

**The Effect of Corporate Governance on Market
Reactions to Earnings: A comparison of A Class and
B Class shares in the People's Republic of China**

Presented By

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Declaration

The experiments in this thesis constitute work carried out by the candidate unless otherwise stated. The thesis is less than 100,000 words in length, exclusive of tables, figures, bibliography and appendices, and complies with the stipulations set out for the degree of Doctor of Philosophy by Australia.

STATEMENT OF SOURCES

To the best of my knowledge and belief, the work presented in this thesis is original, except as acknowledged in the text. All sources used in the study have been cited, and no attempt has been made to project the contribution of other researchers as my own. Further, the material has not been submitted, either in whole or part, for a degree at this or any other University.

Kevin Jih

Date

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ABSTRACT

The primary objective of this dissertation is to examine the role of corporate governance in the performance of publicly listed corporations. The normative research suggests that stronger corporate governance should lead to better market performance and a firm's governance practice should have a positive effect on its market value.

This research focuses on Chinese capital markets because of their unique characteristics with respect to elements of corporate governance. In the Chinese stock markets, a company issues A-shares which are subject to Chinese governance and is referred as an A-shares company. A company that issues A-shares and B-shares which are subject to Western governance is referred as an AB-shares company.

The primary differences between A-shares governance and AB-shares governance are board independence, accounting standards, audit quality and ownership of stocks. These differences in governance characteristics provide for a direct comparison of the effects of governance structure on market reactions to earnings in a developing market.

An event study is used to isolate the firm's unique response to an earnings announcement as measured by the abnormal returns (CAR- Cumulative Average Residuals). Using a matched pair design the effect of governance structure on market reactions to earnings is assessed.

The results indicate the impact of governance structure on market reactions to earnings is not significant and there is no difference between market reactions to the earnings of B-shares based on IAS and market reactions compared with the earnings of A-shares based on Chinese GAAP.

The results suggest that the market response to earnings prepared under Western standards and governance does not improve the market's perception of earnings quality in the Chinese stock markets. Consequently, it is questionable that Western corporate governance practices are applicable in developing countries.

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TABLE 1-1 : TABLE OF ABBREVIATIONS

ABBREVIATIONS	MEANING
AAA	American Accounting Association
CAPM	Capital Asset Pricing Model
CAR	Cumulative Average Residual
CAS	Chinese Accounting Standards
CICPA	Chinese Institute of Certified Public Accountants
CPA	Certified Public Accountant
CSMAR	China Stock Market and Accounting Research
CSRC	China Securities Regulatory Commission
EAAU	East Asian Analytical Unit
EPS	Earnings Per Share
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IFAD	International Forum of Accountancy Development
IMF	International Monetary Fund
NBS	National Bureau of Statistics(China)
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary Least Squares
PRC	People's Republic of China
RGM	Return-Generating Models
RMB	Renminbi (Chinese currency)
SEHK	Security Exchange of Hong Kong
SHSE	Shanghai Stock Exchange
SOEs	State-Owned Enterprises
SZSE	Shenzhen Stock Exchange