The Valuation of Considerations by Conflicting Shareholders in the Split Share Structure Reform ☆

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Abstract

The recent Split Share Structure Reform launched by the government in the Chinese stock market terminates the trading constraints imposed on the restricted shares mainly held by the state or its agencies. The liquid premium of their liquid counterparts is therefore diluted. In order to compensate the loss of (private) freely-traded shareholders and to exchange for their consent to conduct the reform, considerations mainly in the form of restricted shares are paid by the restricted shareholders to them after negotiation. This paper solves the implied value of the considerations. In line with the theoretical finding in Duffie et al. (2007), we find that the freely-traded shareholders with larger bargaining power are found to be able to acquire larger considerations. The government has been found to play an important role in the negotiation too. Contradicting to Firth et al. (2010), the effects of state ownership on the size of the consideration have been found to be non-monotonic across firms, in which freely-traded shareholders have various levels of bargaining power. When such bargaining power is weak, the state shareholders tend to offer smaller considerations to exploit the freely-traded shareholders. When it is large, such impact becomes non-negative in that unfair consideration scheme can be rejected in the voting delaying the reform and the state shareholders are under political pressure to accomplish the reform quickly.

Keywords: Restricted Share, State Ownership, Bargaining Power, Split Share Structure Reform, China
JEL Classification: G12; G30; C70

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1. Introduction

Although China has experienced dramatic development in its capital markets, it was feature by the split share structure: about two thirds of the shares were restricted from trading and largely held by the government, and only about one third of the shares were freely-traded in Shanghai and Shenzhen exchanges. Unlike the fixed lockup period in IPO and for letter stocks in the US, the constraint horizon in China was not explicitly specified in the IPO prospectuses. In 2005, the government launched Split Share Structure Reform to terminate the trading constraints and convert the restricted shares into freely-traded shares. As such reform breaks the initial promise of the government and dramatically increases the supply of freely-traded shares, the restricted shareholders give a proportion of their shares to the freely-traded shareholders to compensate latter's loss and exchange for consent. This paper intends to shed light on the bargaining of the two classes of shareholders in the reform.

In particular, we focus on the role of the government played in the reform. In Chinese stock market, the influence of the state remains dominant in many aspects. The state controls nearly 80% of the listed firms in the Chinese stock market (Chen et al., 2009) and retains ownership in nearly half of the privatized listed firms (Chen et al., 2008). On the one hand, the state ownership has been found to weaken the corporate governance and investor protection (Shleifer and Vishny, 1986; Clarke, 2003; Fan et al., 2007; Cheung et al., 2010; and Gul et al., 2010), and state shareholders may use its affiliations' authority to intervene in the bargaining process, and whenever possible, to give smaller considerations. On the other hand, the state shareholders are under political pressure to complete the reform as quickly as possible (see Firth et al., 2010); hence, they need set more generous consideration to avoid rejection or conflicts from the freely-traded shareholders, which may delay the reform progress. We thereby predict that state ownership has different effects across the firms with various levels of bargaining power from the freely-traded shareholders.

To carry out our analysis, we use the measures of the bargaining power of freely-traded shareholders to interact with the state ownership. Our main findings are as follows. In the firms with small bargaining power of freely-traded shareholders, the state ownership is negatively related to the size of consideration. This confirms our prediction and the literature that state

ownership weakens the protection of outside investors and aggravates agency problems. In the firms with large bargaining power of freely-traded shareholders, however, we find that state ownership is non-negatively related to the size of the consideration. The state shareholder in these firms could find difficulty to exploit the freely-traded shareholders by offering small consideration in that the freely-traded shareholders are more capable to reject unfair consideration schemes, and the state shareholders cannot afford the delay caused by the rejection due to political pressure. This contradicts to the linear impact argued in Firth et al. (2010). Our findings are robust to the alternative measures of the considerations, alternative measure of bargaining power, and alternative measure of the state ownership, and robust to the controls of firm characteristics (i.e. size, growth, age), operating performance (i.e. return on asset), corporate governance (i.e. CEO ownership, board size, and board independence) as well as industry and regional dummies, and bootstrapped regression. This paper extends the limited research on the reforms of the Chinese stock market (Calomiris et al., 2010; Firth et al., 2010), and enrich the studies of restricted assets (Lonstaff, 1995, 2001, 2008), Kahl et al. (2003), Duffie et al. (2007), Huang and Xu (2008), Chen et al. (2008) by inferring the implied discount from the size of the consideration and document the impact of bargaining power on it.

This remainder of this paper is organized as follows: the institutional background is introduced in Section 2; Section 3 presents the hypotheses and research design; Section 4 reports and interprets the empirical results; Section 5 offers conclusions.

2. Understanding the Consideration

2.1. Split share structure

There was a previous failed attempt of the government to reform the split share structure. On 22nd September 1999, the congress approved a regulation concerning the reform and development of state-owned enterprises (SOEs), enabling the state to decrease its holding of restricted shares on the condition of maintaining state control. On 12th June 2001, the State Shares Holding Reduction (known as *Guoyougu Jianchi*) was launched and the government started offering restricted shares as if they were freely-traded shares to the market in IPOs and seasoned offerings. The trading constraints on the offered restricted shares were also terminated without consulting with the holders of freely-traded shares. As the demand for freely-traded shares is not perfectly elastic, the

process of increasing the supply of freely-traded shares diluted the price premium of the freely-traded shares. Consequently, the relative and absolute wealth of the two classes of shareholders was affected. Figure 1a shows that the Cumulative Market Return (CMR) of the freely-traded shares in two exchanges in China collapsed and greatly underperformed the US and UK Stock Markets, even though the US stock market was affected by the "September-11" attack. Seeing that the market had collapsed, the government urgently suspended this process on 22nd October 2001, 4 months after it had commenced. This first attempt to terminate trading constraints or convert restricted shares was regarded as unsuccessful. Price drops are commonly observed in the in the expiration of IPO lockups in the studies of Brav and Gompers (2000), Ofek and Richardson (2000), and Brau (2004), but much smaller in size. See Calomiris et al. (2010) for a further discussion of this unsuccessful reform.

Four years later, another process to terminate trading constraints named Split Share Structure Reform was launched on 9th May 2005 and the government stopped imposing trading constraints on newly-listed firms. As described in Firth et al. (2010), the freely-traded shareholders receive considerations from restricted shareholders as compensation for the dilution of the liquidity premium of their shares as a result of the termination of trading constraints. The Split Share Structure Reform was conducted batch by batch and step by step. Two pilot batches were selected by the regulatory commission on 9th May and 19th June 2005. The first and the latest regular batches were announced respectively on 12th September 2005 and on 14th January 2007.

After a firm is chosen by the regulatory commission in an announced batch, there are five steps to accomplish the reform.

1. Board meeting. Shareholders with more than two thirds of the restricted shares need request the board have meetings to discuss the consideration scheme. The board engages an underwriter and a law firm to give opinions, and consult with the stock exchange about the arrangement. Then the provisional scheme is announced and share trading of the firm is suspended.
2. Solicitation period. Two classes of shareholders communicate in various ways, including through online roadshows, visiting institutional shareholders, questionnaires, and public meetings. Adjustments of the schemes are made if the board feels necessary. Then, the proposal is finalised and share trading resumes.
3. Proxy registration. Trading suspends again. A two-class voting procedure is conducted for the finalised scheme. Separate majorities are needed.

4. Defrayment. The voting results are announced. If the scheme is voted through, the considerations are paid, and share trading resumes again. The consideration instantly becomes tradable. If the scheme is voted down, share trading resumes and the process needs to be restarted three months later.
5. Three years later, all trading constraints are terminated and the two classes of shares are unified.

There are four main differences between the occasional transactions of restricted shares (Chen et al., 2008), the State Share Holding Reduction (Calomiris et al., 2010) and the Split Share Structure Reform (Firth et al., 2010) in the Chinese stock market.

1. Conversion. The restricted shares involved in occasional transactions remain restricted, whereas these involved in the State Shares Holding Reduction and all restricted shares in the Split Share Structure Reform were converted into freely-traded shares.
2. Scale. Auctions as a form of occasional transaction involve on average 1% of the total number of restricted shares and transfers involve 21.05% on average (Hou and Howell, 2008). The State Shares Reduction involved restricted shares equivalent to 10% of those raising funds in IPOs and seasoned offerings. The Split Share Structure Reform, however, involved all the restricted shares in the Chinese stock market.
3. Compensation. Holders of freely-traded shares received considerations as compensation from the holders of restricted shares in the Split Share Structure Reform, but not in the occasional transactions or the State Shares Holding Reduction.
4. New Constraints. After the launch of the Split Share Structure Reform, the government stopped imposing any trading restrictions on IPOs of newly-listed firms.

Up to 3rd January 2008, the regulatory commission has selected 1320 firms in 65 batches (in addition to 2 experimental batches) to conduct the reform as shown in Table 1A. There are 1267 firms which have paid the considerations and 21 firms which have agreed the consideration proposals in ballots. Consideration proposals from 7 firms were rejected and need to be modified. Figure 1b presents the Cumulative Market Return (CMR) of the freely-traded shares in the Chinese stock market during the process of the Split Share Structure Reform compared with the CMRs of the US and UK stock markets over the same period. Unlike the market reaction to the State Share Holding Reduction shown in Figure 1a, the CRM of the Chinese stock market greatly

outperformed the US and UK markets. Due to the positive reaction of the market, the reform is considered to be successful.

2.2. The measures of consideration

The considerations are paid in 5 different ways as follows:

① **Giving Restricted Shares**. Holders of restricted shares give a proportion of their restricted shares to the holders of freely-traded shares. As the most common way of making considerations, it accounts for 923 out of 1288 cases i.e. 72.28%. Table 1B shows that, on average, the holders of restricted shares give 0.3048 units of their restricted shares for 1 unit of freely-traded share.

In order to ensure the scheme is accepted by both classes of shareholders, the considerations need remain the relative wealth of two classes of shareholders stable in the reform. Hence the considerations, denoted as N_C, must equate the following expression.

$$\frac{N_R P_R}{N_F P_F} = \frac{(N_R - N_C)P}{(N_F + N_C)P} \qquad (1)$$

where N_R is the number of restricted shares in the firm before reform; N_F is the number of freely-traded shares in the firm before the reform; P_R is the price of restricted shares before the reform; P_F is the price of freely-traded shares before the reform; $\frac{N_R P_R}{N_F P_F}$ is the relative wealth before reform . N_C is the number of restricted shares paid as considerations; P is the price of unified shares after trading constraints are terminated, and $\frac{(N_R - N_C)P}{(N_F + N_C)P}$ is the relative wealth after the reform;

② **Cancelling Restricted Shares**. Alternatively, the holders of restricted shares shrink the number of their restricted shares. So far there have only been 9 firms in the Split Share Structure Reform which have used this type of consideration. Table 1B shows that on average the number of restricted shares shrinks to 65.37% of the original level i.e. shrinks by 34.63%. The reduced number, denoted as N_S, must equate the the relative wealth of the two classes of shareholders before and after the reform as follows:

$$\frac{N_R P_R}{N_F P_F} = \frac{(N_R - N_S)P}{N_F P} \qquad (2)$$

where N_S is the reduced number of restricted shares after shrinking.

③ **Issuing Additional Freely-traded Shares**. Accumulation funds are used to increase the number of freely-traded shares in some firms. There are 187 observations of this type of consideration, accounting for 14.52% of the firms in the reform. Table 1B shows that the number of freely-traded shares increased by 58.15% on average. The increased number N_A must equate the following expression of the relative wealth:

$$\frac{N_R P_R}{N_F P_F} = \frac{N_R P}{(N_F + N_A)P} \qquad (3)$$

where N_A is the increased number of freely-traded shares from the accumulation fund.

④**Giving Cash**. In 15 firms, the considerations are paid by cash. Table 1B shows that on average 1.4782 Yuan (RMB) were given for one unit of freely-traded share. The total amount of cash paid, denoted as *Cash*, needs equate the equation expressing the relative wealth:

$$\frac{N_R P_R}{N_F P_F} = \frac{N_R P - Cash}{N_F P + Cash} \qquad (4)$$

⑤**Giving Options**. Put and/or call options in some firms are given as considerations. The value of the options equates the relative wealth of these firms before and after reform as follows:
If a call option is given

$$\frac{N_R P_R}{N_F P_F} = \frac{N_R P}{N_F P + N_{option} \max[(P - K), 0]} \qquad (5)$$

If a put option is given

$$\frac{N_R P_R}{N_F P_F} = \frac{N_R P}{N_F P + N_{option} \max[(K - P), 0]} \qquad (6)$$

where *K* is the strike price for the option, and N_{option} is the number of shares that can be bought or sold with the call or put option.

None of the listed firms solely used options to pay the considerations. There were 8 firms that uses put options combined with other types of consideration; 36 firms used call options along

with other considerations; and 5 firms combined both put and call options with other considerations.

As shown in Table 1B, other types of multiple considerations are also used. Combinations ①③, ①④ and ①⑤ accounted for 26, 53 and 24 cases respectively. There was only one case of each of the following combinations: ①②, ②④, ④⑤, ①②④, and ①③④.

When ①② are both used, the relative wealth before and after the reform is expressed as:

$$\frac{N_R P_R}{N_F P_F} = \frac{(N_R - N_C - N_S)P}{(N_F + N_C)P} \quad (7)$$

When ①③ are both used, the relative wealth before and after the reform:

$$\frac{N_R P_R}{N_F P_F} = \frac{(N_R - N_C)P}{(N_F + N_C + N_A)P} \quad (8)$$

In order to compare the size of different types of consideration, it is needed to express them by using a common proxy. We use N_C', i.e. the equivalent of N_C, as the common proxy. By making Equations (1) and (2) equal, that is $\frac{(N_R - N_C')P}{(N_F + N_C')P} = \frac{(N_R - N_S)P}{N_F P}$, N_C' can be solved to express the size of the consideration ② as follows:

$$N_C' = \frac{N_S N_F}{N_R + N_F - N_S} \quad (9)$$

In the same way, by making Equations (1) and (3) equal, N_C' can be solved to express the size of consideration ③:

$$N_C' = \frac{N_A N_R}{N_R + N_F + N_A} \quad (10)$$

The considerations by combined methods can also be expressed by N_C'. By making Equations (1) and (7) equal, for example, the consideration paid by the combined methods ①② can be expressed in terms of N_C':

$$N'_C = \frac{N_F N_C + N_F N_S + N_C N_R}{N_R + N_F - N_S} \quad (11)$$

Similarly, by making Equations (1) and (8) equal, the consideration paid by the combined methods ①③ can be expressed in terms of N'_C:

$$N'_C = \frac{N_F N_C + N_R N_A + N_C N_R}{N_F + N_A + N_R} \quad (12)$$

By comparing the derived N'_C, the sizes of different types of considerations can be compared.

2.3. The Implied Value of Restricted Shares

The consideration is mainly paid in the form of restricted shares, and the valuation of restricted shares has been widely investigated in the literature. Their illiquidity discounts are found to increase with the constraint horizon in the theoretical studies of Longstaff (1995, 2001, and 2008), and Kahl et al. (2003), and the result has been empirically verified in Hou and Howell (2008). Both the transaction quantity and restriction scale are found to negatively influence the illiquidity discounts in the empirical studies of Huang and Xu (2008), Chen et al. (2008) and Hou and Howell (2008). In addition, theoretical studies by Longstaff (1995, 2008), Kahl et al. (2003), Duffie et al. (2007) and Hou and Howell (2008) suggest that the illiquidity discounts are higher when the volatility is larger, when counterparties are harder to find, and when sellers have less bargaining power. However, the sample used in the empirical studies was from occasional transactions. Although virtually all Chinese listed firms had restricted shares, only a small proportion of them have such transaction. In this section, we develop a method to infer the implied discount form the size of the consideration, and construct a sample of the illiquidity discount covering most of the listed shares in China.

By using the unique setting of the Split Share Structure Reform, the implied value of restricted shares can be inferred in the following way: By rearranging Equation (1), the relative price of the restricted shares i.e. $\frac{P_R}{P_F}$ can be expressed as $\frac{(N_R - N_C)N_F}{(N_F + N_C)N_R}$. As the expression of the illiquidity discount $D = 1 - \frac{P_R}{P_F}$, the implied discount $D_{implied}$ of the restricted shares is expressed as

$$D_{implied} = 1 - \frac{(N_R - N_C)N_F}{(N_F + N_C)N_R} \qquad (13)$$

Alternatively, $D_{implied}$ can be expressed in terms of ratios.

$$D_{implied} = \frac{R_C(R_R + FR)}{R_R(R_C + FR)} \qquad (14)$$

where R_C is the ratio of the number of restricted shares paid as consideration N_C relative to the total number of shares in the firm; R_R is the proportion of shares in the firm that were restricted before the Split Share Structure Reform; and FR is the ratio of shares in the firm that were freely-traded before the Split Share Structure Reform.

In the Split Share Structure Reform, the holders of restricted shares would price the restricted shares at discounts as small as possible in order to pay a smaller number of restricted shares as considerations; whereas the holders of freely-traded shares would price the restricted shares at discounts as large as possible in order to request a larger number of restricted shares as considerations. Such sample includes nearly all listed firms in China, and the price manipulation is greatly eliminated because of the conflicts of interests of the two classes of shareholders. More importantly, the setting will enable us to empirically test the theoretical results of Duffie et al. (2007) about the impact of the bargaining power of the investors on the illiquidity discount.

3. Hypothesis and Research Design

3.1. Hypotheses

Schelling (1956) defines bargaining power as the bargainer's ability to influence the outcome of a negotiation. As the consideration schemes in the Split Share Structure Reform are determined by both classes of shareholders, it is expected that their relative bargaining power can affect the implied illiquidity discounts as well as the size of consideration. In the theoretical model of Duffie et al. (2007), it was found that the discounts of restricted shares were higher when the sellers had less bargaining power. In the case of the Split Share Structure Reform, the holders of freely-traded shares played the role of sellers, who receive considerations and vend their consent to terminating the trading constraints. However, such prediction may only valid for the firms with

small or nil state ownership and consequent less government intervention. We thereby hypothesize that:

H1: *In the firms with less or nil state ownership, the relative bargaining power of the freely-traded shareholders is positively related to the size of the considerations (and implied discount).*

The ownership structure has been found to play an important role in corporate governance. State ownership and especially concentrated state ownership could aggravate the agency problem (Shleifer and Vishny, 1986). The state shareholders tend to operate the firms for political purposes rather than shareholders' wealth maximization, such as controlling sensitive industries (Clarke, 2003). Cheung et al. (2010) report that state ownership in both SOEs (state-owned enterprises) and non-SOEs is negatively associated with the corporate governance quality index (CGI) constructed in their study. In addition, state ownership is found to weaken the information environment of listed firms (Gul et al., 2010). This further holds back the protection of the outside investors. In the Split Share Structure Reform, the state shareholders of these firms are more likely to exploit the freely-traded shareholders, especially when the bargaining power of the latter is weak. We thereby hypothesize that:

H2. *In firms with small bargaining power of the freely-traded shares, the state ownership is negatively related to the size of the consideration (and implied discount).*

The separate majorities required in the two-class voting system enable the freely-trade shareholders to reject the proposed consideration schemes of the state shareholders and Firth et al. (2010) point out that the government is eager to complete the reform as soon as possible and imposes pressures to the state shareholders to do so. We thereby expect that when the freely-traded shareholder have strong bargaining power the state shareholders become less likely to exploit the freely-traded shareholders; and we hypothesize that:

H3. *In firms with large bargaining power of the freely-traded shares, the state ownership is non-negatively related to the size of the consideration (and implied discount).*

Different from the hypothesis in Firth et al. (2010), we expect that the impact of the state ownership on the size of the considerations differ across the firms with various bargaining power of the freely-traded shareholders.

3.2. The Model

To test the relation between the bargaining power and the considerations, we use the models as follows.

$$Considerat\ ion = a + \beta_1 FTR + \beta_2 SOR + \beta_3 FTR.SOR + \sum_{k=1}^{k} \beta_{3+k} Control_{\ k} + \varepsilon \qquad (15)$$

, where *Consideraton* is the size of considerations, and *FTR* is the ratio of the freely-traded shares relative to the restricted shares used to proxy the bargaining power of the freely-traded shareholders. We use the state ownership ratio (*SOR*), namely the shares held by the government relative to the total number of shares, to capture the influence of the government. In addition, we also use the state entity (*SOE* equal to 1 if the firm is a state-owned enterprises, and 0 otherwise) to replace the state ownership ratio (*SOR*) in robustness check. Coefficient $\beta_1$captures the impact of the bargaining power on the consideration in the firms with small or nil state ownership. If β_1 is significantly positive, our hypothesis H1 is supported. Coefficients β_2 and β_3 respectively indicate the impact of the state ownership on the consideration in the firms with small and large bargaining power of freely-traded shareholders. If $\beta_2$is significantly negative, hypothesis H2 is supported; if β_3 is insignificant or significantly positive, hypothesis H3 is supported.

We use three measures for the size of the considerations. First, the implied discount derived in equation (13). Larger the implied discount, smaller the value of the consideration. Second, payout ratio i.e. the proportion of restricted shares paid as considerations. To reflect the cost to the holders of restricted shares of terminating the trading constraints on one unit of restricted shares, we use cost ratio to indicate the number of restricted shares that need to be paid in order to convert each unit of restricted shares. We do not use the obtaining ratio i.e. ratio of the number of restricted shares received as considerations to the total number of freely-traded shares, because it depends on the proportion of freely-traded shares in the firm before the reform: For instance, if the proportion is very large, say 90%, obtaining ratio remains tiny even if all the restricted shares were paid as considerations.

In the Split Share Structure Reform, the consideration scheme is proposed by the board of each listed firm; hence the class of investors with a larger bargaining power in the board would be able to propose a scheme which is closer to the baseline, i.e. the minimum acceptance level of considerations, of their competing counterparts. The first measure for bargaining power is the ratio of the two classes of shares *FTR*, namely the number of freely-traded shares relative to the number of restricted shares in the listed firm. When *FTR* is smaller than 1, the holders of the restricted shares in majority have dominant voting power and consequently the larger bargaining power. Because the blockholders have larger impact on the board, we also use *FTR10*, the ratio of freely-traded shares to the restricted shares among the shares held by the ten largest investors in our robustness check. We use a dummy variable *ADJ* to indicate whether the consideration scheme had been adjusted before finalised. A provisional scheme can be adjusted after the solicitation period if the holders of restricted shares feel that it is unlikely to be approved in the voting. *ADJ* is equal to 1 if the consideration proposal had been adjusted; and 0 otherwise.

A set of control variables are incorporated to control the firm characteristics, firm operating performance, and corporate governance, including the natural logarithm of the book value of total asset (*Size*), price-to-book ratio (*PB*), the number of years since the firm got listed (*Age*), debt-to-equity ratio (*LEV*), industry-median adjusted return on asset (*IROA*), dummy variable of stock exchange (*SH* is equal to 1 if the firm is listed in Shanghai Stock Exchange), dummy variable of CEO ownership (*DCEOH* is equal to 1 for firms with CEO shareholding level of last fiscal year in the cross-sectional top or bottom 25 percentile and 0 otherwise), dummy variable of board size (*DBS* is equal to 1 if the number of board members is above the median value of the yearly observation, and 0 otherwise), the dummy variable of the ratio of the independent directors in the board (*DRIND* is equal to 1 if the ratio is above the median value of the yearly observation, and 0 otherwise).

In addition, we also incorporate a compound liquidity measure (*LM*) for the restricted shares. As introduced earlier, restricted shares were occasional changed hands prior to the reform. We use a compound turnover of restricted shares in the occasional transactions to proxy the liquidity of the imposed trading constraints prior to the reform. For firm i in an occasional transaction j, $RTT_{i,j}$ is used to denote the relative transaction quantity i.e. the ratio of involved restricted shares to the total number of shares in the listed firm. The compound turnover for firm i can be obtained as follows: $LM_i = (1+RTT)_{i,1}(1+RTT)_{i,2}(1+RTT)_{i,3}.....(1+RTT)_{i,n}$, where n is the total number of

occasional transactions of restricted shares between the IPO of firm *i* and the start of the Split Share Structure Reform. This measurement can distinguish between the liquidity for restricted stocks with the same frequency of occasional transactions but with different scales.

Finally, industry and region dummies are also included to control for the impact of industry traits and development disparity. The industry dummies are constructed based on the first two digits of the SIC (Standard Industrial Classification) codes. The regional dummies are constructed by following Frith et al. 2006, in which the firms are grouped into four different regions: 1. Shanghai and Shenzhen; 2. The more developed areas including the open cities and provinces along the coast; 3. The inland provinces; and 4. the least developed area in the north-western part of the country.

3.3. Data and Sample

The data for the considerations in the Split Share Structure Reform and control variable are all from the China Centre of Economic Research (CCER). The sample of occasional transactions before the Split Share Structure Reform used to calculate the liquidity measure (*LM*) covers the period from 1994 to 2004, same as the sample used in Hou and Howell (2008). We winsorize the top and bottom 1% of the observations.

Table 1 reports the descriptive statistics and correlation matrix for the variables in this study. The implied discount (*IMD*) shows that the restricted shares were valued at a 38.22% discount relative to their freely-traded counterparts. This figure is similar as the average discount of 34% documented by Silber (1991) on letter stocks in the US, but smaller than the discounts between 72% and 86% documented by Chen and Xiong (2001), Huang and Xu (2008), Chen et al. (2008) and Hou and Howell (2008) on restricted shares in China. This may attribute to the decrease of the constraint horizon (Longstaff, 1995). The Payout Ratio, denoted as *PayoutR*, show that the holders of restricted shares gave up 19.62% of their wealth to the freely-traded shareholders in the Split Share Structure Reform and the number of shares held by the holders of freely-traded shares increase by 29.79% due to the considerations. The Cost Ratio (*CostR*) indicates that 0.2738 units of restricted shares were paid to convert one unit of restricted shares into freely-traded shares.

About 4% of firms are involved in regulatory enforcement against fraud. State-owned enterprises (SOEs) accounts for 69.93% of the total number of Chinese listed firm, and the overall mean (median) ratio of state ownership is as large as 30.69% (33.48%), implying the prevailing influence of the state. The free-to-restricted share ratio (*FTR*) shows that the ratio of the number of freely-traded shares to the number of restricted shares in the Chinese stock market is only 67.51%. *FTR10* shows that freely-traded shares only account for 5.47% of the shares held by the largest ten shareholders in the listed firms. It seems the restricted shareholders enjoy dominant bargaining power in general. The correlation matrix in Panel B shows that the relative bargaining power of the freely-traded shareholders (*FTR*, and *FTR10*), state entity (*SOE*) and firm operating performance (*ROA*) are positively related to the consideration (*IMD*, *PayoutR*, and *CostR*), whereas the state ownership (*SOR*) is negative related to the consideration. However, the correlation only provide univariate analyses, as it does not simultaneously control for other effects as we do later in multivariate regression analyses.

4. Empirical Findings

4.1. Empirical Results

Table 3 presents the results for the test of hypotheses. We exam the impact of the state ownership (*SOR*) on the size of the consideration, and compare such impact in the samples of firms with different level of bargaining power of the freely-traded shareholders by regressing the measures of the considerations on the state ownership ratio (*SOR*), bargaining power of the freely-traded shares (*FTR*), and their interaction term (*SOE.FTR*). There are three measures for the considerations used, namely implied discount (*IMD*), payout ratio (*PayoutR*), and cost ratio (*CostR*). For each measure, linear regression and bootstrapped regression are applied. The control variables of firm performance, corporate governance, and industry and region dummies are always incorporated.

The coefficients of the bargaining power (*FTR*) are significantly positive across all models (0.0445, 0.1298, and 0.2769 respectively from regression I, III and V) showing its positive influence on the size of the consideration and implied discount. This is in line with our hypothesis H1 in the sense of that the freely-traded shareholders with larger bargaining power are able to acquire larger consideration in the firms with less or nil government intervention. This result also confirms the theoretical finding in Duffie et al. (2007).

Capturing the impact of state ownership in the firms with smaller bargaining power of freely-traded shareholders, the coefficients of state ownership (*SOR*) in regression I (-0.1371), III (-0.1649) and V (-0.2663) are significantly negative. It shows that the state shareholders in these firms are more likely to exploit the freely-traded shareholders in the reform. This supports our hypothesis H2, and is also in line with the findings in the literature that firms with larger state ownership have weaker corporate governance, and consequently less effective internal monitoring mechanisms, leaving chances of exploration of the outside minority investors.

The impact of the state ownership the firms with larger bargaining power of freely-traded shareholders is captured by the coefficients of the interaction term *SOR.FTR*, which are, as predicted in hypothesis H3, non-negative in regression I (0.2967), III (0.3196) and V(0.5121). On the one hand, these firms are under pressure from the government to finish the reform as quickly as possible, and on the other hand, the state shareholders face the freely-traded shareholders with larger bargaining power. As a result, they find difficulty to exploit the latter by offering less consideration, which could bring the risks of rejection and delay.

This result contradicts to the finding of Firth et al. (2010) and suggests that the role of the state shareholders played in the reform is also subject to the bargaining power of the freely-traded shareholders. The results are also valid with the bootstrapped median regression, and robust to the controls of firm characteristics, operating performance, corporate governance, and industry and regional dummies. The control variables which are significant across the 6 regressions are *ROA* and *ADJ* showing that the restricted shareholders from firms with better past operating performance tend to offer a smaller consideration, and that the scheme which had been rejected before tend to offer a more generous consideration.

4.2. Robustness Check

Table 4 reports the results of the robustness checks. In Panel A, we replicate the tests in Tables 3 by replacing the *FTR* (the freely-traded to restricted share ratio) with the *FTR10* (the freely-traded to restricted share ratio of the 10 largest blockholders) as the proxy of the bargaining power. We make the replacement for two reasons. First, as shown in the panel B in Table 2, the correlation between the state ownership (*SOR*) and the freely-traded to restricted share ratio (*FTR*) is significant and as large as -0.2946. This may bring the problem of multicollinearity. Second, the

blockholders have larger influence than individual investors because the dispersion of the share structure matters. The variable *FTR10* is able to address the both concerns. Its relationship with the state ownership (*SOR*) is -0.0683 and insignificant. Again, both linear regression and bootstrapped regression applied on the three measures of the consideration, and the results are consistent with the results in Table 3. The coefficients of the *FTR10* are significantly positive (0.1029, 0.2406, and 0.4837 respectively in regression I, III and V), supporting our prediction in hypothesis H1. The coefficients of the state ratio remain significantly negative, verifying our hypothesis H2. The coefficients of the interaction term (*SOR.FTR10*) are insignificant and support our hypothesis H3.

In Panel B, we perform one more robustness check. We replicate the tests in Table 3 after replacing the state ownership ratio (*SOR*) with the state entity dummy (*SOE*), which equals to 1 for state-owned enterprise and 0 otherwise. We make the replacement, again, for two reasons. First, unlike the *SOR*, *SOE* has insignificant correlation with the *FTR* and could prevent the problem of multicollinearity. Second, *SOR* is inadequate to identify whether the state shareholder is in a dominant position. State ownership is also prevalent in the privatized non-SOEs: although the control has been transferred from the state to private investors in privatization, the state often retains a proportion of ownership as a non-dominant or minority shareholder (Chen et al., 2008). By using the *SOE*, we can observe the different impacts of the state entity on the consideration across the firms with various bargaining power of the freely-traded shareholders. The coefficient of the *FTR* remains significantly positive, supporting our hypothesis H1. The coefficient of the *SOE* is negative while the coefficient of the interaction term (*SOE.FTR*) is positive, both supporting our hypotheses H2 and H3.

4.3. Event Study

To obtain more insights into the reform, we also perform event analysis by examining the market reactions to the announcement of the finalised consideration scheme (denoted as Event 1) and to the payment of the consideration (denoted as Event 2). The data for stock and market returns are from the CSMAR/GTA (China Stock Market and Accounting Research). The market return is the market capitalisation weighted return of all firms listed in Shanghai and Shenzhen stock exchanges. The abnormal return is the difference between the individual stock return and the market return. Before the announcement and the payment of the consideration, the stock trading

had been suspended (see section 2.1. for details), hence, the information leakage, if any, prior to the events could not affect the stock price. We hereby use the measure of two day cumulative abnormal return over the window [0, +1], denoted as CAR[0, +1]. We regress the cumulative abnormal return on the consideration and a set of control variables including state ownership, other institutional ownership of restricted shares, firm size, leverage, operating performance, and industry and regional dummy. Similar models have been used in Calomiris et al. (2010) and Firth et al. (2010).

In Table 5, we present the results. Panel A shows that the abnormal stock return CAR[0, +1] for firms with bargaining power smaller than the median observation (i.e. *FTR*<Median) is insignificant, whereas it for other firms (i.e. *FTR*≥Median) is significantly positive. It seems the investors of the former are less satisfied about the consideration scheme. This result provides additional support for our argument in hypothesis H1 that the freely-traded shareholders with larger bargaining power are able to acquire larger consideration. Panel B presents the results for the Event 2 i.e. the payment of the consideration. It is interesting to note that the coefficient of the consideration from the firms with bargaining power smaller than the median observation (i.e. *FTR*<Median) becomes negative. This imply that their freely-traded shareholders, who are less satisfied with the consideration scheme, choose to sell some shares, because they do not think the consideration is adequate to compensation their dilution of their liquid premium over the long run.

5. Conclusion

In 2005, China launched the most significant leap to modernize its capital market: the Split Share Structure Reform. In this reform, the government abolishes the trading constraints imposed on the majority of shares in China and coverts the restricted shares, which were mainly held by the government, into freely-traded shares. As the increase in the supply of freely-traded shares dilutes the liquid premium of the freely-traded shares, the freely-traded shareholders receive consideration as compensation from their restricted counterparts. The size of the consideration is negotiated by the two classes of shareholders. This paper investigates the effects of bargaining power and the state ownership on the size of consideration.

Contradicts to the linear impact of the state ownership on the size of consideration argued in Firth et al. (2010), we find that the impacts differ across the firm with various levels of bargaining

power of freely-traded shareholders. When the bargaining power is weak, the state shareholders are able to exploit the freely-traded shareholders by offering small consideration and value the restricted shares paid as consideration at a small discount. Stock response of these firms is negative after the payment of consideration indicating that the freely-traded shareholders choose to sell some shares of the company because they believe the consideration is inadequate to cover their loss in liquid premium over the long run. On the contrary, the impact is non-negative when the bargaining power is strong, the state shareholder find difficulty to exploit the freely-traded shareholders. The scheme with unfair consideration is more likely to be rejected in the voting process of these firms, and cause delay of the reform. The state shareholders are under political pressure to accomplish the reform quickly; hence they choose to offer generous consideration in these firms. The result implies that increased bargaining power of the outside investors can enhance the investor protection and prevent being exploited by the state shareholders.

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Figure 1A: Market Reaction to the State Shares Holding Reduction

This figure shows Cumulative Return of four indices during the process of Sate Shares Reduction from 12th June 2001 to 22nd October 2001.

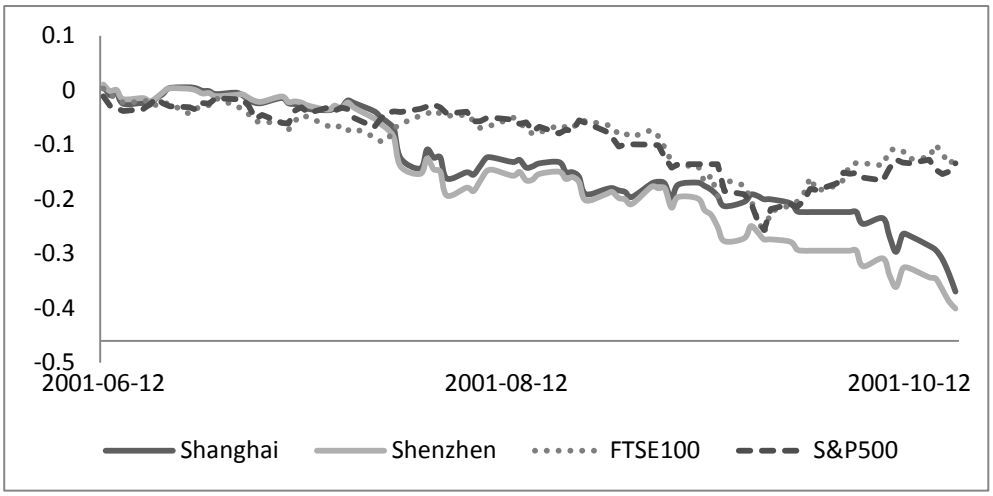

Figure 1B: Market Reaction to the Split Share Structure Reform

This figure shows cumulative return of four indices during the Split Share Structure Reform from 10th May 2005 till 14th January 2007.

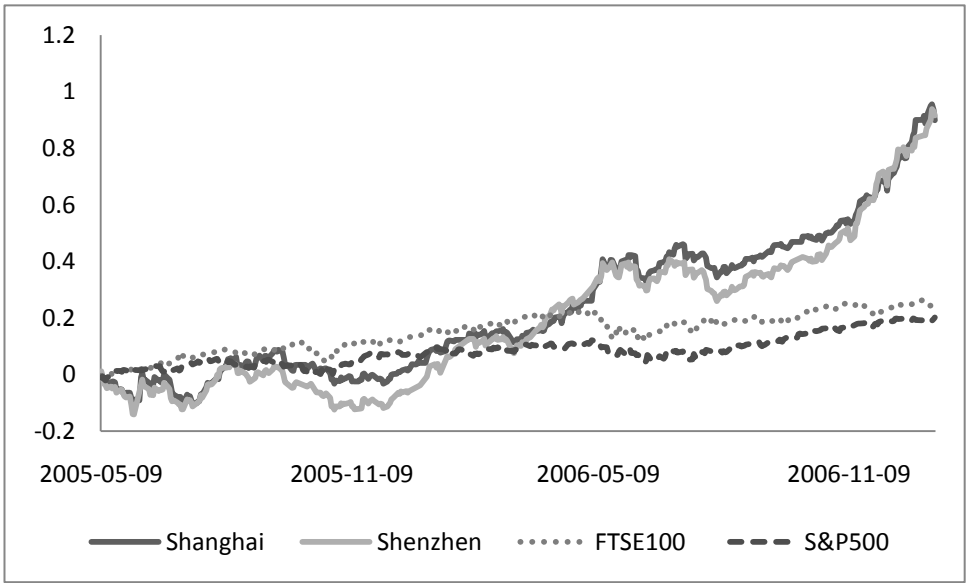

Table 1. Overview of the Consideration

Panel A: Progress of Split Share Structure Reform

This table shows that among those 1320 firms chosen in 64 batches by January 2008, 1267 of them have agreed and paid the considerations; 25 of them are still in the stage of proposing considerations; 21 of them have passed the consideration plan and 7 of them rejected the plan.

Finished	1267	95.98%
Passed	21	1.59%
Rejected	7	0.53%
In Progress	25	1.89%
Sum	1320	100.00%

Table 1B: Different Types of Considerations

There are five distinct ways of paying consideration in Split Share Structure Reform: ①, Holders of restricted shares give a proportion of their restricted shares to holders of freely-traded shares. ②, Holders of restricted shares shrink the number of their restricted shares. ③, Accumulation funds are used to increase the number of freely-traded shares in the firm. ④, Holders of restricted shares pay cash to holders of freely-traded shares. ⑤, Put and/or call options are given by holders of restricted shares to the holders of freely-traded shares as consideration. In addition, combined methods are also used.

Type	Obs.	Percentage	Mean	Std. D.
①	931	72.28%	0.3048	0.0794
②	9	0.70%	0.6537	0.0456
③	187	14.52%	0.5815	0.2086
④	15	1.16%	0.6910	0.6804
⑤	0	0.00%		
①②	2	0.16%		
①③	26	2.02%		
①④	53	4.11%		
①⑤	24	1.86%		
②④	1	0.08%		
③④	1	0.08%		
④⑤	1	0.08%		
①②④	1	0.08%		
①③④	1	0.08%		
①④⑤	7	0.54%		
Missing	29	2.25%		
Sum	1288	100.00%		

Table 2: Descriptive Statistics and Correlation Matrix

In Table 2, the two panels summarise descriptive statistics and correlations of the variables. The variables include the implied discount (*IMD*) inferred from the size of the consideration paid in the Split Share Structure Reform, payout ratio (*PayoutR*), cost ratio (*CostR*), the state to total share ratio (*SOR*), dummy variable of state entity (*SOE* is equal to 1 for state-owned enterprise and 0 otherwise), the freely-traded to restricted share ratio (FTR), the freely-traded to restricted share ratio among the shares held by the ten largest investors (*FTR10*), the natural logarithm of the book value of total asset (*Size*), price-to-book ratio (*PB*), the number of years since the firm got listed (*Age*), debt-to-equity ratio (*LEV*), 1-year lagged return on asset (*ROA*), dummy variable of stock exchange (*SH* is equal to 1 if the firm is listed in Shanghai Stock Exchange), dummy variable of the adjustment of consideration scheme (*AJD* is equal to 1 if the consideration proposal had been adjusted; and 0 otherwise), dummy variable of board size (*DBS* is equal to 1 if the number of board members is above the median value of the yearly observation, and 0 otherwise), dummy variable of CEO ownership (DCEOH is equal to 1 for firms with CEO shareholding level of last fiscal year in the cross-sectional top or bottom 25 percentile and 0 otherwise), the dummy variable of the ratio of the independent directors in the board (*DRIND* is equal to 1 if the ratio is above the median value of the yearly observation, and 0 otherwise).

Panel A. Descriptive Statistics

	Mean	Std. Dev.	25%	50%	75%	Obs.
IMD	0.3822	0.0895	0.3383	0.3801	0.4227	838
PayoutR	0.1962	0.0918	0.1352	0.1799	0.2333	838
CostR	0.2738	0.2988	0.1564	0.2193	0.3042	838
SOR	0.3063	0.2281	0.0363	0.3348	0.5089	838
SOE	0.6993	0.4588	0	1	1	838
FTR	0.6751	0.3753	0.4348	0.5735	0.7856	838
FTR10	0.0547	0.0954	0.0089	0.0220	0.0616	838
SIZE	20.4614	0.9784	19.8570	20.4168	20.9874	838
PB	2.7385	3.9167	1.4065	1.9293	2.9726	838
AGE	7.2363	3.6182	4.0000	7.5000	10.0000	838
LEV	0.4972	0.2834	0.3593	0.5024	0.6227	838
ROA	0.0107	0.0158	0.0039	0.0091	0.0168	838
LM	0.5129	1.0447	0.0000	0.0000	1.1474	838
ADJ	0.8305	0.3754	1	1	1	838
SH	0.6527	0.4764	0	1	1	838
DCEOH	0.2613	0.4396	0	0	1	838
DRIND	0.0811	0.2732	0	0	0	838
DBS	0.2995	0.4583	0	0	1	838

Panel B. Correlation Matrix

	IMD	*PayoutR*	*CostR*	*SOR*	*SOE*	*FTR*	*FTR10*	*SIZE*	*PB*	*AGE*	*LEV*	*ROA*	*LM*	*ADJ*	*SH*	*DCEOH*	*DRIND*	*DBS*
IMD	1																	
PayoutR	0.8865*	1																
CostR	0.6234*	0.7584*	1															
SOR	0.0001	-0.1581*	-0.0981*	1														
SOE	0.2180*	0.1412*	0.0883*	0.7061*	1													
FTR	0.3188*	0.7225*	0.4609*	-0.2946*	0.0259	1												
FTR10	0.0953*	0.2616*	0.2193*	-0.0683	0.0357	0.3777*	1											
SIZE	0.0973*	0.0893*	0.0575	0.3235*	0.2819*	0.0664	0.1787*	1										
PB	-0.2148*	-0.1449*	-0.0728	-0.0644	-0.0909*	-0.038	0.1084*	-0.3158*	1									
AGE	0.1589*	0.2654*	0.1845*	0.024	0.1296*	0.3247*	0.0182	-0.0058	0.1908*	1								
LEV	-0.0586	0.0623	0.0132	-0.0886*	0.0025	0.0971*	-0.0278	-0.1502*	0.1416*	0.2436*	1							
ROA	-0.1368*	-0.1806*	-0.1010*	0.063	0.0058	-0.06	0.1081*	0.2214*	0.1446*	-0.1190*	-0.1478*	1						
LM	-0.0768	-0.0079	0.0065	-0.2149*	-0.1752*	0.0689	-0.0311	-0.1983*	0.1575*	0.2598*	0.1487*	-0.0344	1					
ADJ	0.1927*	0.1229*	0.0808	0.1847*	0.2434*	-0.0153	-0.0388	0.033	-0.0426	0.0278	-0.0326	-0.0497	-0.0571	1				
SH	-0.0957*	-0.0636	-0.0271	-0.0365	0.0266	0.0667	-0.0054	0.0631	0.0303	-0.0911*	0.1078*	0.0001	0.0204	-0.0654	1			
DCEOH	0.1208*	0.1417*	0.1109*	-0.0795*	-0.0055	0.1330*	0.1307*	0.0957*	-0.0917*	-0.0277	-0.0559	0.0653	-0.0951*	-0.0031	-0.0279	1		
DRIND	-0.0187	-0.0008	-0.0117	0.0699	0.0316	0.0013	-0.0189	0.0374	-0.021	-0.0476	-0.063	-0.014	-0.0277	0.0218	-0.0193	-0.0089	1	
DBS	0.0235	0.0066	0.0461	0.1396*	0.1251*	-0.0077	0.0384	0.1813*	-0.0061	-0.0558	0.0264	0.0041	-0.0573	0.0306	0.0271	-0.0279	0.3238*	1

Note: * denotes 1% level significance.

Table 3: Regression Results of the Consideration

	IMD				***PayoutR***				***CostR***			
	I		II		III		IV		V		VI	
SOR	-0.1371	-4.02***	-0.1174	-3.91***	-0.1649	-4.91***	-0.106	-4.09***	-0.2663	-3.59***	-0.0977	-2.56**
FTR	0.0455	2.21**	0.0741	4.06***	0.1298	6.17***	0.1777	8.53***	0.2769	6.02***	0.3409	8.72***
SOR.FTR	0.2967	4.6***	0.2587	5.51***	0.3196	4.91***	0.2441	4.97***	0.5121	3.52***	0.2278	2.72***
SIZE	-0.0006	-0.19	-0.0048	-2.56**	0.0021	0.76	-0.0028	-2.01**	0.0081	1.37	-0.0032	-2.03**
PB	-0.0071	-4.25***	-0.0084	-3.78***	-0.004	-3.65***	-0.005	-4.08	-0.0056	-3.02***	-0.0067	-6.14***
AGE	0.001	1.28	0.0016	1.64	0.0008	1.24	0.001	1.87*	0.0006	0.43	0.0012	1.49
LEV	-0.0275	-1.86*	-0.0192	-1.36	-0.0158	-1.49	-0.0075	-0.88	-0.0203	-0.99	-0.0226	-2.68***
ROA	-0.6988	-4.26***	-0.4838	-2.8***	-0.6116	-3.82***	-0.3636	-3.39***	-1.2194	-3.36***	-0.5548	-3.34***
LM	-0.0047	-2.3**	-0.0037	-1.58	-0.0026	-1.81*	-0.0022	-0.79	-0.0039	-1.4	-0.0032	-0.77
ADJ	0.0301	3.68***	0.0237	4.56***	0.0212	3.41***	0.0133	3.47***	0.0341	2.7***	0.0202	3.67***
SH	-0.0107	-2.08**	-0.0064	-1.9*	-0.0058	-1.37	-0.0032	-1.4	-0.0106	-1.15	-0.0043	-1.08
DCEOH	0.0018	0.32	0.0012	0.3	0.0006	0.13	0.002	0.67	0.0064	0.65	0.0033	1.07
DRIND	-0.0004	-0.05	0.0028	0.4	0.0012	0.15	0.0025	0.52	0.0045	0.25	0.003	0.49
DBS	0.0022	0.4	0.0013	0.32	0.0001	0.01	0.0002	0.06	-0.0027	-0.28	0.0005	0.17
Intercept	0.3117	4.39***	0.3931	8.58	0.0224	0.4	0.1031	3.34	-0.1506	-1.19	0.0614	1.79*
Region	Y		Y		Y		Y		Y		Y	
Industry	Y		Y		Y		Y		Y		Y	
Bootstrap	N		Y		N		Y		N		Y	
Adj. R^2	0.3456				0.6393				0.6149			
Pseudo R^2			0.2743				0.5094				0.474	
Obs.	838		838		838		838		838		838	

Note: This table presents the regression results of the consideration. All t-statistics are reported in parentheses and adjusted heteroskedasticity. *, **, and *** denotes 10%, 5%, and 1% level significance. The variables are defined in Table 2.

Table 4: Robustness Check

Panel A

	IMD				*PayoutR*				*CostR*			
	I		II		III		IV		V		VI	
SOR	-0.0283	-1.93*	-0.0222	-1.83*	-0.0818	-5.45***	-0.0426	-2.52**	-0.1664	-5.68***	-0.0653	-2.9***
FTR10	0.1029	1.78*	0.0800	1.28	0.2406	3.66***	0.2519	3.14***	0.4837	3.27***	0.3823	2**
SOR. FTR10	0.1231	0.61	0.1559	0.78	0.1370	0.59	-0.0180	-0.1	0.3318	0.68	-0.0427	-0.1
SIZE	0.0031	0.8	-0.0003	-0.07	0.0083	1.96**	-0.0001	-0.01	0.0196	2.27**	0.0013	0.18
PB	-0.0087	-4.53***	-0.0120	-8.81***	-0.0074	-4.07***	-0.0095	-4.75***	-0.0125	-3.83***	-0.0137	-3.85***
AGE	0.0043	4.77***	0.0044	5.32***	0.0071	7.36***	0.0058	6***	0.0131	6.66***	0.0087	6.52***
LEV	-0.0116	-0.67	-0.0024	-0.14	0.0135	0.79	0.0293	1.27	0.0366	1.17	0.0357	1.41
ROA	-0.8200	-4.12***	-0.3751	-1.49	-0.8725	-3.78***	-0.3996	-1.52	-1.7541	-3.57***	-0.5975	-1.93*
LM	-0.0070	-2.79***	-0.0043	-1.22	-0.0063	-2.63***	-0.0029	-0.65	-0.0107	-2.38**	-0.0042	-0.67
ADJ	0.0374	4.43***	0.0351	4.34***	0.0310	4.04***	0.0289	4.29***	0.0513	3.38***	0.0411	2.74***
SH	-0.0130	-2.26**	-0.0062	-1.48	-0.0095	-1.57	-0.0087	-1.1	-0.0175	-1.39	-0.0142	-1.64
DCEOH	0.0142	2.28**	0.0152	2.13**	0.0199	2.98***	0.0159	1.95*	0.0423	3.02***	0.0246	2.36**
DRIND	-0.0008	-0.09	-0.0037	-0.52	0.0037	0.34	-0.0064	-0.67	0.0111	0.49	-0.0113	-0.97
DBS	0.0063	1.02	0.0078	1.16	0.0068	1.03	0.0097	1.5	0.0098	0.75	0.0132	1.31
Intercept	0.2117	2.57*	0.3286	4.46***	-0.1073	-1.15	0.1129	1.47	-0.3679	-1.99**	0.0983	0.71
Region	Y		Y		Y		Y		Y		Y	
Industry	Y		Y		Y		Y		Y		Y	
Bootstrap	N		Y		N		Y		N		Y	
Adj. R^2	0.1925				0.2657				0.2534			
Pseudo R^2			0.1236				0.1515				0.1318	
Obs.	838		838		838		838		838		838	

Note: This panel presents the regression results of the consideration. All t-statistics are reported in parentheses and adjusted heteroskedasticity. *, **, and *** denotes 10%, 5%, and 1% level significance. The variables are defined in Table 2.

Panel B

	IMD				***PayoutR***				***CostR***			
	I		II		III		IV		V		VI	
SOE	-0.0376	-2.43**	-0.0512	-4.17***	-0.0405	-2.6***	-0.0494	-5.04***	-0.1066	-3.43***	-0.0909	-5.17***
FTR	0.0277	1.31	0.0521	2.63***	0.1244	5.52***	0.1536	8.27***	0.2243	5.07***	0.2488	8.13***
SOE.FTR	0.0984	3.84***	0.117	5.38*	0.0903	3.33***	0.1132	5.51***	0.2083	3.68***	0.2019	5.79***
SIZE	-0.0007	-0.22	-0.0048	-1.8***	0.0017	0.67	-0.003	-2.51**	0.0081	1.46	-0.0027	-1.01
PB	-0.0069	-4.13**	-0.0075	-4.92***	-0.0038	-3.55***	-0.0048	-4.56***	-0.0055	-3.01***	-0.0063	-2.99***
AGE	0.0007	0.92	0.0017	2.83***	0.0005	0.81	0.0009	2.19**	0.0003	0.25	0.0013	3.31***
LEV	-0.024	-1.62	-0.0208	-1.51	-0.0125	-1.12	-0.0081	-1.06	-0.0130	-0.61	-0.0193	-1.71*
ROA	-0.6689	-3.64**	-0.4953	-2.79***	-0.5784	-3.21***	-0.2651	-2.27**	-1.1773	-2.98***	-0.5751	-3.36***
LM	-0.0038	-2.06**	-0.0032	-1.71*	-0.0019	-1.34	-0.0026	-1.26	-0.0023	-0.85	-0.0024	-0.93
ADJ	0.0296	3.65***	0.0264	4.49***	0.0219	3.42***	0.0157	3.38***	0.0341	2.64***	0.0179	3.37***
SH	-0.0101	-1.99**	-0.0024	-0.64	-0.0056	-1.31	-0.0018	-0.9	-0.0091	-1.01	-0.0041	-0.79
DCEOH	0.0029	0.53	0.0043	0.88	0.0029	0.62	0.0023	0.78	0.0081	0.84	0.0022	0.44
DRIND	-0.0025	-0.27	0.0003	0.04	-0.0018	-0.2	-0.001	-0.34	0.0000	0	0.0045	0.81
DBS	-0.0006	-0.11	-0.0023	-0.52	-0.002	-0.45	-0.0006	-0.24	-0.0072	-0.78	-0.0005	-0.16
Intercept	0.3044	4.44**	0.4187	6.63***	0.011	0.2	0.1302	4.42***	-0.1458	-1.18	0.1108	2.14*
Region	Y		Y		Y		Y		Y		Y	
Industry	Y		Y		Y		Y		Y		Y	
Bootstrap	N		Y		N		Y		N		Y	
Adj. R^2	0.3583				0.6331				0.6161			
Pseudo R^2			0.2831				0.5116				0.628	
Obs.	838		838		838		838		838		838	

Note: This panel presents the regression results of the consideration. All t-statistics are reported in parentheses and adjusted heteroskedasticity. *, **, and *** denotes 10%, 5%, and 1% level significance. The variables are defined in Table 2.

Table 5: Results of the Event Study

Panel A.

	(I) Pooled		(II) *FtR<Median*		(III) *FtR>=Median*		(I) Pooled		(II) *FtR<Median*		(III) *FtR>=Median*	
IMD	0.0864	1.79*	0.0561	0.65	0.1277	2.06**						
PayoutR							0.1613	2.77***	0.1783	1.24	0.1924	2.8***
SIZE	0.0003	0.1	-0.0039	-0.82	0.0036	0.69	-0.0007	-0.2	-0.0041	-0.84	0.002	0.37
SOR	0.0855	2.74***	-0.0085	-0.13	0.2018	3.72***	0.1507	3.46***	0.0468	0.56	0.2707	4.2***
LPR	0.0832	2.46**	-0.0127	-0.19	0.1943	3.31***	0.1471	3.23***	0.0436	0.51	0.2608	3.84***
LEV	0.0102	0.7	0.0113	0.63	0.0249	1.06	0.0073	0.51	0.0101	0.56	0.0198	0.87
ROA	0.0455	0.22	0.3988	1.4	-0.1867	-0.73	0.0574	0.28	0.4108	1.44	-0.1649	-0.66
Intercept	-0.063	-0.75	0.0929	0.79	-0.2118	-1.63	-0.0698	-0.84	0.059	0.49	-0.1955	-1.53
Region	Y		Y		Y		Y		Y		Y	
Industry	Y		Y		Y		Y		Y		Y	
Adj. R^2	-0.0004		0.0021		0.0494		0.0058		0.0049		0.0106	
Obs.	753		399		354		753		399		354	

Note: This panel presents the regression results of the consideration. All t-statistics are reported in parentheses and adjusted heteroskedasticity. *, **, and *** denotes 10%, 5%, and 1% level significance. The dependent variables are the cumulative abnormal return on day 0 and day 1, i.e. CAR[0, +1], of the announcement of the finalised consideration scheme. *LPR* is the ratio of the restricted shares held by institutions other than the state shareholders. Other variables are defined in Table 2.

Panel B

	(I) Pooled		(II) *FtR<Median*		(III) *FtR>=Median*		(I) Pooled		(II) *FtR<Median*		(III) *FtR>=Median*	
IMD	-0.1180	-0.96	-0.5315	-1.9*	-0.0018	-0.01						
PayoutR							0.0124	0.08	-0.6267	-1.28	0.0084	0.04
SIZE	-0.0121	-1.03	-0.0108	-0.93	-0.0149	-0.68	-0.0132	-1.07	-0.0106	-0.91	-0.0151	-0.66
SOR	-0.1379	-2.24**	-0.0733	-0.44	0.0327	0.29	-0.0851	-0.93	-0.1755	-0.7	0.0393	0.26
LPR	-0.1620	-2.38**	-0.0849	-0.53	-0.0510	-0.42	-0.1037	-1.15	-0.1793	-0.73	-0.0438	-0.29
LEV	0.0555	1.14	-0.0199	-0.42	0.0945	1.1	0.0602	1.29	-0.0025	-0.05	0.0946	1.14
ROA	1.1190	1.97**	0.4202	0.45	1.2305	1.61	1.2073	2.11**	0.6275	0.69	1.2375	1.58
Intercept	0.2666	1.13	0.5660	2.01**	0.2655	0.7	0.2080	0.9	0.5208	1.7*	0.2639	0.68
Region	Y		Y		Y		Y		Y		Y	
Industry	Y		Y		Y		Y		Y		Y	
Adj. R^2	0.0186		0.0095		0.0271		0.017		-0.0062		0.0271	
Obs.	690		363		327		690		363		327	

Note: This panel presents the regression results of the consideration. All t-statistics are reported in parentheses and adjusted heteroskedasticity. *, **, and *** denotes 10%, 5%, and 1% level significance. The dependent variables are the cumulative abnormal return on day 0 and day 1, i.e. CAR[0, +1], of the payment of the consideration. *LPR* is the ratio of the restricted shares held by institutions other than the state shareholders. Other variables are defined in Table 2.

Appendix: Considerations by Batches

	Batch	Total Obs.	Obtaining Ratio			Implied Discount	
			Mean	Std.D.	Valid Obs.	Mean	Std.D.
2005-05-09	-2	4	0.275	0.0354	2	33.60%	0.083
2005-06-19	-1	42	0.3579	0.0853	34	38.19%	0.0713
2005-09-12	1	40	0.3449	0.05	37	38.90%	0.0617
2005-09-18	2	38	0.3181	0.0423	36	36.34%	0.0365
2005-09-26	3	22	0.3167	0.0634	18	36.25%	0.0522
2005-10-10	4	23	0.3517	0.0618	18	43.45%	0.0963
2005-10-16	5	21	0.3289	0.0796	19	41.38%	0.1154
2005-10-24	6	18	0.3079	0.0522	14	40.56%	0.0587
2005-10-31	7	18	0.3028	0.0265	11	38.21%	0.0493
2005-11-06	8	20	0.2753	0.065	18	38.51%	0.1071
2005-11-13	9	20	0.3237	0.0499	19	38.73%	0.0644
2005-11-20	10	17	0.3129	0.0761	14	39.49%	0.1038
2005-11-27	11	22	0.306	0.0624	19	40.08%	0.1066
2005-12-04	12	19	0.3145	0.054	16	37.07%	0.0492
2005-12-11	13	21	0.3187	0.041	19	39.66%	0.0751
2005-12-18	14	27	0.3321	0.0817	23	40.22%	0.116
2005-12-22	15	38	0.3257	0.0335	30	40.87%	0.0591
2005-12-31	16	19	0.3013	0.065	16	37.66%	0.0866
2006-01-08	17	13	0.313	0.0825	10	37.34%	0.0728
2006-01-15	18	24	0.3117	0.0842	18	34.80%	0.0902
2006-01-22	19	46	0.2983	0.0788	35	39.40%	0.11
2006-02-12	20	46	0.3009	0.0558	35	38.83%	0.0711
2006-02-19	21	38	0.336	0.0386	31	41.33%	0.0717
2006-02-26	22	39	0.3032	0.0678	37	37.23%	0.0622
2006-03-05	23	49	0.2884	0.1064	37	35.69%	0.0968
2006-03-12	24	46	0.2856	0.0928	18	36.57%	0.113
2006-03-19	25	25	0.3143	0.1006	23	37.48%	0.0968
2006-03-26	26	28	0.304	0.0452	26	39.10%	0.0595
2006-04-02	27	41	0.2813	0.0788	15	34.26%	0.0771
2006-04-09	28	25	0.285	0.0754	12	38.20%	0.0686
2006-04-16	29	31	0.3384	0.1092	20	41.61%	0.1427
2006-04-23	30	34	0.2928	0.098	28	39.41%	0.1211
2006-05-08	31	35	0.2921	0.0526	17	38.76%	0.0654
2006-05-14	32	28	0.2725	0.0781	12	35.43%	0.0968
2006-05-21	33	23	0.3076	0.0765	13	37.73%	0.0903
2006-05-28	34	26	0.2806	0.0847	17	37.28%	0.0758
2006-06-04	35	30	0.3125	0.0388	8	39.53%	0.0744
2006-06-11	36	20	0.2852	0.0845	11	35.20%	0.0933
2006-06-18	37	21	0.2996	0.0787	16	39.51%	0.1063
2006-06-25	38	24	0.3369	0.0821	19	45.52%	0.1755
2006-07-02	39	36	0.2547	0.0688	16	37.02%	0.0761

Panel C (Continued)

	Batch	Total Obs.	Obtaining Ratio			Implied Discount	
			Mean	Std.D.	Obs.	Mean	Std.D.
2006-07-10	40	32	0.1533	0.1168	3	25.57%	0.1215
2006-07-16	41	8	0.2126	0.1248	7	27.03%	0.1250
2006-07-23	42	12	0.3202	0.0286	4	40.32%	0.1161
2006-07-30	43	8	0.2450	0.1353	4	28.50%	0.1277
2006-08-06	44	8	0.2450	0.1308	4	35.96%	0.2096
2006-08-13	45	9	0.2643	0.1173	4	32.06%	0.0806
2006-08-20	46	8	0.2350	0.1382	4	27.59%	0.1375
2006-08-27	47	6	0.2620	0.0432	5	32.18%	0.0545
2006-09-03	48	8	0.1500	.	1	33.25%	.
2006-09-10	49	8	0.3800	.	1	37.12%	.
2006-09-17	50	7	0.2633	0.0153	3	32.40%	0.0574
2006-09-24	51	5	0.3094	0.1273	4	44.96%	0.1944
2006-10-08	52	11	0.1500	.	1	29.56%	.
2006-10-15	53	6	0.1300	0.0707	2	23.49%	0.0085
2006-10-22	54	6			0		
2006-10-29	55	7	0.2700	.	1	43.40%	.
2006-11-05	56	5	0.0307	.	1	9.26%	.
2006-11-12	57	7	0.2980	0.0396	5	32.43%	0.0406
2006-11-19	58	12	0.2680	0.0944	5	31.40%	0.1036
2006-11-26	59	14	0.3225	0.0532	4	43.16%	0.1026
2006-12-03	60	7	0.4000	.	1	45.35%	.
2006-12-10	61	10	0.2419	0.1836	4	31.86%	0.1141
2006-12-17	62	11	0.2140	0.1301	5	28.27%	0.1668
2006-12-24	63	12	0.2300	0.0721	5	26.47%	0.1076
2006-12-30	64	22	0.2497	0.1037	14	32.55%	0.1118
2007-01-07	65	32	0.2000	.	1	27.00%	.