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THE DETERMINANTS OF DIVIDEND POLICY ON
CHINESE HIGH-TECH FIRMS

BY
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MASTER OF SCIENCE (FINANCE)

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SCHOOL OF ECONOMICS, FINANCE, AND BANKING

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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations that have been duly acknowledged.

I also certify that the substance of this project paper has never been submitted for any degree and is not currently being submitted for any other qualifications.

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ABSTRACT

The purpose of this study is to investigate the relationship between dividend payout ratio in Chinese High-tech firms with profitability, firm size, growth opportunities, leverage and liquidity. The study used a sample of 226 firms listed on the Shenzhen stock exchange and Shanghai stock exchange. These firms were taken from high technology industry sector in China. In order to explain the relationships as stated above, ordinary least squares regression analysis is used to test the hypotheses. The study found that at the pooled data level for whole study period, profitability, growth opportunity, liquidity and firm size have significant positive correlation with dividend payout ratio(DPR). The variable leverage, however, has a strong negative correlation with dividend payout ratio. The findings however differ from term to term (short term, medium term and long term); results reflect that leverage is the common variables which have influence on DPR across various terms, where profitability, growth opportunity, liquidity and firm size are not significantly associated with DPR in short term (0-3 years). Similarly, profitability, liquidity and growth opportunity have no influence on the dividend payout ratio of the companies in the medium term (4-7 years). All variables have significant influence on DPR except growth opportunity.

ABSTRAK

Kajian ini mengkaji hubungan antara nisbah pembayaran dividen syarikat yang berteknologi tinggi dan keuntungan, saiz firma, peluang pertumbuhan, penghutangan dan kecairan di China. Kajian tersebut menggunakan sampel 226 buah syarikat yang disenaraikan di *Shenzhen Stock Exchange* dan *Shanghai Stock Exchange*. Syarikat-syarikat ini dipilih dari sektor industri teknologi tinggi di China. Bagi menerangkan perhubungan yang dinyatakan di atas, kaedah analisis regresi kuasa dua digunakan untuk menguji hipotesis. Oleh itu, hasil kajian menunjukkan bahawa di peringkat data terkumpul untuk tempoh keseluruhan kajian, keuntungan, peluang pertumbuhan, kecairan dan saiz firma mempunyai hubungan positif dengan nisbah pembayaran dividen. Manakala bagi penghutangan, ia menunjukkan hubungan negatif dengan nisbah pembayaran dividen. Keputusan tersebut adalah berbeza dari segi tempoh masa (jangka pendek: 0-3 tahun, jangka sederhana: 4 - 7 tahun dan jangka panjang: 8 - 10 tahun). Hasil kajian menunjukkan bahawa penghutangan adalah pembolehubah biasa yang mempengaruhi nisbah pembayaran dividen dalam pelbagai segi, manakala bagi keuntungan, peluang pertumbuhan, kecairan dan saiz firma, adalah tidak berkaitan dengan nisbah pembayaran dividen dalam jangka pendek. Begitu juga, keuntungan, kecairan dan peluang pertumbuhan tidak mempengaruhi nisbah pembayaran dividen daripada syarikat-syarikat dalam jangka masa sederhana. Semua pembolehubah mempunyai pengaruh yang besar ke atas nisbah pembayaran dividen kecuali peluang pertumbuhan.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Since the dividend irrelevance theory was proposed by Miller and Modigliani in 1961, corporate dividend policy has been considered as important theoretical and empirical study over 40 years. Many questions have been raised by previous researchers such as why firms need to pay dividends to shareholders, when firms should pay dividend, why investors like to pay attention on dividend payment, what are major factors that cause dividend payment increase or decrease. “The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don’t fit together” (Black, 1976). The firms make profit from its business and the profit will be distributed to shareholders in certain proportion which is name as dividend. In 2003, China Securities Regulatory Commission made policy that companies can’t financing again unless the cash dividend is paid to shareholders. Hence, how to make dividend policy become the vital decision for managers of firm and it is the most controversial topic in finance as well(Allen & Michaely, 1995).

China’s high-tech industry has rapid growth in past 30 years ago. According to OECD statistic, the china’s export volume of high-tech products grew 33% from 1995 to 2008, and value of export increased to 416 billion US dollar from 10 billion. The high-tech export, which is made up about 29.05% of china’s total export, which has grown faster than other industry. In 2006,China had surpassed Japan ,EU-2 and the US7 as the largest exporting country with 16.9% of global market share in high-tech products in 2006(Xing, 2014).

China’s share market is relatively young compare to other main exchange stock in the world. While Shanghai Exchange Stock(SSE) was only reopened in 1990 after being

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