The Price Disparity Between China A-shares and Hong Kong H-shares: An Empirical Analysis of the Price Premiums and Discounts

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Executive Summary

This thesis examines 62 Chinese companies, which have issued both A-shares in mainland China and H-shares in Hong Kong. The analysis is conducted from June 1995 until September 2010. A-shares can only be traded by domestic Chinese investors or Qualified Foreign Institutional Investors, whereas H-shares are available to all Hong Kong and foreign investors. Although both shares are issued by the same company, they exhibit different prices with the H-shares sold at a large time-varying discount.

Five time series analyses on different sample periods were conducted. The first one is a whole-sample analysis and the other four are split-sample analyses. Each analysis incorporates six different ARMA(1,1)-GARCH(1,1) models, which differ in the liquidity measures used.

The author finds that the H-share price discount is positively influenced by the mainland China market returns and negatively correlated with the Hong Kong market returns. Besides, this share price discount appears to be influenced by market liquidity too. The liquidity hypothesis tests the fact that a more liquid H-share market increases the H-share prices and therefore reduces the H-share price discounts. The analyses show that three volume-based liquidity measures support the hypothesis, whereas the liquidity measure called relative trading volume has the most number of significant coefficients. Moreover, the author does not find any significant evidence of the impact of historic economic crises on the H-share price discounts.