tr>
<tr>
<td></td>
<td>Pooled</td>
<td>Raw</td>
<td>-0.00(-0.06)</td>
<td>4.29(2.88)**</td>
<td>2.16(1.13)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.26(5.57)**</td>
<td>0.18(1.86)*</td>
<td>0.30(3.04)**</td>
</tr>
</tbody>
</table>
TABLE 5
Regression Results of Market-Adjusted Returns on Earnings Level and Change:
Comparison of A-Share and B-Share Returns of Firms that Issue both A- and B-Shares

This table reports the results from the return regression model of

\[ R_{jt} = \beta_{0j} + \beta_{1j} \left( \frac{E_j}{P_{j-1}} \right) + \beta_{2j} \left( \Delta E_j / P_{j-1} \right) + \epsilon_{j0} \]

where \( R_{jt} \) is the cumulated market-adjusted returns for 16 months from the beginning of the fiscal year to four months after the end of the fiscal year, \( E_j \) is annual earnings, \( P_{j-1} \) is the market value of equity at the beginning of the fiscal year, and \( \Delta E_j \) is the change in annual earnings. Earnings and changes in earnings are based on the CAS for A-share firms and IAS for B-share firms. \( N \) is the number of firms available. "Raw" means that all variable values are based on raw values, whereas "Ranking" means that all variables are based on rankings that are normalized by dividing the ranks by the number of observations. Panel A reports the results from A-share returns, while Panel B reports the results from B-share returns. t-statistics are in parentheses, and ** and * indicate significance at the 0.01 and 0.05 levels, respectively.

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Form of Market-Adjusted Return</th>
<th>Intercept</th>
<th>( \frac{E_j}{P_{j-1}} )</th>
<th>( \frac{\Delta E_j}{P_{j-1}} )</th>
<th>( R^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>25</td>
<td>Raw</td>
<td>-0.39(-4.18)**</td>
<td>5.46(2.95)**</td>
<td>5.19(1.74)*</td>
<td>0.38</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.15(1.30)</td>
<td>0.54(3.00)**</td>
<td>0.17(0.97)</td>
<td>0.33</td>
</tr>
<tr>
<td>1996</td>
<td>44</td>
<td>Raw</td>
<td>0.01(0.04)</td>
<td>4.46(0.13)</td>
<td>4.46(1.01)</td>
<td>0.08</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.20(2.55)**</td>
<td>0.20(1.05)</td>
<td>0.40(2.12)**</td>
<td>0.29</td>
</tr>
<tr>
<td>1997</td>
<td>51</td>
<td>Raw</td>
<td>0.12(1.71)</td>
<td>-1.33(-0.45)</td>
<td>5.10(1.60)</td>
<td>0.07</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.30(3.63)**</td>
<td>-0.07(-0.48)</td>
<td>0.48(3.08)**</td>
<td>0.16</td>
</tr>
<tr>
<td></td>
<td>120</td>
<td>Raw</td>
<td>0.02(0.34)</td>
<td>-0.37(-0.23)</td>
<td>5.17(2.63)**</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.24(4.54)**</td>
<td>0.18(1.79)*</td>
<td>0.36(3.65)**</td>
<td>0.22</td>
</tr>
<tr>
<td>1995</td>
<td>25</td>
<td>Raw</td>
<td>0.04(0.29)</td>
<td>1.02(0.95)</td>
<td>1.10(0.89)</td>
<td>0.06</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.17(1.37)</td>
<td>0.27(1.46)</td>
<td>0.39(2.09)**</td>
<td>0.23</td>
</tr>
<tr>
<td>1996</td>
<td>44</td>
<td>Raw</td>
<td>-0.12(-1.10)</td>
<td>-0.11(-0.10)</td>
<td>1.66(1.24)</td>
<td>0.06</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.29(3.28)**</td>
<td>-0.03(-0.14)</td>
<td>0.47(2.41)</td>
<td>0.16</td>
</tr>
<tr>
<td>1997</td>
<td>51</td>
<td>Raw</td>
<td>0.20(5.32)**</td>
<td>-0.54(-1.03)</td>
<td>1.31(2.56)**</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.30(3.59)**</td>
<td>-0.02(-0.12)</td>
<td>0.43(2.62)**</td>
<td>0.14</td>
</tr>
<tr>
<td></td>
<td>120</td>
<td>Raw</td>
<td>0.07(1.59)</td>
<td>-0.22(-0.44)</td>
<td>1.53(2.83)**</td>
<td>0.09</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.27(5.11)**</td>
<td>0.06(0.57)</td>
<td>0.41(4.04)**</td>
<td>0.18</td>
</tr>
</tbody>
</table>
TABLE 6
Regression Results of Market-Adjusted Returns on Earnings Level and Change:
Comparison of Returns of H-Share and A-Share Firms

This table reports the results from the return regression model of

\[ R_t = \beta_0 + \beta_1 [E_t/P_{t-1}] + \beta_2 [\Delta E_t/P_{t-1}] + \epsilon_t \]

where \( R_t \) is the cumulated market-adjusted returns for 16 months from the beginning of the fiscal year to four months after the end of the fiscal year, \( E_t \) is annual earnings, \( P_{t-1} \) is the market value of equity at the beginning of the fiscal year, and \( \Delta E_t \) is the change in annual earnings. Earnings and changes in earnings are based on the CAS for A-share companies and the HKAS for H-share companies. \( N \) is the number of firms available. “Raw” means that all variable values are based on raw values, whereas “Ranking” means that all variables are based on rankings that are normalized by dividing the ranks by the number of observations. Panel A reports the results from the whole A-share companies, while Panel B reports the results from the whole H-share companies. **t-statistics are in parentheses, and ** and * indicate significance at the 0.01 and 0.05 levels, respectively.

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Form of Market-Adjusted Return</th>
<th>Intercept</th>
<th>( E_t/P_{t-1} )</th>
<th>( \Delta E_t/P_{t-1} )</th>
<th>( R^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Panel A: Whole H-share Companies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>16</td>
<td>Raw</td>
<td>-0.08(-0.32)</td>
<td>1.28(0.55)</td>
<td>0.22(0.09)</td>
<td>-0.07</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.32(2.01)*</td>
<td>0.24(0.54)</td>
<td>0.15(0.32)</td>
<td>0.01</td>
</tr>
<tr>
<td>1996</td>
<td>19</td>
<td>Raw</td>
<td>0.34(0.76)</td>
<td>-7.30(-2.12)**</td>
<td>-2.19(-0.33)</td>
<td>0.16</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.32(1.79)*</td>
<td>0.12(0.52)</td>
<td>0.26(1.09)</td>
<td>-0.02</td>
</tr>
<tr>
<td>1997</td>
<td>31</td>
<td>Raw</td>
<td>0.04(0.99)</td>
<td>-0.19(-0.29)</td>
<td>0.64(1.08)</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.35(2.82)**</td>
<td>0.03(0.15)</td>
<td>0.28(1.49)</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>66</td>
<td>Pooled Raw</td>
<td>0.20(1.46)</td>
<td>-2.31(-1.74)*</td>
<td>1.15(0.89)</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.34(4.08)**</td>
<td>0.09(0.66)</td>
<td>0.27(2.07)**</td>
<td>0.07</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Panel B: Whole A-share Companies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>243</td>
<td>Raw</td>
<td>-0.27(-5.33)**</td>
<td>5.44(7.14)**</td>
<td>0.10(0.12)</td>
<td>0.24</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.22(6.04)**</td>
<td>0.49(8.13)**</td>
<td>0.07(1.17)</td>
<td>0.27</td>
</tr>
<tr>
<td>1996</td>
<td>296</td>
<td>Raw</td>
<td>0.07(1.06)**</td>
<td>2.88(1.84)**</td>
<td>5.02(2.44)**</td>
<td>0.17</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.19(6.39)**</td>
<td>0.35(5.55)**</td>
<td>0.26(4.11)**</td>
<td>0.31</td>
</tr>
<tr>
<td>1997</td>
<td>488</td>
<td>Raw</td>
<td>0.22(7.59)**</td>
<td>0.83(0.88)</td>
<td>2.45(2.83)**</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.31(11.72)**</td>
<td>0.08(1.50)</td>
<td>0.30(5.38)**</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td>1,027</td>
<td>Pooled Raw</td>
<td>0.11(4.14)**</td>
<td>2.01(3.56)**</td>
<td>3.88(6.20)**</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ranking</td>
<td>0.26(14.42)**</td>
<td>0.28(8.07)**</td>
<td>0.21(5.96)**</td>
<td>0.19</td>
</tr>
</tbody>
</table>
TABLE 7
Regression Results of Prices on Book Value and Earnings Level:
Comparison of A-share Prices of A/B-Share and A-Share-Only Firms Matched by Size and Industry

This table reports the results from the price regression model of

$$P_t / BV_{t-1} = \beta_0 + \beta_1 [BV_t / BV_{t-1}] + \beta_2 [E_t / BV_{t-1}] + \epsilon_t$$

where $P_t$ is the price at the end of the fiscal year, $BV_t$ is the book value of equity per share at the end of the fiscal year $t$, and $E_t$ is the annual earnings. $N$ is the number of firms available. Earnings and book values are based on the CAS. Panel A reports the results from A/B-share firms, while Panel B reports the results from the matching firms. A/B-share firms (i.e., firms that issue both A- and B-shares) are size- and industry-matched with A-share-only firms. For size matching, a qualified A-share-only matching firm must be within 80% to 120% of the market capitalization of the A/B-share firm. The observations are deleted if no matching firms are found. $t$-statistics are in parentheses, and ** and * indicate significance at the 0.01 and 0.05 levels, respectively.

<table>
<thead>
<tr>
<th>Year</th>
<th>$N$</th>
<th>Intercept</th>
<th>$BV_{t}/BV_{t-1}$</th>
<th>$E_{t}/BV_{t-1}$</th>
<th>$R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: A-share Companies that Issue both A- and B-Shares</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>39</td>
<td>0.27</td>
<td>1.68</td>
<td>2.08</td>
<td>0.18</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.38)</td>
<td>(2.11)**</td>
<td>(1.60)</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>47</td>
<td>-3.79</td>
<td>7.51</td>
<td>0.99</td>
<td>0.36</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-1.94)*</td>
<td>(3.62)**</td>
<td>(0.39)</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>60</td>
<td>-0.54</td>
<td>4.71</td>
<td>1.41</td>
<td>0.31</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-0.48)</td>
<td>(3.85)**</td>
<td>(0.74)</td>
<td></td>
</tr>
<tr>
<td>Pooled</td>
<td>146</td>
<td>-1.92</td>
<td>5.51</td>
<td>0.24</td>
<td>0.27</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-2.30)**</td>
<td>(6.11)**</td>
<td>(0.18)</td>
<td></td>
</tr>
<tr>
<td><strong>Panel B: A-share Companies that Issue only A-Shares</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>39</td>
<td>-0.01</td>
<td>2.21</td>
<td>0.60</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-0.01)</td>
<td>(2.14)**</td>
<td>(0.45)</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>47</td>
<td>0.37</td>
<td>2.89</td>
<td>6.51</td>
<td>0.35</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.17)</td>
<td>(1.24)</td>
<td>(2.60)**</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>60</td>
<td>1.84</td>
<td>1.80</td>
<td>7.08</td>
<td>0.28</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.02)**</td>
<td>(1.71)*</td>
<td>(3.18)**</td>
<td></td>
</tr>
<tr>
<td>Pooled</td>
<td>146</td>
<td>1.24</td>
<td>1.77</td>
<td>6.26</td>
<td>0.24</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.54)</td>
<td>(1.99)**</td>
<td>(4.55)**</td>
<td></td>
</tr>
</tbody>
</table>
TABLE 8
Regression Results of Prices on Book Value and Earnings Level:
Comparison of A-Share and B-Share Prices of Firms that Issue both A- and B-Shares

This table reports the results from the price regression model of

\[
P_j/BV_{j,t} = \beta_0 + \beta_{1t} [BV_{j,t}/BV_{j,t-1}] + \beta_{2t} [E_j/BV_{j,t-1}] + \epsilon_{jt},
\]

where \(P_j\) is the price at the end of the fiscal year, \(BV_j\) is the book value of equity per share at the end of the fiscal year \(t\), and \(E_j\) is the annual earnings. \(N\) is the number of firms available. Earnings and book values are based on the CAS for A-share firms and the IAS for B-share firms. Panel A reports the results from A-share firms, while Panel B reports B-share firms. t-statistics are in parentheses, and ** and * indicate significance at the 0.01 and 0.05 levels, respectively.

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Intercept</th>
<th>(BV_j/BV_{j,t-1})</th>
<th>(E_j/BV_{j,t-1})</th>
<th>(R^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel A: A-share Companies that Issue both A- and B-Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>49</td>
<td>-0.63</td>
<td>2.82</td>
<td>4.92</td>
<td>0.13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-0.37)</td>
<td>(1.50)</td>
<td>(1.66)</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>55</td>
<td>-2.63</td>
<td>6.43</td>
<td>3.67</td>
<td>0.21</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-0.92)</td>
<td>(2.14)**</td>
<td>(0.99)</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>55</td>
<td>-0.97</td>
<td>9.31</td>
<td>1.36</td>
<td>0.35</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-0.79)</td>
<td>(4.02)**</td>
<td>(0.66)</td>
<td></td>
</tr>
<tr>
<td>Pooled</td>
<td>159</td>
<td>-2.05</td>
<td>5.77</td>
<td>1.17</td>
<td>0.22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-1.98)**</td>
<td>(5.17)**</td>
<td>(0.72)</td>
<td></td>
</tr>
<tr>
<td>Panel B: B-share Companies that Issue both A- and B-Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>49</td>
<td>-0.21</td>
<td>0.44</td>
<td>2.930</td>
<td>0.29</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-0.40)</td>
<td>(0.76)</td>
<td>(3.72)**</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>55</td>
<td>-0.57</td>
<td>1.34</td>
<td>0.80</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-0.75)</td>
<td>(1.62)</td>
<td>(0.66)</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>55</td>
<td>-0.37</td>
<td>0.87</td>
<td>0.06</td>
<td>0.13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-1.05)</td>
<td>(2.35)**</td>
<td>(0.11)</td>
<td></td>
</tr>
<tr>
<td>Pooled</td>
<td>159</td>
<td>-0.38</td>
<td>0.94</td>
<td>0.74</td>
<td>0.14</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-1.28)</td>
<td>(2.93)**</td>
<td>(1.55)</td>
<td></td>
</tr>
</tbody>
</table>
### TABLE 9
Regression Results of Prices on Book Value and Earnings Level:
Comparison of A-share Firms and H-share Firms

This table reports the results from the price regression model of

\[
P_t^{B} = \beta_0 + \beta_1 [BV_t^{B}/BV_{t-1}^{B}] + \beta_2 [E_t^{B}/BV_{t-1}^{B}] + \epsilon_t
\]

where \( P_t \) is the price at the end of the fiscal year, \( BV_t \) is the book value of equity per share at the end of the fiscal year, and \( E_t \) is the annual earnings. \( N \) is the number of firms available. Earnings and book values are based on the CAS for A-share firms and the HKAS for H-share firms. Panel A reports the results from the whole A-share firms, while Panel B reports the results from the whole H-share firms. \( t \)-statistics are in parentheses, and ** and * indicate significance at the 0.01 and 0.05 levels, respectively.

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Intercept</th>
<th>( BV_t^{B}/BV_{t-1}^{B} )</th>
<th>( E_t^{B}/BV_{t-1}^{B} )</th>
<th>( R^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel A: Whole H-share Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>17</td>
<td>0.20</td>
<td>(0.40)</td>
<td>(0.67)</td>
<td>0.25</td>
</tr>
<tr>
<td>1996</td>
<td>23</td>
<td>-0.33</td>
<td>1.29</td>
<td>1.87</td>
<td>0.20</td>
</tr>
<tr>
<td>1997</td>
<td>31</td>
<td>0.10</td>
<td>(0.66)</td>
<td>(2.05)**</td>
<td>0.67</td>
</tr>
<tr>
<td>Pooled</td>
<td>71</td>
<td>0.34</td>
<td>(1.93)*</td>
<td>(2.53)**</td>
<td>0.29</td>
</tr>
<tr>
<td>Panel B: Whole A-share Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>259</td>
<td>-0.63</td>
<td>2.63</td>
<td>2.96</td>
<td>0.15</td>
</tr>
<tr>
<td>1996</td>
<td>311</td>
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<td>2.35</td>
<td>4.42</td>
<td>0.20</td>
</tr>
<tr>
<td>1997</td>
<td>505</td>
<td>1.93</td>
<td>(5.04)**</td>
<td>(5.89)**</td>
<td>0.14</td>
</tr>
<tr>
<td>Pooled</td>
<td>1074</td>
<td>1.02</td>
<td>(3.19)**</td>
<td>(7.31)**</td>
<td>0.12</td>
</tr>
</tbody>
</table>