

DOCTORAL THESIS

Fundamentals and stock returns of red-chips and H-shares in Hong Kong

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Fundamentals and Stock Returns of Red-Chips and H-shares in Hong Kong

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Abstract

Market models are developed to test for the relation between fundamental variables and stock return of Red Chips and H-shares from 1994 to 1997. The fundamental variables to be considered include firm's performance measured by accounting information and ownership measures that include director ownership and majority ownership. Accounting information used are earnings-to-price ratio (E/P), book-to-market ratio (B/M), and market capitalization (MV). Applying restricted SUR, all of these fundamental variables are significant in the market models of the Red Chips and the H-shares. In general, the results of the SUR tests on the Red Chips describe the sign of growth stock and the results of the SUR tests on the H-shares describe the sign of value stock. Moreover, a positive firm size effect is estimated for the returns of the Red Chips and a negative firm size effect is estimated for the returns of the H-shares. In addition, we find that both director ownership and majority ownership are the positive risk factors for the return of the Red Chips and the majority ownership is a positive risk factor for the return of the H-shares. While the state is the indirect majority owner of the Red Chip companies, it is the direct majority owner of the H-shares companies. Overall, the empirical results suggest that Red Chips and H-shares are separate stock groupings.

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