

## MASTER'S THESIS

### An analysis of value relevance of book value and earnings

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**An Analysis of Value Relevance of Book Value and Earnings**

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**for the degree of**

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## ABSTRACT

This thesis examines the value relevance of book value and earnings in the Hong Kong stock market. Our analysis is motivated by the recent claims that conventional historical cost financial statements have become less value relevant. This study reports two major findings. Firstly, both book value and earnings are value relevant in the Hong Kong market. That is, the usefulness of historical information in the balance sheet and income statement in stock market valuation is confirmed. Secondly, such value relevance however is a function of firm size, industry, permanence of earnings, risk and growth. Our findings suggest that these factors would affect significantly the relationship between stock price and book value/earnings.

As our empirical evidence recognizes that both book value and earnings are the key variables in valuation framework in the Hong Kong stock market, claims on the conventional historical cost accounting models having lost their value relevance are premature. Further, instead of adopting previous valuation research that has generally based on either only balance sheet or only income statement, one should incorporate both variables of book value and earnings in the valuation model.

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