

Voluntary Disclosure by State-owned Enterprises Listed on the Stock Exchange of Hong Kong

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Abstract

This study examines the impact of international capital market pressures on the voluntary disclosure of three types of information (strategic, financial, and non-financial) in the annual reports of former wholly state-owned People's Republic of China (PRC) enterprises, listed on the Stock Exchange of Hong Kong (SEHK). Consistent with a cost-benefit framework, we find that PRC H-Share firms disclose significantly more strategic and financial information than other SEHK firms. Additional analysis of disclosures in their home listings on the PRC exchanges, however, suggests an alternative explanation. The fact that these firms have been selected for "showcasing" in international capital markets may also play a role in our findings. While H-Share firm disclosures in the PRC also appear sensitive to management's assessment of the associated costs, the magnitude of differences across listing locations suggests that disclosure practices on the SEHK may also reflect the effects of state-encouraged disclosure policies. Our findings contribute to the understanding of disclosure behavior among former wholly state-owned enterprises and to the emerging literature on the efficacy of the privatization process.

1. Introduction

The privatization of former wholly state-owned enterprises (SOEs) in Asia and Europe has increased rapidly in recent years. Privatization is seen as a means to improve productivity, corporate governance, and to raise much needed capital in local and international markets. Firms raising capital in international markets, however, face significant pressures to

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disclose additional information which is useful in reducing uncertainty about firm quality and expected returns (Gray et al., 1995). Consistent with these pressures, research indicates that US, UK, and continental European firms competing for funds in international capital markets voluntarily disclose significant amounts of additional information (Gray et al., 1995; Meek and Gray, 1989). To date, the disclosure practices of former wholly SOEs, for whom accountability to external investors, public information disclosure and competition for capital are relatively new, have not been examined. This study addresses this question by examining the level of voluntary disclosure in the annual reports of former wholly state-owned PRC enterprises listed on the SEHK.

In addition to its role as a major international exchange, the SEHK also serves as the PRC's primary foreign capital formation center. Of the 43 formerly wholly state-owned PRC firms listed outside the mainland in 1997, 41 were listed on the SEHK. PRC listings on the SEHK are categorized into two types. "H-Share" listings are foreign listings by PRC firms on the SEHK. Many of these enterprises are essentially "equity carve-outs" from their wholly state-owned parent. H-Share firms tend to specialize in a single activity, usually heavy industry or a major infrastructure project, and operate exclusively in Mainland China. H-Share firms have been selected by the PRC State Planning Commission for listing on the SEHK based on their economic importance, management quality, technology, profitability and international significance, with the primary objective of raising foreign capital. For example, Dongfang Electrical Machinery Company, established in December 1993 following the reorganization of Dongfang Electrical Machinery Works, was selected as one of the first SOEs to be reformed as a public limited company and listed on the SEHK.¹ The company is recognized as the key developer and producer of hydro- and steam-powered generating equipment in the PRC, with annual output representing over 30 per cent of industry output.

"Red-Chip" (or "China concept") listings, which became popular in the early 1990s, are issued by companies whose assets or earnings have significant PRC exposure. Most of these firms are listed on the SEHK under a Hong Kong holding company. Although Red-Chip firms are incorporated and listed in Hong Kong, their controlling shareholders are typically PRC state, provincial or municipal government entities. Red-Chip firms function primarily as foreign subsidiaries of the parent's operation in China and, as such, are largely unaffected by state enterprise reform activities. Unlike H-Share firms, Red-Chip firms have substantial operations in Hong Kong. Many have grown rapidly since their introduction on the

SEHK due to capital investment and asset injections from their PRC parents. For example, CITIC Pacific, an SEHK-listed firm concentrated in infrastructure, trading and property in Hong Kong and Mainland China, is 43 per cent owned by CITIC Beijing via CITIC Hong Kong. CITIC Beijing is 100 per cent state-owned by the PRC Ministry of Finance. In 1994, four years after its listing on the SEHK, CITIC Pacific's market capitalization exceeded US\$4.7 billion and reported net profit was US\$320 million. The responsiveness of these firms to information demands in international capital markets is the focus of the present study.

The decision to disclose additional financial statement information is typically modeled within a cost–benefit framework (e.g., Choi and Levich, 1990; Meek et al., 1995). Costs include increased exposure to competitive and political costs via disclosure of proprietary information as well as the cost of preparing and disseminating additional information. Benefits include lower capital costs, improved marketability of company shares, and enhanced corporate image (Choi et al., 1999; Meek et al., 1995). Firms are expected to voluntarily disclose additional information, therefore, when the perceived benefits exceed the direct and indirect costs of doing so.

Drawing on this framework, we develop empirical predictions about the disclosure practices of the former wholly state-owned PRC enterprises listed on the SEHK. First, as will be discussed in the next section, compared to local and Red-Chip firms, H-Share firms are likely to present greater uncertainty in the area of asset and management quality and face lower competitive costs of disclosure. Thus, if disclosure by these firms is sensitive to the associated costs and benefits, we expect that H-Share firms will voluntarily disclose more information than other SEHK-listed firms. Second, Red-Chip firms, due to their similarity to local SEHK firms in terms of governance structures and operations, are likely to present less uncertainty and face higher competitive costs of disclosure. Hence, Red-Chip firms are expected to voluntarily disclose less information than H-Share firms. In addition to overall disclosure, we examine the effects of firm type on the type of information disclosed. Following Meek et al. (1995), total disclosures are partitioned into additional strategic, financial, or non-financial information. While most research has treated voluntary disclosures as amorphous, the decision relevance and thus impact of factors affecting disclosure likely varies with the nature of the disclosure (Meek et al., 1995). As discussed in the next section, we draw on this model to refine both our expectations and analyses.

Consistent with predictions, we find that H-Share firms voluntarily disclose significantly more financial and strategic information than other

firms listed on the SEHK. Also as predicted, we find that Red-Chip firms disclose significantly less information than H-Share firms, but do not differ from local SEHK firms in the level of overall disclosure. Thus, despite their status as relatively new entrants, disclosure by PRC SOEs appears sensitive to the information demands in competitive international capital markets. Further, state ownership alone does not appear to drive disclosure policies. H-Share firms disclose significantly more information than Red-Chip firms despite the fact that both are majority owned by the state.

Additional analysis of H-Share firm disclosures in their home listings on the PRC exchanges, however, suggests an alternative and somewhat different explanation. The fact that these firms have been selected by the PRC government for “showcasing” in international capital markets may also play a role in our findings. Specifically, we find that H-Shares firms disclose significantly more information than a sample of PRC consumer electronics firms, which arguably face higher disclosure costs, in their respective PRC reports. Thus, H-Share firms’ PRC disclosures also appear sensitive to the associated costs and benefits. However, we also find that H-Share firms voluntarily disclose substantially less information on the PRC exchanges than on the SEHK. Although the presence of substantially higher costs and lower benefits of disclosure in the PRC could explain these differences, their magnitude suggests that disclosure by H-Share firms on the SEHK may also reflect the effects of state-encouraged disclosure policies.

This study makes several contributions. To our knowledge, it is the first to empirically examine the disclosure practices of former wholly SOEs listed on international stock exchanges. In providing insight into the sensitivity of these firms to the external investor orientation in competitive capital markets, this study contributes to the literature on voluntary disclosure and to the emerging literature on the efficacy of the privatization process. Increasing privatization of SOEs globally is also a factor in the call for adoption of uniform international disclosure standards (Choi, 1998). Decisions regarding the need for and nature of additional reporting requirements, however, are not independent of extant disclosure practices (Gray et al., 1995). Thus, our findings should also be of interest to those involved in standard setting processes.

The remainder of this paper is organized as follows. The following section describes Hong Kong’s security market and the characteristics of PRC listed enterprises, and presents our research hypotheses. Sections 3 and 4 present our methodology and results, respectively. Section 5 summarizes the main findings.

2. Institutional Information and Hypotheses

2.1 Stock Exchange of Hong Kong

Prompted by the 1987 stock market crash, Hong Kong has taken a series of actions to bring its securities market in line with international standards. Reforms include the formation of an independent Securities and Futures Commission that serves as the securities watchdog, the restructuring of the SEHK and revision of its listing procedures, and the enactment of insider trading and disclosure laws. In 1993, the Hong Kong Society of Accountants (HKSA), which issues the local Statements of Standard Accounting Practice, decided that International Accounting Standards would serve as the basis for development of all new standards. Prior to 1993, HKSA standards were based largely on those from the UK. Subsequent to 1993, firms can satisfy SEHK listing requirements by preparing financial statements that comply with either International or existing HKSA accounting standards. In addition to regional growth, the SEHK has also forged a role as the PRC's primary international capital formation center.

2.2 Characteristics of the State-owned Enterprises

In recent years, many economies have sought to implement enterprise system reform as a means to improve productivity. These include not only the PRC and the former Soviet Bloc countries, but also developed countries such as France and New Zealand (World Bank, 1995). A predominant characteristic of SOEs in the PRC and other command-type economies was their lack of autonomy. The state determined production technology, product mix and input/output prices, while the SOEs delivered all revenues to the state. The influence of managers' actions on profitability was marginal and as a result, discipline based on the level of profit alone was impossible (Lin et al., 1998). Consequently, many SOEs were poorly run and incurring substantial losses.

To improve efficiency, in 1979 the PRC initiated a series of reforms designed to foster transition to a market economy. In the first stage, SOEs were allowed to share in performance improvements under a profit-retention program that gave 12 per cent of increased profits or reduced losses to the SOE. Next, managerial autonomy was increased via the replacement of the profit-retention system with a contract responsibility system whereby the SOEs agreed to deliver predetermined amounts of revenue to the state and retained the residual. Finally, in the late 1980s the contract responsibility system was replaced by the current corporate

system under which the state is entitled only to a dividend on its share in the SOEs' assets. Increased management autonomy accompanied by the need to raise capital externally, however, led to the need for improved governance structures. The listing of shares on both domestic and international exchanges is viewed as an essential part of this reform. In addition to providing a conduit for external capital, listing is expected to improve corporate governance, information disclosure, and efficiency.

2.3 Share Listings by PRC Companies

Share listings by PRC companies are controlled by the State Planning Commission, which determines an annual quota for listings on the two domestic (Shanghai and Shenzhen) and international exchanges. Two types of shares are listed on the domestic exchanges: "A-Share" listings that are only offered to domestic investors and are transacted in Renminbi; and "B-Share" listings that, until recently, were only offered to foreign investors and are transacted in US\$ (Shanghai) or HK\$ (Shenzhen).² Approximately 20 per cent of A-Share firms are also authorized to issue B-Shares. "H-Share" listings are issued on the SEHK and "N-Share" listings on the New York Stock Exchange, either through Initial Public Offerings or American Depository Receipts. Approximately 50 per cent of firms authorized to issue H-Shares are also listed on PRC domestic exchanges as A-Shares; none of the H-Share firms are also authorized to list as B-Shares.³

Red-Chip listings on the SEHK are initiated by their controlling PRC government unit and are subject to approval by the State Planning Commission, which sets limits on the number of shares that may be issued and the amount of capital that may be raised. As Hong Kong (foreign) incorporated entities, Red-Chip firms are not eligible for listing on the PRC domestic exchanges. The PRC government maintains a substantial interest in all listed enterprises. For example, in 1995, average combined state and legal-person ownership was 62 and 58 per cent on the Shanghai and Shenzhen exchanges, respectively. With respect to financial reporting, A-Share listings are required to comply with PRC GAAP and B-Share listings with IASC standards. Shares listed on the SEHK and NYSE follow exchange requirements.

2.4 Disclosure by PRC-listed Firms

PRC firms listed on the two domestic exchanges voluntarily disclose little, if any information beyond the exchange requirements (Haw et al., 2000).

Explanations include (1) the lack of sophistication with respect to financial reporting on the part of both investors and corporate managers, and (2) investor reliance on “inside” rather than public information. Public financial statement disclosure is relatively new to the PRC. The first basic accounting standard was promulgated in 1992 and, of the 30 standards proposed in the intervening years, only eight have been adopted. Thus, accountability to outside investors is new to most corporate managers, and most individual investors are unfamiliar with the evaluation and use of financial statement disclosures (Tang, 2000). Institutional investment in the PRC is in a fledgling state. Local investors are also likely to place greater weight on factors such as anticipated actions by the controlling government entities than on financial statement disclosures (DeFond et al., 1999). Thus, demand for, as well as supply of additional disclosures may be limited in the PRC domestic exchanges. The disclosure practices of PRC firms listed on international exchanges, in which they face sophisticated financial statement users with diminished access to inside information, have not been examined.

2.5 Hypotheses: Disclosure by H-Share Firms on the SEHK

Theory (Spence, 1973; Grossman, 1981) indicates that voluntary disclosure can be used to alleviate information asymmetry problems, including moral hazard and adverse selection. A rational strategy to avoid deep discounting of share prices is to disclose additional information to investors to signal firm value (Watts and Zimmerman, 1986). Compared to other SEHK-listed firms, H-Share firms are likely to present significantly greater adverse selection and moral hazard problems. In contrast to the westernized corporate governance systems in place in most SEHK-listed firms, many PRC SOEs still operate in a “vacuum” with respect to corporate governance and management control (World Bank, 1995). For example, audit committees and shareholder litigation are nonexistent and independent, outside directors are not required (DeFond et al., 1999). Thus, in addition to H-Share firms’ lack of prior history, important investor concerns include management quality, the potential for asset stripping or misappropriation, de-capitalization through excessive wage increases, and the role of the government as a major shareholder (Chen and Firth, 1999). Therefore, *ceteris paribus*, H-Share firms face significantly greater incentives to voluntarily disclose additional information.

Proprietary costs, however, also affect disclosure (Verrecchia, 1983). The benefits of voluntary disclosure must be weighed against the costs of

providing information that may invite or assist competition or regulation. Compared to other SEHK-listed firms, H-Share firms also face significantly lower proprietary costs. Most operate in industries deemed by the PRC government to be of strategic importance and are hence shielded from international competition (Lin et al., 1998). Thus, additional disclosure by H-Share firms is also likely to be less costly. This potential for greater incentives and lower disclosure cost leads to our first hypothesis:

Hypothesis 1a: Voluntary disclosure by H-Share firms will be greater than that by other SEHK-listed firms.

Further, as the primary objective for PRC firms listing on international stock exchanges is to raise capital at the lowest possible cost, we expect that H-Share firms' incentives will mainly affect disclosure of additional strategic and financial information. Such incentives will have little impact on the disclosure of additional non-financial, social accountability information. Political costs are borne primarily in firms' local operating environments and are driven by local norms. H-Share firms operate solely in the PRC and political costs within this environment are virtually non-existent. Thus, we expect that differences in disclosure will only be observed for financial and strategic rather than social accountability information:

Hypothesis 1b: H-Share firms will voluntarily disclose more financial and strategic information than other SEHK-listed firms.

2.6 Hypothesis: Disclosure by Red-Chip Firms on the SEHK

Although both types of PRC firms listed on the SEHK share certain features, such as uncertainty about the role of the government as the majority shareholder, the level of information asymmetry between investors and managers is likely to be significantly different. Red-Chip firms typically have been listed longer, have substantial local operations and are incorporated in Hong Kong. Further, most have adopted westernized corporate governance systems, including the use of independent outside directors, and many are run by well-known, local entrepreneurs. Therefore, the level of information asymmetry and risk of adverse selection and in turn, incentives to disclose additional information, are not likely to differ between Red-Chip and other SEHK firms. Red-Chip firms are also likely to face significantly higher proprietary costs of disclosure. Unlike H-Share firms, Red-Chip firms also operate in highly competitive,

less-regulated Hong Kong industries such as electronics, property and textiles. Thus, similar to many other SEHK-listed firms, Red-Chip firms face significant proprietary costs associated with voluntary disclosures. Therefore, we expect that:

Hypothesis 2: Voluntary disclosure by Red-Chip firms will be lower than that by H-Share firms.

2.7 Control Variables

Research indicates that voluntary financial statement disclosure is influenced by other factors. Larger firms face higher agency costs (Leftwich et al., 1981), higher political costs (Jensen and Meckling, 1976), greater information demand from financial analysts (Lang and Lundholm, 1993), and lower information production costs (Firth, 1979; Leftwich et al., 1981). Consistent with these arguments, a positive relationship between firm size and voluntary disclosure has been found in studies of US (Firth, 1979), Swedish (Cooke, 1989), New Zealand (Hossain et al., 1995) and Japanese firms (Cooke, 1991), as well as for firms listed on multiple exchanges (Meek et al., 1995).

Arguably, agency costs, and hence disclosure, will also be higher for firms with proportionately more debt because of the increased potential for wealth transfers from debtholders to shareholders and managers (Jensen and Meckling, 1976). Research on this relation has been mixed. Sengupta (1998) found that US firms with high analyst disclosure quality ratings enjoyed lower cost of issuing debt. Similarly, Hossain et al. (1995) found a marginally significant, and Bradbury (1992) a significant, positive relationship between leverage and disclosure for New Zealand firms. Chow and Wong-Boren (1987), however, found no relationship between leverage and disclosure in their sample of Mexican firms, while Meek et al. (1995) report a significant, negative relationship between leverage and voluntary disclosure for US, UK, and continental European multinationals. Sengupta (1998) reports a marginally significant, negative relation between leverage and analyst disclosure quality ratings.

Competitive and political costs are also likely to vary across industries (Verrecchia, 1983; Watts and Zimmerman, 1986). For example, higher potential political costs in regulated industries are likely to result in higher voluntary disclosure, whereas firms in highly competitive industries may curtail disclosure to avoid leakage of proprietary information. Empirically, Cooke (1989, 1991) and Meek et al. (1995) report evidence of an

industry effect on the level of disclosure. Finally, firms listed in multiple capital markets face additional demands for information. As the number of shareholders increase and ownership becomes more dispersed, monitoring costs, and hence demand for additional information, increase (Fama and Jensen, 1983; Schipper, 1981). Consistent with this, prior research has found that voluntary disclosure in firms' original place of listing increases for multiple-listing firms (Cooke, 1989, 1991; Hossain et al., 1995; Meek et al., 1995). To control for these factors, we include size, leverage, industry and multiple-listing status in our regression model.

3. Method

3.1 Data Collection

Our sample consists of 145 companies listed on the SEHK in 1995/96, the most recent years for which data was available at the time that the study was conducted. To ensure balanced coverage, 30 per cent of the firms in each SEHK industry classification, with the exception of banks and financial institutions, were randomly selected from among the 546 companies listed on the SEHK at the end of 1996.⁴ Table 1 presents the sample distribution by SEHK industry classification and firm type. The sample includes the 20 H-Share and 21 Red-Chip firms listed on the SEHK at the time. The final sample includes 142 firms after excluding three firms with incomplete data.

Table 1. *Number of firms by SEHK Industry Classifications*

<i>Industries</i>	<i>Local firms</i>	<i>Red-Chip firms</i>	<i>H-Share firms</i>	<i>All firms</i>
Electronics	12	2	3	17
Conglomerate	15	2	–	17
Manufacturing	13	4	16	33
Property	18	8	–	26
Transport	3	1	1	5
Food	5	–	–	5
Travel	7	1	–	8
Utilities	5	1	–	6
Construction	5	1	–	6
Communication	3	–	–	3
Retail	10	–	–	10
Media	1	–	–	1
Textile	4	1	–	5
Total	101	21	20	142

3.2 Variable Measurement

To measure the extent of disclosure by sample firms, a voluntary disclosure index of 102 potential items was identified from lists developed by Gray et al. (1995) and Hossain et al. (1995). Based on comparison with the listing requirements for the Hong Kong and PRC exchanges and Big 5 accounting firm internal checklists for mandatory disclosure requirements under both Hong Kong and International GAAP, the final disclosure index consisted of 93 items. Firms received a score of one for each item disclosed. A voluntary disclosure score was then calculated as the ratio of the total items disclosed to the maximum possible item score applicable to that firm, to avoid penalizing firms for nondisclosure of irrelevant items. To minimize subjectivity, the maximum possible score for each firm was determined via the following procedure.

First, each item in the disclosure index was evaluated independently by one of the authors with public accounting experience, and a second, independent faculty member with extensive public accounting experience in order to identify those items for which relevance would depend on firm characteristics. Inter-rater agreement was 97 per cent and all disagreements were resolved via discussion between the two coders. Based on this process, the relevance of 18 items was determined to be dependent on firm-specific characteristics. Second, a firm-specific maximum possible disclosure score was determined by a second, independent examination of the annual reports of sample firms for the presence or absence of firm characteristics identified in Stage 1. Each firm's voluntary disclosure score was further partitioned into (1) strategic, (2) non-financial, and (3) financial information based on the model developed by Meek et al. (1995). The disclosure list partitioned by information type is presented in the Appendix.

Unweighted disclosure scores were used for the following reasons. First, unweighted scores avoid the subjectivity inherent in assessing the relative importance of each disclosure item across all potential groups of information users (e.g., investors, regulators, creditors, etc.). Thus, an unweighted index is most appropriate when the research focus is on all, rather than specific user groups (Hossain et al., 1995). Second, prior studies employing both weighted and unweighted scores report substantially identical results across methods (Chow and Wong-Boren, 1987; Lau, 1992). Because these prior findings were attained for emerging-market firms (Chow and Wong-Boren, 1987) and for SEHK-listed firms (Lau, 1992), we believe use of unweighted scores is appropriate here.

3.3 Independent Variables

The five independent variables employed in our analysis were firm type (Local vs. H-Share vs. Red-Chip), firm size, leverage, industry, and multiple-listing status. Indicator variables were used to identify H-Share (HSH) and Red-Chip (RCC) firms. Firm size was measured as the logarithm of total assets (LNTA). Leverage was measured as the ratio of long-term liabilities to book value of stockholders' equity (LTL). To control for industry effects, utility (UTILITY) and consumer electronics (ELECTRONIC) firms were used as proxies for firms in regulated and highly competitive industries, respectively. Multiple-listing status (LISTING) was measured as the number of exchanges on which firms were listed: firms listed only on the SEHK received a score of 0, and those listed on at least one other exchange received a score of 1.

3.4 Regression Equation

The regression model used takes the following form:

$$DSCORE = HSH + RCC + LNTA + LTL + INDi + LISTING \quad (1)$$

where *DSCORE* = total items disclosed/maximum possible score for firm

HSH = dummy variable for H-Share Firms (0,1)

RCC = dummy variable for Red-Chip Firms (0,1)

LNTA = log (10) of total assets

LTL = long-term liabilities/book value of stockholders' equity

INDi = indicator variables for firms in the utility (UTILITY) and electronics (ELECTRON) industries

LISTING = listings on exchanges other than the SEHK.

To examine effects on different types of disclosure, equation (1) was replicated with each firm's voluntary disclosure score (DSCORE) partitioned into additional strategic, non-financial and financial information.

4. Results

4.1 Descriptive Statistics

Table 2 provides descriptive statistics for sample firms. Consistent with prior findings, overall disclosure scores are highly variable, ranging from 0.03 to 0.44. Consistent with Meek et al. (1995), disclosure by type

of information also varies considerably. Table 3 presents the correlation matrix for the variables. Overall, multicollinearity does not present a serious concern: none of the variables exhibit pairwise correlations over 55 per cent. Table 4 presents mean items disclosed and adjusted disclosure scores by firm type.

Table 2. *Descriptive Statistics for SEHK Sample*

<i>Variable</i>	<i>Description</i>	<i>Mean</i>	<i>Std Dev.</i>	<i>Minimum</i>	<i>Maximum</i>
<i>Full sample (n = 142)</i>					
<i>DSCORE</i>	Overall disclosure score	0.1380	0.0771	0.0333	0.4353
<i>SSINFO</i>	Score: strategic information	0.1868	0.0943	0.0270	0.5676
<i>SNFINFO</i>	Score: non-financial information	0.1090	0.0874	0.0000	0.5263
<i>SFINFO</i>	Score: financial information	0.0945	0.1036	0.0000	0.4667
<i>LNTA</i>	Log (total assets)	7.9315	1.5740	4.2485	11.8377
<i>LTL</i>	Long term liability/ BV of equity	28.4366	31.4382	0.0000	150.0000
<i>LISTING</i>	Number of listings	0.3873	0.6615	0.0000	2.0000
<i>HSH</i>	H-Share dummy	0.1408	0.3491	0.0000	1.0000
<i>RCC</i>	Red-Chip dummy	0.1479	0.3562	0.0000	1.0000
<i>ELECTRON</i>	Dummy for electronics industry	0.1197	0.3258	0.0000	1.0000
<i>UTILITY</i>	Dummy for utility industry	0.0423	0.2019	0.0000	1.0000
<i>H-Share firms (n = 20)</i>					
<i>DSCORE</i>	Overall disclosure score	0.2099	0.0489	0.1236	0.3297
<i>SSINFO</i>	Score: strategic information	0.2868	0.0818	0.1316	0.4474
<i>SNFINFO</i>	Score: non-financial information	0.0860	0.0556	0.0000	0.2222
<i>SFINFO</i>	Score: financial information	0.1915	0.0777	0.0833	0.3429
<i>LNTA</i>	Log (total assets)	8.2297	0.9888	6.4151	9.7857
<i>LTL</i>	Long term liability/ BV of equity	18.4000	25.4008	0.0000	100.0000
<i>LISTING</i>	Number of listings	0.8500	0.7452	0.0000	2.0000
<i>Red-Chip firms (n = 21)</i>					
<i>DSCORE</i>	Overall disclosure score	0.1154	0.0446	0.0440	0.2024
<i>SSINFO</i>	Score: strategic information	0.1719	0.0766	0.0526	0.3243
<i>SNFINFO</i>	Score: non-financial information	0.1089	0.0772	0.0000	0.3158
<i>SFINFO</i>	Score: financial information	0.0478	0.0459	0.0000	0.1786
<i>LNTA</i>	Log (total assets)	7.7511	1.3325	5.5683	10.8190
<i>LTL</i>	Long term liability/ BV of equity	33.3333	33.7051	0.0000	150.0000
<i>LISTING</i>	Number of listings	0.2381	0.5390	0.0000	2.0000

Table 3. *Correlation Matrix*

<i>Variables</i>	<i>Description</i>	<i>LNTA</i>	<i>LISTING</i>	<i>LTL</i>	<i>RCC</i>	<i>HSH</i>	<i>ELECTRON</i>	<i>UTILITY</i>
<i>LNTA</i>	Size	1.0000 0.0000						
<i>LISTING</i>	Listing status	0.5530 0.0001	1.0000 0.0000					
<i>LTL</i>	Leverage	0.2860 0.0006	0.1586 0.0594	1.0000 0.0000				
<i>RCC</i>	Red-Chip	-0.0479 0.5712	-0.0943 0.2642	0.0651 0.4413	1.0000 0.0000			
<i>HSH</i>	H-Share	0.0770 0.3626	0.2842 0.0006	-0.1297 0.1239	-0.1687 0.0448	1.0000 0.0000		
<i>ELECTRON</i>	Electronics	-0.2105 0.0119	-0.1509 0.0731	-0.0806 0.3402	-0.0314 0.7105	0.0378 0.6554	1.0000 0.0000	
<i>UTILITY</i>	Utility Industry	0.0812 0.3368	-0.0172 0.8390	0.0205 0.8083	0.0111 0.8956	-0.0850 0.3143	-0.0775 0.3595	1.0000 0.0000

Note: The first number is the correlation coefficient. The second number is the *p*-value of significance of the correlation coefficient.

Table 4. Disclosure Scores

	N	Strategic information		Nonfinancial information		Financial information		Overall disclosure	
		Mean	Std dev.	Mean	Std dev.	Mean	Std dev.	Mean	Std dev.
<i>Mean items disclosed</i>									
All firms	142	6.96	3.58	2.01	1.64	2.85	3.21	11.82	6.85
Local SEHK firms	101	6.32	3.33	2.10	1.76	2.46	3.12	10.87	6.90
Red-Chip firms	21	6.33	2.82	2.00	1.45	1.38	1.28	9.71	3.80
All H-Share firms	20	10.85	3.13	1.55	1.00	6.40	2.64	18.80	4.64
H&A-Share firms									
—SEHK disclosures	9	11.78	2.28	1.44	1.33	7.22	2.77	20.44	4.93
—PRC disclosures	9	3.11	1.27	0.11	0.33	1.22	0.44	4.44	1.51
A-Share Only firms									
—PRC disclosures	18	1.00	1.14	0.00	0.00	0.94	0.24	1.94	1.00
<i>Disclosure Scores (DSCORE)</i>									
All firms	142	18.68	9.43	10.90	8.74	9.45	10.36	13.80	7.70
Local SEHK firms	101	17.00	8.80	11.36	9.41	8.50	10.56	12.84	7.93
Red-Chip firms	21	17.19	7.66	10.88	7.72	4.78	4.59	11.54	4.46
All H-Share firms	20	28.68	8.18	8.60	5.56	19.15	7.77	20.99	4.89
H&A-Share firms									
—SEHK disclosures	9	31.08	5.97	8.03	7.41	20.10	7.90	22.60	5.27
—PRC disclosures	9	8.28	3.42	0.62	1.85	3.54	1.40	4.93	1.74
A-Share Only firms									
—PRC disclosures	18	2.78	3.16	0.00	0.00	3.37	0.84	2.37	1.22

4.2 Hypothesis Tests

Table 5 reports results of univariate hypothesis tests. As indicated, Hypothesis 1a, which predicted that overall disclosure by H-Share firms would be greater than that by other SEHK firms, was supported ($t = 6.04$, $p < 0.01$). Regarding the type of information disclosed, Hypothesis 1b was also supported: H-Share firms disclosed significantly more financial ($t = 4.28$, $p < 0.01$) and strategic ($t = 5.48$, $p < 0.01$) information.⁵ Hypothesis 2, which predicted that Red-Chip firms would disclose less information than H-Shares was supported ($t = 6.47$, $p < 0.01$). As also indicated, overall disclosure by Red-Chip firms did not differ significantly from that of local SEHK firms ($t = 1.04$, $p < 0.45$). Interestingly, Red-Chip firms disclosed less additional financial information ($t = 2.56$, $p < 0.05$) than other SEHK firms, which may reflect the competitive nature of the industries in which they operate.

Table 5. *T-tests of Adjusted Disclosure Scores (DSCORE): SEHK Disclosures*

	<i>Group 1 mean</i>	<i>Group 2 mean</i>	<i>Unequal variances T-value </i>	<i>Equal variances T-value </i>	<i>F tests: equal variance F-value</i>
1 <i>Local SEHK firms (Group 1) versus H-Share firms (Group 2)</i>					
Overall disclosure	12.84	20.99	6.0441***	4.4258***	2.6300**
Strategic information	17.00	28.68	5.7568***	5.4784***	1.1600
Non-financial information	11.36	8.60	1.7762	1.2676	2.8700**
Financial information	8.50	19.15	5.2454***	4.2794***	1.8500
2 <i>Red-Chip firms (Group 1) versus H-Share firms (Group 2)</i>					
Overall disclosure	11.54	20.99	6.4589***	6.4738***	1.2000
Strategic information	17.19	28.68	4.6366***	4.6442***	1.1400
Non-financial information	10.88	8.60	1.0953	1.0866	1.9300
Financial information	4.78	19.15	7.1666***	7.2535***	2.8600**
3 <i>Local SEHK firms (Group 1) versus Red-Chip firms (Group 2)</i>					
Overall disclosure	12.84	11.54	1.0423	0.7296	3.1600***
Strategic information	17.00	17.19	0.0983	0.0897	1.3200
Non-financial information	11.36	10.88	0.2449	0.2150	1.4900
Financial information	8.50	4.78	2.5639**	1.5809	5.2800***

*** *p*-value < 0.01; ** *p*-value < 0.05; * *p*-value < 0.10; all two-tailed.

Table 6 reports the multivariate regression results. As indicated, multivariate analysis of H-Share and Red-Chip regression coefficients and a test of the equality of H-Share and Red-Chip coefficients yield identical results to those of the univariate tests. Overall, these results are consistent with predictions drawn from a cost-benefit framework.

4.3 Control Variables

As further indicated in Table 6, control variables generally had the predicted effect on disclosure. Firm size is significantly and positively related to the level of overall disclosure ($t = 3.45$, $p < 0.01$) and to disclosure of additional strategic ($t = 2.15$, $p < 0.05$), non-financial ($t = 3.08$, $p < 0.01$) and financial information ($t = 2.77$, $p < 0.01$). Firm leverage is significantly and positively related to the level of overall disclosure

Table 6. Regression Results

	<i>Strategic information</i>	<i>Non-financial information</i>	<i>Financial information</i>	<i>Overall disclosure</i>
Adjusted R-sq.	0.251	0.147	0.330	0.3423
F statistics	7.749	4.461	10.916	11.483
Significance	0.0001	0.0002	0.0001	0.0001
Intercept	0.0665	-0.0302	-0.0601	0.0000
	1.605	-0.737	-1.395	-0.001
<i>Independent variables^a</i>				
Size (LNTA)	0.0118	0.0167	0.0157	0.0145
	2.153**	3.081***	2.774***	3.447***
Leverage (LTL)	0.0003	0.0002	0.0007	0.0004
	1.324	0.910	3.019***	2.419**
Listing status	0.0131	0.0124	0.0125	0.0123
	1.002	0.959	0.918	1.223
H-Share	0.1086	-0.0345	0.1044	0.0760
	5.116***	-1.642	4.732***	4.672***
Red-Chip	0.0033	-0.0019	-0.0374	-0.0119
	0.167	-0.098	-1.830*	-0.792
Industry				
Electronics	-0.0152	-0.0096	-0.0382	-0.0238
	-0.700	-0.447	-1.692*	-1.433
Utility	-0.0284	0.0490	0.0063	0.0002
	-0.827	1.440	0.175	0.007
<i>Test of Equality of Coefficients: H-Share vs. Red-Chip</i>				
F-value	17.777	1.178	21.874	16.775
p-value	0.001	0.28	0.001	0.001

^a The first number is the coefficient estimate based on linear least squares regression. The second is the t -value of significance of the coefficient estimate: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$.

($t = 2.42, p < 0.05$). The relationship between firm leverage and type of disclosure, however, is significant only for additional financial information ($t = 3.02, p < 0.01$). Contrary to prior findings (e.g., Cooke 1989, 1991; Meek et al., 1995) we find little support for an industry effect. Membership in a regulated industry, as proxied by membership in the utilities industry, is not significantly related to overall disclosure or to disclosure by information type.⁶ Similarly, membership in a highly competitive industry, as proxied by membership in the electronics industry, is not significantly related to the level of overall disclosure. The relationship between disclosure of additional financial information and membership in the electronics industry is, however, marginally significant ($t = 1.692, p < 0.10$) and in the expected (negative) direction. Finally, multiple-listing status had no effect on disclosure.⁷

4.4 Additional Analysis: the Showcasing Hypothesis

An alternative, and somewhat different, explanation for the observed differences in disclosure between H-Share and other firms is that the former have been selected for showcasing on the SEHK by the PRC government. That is, higher disclosure by H-Share firms may reflect the effect of state-initiated disclosure policies rather than management's response to firm-specific costs and benefits of disclosure.⁸ Former wholly SOEs may disclose more than other firms because they disclose even when the *firm's* benefits of disclosure do not exceed the *firm's* costs. They do so because the firm is a former SOE and the *state* benefits from such disclosure policies, not the firm. For the state, the primary concern may be the effects of disclosure on *future* SOE listings. By incurring costs now to develop a good reputation, future listings will benefit from a lower cost of capital, will be able to raise more capital and will be exposed to more investors. Thus, the benefits of a high disclosure policy exceed the costs for the state, but not for the individual firm.

Consistent with such showcasing, as discussed above, the selection and listing of H-Share listing is carefully controlled by the state. In addition, H-Share firms are required to employ internationally reputable investment bankers as financial advisors for at least three years prior to their listing on the SEHK. Carefully crafted public-relation campaigns have also been launched to promote H-Share issues. Formal disclosure guidelines for foreign-listed firms in general or H-Share firms in particular, however, have not been issued. Nonetheless, given the government's keen interest in gaining capital market credibility, it is reasonable that

voluntary disclosure of additional information by H-Share and other foreign-listed firms is encouraged.

Empirically, the showcasing and firm-specific cost–benefit explanations differ in an important way. If showcasing rather than management’s sensitivity to the associated costs and benefits drives H-Share firm disclosure, the effects should be limited to the SEHK. Because the state has no incentives to showcase these firms in their home place of listing, disclosure by H-Share firms on the PRC exchanges should not be affected. Conversely, abstracting from differences in level of disclosure-related costs, predictions drawn from a cost–benefit framework are independent of the place of listing: disclosure will be related to the perceived costs and benefits regardless of the place of listing. To examine the relative explanatory power of these hypotheses, we compare voluntary disclosure in annual reports filed on the PRC exchanges by the nine sample H-Share firms also listed as A-Shares (H&A-Share) to that of a sample of the 18 largest PRC electronics industry firms listed only on the PRC exchanges (A-Share Only).⁹

This comparison is used for two reasons. First, consumer electronics is among the most competitive industries in the PRC, open to often-fierce competition by both local and foreign entrants. Industry competitiveness, in turn, increases proprietary costs associated with additional disclosures (Verrecchia, 1983). H-Share firms, due to their protected industry status, likely face low disclosure-related competitive costs. Second, additional analysis indicates that H&A-Share firms disclose significantly more information than electronics industry firms in their respective SEHK reports (Comparison 1, Table 8). Therefore, if disclosure by H-Share firms is influenced by management’s assessment of the associated costs and benefits, H&A-Share firms should also disclose more than PRC consumer electronics industry firms in their respective PRC reports. While this result would not necessarily be inconsistent with showcasing on the SEHK, it would suggest that firm-specific costs and benefits of disclosure are also important to H-Share firm disclosure decisions. Alternately, if disclosure by H-Share firms on the SEHK only reflects a policy of showcasing these firms internationally, we should fail to find a significant difference in these firms’ PRC disclosures. Importantly, this latter result would provide strong support for the showcasing hypothesis.

Table 7 provides descriptive statistics for the PRC sample. As indicated in Table 8, Comparison 2, results of this additional analysis indicate that H&A-Share firms also disclosed significantly more information overall than A-Share Only consumer electronics firms in their respective PRC

Table 7. Descriptive Statistics for PRC Sample

Variable	Description	Mean	Std Dev.	Minimum	Maximum
<i>H&A-Share firms—PRC disclosures (n = 9)</i>					
<i>DSCORE</i>	Overall disclosure score	0.0451	0.0191	0.0135	0.0811
<i>SSINFO</i>	Score: strategic information	0.0784	0.0294	0.0294	0.1176
<i>SNFINFO</i>	Score: non-financial information	0.0309	0.0404	0.0000	0.1111
<i>SFINFO</i>	Score: financial information	0.0046	0.0139	0.0000	0.0417
<i>LNTA</i>	Log (total assets)	6.4749	0.4615	5.7861	7.1963
<i>LTL</i>	Long term liability/BV of equity	15.6667	15.5733	1.3000	46.5000
<i>LISTING</i>	Number of listings	1.3333	0.5000	1.0000	2.0000
<i>A-Share Only firms—PRC disclosures (n = 18)</i>					
<i>DSCORE</i>	Overall disclosure score	0.0136	0.0155	0.0000	0.0548
<i>SSINFO</i>	Score: strategic information	0.0261	0.0265	0.0000	0.0882
<i>SNFINFO</i>	Score: non-financial information	0.0062	0.0180	0.0000	0.0556
<i>SFINFO</i>	Score: financial information	0.0000	0.0000	0.0000	0.0000
<i>LNTA</i>	Log (total assets)	5.9024	0.4137	5.0669	6.7657
<i>LTL</i>	Long term liability/BV of equity	3.3000	7.6096	0.0000	30.0500
<i>LISTING</i>	Number of listings	0.0000	0.0000	0.0000	0.0000

reports ($t = 4.46$, $p < 0.01$). This finding is consistent with predictions drawn from a cost–benefit analysis, and, in turn, suggests that disclosure by H-Share firms cannot be explained by showcasing alone. With respect to information type, additional disclosures by H&A-Share firms in the PRC were significant only for strategic information ($t = 4.16$, $p < 0.01$). H&A-Share firms did not disclose significantly more non-financial or financial information than A-Share Only firms. As also indicated in Table 4, consistent with Haw et al.’s (2000) observation, disclosure in the PRC sample is quite low. Despite significant differences between firm type, neither firm, on average, disclosed more than a few additional items. Mean total items disclosed by H&A-Share and A-Share Only firms were 4.4 and 1.9, respectively.

As further indicated, the magnitude of differences in disclosure by H&A-Share firms on the SEHK and PRC exchanges is substantial. To provide additional insight, matched-pair t -tests of individual firm disclosures on the SEHK and PRC were performed. The results of these *ex post* comparisons (Comparison 3, Table 8) indicate that H&A-Share firms disclosed significantly more information overall ($t = 9.20$, $p < 0.001$), and significantly more strategic ($t = 9.49$, $p < 0.001$), non-financial information ($t = 2.67$, $p < 0.05$) and financial information ($t = 6.28$, $p < 0.001$) in their SEHK reports. Also, in every case, H&A-Share firms disclosed substantially more information in their SEHK reports. The smallest

Table 8. *T*-tests of Adjusted Disclosure Scores (DSCORE): Additional Analyses

	<i>Group 1</i> <i>mean</i>	<i>Group 2</i> <i>mean</i>	<i>Unequal</i> <i>variances</i> <i> T-value </i>	<i>Equal</i> <i>variances</i> <i> T-value </i>	<i>F tests:</i> <i>equal variance</i> <i>F-value</i>
1. H&A-Share firm (Group 1) versus Hong Kong electronic firm (Group 2) SEHK disclosure					
Overall disclosure	22.60	7.37	7.6411***	8.3295***	3.6500**
Strategic information	31.08	12.52	7.6466***	7.9954***	1.8400
Non-financial information	8.03	6.45	0.5752	0.6251	3.4400*
Financial information	20.10	1.78	6.9943***	7.9704***	13.1200***
<i>n</i> = 9 (Group 1), <i>n</i> = 12 (Group 2)					
2. H&A-Share firm (Group 1) versus A-Share Only electronic firms (Group 2) PRC disclosure					
Overall disclosure	4.93	2.37	3.9550***	4.4616***	2.0500
Strategic information	8.28	2.78	4.0444***	4.1556***	1.1700
Non-financial information	0.62	0.00	1.0000	1.4434	
Financial information	3.54	3.37	0.3212	0.3787	2.7600*
<i>n</i> = 9 (Group 1), <i>n</i> = 18 (Group 2)					
3. H&A-Share firm SEHK (Group 1) versus PRC disclosure (Group 2): Paired <i>t</i> -test					
Overall disclosure	22.60	4.93		9.2010***	
Strategic information	31.08	8.28		9.4860***	
Non-financial information	8.03	0.62		2.6670**	
Financial information	20.10	3.54		6.2790***	
<i>n</i> = 9; 2-tailed paired <i>t</i> -test					

*** *p*-value < 0.01; ** *p*-value < 0.05; * *p*-value < 0.10; all two-tailed.

individual firm difference in overall disclosure was 16 per cent versus 4 per cent for SEHK versus PRC reports, respectively.

As discussed above, demand for, and hence the benefits of voluntary disclosures may be limited in the PRC domestic exchanges. PRC firms may also face significant disclosure costs in the form of increased exposure to scrutiny by various local government agencies. Thus, it is possible that the observed differences in disclosure across listing locations relate solely to differences in disclosure-related costs and benefits. The magnitude of these differences, however, suggests that disclosure by H-Share firms on the SEHK may also reflect the effect of state-encouraged disclosure policies.¹⁰

5. Conclusion

This study examines the impact of international capital market pressures on the voluntary disclosure of information in the annual reports of former wholly state-owned PRC enterprises listed on the SEHK. We find that H-Share firms, which arguably face both higher information asymmetry between management and investor, and lower proprietary costs than other SEHK-listed firms, engage in significantly higher disclosure overall and with respect to predictions regarding the type of information disclosed. We also find that Red-Chip firms, which face incentives and costs of disclosure similar to those of other SEHK-listed firms, disclose significantly less information than H-Share firms, but do not differ in level of disclosure from other SEHK firms. These findings support two conclusions. First, despite their status as relatively new entrants to competitive capital markets, the disclosure practices of the former wholly state-owned enterprises in our sample appear quite sensitive to external investors' demands for information. Second, disclosure by PRC firms in international capital markets does not appear to be driven by state ownership alone.

Our findings with respect to the disclosure practices of H-Share firms in their home listings in the PRC also provide insight into the source of these differences. Consistent with predictions drawn from a cost-benefit framework, disclosures in annual reports issued on PRC exchanges by H-Share firms also appear sensitive to management's assessment of the associated costs and benefits. Together with our findings on the SEHK, these results suggest that the costs and benefits of disclosure play an important role in these firms' disclosure decisions. The magnitude of differences in disclosure across PRC and SEHK listings, however, suggests that H-Share firms' SEHK disclosures may also reflect the effects of state-encouraged disclosure policies. Moreover, despite their differences,

these explanations share certain features. A policy of carefully selecting and showcasing firms to signal to international investing communities that PRC firms are willing to increase transparency and act as good corporate citizens may not only influence investor confidence, but may also pave a wider avenue for other issuers. Thus, showcasing is essentially a macro-level cost–benefit argument.

It is also important to note that inferences based on our PRC findings should be interpreted with caution. Although our findings with respect to disclosure on PRC exchanges are consistent with prior observations, they are based on very small sample sizes. Additional research could also provide insight into assumptions underlying our conclusions. For example, despite consensus regarding the low level of disclosure in the PRC, little is known about the level of disclosure-related costs in that environment. Survey or interview techniques could provide direct insight into this question and the extent to which disclosure decisions reflect explicit tradeoffs between perceived costs and benefits. A related question is whether tradeoffs between proprietary costs, disclosure requirements, and perceived demand for additional disclosures play a significant role in the state's decision regarding which PRC firms are selected to issue which types of shares. These questions present interesting opportunities for future research.

Finally, our finding concerning the effect of leverage on voluntary disclosure is noteworthy. As discussed above, prior studies have reported mixed results (e.g., Bradbury, 1992; Chow and Wong-Boren, 1987; Hossain et al., 1995; Meek et al., 1995). Our results indicate that leverage has an effect on the type of information disclosed, rather than disclosure *per se*. Leverage had a significant positive impact here only with respect to disclosure of additional financial information, which, arguably, would be most useful in alleviating concerns about firms' financial position. Thus, the effect of leverage on disclosure may be sensitive to both the nature and composition of items used to measure disclosure, and the specificity of research hypotheses. This finding and support for our hypothesis based on the type of information disclosed provides further evidence of the usefulness of the methodology developed by Meek et al. (1995). Future research may benefit considerably from the increased power and specificity afforded by this methodology.

Notes

1. Of the 20 H-Share firms listed on the SEHK in 1997, eight were listed in 1993, seven in 1994, two in 1995 and three in 1996.
2. B-Share listings were opened to local investment in February 2001.

3. Because the primary objective for both H- and B-Share listings is to raise foreign capital, it is considered redundant to allow individual firms to issue both types of shares.

4. The majority of the annual reports surveyed were for the year ended December 31, 1995 and June 30, 1996. Less than 5 per cent of the sample were for the year ended June 30, 1995.

5. As indicated in Table 1, most H-Share firms (16 of 20) are in the manufacturing industry. To assess whether our results are driven by an industry effect, two additional tests were performed. First, our primary analysis (equation 1) for the full sample was repeated with a manufacturing industry (dummy) indicator included in the regression model. The H-Share firm variable remained significant ($p < 0.01$) and the coefficient for manufacturing industry membership was insignificant. Second, our primary analysis (excluding industry indicator variables) was repeated for only those sample firms in the manufacturing industry ($n = 33$). The H-Share firm indicator was again significant ($p = 0.01$). In both analyses, all other results remained unchanged.

6. Other proxies, such as membership in the telecommunication industry, led to similar results.

7. Prior research has focused on the effect of multiple-listing status on disclosure in firms' home place of listing. The home listing for multiple-listed H-Share firms, however, is on the PRC exchanges, not the SEHK. To control for this, we re-estimated our regression models after excluding H-Share firms also listed on the PRC exchanges. Consistent with prior results (Cooke 1989, 1991; Hossain et al., 1995; Meek et al., 1995), we find a significant and positive relation between multiple-listing status and overall disclosure ($t = 1.82$; $p < 0.10$) and financial disclosure ($t = 2.11$; $p < 0.05$) for this restricted sample. All other qualitative results remain unchanged.

8. We are indebted to the Associate Editor, Charles Smith, for suggesting this alternative explanation.

9. The 18 largest consumer electronics firms were used to attempt to control for the effects of size differences on disclosure. H-Share firms are among the largest PRC firms. None of the H&A-Share firms are in the electronics industry.

10. As a further test of the showcasing hypothesis, we also examined whether the coefficients on the control variables differed between H-Share and all other firms listed on the SEHK. (We thank Charles Smith for proposing this additional test.) Differences would indicate that the costs and benefits of disclosure affect H-Share firms differently than other listed firms, a result which, in turn, would provide support for showcasing effects. To examine this possibility, our primary analysis (equation 1) for the full sample was rerun after excluding the Red-Chip indicator variable and including an H-Share by control variable interaction term for each of the control variables, following the procedure recommended by Gujarti (1978, p. 297). As in our primary analysis, this analysis was repeated to examine effects on type of information disclosure. None of the coefficients on the interaction terms were significant in any of these models. Due to the lack of power, however, this result is not necessarily strong evidence against the showcasing hypothesis.

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Appendix. Voluntary Disclosure Item List

Strategic Information

General corporate characteristics

- 1 Brief history of company
- 2 Organizational structure
- 3 Major products
- 4 Physical output and capacity utilization

Corporate strategy

- 5 Statement of strategy and objectives—general
- 6 Statement of strategy and objectives—financial
- 7 Statement of strategy and objectives—marketing
- 8 Statement of strategy and objectives—social
- 9 Strategies to improve performance
- 10 Description of marketing network—domestic
- 11 Description of marketing network—foreign

Acquisitions and disposals

- 12 Reasons for acquisitions
- 13 Financing details of acquisitions
- 14 Reasons for disposals
- 15 Considerations received on disposal
- 16 Discussion of future business opportunity of disposal
- 17 Future capital expenditures

Research and development

- 18 Corporate policy on R&D
- 19 Discussion of future R&D activities
- 20 Number employed in R&D
- 21 Forecast of R&D expenses
- 22 Discussion of new product development

Future prospects

- 23 Qualitative forecast of sales
- 24 Quantitative forecast of sales

- 25 Qualitative forecast of profits
- 26 Quantitative forecast of profits
- 27 Qualitative forecast of cash flows
- 28 Quantitative forecast of cash flows
- 29 Assumptions underlying forecasts
- 30 Factors affecting future business—political
- 31 Factors affecting future business—economical
- 32 Factors affecting future business—technological
- 33 Overall outlook for business(es)
- 34 Rate of return expected on projects

Non-financial information

Employee information

- 35 Geographical distribution of employees
- 36 Number of employees—full & part-time
- 37 Categories of employees by gender
- 38 Recruitment information
- 39 Reasons for changes in employee numbers or categories
- 40 Policy on employee training
- 41 Amount spent on training
- 42 Number of employees trained
- 43 Employee appreciation
- 44 Data on accidents
- 45 Cost of safety measures
- 46 Discussion of employee welfare
- 47 Equal opportunity policy statement
- 48 Effects of Employment Contract Act

Social responsibility and value-added disclosures

- 49 Environment protection programs—quantitative
- 50 Environment protection programs—qualitative
- 51 Charitable donations (amount)
- 52 Community programs (general)

Financial information

Segment information

- 53 Major facilities—location, function, size
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