

Relative value-relevance of accounting measures based on Chinese Accounting

Standards and International Financial Reporting Standards

Abstract

Purpose – This study investigates the relative value relevance of accounting measures based on Chinese Accounting Standards (CAS) and International Financial Reporting Standards (IFRS) in relation to both A- and B-share markets during three distinct phases (1994-1997, 1998-2000 and 2001-2004) over which CAS were progressively harmonized with IFRS.

Design/methodology/approach - Using data for 86 Chinese listed companies which issued both A- and B-shares, we employ the price model to test for the association between CAS- and IFRS-based accounting information, and A- and B-share prices. The J-test was employed to determine the relative value relevance of the information based on the two sets of accounting standards.

Findings - Overall, we find that for both the A- and B-share markets, both CAS-based and IFRS-based accounting information are value relevant, but IFRS-based information is more value relevant than the CAS-based information. However, the magnitude of the differences between the explanatory powers of the CAS- and IFRS-based accounting information narrowed significantly in the 2001-2004 period in both the A- and B-share markets. The results are robust to the deflator used and the stock exchange on which the companies are listed.

Practical implications – The results have implications for China and other transitional economies attempting to integrate IFRS with a uniform accounting system.

Originality/value – The paper provides the first comprehensive empirical evidence as to whether or not the progressive harmonization of CAS with IFRS improved the value relevance of CAS-based accounting in China and contributes to the debate on the (ir)relevance of IFRS in emerging and transitional economies.

Key words: Relative value-relevance, Price model, Chinese Accounting Standards, International Financial Reporting Standards, Chinese stock market.

Paper type Research paper

1. Introduction

In China, some companies issue two types of shares: A-shares, issued to and traded only among domestic investors until February 2001, and B-shares, issued to and traded only among foreign investors until 2002¹. These companies are required to publish two sets of financial statements prepared following accounting and disclosure requirements of the Ministry of Finance (MOF) and the China Securities Regulatory Commission (CSRC). One set, prepared for domestic investors, is based on Chinese Accounting Standards (CAS) and is audited by a local accounting firm. The other set, prepared for foreign investors, is based on International Financial Reporting Standards (IFRS²) and is audited by a recognized international accounting firm. Chen et al. (2002) note that B-share companies include CAS-based accounts in their annual reports as supplementary and suggest investors may use both the CAS-based and the IFRS-based financial statements in making their investment decisions. Hence, in this study, we examine the relative value relevance of CAS-based and IFRS-based accounting information in both the A-and B-share markets. Similar to prior literature (Francis and Schipper, 1999; Sami & Zhou, 2004), we define value relevance as the ability of accounting numbers to summarize the information underlying share prices.

According to Peng et al. (2008), between 1992 and 2006, the CAS have evolved over three distinct stages. Stage one covered the period 1992 to 1997 when the 1992 accounting regulations (issued by the MOF) were in operation and stage two was from 1998 to 2000 when the 1998 regulations were applicable. Stage three covers the period 2001 to 2006 when the 2001 accounting regulations were in effect (Peng et al., 2008). The accounting regulations in each stage replaced the previous one in an endeavour to harmonize the domestic accounting standards with IFRS (Xiang, 1998; Peng et al., 2008) and enhance the quality of information provided to users of financial reports (Bao & Chow, 1999). The CAS that were in operation between 1992 and 1997 were substantially different from IFRS and the CAS applicable between 1998 and 2000 (see Xiang,

¹ Sami and Zhou (2004) note that from February 19 2001, domestic investors with foreign currency accounts were permitted to trade in B-shares. From 2002, certain foreign institutional investors that satisfy designated requirements were allowed to invest in A-shares (People's Daily, 2002).

² Hereinafter, the acronym IFRS is used to denote both IFRS and International Accounting Standards (IAS). Up to April 2001, the International Accounting Standards Committee (IASC) was responsible for developing and issuing IAS. However, from that date, the International Accounting Standards Board (IASB) assumed the standard setting responsibility. Accounting standards issued by the IASB are referred to as IFRS which include standards designated as IFRS and IAS (IASB, 2005, 25-26).

1998; Bao & Chow, 1999; Chen et al., 1999; Deloitte Touche Tohmatsu, 2005), whilst the 2001 regulations significantly moved CAS towards convergence with IFRS (Peng et al., 2008).

The progressive harmonization of CAS with IFRS during the three stages provides us an opportunity to investigate the relative value relevance of CAS and IFRS as well as to examine whether the differences in value relevance between CAS and IFRS narrowed over time. This is important because the progressive harmonization of CAS with IFRS (especially the issuing of the 1998 and 2001 accounting regulations) took place against the backdrop of debates on the relevance of IFRS in China. Proponents (e.g. Chen et al., 2002, p.123) argue that “China’s move towards the adoption of IAS will be useful for A-share investors.” In contrast, critics (e.g. Xiang, 1998; Eccher & Healy, 2000; Tang, 2000; Xiao et al., 2004) have questioned the relevance of IFRS given China’s special circumstances. For example, Eccher and Healy (2000, p. 1) contend that the IFRS “are primarily based on those [accounting standards] for countries with highly developed capital markets, such as the US and UK. It is questionable whether such standards are also optimal for developing and transitional economies that lack the infrastructure for monitoring managers’ financial reporting decisions.” Thus, our study provides the first comprehensive empirical evidence on whether or not the progressive harmonization of CAS with IFRS improved the value relevance of CAS-based accounting information. Evidence on this issue in China might prompt a review of the need to continue to require A- and B-share companies to issue two sets of financial statements. Furthermore, since an increasing number of countries in transition (see Xiao et al., 2004; Tyrrall et al., 2007) are attempting to integrate the IFRS-type accounting standards with a uniform accounting system (UAS), our findings should be of interest to these countries.

There has been a growing interest in the usefulness or relevance of the IFRS in developed non-Anglo-Saxon countries, developing countries and transitional economies (see Chamisa, 2000; Tyrrall et al., 2007). However, empirical evidence, particularly in developing and transitional economies, is still limited. El Shamy and Al-Qenae (2005, p. 164) argue that “more empirical research is needed to examine the improvement in the value-relevance of financial information after the adoption of IASs.” In the context of China, the majority of studies focus on only one of the three stages (mainly 1992-1997) of the development of CAS (see Eccher & Healy, 2000; Chen et al., 2001; Chen et al., 2002; Hu, 2002; Chen & Wang, 2004) and only a few studies cover two of

the three stages in the development of CAS (see Sami & Zhou, 2004; Lin & Chen, 2005; Liu & Liu, 2007), but none cover the entire three stages. Consequently, these extant studies do not fully examine the effects of progressively harmonizing CAS with IFRS on the value relevance of CAS-based measures. Our study attempts to plug this gap. Also, hitherto, most of the studies cover a period of six years or less (see Eccher & Healy, 2000; Chen et al., 2002; Hu, 2002; Chen & Wang, 2004; Lin & Chen, 2005; Liu & Liu, 2007). The exception is Chen et al. (2001) who cover a period (eight years). However, the period relates (almost exclusively) to stage one of the three stages in the development of CAS (1991-1998). Our study examines the longest period (eleven years) covering all the three stages in the development of CAS. Furthermore, most of the current studies examine the value-relevance of CAS-based amounts in the A-share market and/or the value-relevance of IFRS-based amounts in the B-share market. This approach posits a segmentation of accounting information (i.e., CAS amounts are only useful to A-share investors, and IFRS amounts are only useful to B-share investors). While this is true for A-share only companies (e.g. Chen et al. 2001) and B-share only companies, it may not hold for A- and B-share companies. Also, to date, only Eccher and Healy (2000) examine the relative value-relevance of CAS- and IFRS-based amounts in the A-share market. However, their model may be misspecified due to the use of earnings only (they omitted book values) (Collins et al., 1999).

We use the Ohlson (1995) model to test whether the IFRS-based and CAS-based accounting measures are value relevant in relation to A- and B-share prices, and the Davidson-Mackinnon (1981) J-test to assess which one of the two competing sets of accounting information is more value relevant. We report four main findings. First, both the CAS- and the IFRS-based accounting measures are value relevant in relation to both the A- and B-share prices and in all the three sub-sample periods (i.e., 1994-97, 1998-2000 and 2001-2004) and the full sample period. Second, the IFRS-based accounting measures are on the whole more value relevant than their CAS counterparts in relation to both A- and B-share prices and in all the three sample periods and the full sample period. Third, accounting information is, on the whole, more value relevant in the B-share market than the A-share market, although in both A- and B- share markets, the value relevance has generally reduced over time. Finally, we document that the difference in the value relevance between the two sets of financial statements has narrowed over time, particularly in the 2001-2004

period. Nonetheless, the IFRS-based accounting measures remain generally more value relevant than the CAS-based accounting measures in relation to both A- and B-share prices. These findings are interesting and contribute to a growing literature on the value relevance of accounting information in China in particular and in transitional economies in general. The results have important implications for China given the recent decision to harmonise CAS with IFRS, and for other transitional economies attempting to integrate a uniform accounting system with IFRS.

The rest of the paper is organized as follows. The next section discusses the relevant literature. In particular it describes the background of the Chinese stock market and accounting standards as well as a review the empirical studies on value relevance of accounting information. In Section 3, we describe the sample selection procedure, data sources and the research model used and the results are reported in Section 4. We present the summary, concluding remarks and study limitations in Section 5.

2. Literature review

2.1 The Chinese stock market and the development of accounting standards

China's two major stock exchanges, the Shanghai Stock Exchange (SHSE) (established in 1990) and the Shenzhen Stock Exchange (SZSE) (founded in 1991), have expanded rapidly since their formation. The number of listed companies rose from 13 (A-share only companies) in 1991 with a combined market capitalization of Renminbi (RMB) 10.9 billion to 1,377 companies in 2004, comprising 1,267 A-share only companies, 24 B-share only companies and 86 A- and B-share companies. In 2004, the listed companies had a market capitalization of RMB 3,705 trillion, which was about 23% of China's 2004 gross domestic product (SHSE Factbook 2004; SZSE Factbook 2004; National Bureau of Statistics of China 2006). The A-shares were only traded by domestic investors until 2002 when institutional investors that satisfy designated requirements were allowed to invest in A-shares (People's Daily, 2002). Similarly, B-shares were available to foreign investors only until February 2001 when domestic investors with foreign currency accounts were allowed to trade B-shares (Sami and Zhou, 2004). In terms of financial reporting, the A-share listed companies are required to report accounts prepared using CAS GAAP and audited by domestic auditing firms whilst B-share listed companies are required to use IFRS GAAP and audited by international

recognized auditing firms.

Chinese accounting regulations and practices (or CAS) have gone through major changes since China initiated economic reforms beginning in the late 1970s. These changes, particularly between 1992 and 2006, were meant to harmonise CAS with IFRS in order to increase the usefulness of accounting information (Chen et al., 2001; Peng et al., 2008). Peng et al. (2008) divide the evolution of CAS between 1992 and 2006 into three distinct stages or phases. The first stage covers the period 1992 to 1997 and starts with the release of four accounting regulations by the MOF in 1992 (see also Winkle et al., 1994; Xiao & Pan, 1997; Xiang, 1998; Tang, 2000). These regulations included *The Accounting Standards for Business Enterprises* (ASBE), which was essentially a conceptual framework rather than operational standards (Winkle et al., 1994; Xiang, 1998). In 1993, the MOF enacted 13 industry-specific regulations, which specified rigid and uniform rules for recording transactions, charting accounts and financial statements formats and were embedded in the ASBE (Xiang, 1998). These 13 industry-specific regulations were transitory and were to be replaced by 30 detailed accounting standards guided by the ASBE and “should be in harmony with the standards promulgated by the IASC to the extent possible” (Xiao & Pan, 1997, 281; Xiang, 1998). The second stage (from 1998 to 2000) started in 1998 with the MOF issuing *Accounting Systems for Joint Stock Limited Enterprises* to replace the 1992 accounting regulations. These regulations were intended to harmonize CAS with IFRS (Xiang, 1998; Haw et al., 1999; Peng et al., 2008). In addition, 16 detailed accounting standards were issued between 1997 and 2001 (Haw et al., 1999; Tang, 2000; Deloitte Touche Tohmatsu, 2006a). The third stage (2001 to 2006) started with the issue by the MOF in 2001 of a new regulation: *Accounting System for Business Enterprises*, to replace those issued in 1998 (Deloitte Touche Tohmatsu, 2006a), thus moving CAS closer to IFRS (Peng et al., 2008). Finally, in February 2006, the MOF announced that CAS would be converged with the IFRS effective 1 January 2007 (IASB 2006), and issued a new comprehensive *Accounting System for Business Enterprises*, which includes a new basic standard similar to the IASB framework and 38 new CAS that are substantially in line with the IFRS (Deloitte Touche Tohmatsu, 2006b). The 2006 accounting regulations are applicable to all listed Chinese enterprises and replaced both the detailed accounting standards issued between 1997 and 2001 and the 2001 *Accounting System for Business Enterprises*.

2.2 Empirical studies on value relevance of accounting information

An increasing number of developing and transitional economies have adopted IFRS as national standards with or without modifications (see Chamisa, 2000; Deloitte Touche Tohmatsu, 2004; Tyrrell et al., 2007). This development has prompted a number of studies which have examined the usefulness or relevance of these standards in developing/transitional economies. Holthausen et al. (2001) classify the value relevance literature into three categories. The first category is the relative association studies which examine the relation between stock market prices and accounting measures. The second is the incremental association studies and investigates whether accounting numbers explain returns over specified windows and the third, the marginal information content studies, examine whether accounting numbers add to the information set available to investors. Our study closely related to the relative association studies and, therefore, we review some of these studies in this section.

Two strands of studies specifically investigate the value relevance of IFRS-based accounting measures using data from developed, developing and transitional economies. The first strand examines the value relevance of IFRS-based amounts relative to amounts based on local GAAP (see Niskanen et al., 1994; Niskanen et al., 2000; Bartov et al., 2005). These studies provide evidence that IFRS are more value relevant than local GAAP in continental Europe. The second strand (see Jermakowicz & Gornik-Tomaszewski, 1998; El Shamy & Al-Qenae, 2005; El Shamy & Kayed, 2005) examines the value relevance of IFRS-based amounts in developing countries. For example, Jermakowicz and Gornik-Tomaszewski (1998) and El Shamy and Kayed (2005) find a significant association between IFRS-based amounts and stock prices and returns in Poland and Kuwait respectively, after the adoption of IFRS. El Shamy and Al-Qenae (2005) find that the combined value relevance of earnings and book values improved after the full adoption of IFRS when compared with the period before the adoption.

In the context of the Chinese Stock Markets, there are several studies that investigate the value relevance of accounting measures (see Bao & Chow 1999; Chen et al., 2001; Chen et al., 2002; Hu, 2002; Chen & Wang, 2004; Sami & Zhou, 2004; Lin & Chen, 2005; Liu & Liu, 2007). Bao and Chow (1999) examine whether or not IFRS-based measures are more value relevant than

CAS-based measures in the B-share market for the period 1993 to 1996. They conclude that in the B-share market, IFRS-based earnings and book values have greater relevance than those based on CAS. They also find that IFRS-based earnings were more value relevant than IFRS-based book values. The problem is that the study only relates to the value relevant of IFRS- and CAS-based accounting measures in the B-share market. Hu (2002) repeats Bao and Chow (1999) but focuses on B-share companies listed in the SHSE. He finds that CAS-based earnings and book values are more value relevant than those based on IFRS. Lin and Chen (2005) examine the value relevance of CAS-based numbers to prices and returns in both the A- and B-share markets and whether IFRS reconciliations are incrementally value relevant in the A- and B-share markets. They find that CAS-based accounting numbers are value relevant in both the A- and B-share markets under both the price and returns models. However, the use of reconciliations has been criticised. For example, Chan & Seow (1996) argue that reconciliations are not appropriate because some useful information is lost and this might affect the results. Sami and Zhou (2004, 406) contend that although B-share investors can access CAS-based accounts including reconciliation data, they prefer to use the complete IFRS-based statements rather than reconciliations. Consequently, “the reconciliation data should not have any direct relationship with B-share price activities”.

Using data for the period 1994-2000, Sami and Zhou (2004) investigate (1) whether CAS-based measures are value relevant in the A-share market, and (2) whether IFRS-based measures are value relevant in the B-share market. They report that accounting numbers are value relevant in pricing A- and B-shares, but are more value relevant in the B-share market than the A-share market. The problem with this study is that it treats the two markets as segmented (that is, CAS-based information is only useful to A-share investors and IFRS-based information is only useful to B-share investors). While this is true for A-share only companies and B-share only companies, it may not hold for A- and B-share companies. Liu and Liu (2007) replicate Sami and Zhou (2004) and examine the value relevance of CAS-based measures in the A-share market, IFRS-based measures in the B-share market, and Hong Kong (H.K.) GAAP-based measures in the H-share market for the period 1999 to 2003. They find that accounting information is value relevant in each market segment and that IFRS-/H.K GAAP-based accounting information is more value relevant in the B- and H-share markets, respectively than CAS-based measures in the A-share market. Similar to

Sami and Zhou (2004), they do not examine the relative value relevance of CAS- and IFRS-based measures in the A- and B-share markets over the three stages when CAS was progressively harmonized with IFRS.

Eccher and Healy (2000) employ the returns model to investigate the value relevance and the relative value relevance of CAS- and IFRS-based accounting measures in both the A- and B-share markets during the period 1992 to 1997. They find that both CAS- and IFRS-based measures are value relevant in the A- and B-share markets. In the A-share market, CAS earnings have a higher relation with stock returns than IFRS earnings, while in the B-share market CAS- and IFRS-based earnings have a similar association with stock returns (i.e., neither dominates the other). To date this is the only study that investigates which of the two competing sets of accounting information (IFRS- or CAS-based) is more closely associated with share prices/returns in both the A- and B-share markets. However, it only covers the first stage in the development of CAS. Our study differs from Eccher and Healy (2000) in two ways. First, we investigate the comparative value relevance of CAS- and IFRS-based accounting information in the three distinct periods in the development of CAS. Second, while Eccher and Healy (2000) use only earnings in their returns model, our study uses both earnings and book values in a price model. The use of a model that includes only earnings must be viewed against the backdrop of research findings suggesting that the value relevance of earnings has declined over time while that of book values appears to have increased (see Collins et al. 1997, Francis & Shipper 1999). Further, some studies assert that both earnings and book values are relevant for valuation (Ohlson 1995; Liu & Liu 2007), while Collins et al. (1999) demonstrate that the simple earnings capitalization model is misspecified due to the omission of book values of equity.

In conclusion, the review above highlights a number of observations and limitations. First, generally, prior studies examine the value relevance of accounting information in only one of the three stages (mainly 1992-1997) of the development of CAS. As such, these studies do not show us whether or not the progressive harmonization of CAS with IFRS over the three stages improved the value relevance of CAS-based information over time and relative to IFRS. Second, most of the prior studies examine the value relevance of CAS-based accounting measures in the A-share market or the value relevance of IFRS-based accounting measures in the B-share market. Our study

is therefore the first to investigate the relative value relevance of CAS- and IFRS-based accounting measures in both the A- and B-share markets covering all the three distinct periods when CAS was progressively harmonized with IFRS.

3. Research methodology

3.1 Sample of companies and data

Our sample is made up of those listed Chinese companies that issued both A- and B-shares between 1994³ and 2004. We identified 86 companies with both shares in the period, of which 44 and 42 companies were listed on the SHSE and SZSE, respectively. For each company, we needed yearly accounting information (EPS and BVPS) prepared under CAS and IFRS, and prices for both A- and B-shares.⁴ Assuming that all the companies in our sample had issued both A-and B-shares during the entire study period (1994-2004), the resultant population for our study would be 946 firm-years. We divide our firm-years observations into three periods (1994-1997; 1998-2000; 2001-2004) to capture the stages of development of CAS (see Peng et al., 2008). We extract the yearly information for each company from Datastream and Taiwan Economic Journal (TEL).⁵ To be included in the analysis, a company must have CAS- and IFRS-based EPS and BVPS as well as the prices for both A-and B-shares for at least one year in the study period. In this context, we employ a matched-pairs research design which ensures that each company in our sample is its own control and thus eliminating the need to control for confounding factors associated with company-level differences (see Chan & Seow, 1996). The imposition of these data restrictions reduced our sample to 710 firm-years as indicated in Table I.

Table I About Here

³ The reasons for selecting 1994, as the beginning of the sample period are two-fold. Firstly, the stock exchanges only started in the early 1990s and the quantity of data available in the first 3 years is very small. Secondly, there was a major exchange rate adjustment on 1 January 1994, when the Chinese government devalued the Chinese RMB from USD 1.00 to RMB 5.80 to RMB 8.70.

⁴ We collect the share prices for both A and B shares for each firm at 30 April following the year end. This is because all firms in China have 31 December as the financial year end and are required to publish their annual reports by 30th April of the following year. As the B-share prices are quoted in U.S.\$ for firms listed on the SHSE and Hong Kong dollars for firms listed on the SZSE, the share prices were translated into RMB using the ruling exchange rates on 30 April.

⁵ The Taiwan Economic Journals (TEJ) Database was used to provide the book values of equity figures as Datastream does not have CAS-based book values of equity numbers.

3.2 Model specification

In this study, we investigate the relationship between accounting numbers, both EPS and BVPS, and contemporaneous share prices. Our hypothesis is that IFRS-based information is more value relevant than CAS-based information. We base this on the argument that IFRS are of higher quality than CAS (Su, 2003; Sami & Zhou, 2004; Chen & Wang, 2004). Furthermore, IFRS-based accounts are audited by international auditing firms whilst CAS-based accounts are audited by local auditors. Since international auditors are considered to provide higher quality audits than local auditors (see Chui & Kwok, 1998; DeFond et al., 2000), IFRS-based information is more likely to be used more by investors (especially foreign investors) than CAS-based information. As Cheng and Wang (2004) suggest, the requirement to have IFRS-based accounts audited by international auditors was to reduce concerns by foreign investors about the quality of the information. We also conjecture that if, as the literature suggests, CAS-based accounting information is of low quality domestic investors, would also prefer to use higher quality accounting information in making their investment decisions. Following this line, IFRS-based information would be more value relevant in both the A- and B-market for companies with both A and B shares. However, as discussed in Section 2.2, there have been attempts towards converging CAS with IFRS, particularly since 2001. Peng et al. (2008) provide evidence suggesting that the convergence of accounting standards have also resulted in the convergence of accounting practices. This would suggest that, even though CAS-based accounts are audited by local auditors, the quality of information has improved as the two standards converge. We, therefore, would expect the differences in the value relevance between CAS and IFRS measures to have reduced in the final stage of the CAS development (2001-2004).

The use of per share values of earnings and book-values in regressions explaining share prices have been criticised in previous studies (see Kothari & Zimmerman, 1995; Brown et al., 1999). They argue that unless one controls for differences in the scale factor's coefficient of variation, the results will be influenced by the scale effects and therefore, the conclusions drawn are inappropriate. As we discuss in our sample selection above, our approach of comparing A-shares and B-shares eliminates these econometric problems. Because we match each company with itself,

our deflator, outstanding shares of the company, is the same for A-and B- share samples⁶. Following Bao and Chow (1999) and Lin and Chen (2005), we adopt a modified Ohlson (1995) price model to test our hypotheses as follows:

$$P_t = \alpha + \beta_1 EPSt + \beta_2 BVPSt + \varepsilon_t \quad (1)$$

Where P_t is A- or B-share price at time t ; $EPSt$ is earnings per share during year t ; $BVPSt$ is book value of equity per share at the end of year t ; α is the intercept of the regression; β_1 and β_2 are the coefficients for $EPSt$ and $BVPSt$ respectively; and ε_t is the error term.

Since our principal objective is to examine which, between the CAS- and IFRS- based accounting information is more closely related to A- and B-share prices, our study is related to the relative value relevance stream of studies (e.g., Chan & Seow, 1996; Bao & Chow, 1999). In our case, the value relevance metric is based on the explanatory power from a regression of share prices (A or B) on CAS- and IFRS-based EPS and BVPS. Consistent with the relative value relevance studies, we employ the Davidson and MacKinnon (1981) J-test (hereafter ‘the J-test’) to test our hypothesis. The J-test is appropriate for testing nonnested models (that is, when there are two or more models that purport to explain the same phenomenon) (Davidson & MacKinnon, 1981; Chan & Seow, 1996; Bao & Chow, 1999). In our case A or B share prices may be explained by either CAS- or IFRS-based accounting information. As such, using the J-test allows us to assess which one of the competing sets of accounting information (CAS or IFRS) is more closely associated with the A- or B-share prices (Chan & Seow, 1996; Bao & Chow, 1999).

We begin the analysis by testing the following pair of hypotheses for the A share market (the tests are then repeated for the B-share market, using B-share prices).

$$H1: P_t = \alpha_0 + \alpha_1 EPSCAS_t + \alpha_2 BVPSCAS_t + \varepsilon_t \quad (2)$$

$$H_{1a}: P_t = \beta_0 + \beta_1 EPS_{IFRS_t} + \beta_2 BVPS_{IFRS_t} + \theta_t \quad (3)$$

To test these two hypotheses, we first regress the A-share prices on the IFRS-based EPS and BVPS

⁶ In additional analyses, we use previous year’s share prices as an alternative deflator and re-run our regressions to check the robustness of our results. As reported later the results are largely similar.

(Model 3) to obtain predicted share prices computed using the estimated regression coefficients (see Chan & Seow, 1996; Bao & Chow, 1999). We then include the resultant predicted share price ($PRICE_{IFRS_t}$) as an additional explanatory variable in the model with CAS-based EPS and BVPS (Model 2) as follows:

$$P_t = a_0 + a_1 EPSCAS_t + a_2 BVPSCAS_t + a_3 PRICE_{IFRS_t} + e_t \quad (4)$$

In Model 4, we are testing whether CAS-based accounting information is more value relevant than IFRS-based accounting information. In the event that the coefficient estimate a_3 is significantly different from zero, H1 (Model 2 above) is rejected, suggesting that the CAS-based accounting measures are not more value relevant than the IFRS-based measures. Davidson and MacKinnon (1981) suggest that rejecting H1 does not imply that H_{1a} is valid. To establish this, we test a second pair of hypotheses using the IFRS-based model as follows:

$$H_2: P_t = \beta_0 + \beta_1 EPS_{IFRS_t} + \beta_2 BVPS_{IFRS_t} + \epsilon_t \quad (5)$$

$$H_{2a}: P_t = a_0 + a_1 EPSCAS_t + a_2 BVPSCAS_t + \epsilon_t \quad (6)$$

We follow the same procedure as in Models 2 and 3 above to test whether the IFRS-based accounting information is more value relevant. First, we regress the A share prices on the CAS-based EPS and BVPS (Model 6) and use the estimated coefficients to compute the predicted share prices. The predicted share prices are included in the IFRS-based model (Model 5) as an additional explanatory variable ($PRICE_{CAS_t}$) as follows:

$$P_t = \beta_0 + \beta_1 EPS_{IFRS_t} + \beta_2 BVPS_{IFRS_t} + \beta_3 PRICE_{CAS_t} + \epsilon_t \quad (7)$$

Using Model 7 above, we test whether β_3 is significantly different from zero, and if β_3 is significant, then H_2 would be rejected, implying that the IFRS-based accounting information is not more value relevant than CAS-based information. In the event that H1 is rejected and H_2 is accepted, the implication would be that share prices are more closely related with IFRS-based GAAP than CAS-based GAAP. On the contrary, if H1 is accepted and H_2 is rejected, then CAS-based GAAP would

be more value relevant than IFRS-based GAAP. It is a possibility that both or none of the hypotheses are simultaneously rejected, suggesting that both IFRS-based GAAP and CAS-based GAAP are not or are value relevant, respectively.

4. Empirical Results

4.1. Summary of descriptive statistics

Table II presents descriptive statistics for the variables used in the analysis for each of the three periods (1994-1997; 1998-2000 and 2001-2004) and the full sample period in Panels A, B, C and D, respectively.

Table II About Here

Table 2 indicates that there was an increase in share prices in both A-and B-markets over the study period. The mean (median) share price for A- and B-shares, respectively, rose from 7.859 (7.230) and 2.412 (1.695) for the period 1994-1997 (Panel A) to 8.372 (8.120) and 4.322 (4.141) for the period 2001-2004 (Panel B). However, we note that A-share prices for the period 1998-2000 (Panel C) are significantly higher than for the 2001-2004. Following Sami and Zhou (2004), we attribute this to market anticipation of some events that occurred later in early 2001. These events include China's entry into the World Trade Organisations, the decision for Beijing to host the Olympic games, the restructuring of the securities markets and the adoption of west development policy. Such anticipation could have boosted market confidence on the Chinese economy. As in other prior studies (e.g., Sam & Zhou, 2004; Lin & Chen, 2005), we observe that B-share prices are lower, suggesting that these shares are traded at a discount relative to A-shares.⁷ Additionally, we observe that in all the periods, the A-share prices appear to be more volatile than the B-share prices as evidenced by larger standard deviation in A-share prices compared to B-share prices. This finding is consistent with prior studies (Chakravarty et al., 1998; Bao & Chow, 1999; Fung et al., 2000; Chen et al.,2001; Sami & Zhou, 2004).

For the EPS and BVPS, Table II shows, also consistent with other previous studies (Bao &

⁷ It is, however, important to note that the sample period between our study and previous studies are different and therefore the mean (median) share prices will differ. Whilst we cover eleven years, the closest study, Chen et al. (2001), only cover eight years.

Chow, 1999; Sami & Zhou, 2004), that the IFRS-based EPS and BVPS are lower than those based on CAS for all the three periods. This indicates that IFRS-based values are more conservative than CAS-based values (Sami & Zhou, 2004). However, the difference between the CAS-based EPS and IFRS-based EPS appears to be narrowing over time. The difference between EPS based on CAS and IFRS is 0.082 for 1994-1997, 0.042 for 1998-2000 and 0.030 for 2001-2004.

4.2. Regression results

4.2.1 Univariate results and multicollinearity

We first examine the correlation coefficients between the variables. These are presented for all three periods and the full period in Panels A, B, C and D, respectively, in Table III. The correlations provide preliminary evidence that both A- and B-share prices are positively related to CAS- and IFRS-based EPS and BVPS. We note however, that for the period 1998-2000, CAS- and IFRS-based EPS are not significantly associated with A-share prices.

Table III About Here

Prior to running our regressions, we examined the correlations between EPS and BVPS to determine if multicollinearity problem exists. As shown in Table III, although the correlations are statistically significant, they are all below the threshold of 0.8 (see Gujarati, 2003) suggesting that multicollinearity is not a major problem. As explained in Section 3.2, for each of the two markets (i.e., A- and B- markets), we run two regression models. The results are presented in the following sub-sections.

4.2.2 Results for the A-share market

The regression results for the A-share market for the three periods as well as the full period are shown in Table IV. In Panel A, we present the results of regressing A-share prices on CAS-based amounts (Panel A1) and on IFRS-based amounts (Panel A2), and in Panel B we report the results of the J-tests for both the CAS-based model (Panel B1) and IFRS-based model (Panel B2).

Table IV About Here

As shown in both Panels A1 and A2, our results indicate that in all the three periods and full period, the regression models have significant explanatory powers as reflected by the adjusted R^2 . In Panel A1, the adjusted R^2 s range from 3.6% to 11.1%. Comparing the three periods, we observe that the highest and lowest explanatory powers are in the periods 1994-1997 and 2001-2004, respectively. In Panel A2, the model adjusted R^2 s range from 5.0% to 31.3% and in all periods, the adjusted R^2 s in Panel A2 are higher than those we document in Panel A1. This suggests that IFRS-based information is more value relevant than CAS-based accounting information in determining share prices (see Chan & Seow, 1996; Bao & Chow, 1999). However, the results show that in the A-share market, the differences in the explanatory powers between CAS-based and IFRS-based models have narrowed from 20.2% in the 1994-1997 period to only 1.1% in the 2001-2004 period. These results are supported by yearly regressions results (see Table VI, Panel A), which show that the differences in the adjusted R^2 reduced from its highest of 28.8% in 1996 to 1% in 2004. Table VI shows that the adjusted R^2 differences were much lower in 2000 (0.9%), 2001 (0.8%) and 2002 (0.4%). One inference of this is that CAS-GAAP and IFRS-GAAP have been converging over time as a result of the reforms (see Peng et al., 2008). Another interesting observation is that in both Panels A1 and A2, the value relevance of information in the A-market reduced in the period 1998-2000 and 2001-2004. The yearly regressions in Table VI (Panel A) are generally supportive of this observation. There are two possible explanations for the results. First, as we noted earlier, this could be due to non-accounting information, such as the expectations of China's entry into the World Trade Organisations, the decision for Beijing to host the Olympic games, the restructuring of the securities markets and the adoption of west development policy, influencing share prices. In addition, the decision to allow certain domestic investors and foreign investors to trade in B-shares in 2001, respectively, could have had a significant effect on share prices on the A-share market. Second, it is possible that the value relevance of both CAS-and IFRS-based information in the A-share market could have lowered with investors using other non-financial information to make investment decisions.

In terms of the coefficients, we observe that in Panel A1 (CAS-Price model), EPS is positive

and significant at the 1% level or better for the full period (ALL) and for periods 1994-1997 and 2001-2004, but not significant in the 1998-2000 period. We find that the coefficient of BVPS is positive and significant at the 1% level or better for the 1994-1997, 1998-2000 and full period, but not significant for the period 2001-2004. In Panel A2, we observe that the coefficient of EPS is not significant, whilst the coefficient of BVPS is significant at the 1% level or better. In general, these results seem to suggest that investors in the A-share market found both CAS-earnings and book values relevant, but only IFRS-based book value information is value relevant. Our results for the periods 1994-1997 and 1998-2000 are consistent with Chen, Chen and Su (2001) who, using data for the period 1991-1998, show that both CAS-based EPS and BVPS are statistically significant. They are also consistent with Eccher and Healy's (2000) suggestion that earnings per share information is relevant under CAS but not under IFRS. However, although we confirm their predictions on the value relevance of IFRS-based BVPS, our results, in general, do not support Chen et al. s (2001) suggestion that CAS-based book values are not value relevant.

In order to establish which, between CAS- and IFRS-based accounting information is more value relevant in the A-share market, we perform the J-tests as discussed in Section 4.2. The results are also presented in Table IV (Panel B). These results confirm that the value relevance of IFRS-based information is greater than CAS-based information. Using the CAS-based model as the reference model (Panel B1), our results show that the coefficient of the estimated prices, $PRICE_{IFRS}$ is positive and statistically significant at 5% level or better in all periods. Both CAS-based EPS and BVPS are not statistically significant, suggesting that the significance noted in Panel A1 may result from an omitted variable. Hence, the null hypothesis that the CAS model is the true model is rejected. In contrast, when the IFRS model is the assumed true model (Panel B2), the coefficients of the estimated price, $PRICE_{CAS}$, are all not statistically significant, whilst IFRS-based BVPS remains significant at 5% or better. Thus, the null hypothesis that the IFRS model is the true model cannot be rejected. In conclusion, our results provide evidence suggesting that IFRS-based accounting information is more value relevant than CAS-based information in determining share prices in the A-share market. In contrast, Lin & Chen (2005) conclude that CAS-based information is more value relevant than IFRS-based information. However, because Lin and Chen (2005) examine the incremental information content of reconciliations of amounts from CAS to IFRS,

their conclusion that CAS information is more value relevant than IFRS information may be problematic because their study does not compare the two sets of accounts.

4.2.3 Results for the B-share market

The regression results on the value relevance of CAS- and IFRS-based numbers for the B-share market are presented in Table V, Panels A and B. Similar to the A-share market regression results, the models have significant explanatory powers and the IFRS-models exhibit higher adjusted R²s than the CAS-models, except for 2001-2004. In the period 2001-2004, adjusted R²s for the IFRS model are moderately lower than for the CAS model. On the whole, our results show that the value relevance of accounting numbers in the B-market improved (rather than decreased) following the opening up of the market to domestic investors. As observed in Panel A 1, for the CAS-based model the adjusted R² range from 6% in 1998-2000 to 24.9% in 2001-2004. For the IFRS-based model (Panel A2), the adjusted R² range from 8.7% in 1998-2000 to 27.8% in 1994-1997.

On the whole, we observe, similar to the A-share market, that although IFRS information is more value relevant than CAS information, the differences between the adjusted R²s from the CAS-based and IFRS-based models have reduced. This is consistent with the argument that CAS GAAP and IFRS GAAP are converging. Another interesting observation we make is that in general, the adjusted R²s for both the CAS model and IFRS model are greater in the B-share market than in the A-share market. An inference that we can make is that B-share investors rely more on accounting data than their A-share counterparts in making investment decisions. As argued by Chen et al. (2002), foreign investors might find it difficult and costly to acquire other local information and, thus, rely more on accounting than non-accounting data. Alternatively, A-share investors are typically individuals with limited financial experience and accounting knowledge, while B-share investors are mainly large international financial institutions with better investment experience and analysis tools. Hence, B-share investors may be able to use accounting information more than their A-share counterparts in making investment decisions.

Table V About Here

In terms of the independent variables, unlike in the A-share market, we find similar results for both CAS-based model (Panel A1) and IFRS-based model (Panel A2). With the exception of 1998-2000, we observe that both EPS and BVPS are significant. In both Panels A1 and A2, only the variable, EPS is not significant in 1998-2000. Similar results are observed in the A-market for the same period and as explained earlier, share prices during this period might have been influenced by other non-accounting information. Bao and Chow (1999) also find that both CAS-based EPS and BVPS are significant in the B-market, thus our results are consistent. In Panel A2 (IFRS-based model), we document that both IFRS-based EPS and BVPS are significant. This is not consistent with Bao and Chow (1999) who show that IFRS-based BVPS are not significant. Nonetheless, overall, our results are in line with Bao and Chow (1999) and suggest that the IFRS-based information has relatively greater value relevance than the CAS-based information in relation to the B-share prices.

Similar to the A-share market, we also performed the J-test in order to establish the statistical significance of the relative value relevance between the CAS- and IFRS-based information in the B-share market. The results are presented in Panel B of Table V. In Panel B1, we provide evidence showing that when the CAS-based model is used as the reference model, the null hypothesis that IFRS-based information has no additional explanatory power over the CAS model is rejected for all periods. In contrast, when the IFRS-based model is used as the reference model (Panel B2), the null hypothesis that the CAS-based information has no additional explanatory power over the IFRS-based information cannot be rejected at the 5% significance level or better for the 1994-1997, 1998-2000 and full period. We, however, notice that in 2001-2004, CAS-based information ($PRICE_{CAS}$) is significant, suggesting that both IFRS-based and CAS-based information are value relevant. The adjusted R^2 is slightly greater for the CAS-based model suggesting that CAS-based information is becoming more value relevant in the B-market. To understand these results, we run yearly regressions and the resultant adjusted R^2 s are reported in Table VI, Panel B.

Insert Table VI About Here

The yearly regressions results are generally consistent with those in Table 5. Of particular note is that for the year 2003 the adjusted R^2 s for CAS- and IFRS-based models are the same, whilst for

the year 2004, CAS-based numbers are more value relevant. This is consistent with the results in Table V for 2001-2004. We attribute this result in 2001-2004 to the fact that it is the period in which CAS-GAAP moved closer to convergence with IFRS-GAAP (Peng et al., 2008), such that the information provided under both GAAPs is of similar relevance to investors. Additionally, this is also the period in which specified domestic investors and foreign investors were allowed to trade in B-shares and A-shares, respectively. The implication is that foreign investors could be using CAS-based numbers more than IFRS-based numbers in making investment decisions. This is consistent with: (a) the greater convergence between CAS and IFRS at both regulatory and company levels; (b) Winkle et al.'s (1994) suggestion that CAS-based statements are released earlier; and (c) the results reported in this study (supported by Sami & Zhou, 2004; Liu & Liu, 2007) showing that accounting numbers is more value relevant in the B-share market than the A-market. On the whole, whilst the results as reported in the full sample period generally indicate that IFRS-based numbers is more value relevant than CAS-based numbers for the B-share market, there is evidence suggesting that in 2001-2004, both sets of accounts are value relevant.

4.2.4 Additional analyses

In the preceding two sections, we document that IFRS-based accounting information is more value relevant than CAS-based accounting information. We also show that the differences between the value relevance of the two sets of accounts have narrowed over the years. In this section, we run additional tests to determine the robustness of our results. First, previous studies (e.g., Kothari & Zimmerman, 1995; Barth & Kallapur, 1996; Brown et al., 1999) argue that the use of share prices per share could lead to questionable inferences about value relevance due to scale effects. Easton (1998) notes that the scale effects may result from arbitrary stock splits, stock dividends or corporate restructuring and can be used by management to change the price of shares without changing the economic characteristics of the company. Thus, the magnitude adjusted R^2 can be driven substantially by the scale effects (i.e. the deflator used). Brown et al. (1999) run price regressions on EPS and BVPS and show that the deflator has an increasing effect on the adjusted R^2 s. To determine if our results are not influenced by the deflator used, we re-run our regressions using a different deflator. We follow Brown et al. (1999) and use the firm price of shares for the

previous year (P_{kt-1}) as the deflator. In this context, we divide our variables, P_{kt} , EPS_{kt} and $BVPS_{kt}$ by P_{kt-1} to obtain observations with a constant scale. Consequently, we estimate a deflated version of our original model 1 as follows:

$$\frac{P_t}{P_{kt-1}} = \alpha + \beta_1 \frac{EPS_{kt}}{P_{kt-1}} + \beta_2 \frac{BVPS_{kt}}{P_{kt-1}} + \varepsilon_t \quad (8)$$

However, because some of the sample firms do not have previous years' share prices (P_{kt-1}), we use 582 observations for this analysis. For example, all the observations in 1994 were lost because we do not have prices for 1993. We report the results of the regressions in Tables VII and VIII, for the A-market and B-market respectively.

Tables VII and VIII about here

In both Tables VII and VIII, our results are similar to those in Tables IV and V for the A and B-markets, suggesting that the results are not significantly influenced by the deflator used. The evidence presented indicates that IFRS-based accounting information is relatively more value relevant than the CAS-based accounting information. In all cases the adjusted R²s for the IFRS-based models are generally greater than for the CAS-based models. In the A-market (Table VII), the adjusted R²s for the CAS-based model (Panel A1) range from 9.7% in 1998-2000 to 15.4% for the full period, whilst for the IFRS-based model (Panel A2) the range is from 7.3% in 2001-2004 to 23% in 1998-2000. We note, however, that for the 2001-2004, the CAS-based model has stronger adjusted R² at 11.4% than the IFRS-based model at 7.3%. Nonetheless, the results are generally consistent with the results reported in Table IV. For the B-share market (Table VIII), we find that the adjusted R²s are again consistent with those reported in Table V, but the power of the regressions are significantly lower in the 1994-1997 and 1998-2000 periods for the CAS-based model (see Panels A1 and A2). However, for the coefficients, there are some variations between Tables IV and V and Tables VII and VIII in terms of their significance, but on the whole the results are largely similar.

Second, Lin and Chen (2005) show that the value relevance of accounting numbers may

differ depending on whether the firm is listed on the SHSE or SZSE. They document that CAS-based earnings are relevant to investors in both exchanges, but IAS reconciliations are only relevant to SHSE. They suggest that because market participants on the SHSE are largely foreign institutional investors, they would understand the implications of the reconciliations better. We, therefore, split our sample observations into the two exchanges, resulting in 377 observations for the SHSE and 333 for the SZSE. We run separate regressions for each stock exchange. Our results (not tabulated here) are similar to the full sample. We find that in both exchanges and for both A and B-markets, both CAS-based and IFRS-based information is value relevant, but the IFRS-based information is more value relevant. Our results cannot, however, be compared to Lin and Chen (2005) because they examined the incremental information content of reconciliations rather than the relative value relevance of the two competing sets of accounts in the two markets.

Third, Liu and Liu (2007) document that the value relevance of accounting number for B-shares decreased following the opening up of B-shares to domestic investors in March 2001. We therefore, run yearly regressions for the B-market. Consistent with Liu and Liu (2007), our findings show that the 2001 adjusted R²s are the lowest for both the CAS-based model (at 9.8%) and IFRS-based model (at 11.0%) compared to, for example, 13.0% (13.2%) in 2000 and 10.7% (34.9%) respectively in 2002 (see Table VI). We therefore eliminate the observations for 2001 in both the full period and the period 2001-2004 for B-shares and re-run the regressions. Our results are qualitatively similar, but the resultant adjusted R²s are moderately better. For example, in the full model, the adjusted R²s improve from 10.4% to 11.7% (CAS-based model) and from 15.4% to 17.0% (IFRS-based model). Fourth, consistent with Sami and Zhou (2004), we rerun the regressions using companies with positive earnings only. Prior studies (e.g., Barth et al., 1998; Collins et al., 1997) show that companies with negative earnings have smaller earnings response coefficients than those reporting positive earnings. Our results (not tabulated) are largely unchanged, but the power of the regressions is better. For example, for the full model, we observe that the adjusted R²s increased from 3.6% to 12.7% (A-market, CAS-based model) and from 10.4% to 20.4% (B-market, CAS-based model). Fifth, we delete observations in the top and bottom one percent to reduce the effects of outliers, and re-run the regressions. Our results are also largely unchanged. Finally, we rerun our main regressions including year dummies to control for events in

particular years, but our results remain similar. These additional tests suggest that our results are robust.

6. Summary, conclusions and limitations

This paper investigated the relative value relevance of the CAS-based and IFRS-based accounting information (earnings and book values of equity) in relation to A- and B-share prices over the periods 1994-1997, 1998-2000, 2001-2004 and full period (1994 to 2004). Using data for 86 companies listed on the Chinese stock exchanges between 1994 and 2004, which issued both A- and B-shares, we employ the price model to test for the association between accounting information based on CAS and IFRS, and A- and B-share prices. For each period, the J-test was employed to determine the relative value relevance of accounting information based on the two sets of accounting standards in relation to the A- and B-share prices.

We find that for all three periods and the full sample period, and for both the A- and B-share markets, both CAS-based and IFRS-based information is value relevant, but the IFRS-based accounting information is more value relevant than the CAS-based information. The adjusted R²s are stronger for the IFRS-based regressions than for the CAS-based regressions. We also find that the magnitude of the differences between the explanatory powers of the CAS-based and IFRS-based accounting information narrowed significantly from the 1998-2000 period onwards (compared to the 1994-1997 period) in both the A- and B-share markets. These results are robust to the deflator used and to the stock exchange on which the companies are listed. Overall, our results suggest that the IFRS-based accounting information is more value relevant than the CAS-based information, and that IFRS-based accounting information has value relevance in developing countries such as China. The narrowing of the differences in the explanatory powers of IFRS- and CAS-based information is attributable to the convergence of the two sets of standards over time.

These findings of this study have important implications for China given the recent decision to converge local GAAP with IFRS and for transitional economies attempting to integrate a uniform accounting system with IFRS. However, the findings must be interpreted in the context of some limitations in this study. First, there are data constraints and a lack of data for all companies. This is especially prominent during the earlier part of the sample period, however, the sample size

is sufficient for analysis purposes. Second, consistent with prior studies, the use of a price model assumes clean surplus accounting, which might be violated in some Chinese companies. This problem is, however, mitigated by our use of a different deflator in our additional analysis section.

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Table I

Sample selection for periods

	1994-1997	1998-2000	2001-2004	ALL
Possible observations (firm- years)	344	258	344	946
Missing data (firm- years)	165	41	30	236
Final observations (firm- years)*	179	217	314	710

*Our sample is made up of 86 companies

Table II

Descriptive statistics for the variables

Panel A: Period 1994-1997 (Observations = 179 company-years)

Variables	Mean	Median	Std Dev	Min	25 th	75 th	Max
Share prices:							
Price A	7.859	7.230	4.718	.510	4.770	9.240	26.100
Price B	2.412	1.695	1.956	.340	1.177	3.005	12.390
EPS _{CAS}	.178	.160	.182	-.390	.070	.230	.890
EPSIFRS	.096	.030	.168	-.400	.001	.130	.830
BVPS _{CAS}	1.843	1.673	1.420	-2.240	1.338	2.156	16.840
BVPS _{IFRS}	1.812	1.698	.732	.450	1.365	2.139	4.750

Panel B: Period 1998-2000 (Observations = 217 company-years)

Variables	Mean	Median	Std Dev	Min	25 th	75 th	Max
Share prices:							
Price A	10.818	10.320	4.979	1.710	7.260	13.635	30.780
Price B	3.641	1.944	3.287	.414	1.076	6.498	14.569
EPS _{CAS}	.141	.090	.190	-.180	.001	.200	1.080
EPSIFRS	.099	.020	.188	-.460	.001	.160	.880
BVPS _{CAS}	2.056	1.847	1.203	-.786	1.345	2.772	6.584
BVPS _{IFRS}	2.037	1.766	1.240	-1.417	1.286	2.587	6.612

Panel C: Period 2001-2004 (Observations = 314 company-years)

Variables	Mean	Median	Std Dev	Min	25 th	75 th	Max
Share prices:							
Price A	8.372	8.120	3.959	1.230	5.495	10.470	24.960
Price B	4.322	4.141	1.973	.510	3.045	5.322	15.580
EPS _{CAS}	.136	.080	.198	-.370	.001	.220	1.010
EPSIFRS	.106	.040	.268	-1.040	.001	.200	2.080
BVPS _{CAS}	2.311	1.977	2.356	-5.510	1.195	3.111	20.540
BVPS _{IFRS}	2.145	2.088	1.705	-5.520	1.382	3.009	9.940

Panel D: Full Period 1994-2004 (Observations = 710 company-years)

Variables	Mean	Median	Std Dev	Min	25 th	75 th	Max
Share prices:							
Price A	8.990	8.220	4.645	.510	5.720	11.433	30.780
Price B	3.632	3.135	2.561	.340	1.520	5.132	15.580
EPS _{CAS}	.148	.110	.192	-.390	.001	.220	1.080
EPSIFRS	.101	.030	.223	-1.040	.001	.170	2.080
BVPS _{CAS}	2.115	1.843	1.853	-5.510	1.258	2.771	20.540
BVPS _{IFRS}	2.028	1.833	1.380	-5.520	1.323	2.752	9.940

Table III

Pearson correlation coefficients

Panel A: Period 1994-1997 (Observations = 179 company-years)

Variables	PRICE A	PRICE B	EPS _{CAS}	EPS _{IFRS}	BVPS _{CAS}	BVPS _{IFRS}
PRICE A	1.000					
PRICE B	.793***	1.000				
EPS _{CAS}	.273***	.353***	1.000			
EPS _{IFRS}	.220***	.373***	.703***	1.000		
BVPS _{CAS}	.267***	.230***	.200***	.154**	1.000	
BVPS _{IFRS}	.566***	.505***	.380***	.421***	.478***	1.000

Panel B: Period 1998-2000 (Observations = 217 company-years)

Variables	PRICE A	PRICE B	EPS _{CAS}	EPS _{IFRS}	BVPS _{CAS}	BVPS _{IFRS}
PRICE A	1.000					
PRICE B	.696***	1.000				
EPS _{CAS}	.098	.190***	1.000			
EPS _{IFRS}	.080	.180***	.670***	1.000		
BVPS _{CAS}	.209***	.262***	.718***	.604***	1.000	
BVPS _{IFRS}	.246***	.308***	.745***	.634***	.968***	1.000

Panel C: Period 2001-2004 (Observations = 314 company-years)

Variables	PRICE A	PRICE B	EPS _{CAS}	EPS _{IFRS}	BVPS _{CAS}	BVPS _{IFRS}
PRICE A	1.000					
PRICE B	.815***	1.000				
EPS _{CAS}	.197***	.484***	1.000			
EPS _{IFRS}	.091	.272***	.512***	1.000		
BVPS _{CAS}	.138**	.286***	.317***	.219***	1.000	
BVPS _{IFRS}	.235***	.463***	.487***	.271***	.592***	1.000

Panel D: Full Period 1994-2004 (Observations = 710 company-years)

Variables	PRICE A	PRICE B	EPS _{CAS}	EPS _{IFRS}	BVPS _{CAS}	BVPS _{IFRS}
PRICE A	1.000					
PRICE B	.696***	1.000				
EPS _{CAS}	.163***	.281***	1.000			
EPS _{IFRS}	.104***	.230***	.576***	1.000		
BVPS _{CAS}	.162***	.254***	.352***	.273***	1.000	
BVPS _{IFRS}	.263***	.383***	.515***	.368***	.641***	1.000

Significant at the 1% level or better; ** Significant at the 5% level or better

Table IV:

Regression results for A-share market

<i>Variables</i>	<i>1994-1997</i>	<i>1998-2000</i>	<i>2001-2004</i>	<i>All</i>
Panel A: Results using earnings and book-values per share				
Panel A1: CAS-based Price Model ($PA_{it} = \alpha_0 + a_1EPSCAS_{it} + a_2BVPS_{CAS}_{it} + e_{it}$)				
Intercept	5.454 (9.129***)	8.774 (12.602***)	7.580 (23.751***)	7.925 (29.533***)
EPS _{CAS}	5.928 (3.169***)	-2.831 (-1.131)	3.402 (2.908***)	2.941 (3.088***)
BVPS _{CAS}	.734 (3.064***)	1.188 (3.000***)	.142 (1.446)	.298 (3.017***)
Adjusted R ²	.111	.041	.039	.036
F-ratio	12.152***	5.576***	7.349***	14.382***
Number of observations	179	217	314	493
Panel A2: IFRS-based Price Model ($PA_{it} = \beta_0 + P_1EPS_{IFRS}_{it} + P_2BVPS_{IFRS}_{it} + \epsilon_{it}$)				
Intercept	1.191 (1.494)	8.481 (12.702***)	7.196 (20.529***)	7.197 (23.998***)
EPS _{IFRS}	-.644 (-.335)	-3.358 (-1.488)	.429 (.507)	.173 (.213)
BVPS _{IFRS}	3.714 (8.410***)	1.310 (3.827***)	.527 (3.966***)	.876 (6.667***)
Adjusted R ²	.313	.061	.050	.067
F-ratio	41.606***	8.059***	9.213***	26.346***
Number of observations	179	217	314	710
Panel B: J-test results for the CAS- and IFRS-based information				
Panel B1: CAS-based Price Model ($P_{Ait} = \alpha_0 + a_1EPSCAS_{it} + a_2BVPS_{CAS}_{it} + a_3PRICE_{IFRS}_{it} + e_{it}$)				
Intercept	2.019 (2.610**)	.691 (.265)	5.024 (4.117***)	4.787 (6.464***)
EPS _{CAS}	-.697 (-.348)	-4.299 (-1.724*)	1.862 (1.366)	.341 (.310)
BVPS _{CAS}	.149 (.630)	-1.944 (-1.849*)	.015 (.131)	-.002 (-.015)
PRICE _{IFRS}	2.359 (6.228***)	4.045 (3.204***)	.708 (2.170**)	1.144 (4.537***)
Adjusted R ²	.268	.080	.050	.062
F-ratio	22.770***	7.300***	6.528***	16.716***
Number of observations	179	217	314	710
Panel B2: IFRS-based Price Model ($P_{Ait} = \beta_0 + P_1EPS_{IFRS}_{it} + P_2BVPS_{IFRS}_{it} + P_3PRICE_{CAS}_{it} + \epsilon_{it}$)				
Intercept	-.100 (-.062)	10.336 (1.683*)	3.079 (1.077)	6.175 (2.708***)
EPS _{IFRS}	-1.489 (-.699)	-3.575 (-1.507)	-.164 (-.175)	.017 (.019)
BVPS _{IFRS}	3.526 (7.234***)	1.492 (2.160**)	.387 (2.362**)	.826 (4.813***)
PRICE _{CAS}	.218 (.919)	-.204 (-.304)	.535 (1.452)	.127 (.452)
Adjusted R ²	.313	.057	.053	.066
F-ratio	27.995***	5.380***	6.867***	17.612***
Number of observations	179	217	314	710
*** Significant at the 1% level; ** Significant at the 5% level; * Significant at the 10% level				

Table V

Regression results for B-share market

<i>Variables</i>	<i>1994-1997</i>	<i>1998-2000</i>	<i>2001-2004</i>	<i>All</i>
Panel A: Results using earnings and book-values per share				
Panel A1: CAS-based Price Model ($P_{Bit} = a_0 + a_1EPS_{CASit} + a_2BVPS_{CASit} + e_{it}$)				
Intercept	1.379 (5.668***)	2.173 (4.776***)	3.443 (24.477***)	2.683 (18.804***)
EPS _{CAS}	3.440 (4.514***)	.057 (.035)	4.361 (8.458***)	2.914 (5.757***)
BVPS _{CAS}	.229 (2.347**)	.710 (2.744***)	.123 (2.850***)	.245 (4.670***)
Adjusted R ²	.142	.060	.249	.104
F-ratio	15.696***	7.908***	52.788***	42.171***
Number of observations	179	217	314	710
Panel A2: IFRS-based Price Model ($P_{Bit} = P_0 + P_1EPS_{IFRSit} + P_2BVPS_{IFRSit} + \epsilon_{it}$)				
Intercept	.144 (.426)	1.932 (4.444***)	3.155 (20.095***)	2.213 (14.053***)
EPS _{IFRS}	2.258 (2.767***)	-.460 (-.313)	1.166 (3.082***)	1.183 (2.771***)
BVPS _{IFRS}	1.132 (6.030***)	.861 (3.865***)	.486 (8.171***)	.641 (9.294***)
Adjusted R ²	.278	.087	.233	.154
F-ratio	35.297***	11.290***	48.509***	65.381***
Number of observations	179	217	314	710
Panel B: J-test results for the CAS- and IFRS-based information				
Panel B1: CAS-based Price Model ($P_{Bit} = \alpha_0 + \alpha_1EPS_{CASit} + \alpha_2BVPS_{CASit} + \alpha_3PRICE_{IFRSit} + e_{it}$)				
Intercept	.047 (.149)	-3.404 (-1.999**)	1.206 (2.294**)	.278 (.717)
EPS _{CAS}	.871 (1.056)	-.957 (-.589)	3.013 (5.133***)	.923 (1.602)
BVPS _{CAS}	.002 (.024)	-1.451 (-2.117**)	.012 (.247)	.015 (.251)
PRICE _{IFRS}	.914 (5.866***)	2.791 (3.393***)	.620 (4.409***)	.877 (6.646***)
Adjusted R ²	.279	.104	.291	.156
F-ratio	23.919***	9.368***	43.759***	44.553***
Number of observations	179	217	314	710
Panel B2: IFRS-based Price Model ($P_{Bit} = P_0 + P_1EPS_{IFRSit} + P_2BVPS_{IFRSit} + P_3PRICE_{CASit} + \epsilon_{it}$)				
Intercept	-.298 (-.433)	6.046 (1.516)	-2.668 (-2.151**)	.642 (.536)
EPS _{IFRS}	1.969 (2.173**)	-.941 (-.610)	.327 (.805)	.942 (2.031**)
BVPS _{IFRS}	1.067 (5.149***)	1.265 (2.820***)	.289 (4.057***)	.564 (6.270***)
PRICE _{CAS}	.075 (.740)	-.452 (-1.037)	.757 (4.731***)	.195 (1.325)
Adjusted R ²	.276	.087	.282	.155
F-ratio	23.653***	7.888***	42.022***	44.219***
Number of observations	179	217	314	710
*** Significant at the 1% level; ** Significant at the 5% level				

Table VI

Adjusted R² for Yearly Regressions

GAAP	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Panel A: A-share market										
IFRS	21.3%	32.6%	43.6%	14.3%	15.8%	3.6%	1.9%	12.5%	13.9%	14.6%
CAS	7.3%	3.8%	35.0%	9.6%	8.1%	2.3%	1.0%	12.1%	16.0%	17.4%
Panel B: B-share market										
IFRS	25.2%	33.2%	50.5%	68.7%	58.9%	13.2%	11.0%	34.9%	47.5%	31.3%
CAS	5.2%	5.5%	44.0%	63.5%	55.3%	13.2%	9.8%	10.7%	47.6%	54.9%

Table VII:

Regression results for A-share market (All variables deflated using previous year's share price)

<i>Variables</i>	<i>1994-1997</i>	<i>1998-2000</i>	<i>2001-2004</i>	<i>All</i>
Panel A: Results using earnings and book-values per share				
Panel A1: CAS-based Price Model ($PA_{it} = \alpha_0 + \alpha_1 EPSCAS_{it} + \alpha_2 BVPS_{CASit} + \varepsilon_{it}$)				
Intercept	1.373 (6.680***)	1.038 (13.179***)	.746 (35.875***)	.851 (26.019***)
EPS _{CAS}	9.652 (3.253***)	-6.721 (-2.883***)	4.116 (5.302***)	7.698 (8.023***)
BVPS _{CAS}	.020 (.070)	1.373 (4.368***)	.088 (1.544)	.237 (2.669***)
Adjusted R ²	.148	.097	.114	.154
F-ratio	5.851***	9.711***	20.500***	52.188***
Number of observations	114	164	304	582
Panel A2: IFRS-based Price Model ($PA_{it} = \beta_0 + \beta_1 EPSIFRS_{it} + \beta_2 BVPSIFRS_{it} + \theta_{it}$)				
Intercept	1.503 (4.100***)	.879 (12.441***)	.757 (36.171***)	.774 (24.113***)
EPS _{IFRS}	6.540 (3.8177***)	-.446 (-1.037)	.396 (1.938*)	.719 (2.510**)
BVPS _{IFRS}	.037 (.117)	.291 (7.099***)	.150 (4.118***)	.338 (11.246***)
Adjusted R ²	.183	.230	.073	.209
F-ratio	7.288***	25.387***	12.930***	75.012***
Number of observations	114	164	304	582
Panel B: J-test results for the CAS- and IFRS-based information				
Panel B1: CAS-based Price Model ($PA_{it} = \alpha_0 + \alpha_1 EPSCAS_{it} + \alpha_2 BVPS_{CASit} + \alpha_3 PRICEIFRS_{it} + \varepsilon_{it}$)				
Intercept	1.107 (1.302)	.497 (4.002***)	.424 (2.859***)	.295 (4.699***)
EPS _{CAS}	.173 (.322)	-2.585 (-1.131)	.424 (2.196**)	6.855 (7.728***)
BVPS _{CAS}	.019 (.065)	-.125 (-.310)	-.006 (-.079)	-.074 (-.854)
PRICE _{IFRS}	9.560 (3.181***)	.472 (5.369***)	3.546 (4.357***)	.472 (10.088***)
Adjusted R ²	.148	.231	.125	.283
F-ratio	3.871**	17.201***	15.448***	74.990***
Number of observations	114	164	304	582
Panel B2: IFRS-based Price Model ($PA_{it} = \beta_0 + \beta_1 EPSIFRS_{it} + \beta_2 BVPSIFRS_{it} + \beta_3 PRICECAS_{it} + \theta_{it}$)				
Intercept	1.060 (1.452)	1.141 (4.578***)	.138 (.932)	.248 (2.336**)
EPS _{IFRS}	5.115 (2.221**)	-.131 (-.254)	.173 (.840)	-.271 (2.031**)
BVPS _{IFRS}	.041 (.131)	.302 (7.161***)	.795 (4.206***)	.287 (9.674***)
PRICE _{CAS}	.378 (.740)	-.277 (-1.093)	.067 (1.644)	.295 (1.569)
Adjusted R ²	.176	.233	.282	.275
F-ratio	4.977***	17.344***	42.022***	71.763***
Number of observations	114	164	304	582

*** Significant at the 1% level; ** Significant at the 5% level

Table VII

Regression results for B-share market (All variables deflated using previous year's share price)

<i>Variables</i>	<i>1994-1997</i>	<i>1998-2000</i>	<i>2001-2004</i>	<i>All</i>
Panel A: Results using earnings and book-values per share				
Panel A1: CAS-based Price Model ($P_{Bit} = \alpha_0 + \alpha_1 EPSCA_{Sit} + \alpha_2 BVPS_{CASit} + \varepsilon_{it}$)				
Intercept	1.544 (9.703***)	2.739 (9.064***)	.721 (33.684***)	1.379 (16.863***)
EPS _{CAS}	3.903 (1.700*)	-2.627 (-1.829*)	6.297 (7.889***)	.888 (.370)
BVPS _{CAS}	-.149 (-.679)	-.057 (-.327)	.090 (1.534)	-.024 (1.767*)
Adjusted R ²	.016	.014	.210	.026
F-ratio	1.464	1.406	41.374***	2.971*
Number of observations	114	164	304	582
Panel A2: IFRS-based Price Model ($P_{Bit} = \beta_0 + \beta_1 EPSIFRS_{Sit} + \beta_2 BVPSIFRS_{Sit} + \theta_{it}$)				
Intercept	1.237 (4.453***)	3.557 (12.272***)	.738 (33.279***)	.868 (11.233***)
EPS _{IFRS}	3.382 (2.603**)	-26.505 (-3.090***)	.625 (2.885***)	.369 (.521)
BVPS _{IFRS}	.251 (1.058)	-2.039 (-1.763*)	.200 (5.166***)	.651 (9.009***)
Adjusted R ²	.095	.131	.123	.131
F-ratio	3.931**	13.290***	22.212***	43.388***
Number of observations	114	164	304	582
Panel B: J-test results for the CAS- and IFRS-based information				
Panel B1: CAS-based Price Model ($P_{Bit} = \alpha_0 + \alpha_1 EPSCA_{Sit} + \alpha_2 BVPS_{CASit} + \alpha_3 PRICEIFRS_{Sit} + \varepsilon_{it}$)				
Intercept	.763 (1.176)	7.616 (7.691***)	.263 (1.736*)	-.042 (-.268)
EPS _{CAS}	3.633 (1.583)	3.246 (1.579)	5.488 (3.055***)	-1.265 (-.573)
BVPS _{CAS}	-.153 (-.699)	.145 (.863)	-.043 (-.593)	-.819 (-3.770***)
PRICE _{IFRS}	.506 (2.019**)	-5.170 (-5.136***)	.602 (6.605***)	1.206 (10.354***)
Adjusted R ²	.037	.137	.232	.157
F-ratio	2.947**	9.646***	31.456***	44.553***
Number of observations	114	164	304	582
Panel B2: IFRS-based Price Model ($P_{Bit} = \beta_0 + \beta_1 EPSIFRS_{Sit} + \beta_2 BVPSIFRS_{Sit} + \beta_3 PRICECAS_{Sit} + \theta_{it}$)				
Intercept	1.683 (3.051***)	2.780 (5.664***)	-.201 (-1.316)	1.641 (6.237***)
EPS _{IFRS}	4.818 (2.394**)	-20.562 (-2.277**)	.286 (1.355)	1.308 (1.743*)
BVPS _{IFRS}	.247 (1.038)	-4.192 (-2.635***)	.206 (6.217***)	.706 (9.550***)
PRICE _{CAS}	-.380 (-.935)	.678 (1.952*)	.806 (1.755*)	-.799 (-3.073***)
Adjusted R ²	.093	.146	.220	.144
F-ratio	2.906**	10.285***	29.543***	32.511***
Number of observations	114	164	304	582
*** Significant at the 1% level; ** Significant at the 5% level				