

**Paper#:** K227

## **The End Justifies the Means? Signalling Effect of How and Where to List**

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### **ABSTRACT**

The use of reverse mergers to access the public markets has raised some controversies. The listing vehicle has come under constant criticism because private firms could bypass the arduous and costly vetting system of a traditional IPO. In this paper, we compare various profitability and productivity measures of Chinese companies listed in US through IPO or reverse mergers, as well as those listed in CHINEXT or SME Boards. While some studies document inferior reporting quality and financial failures of the Chinese Reverse Mergers (CRMs) relative to US domiciled IPO firms, we conjecture that US domiciled Chinese companies should fare better than Chinese domestic firm. In particular, we contend that since they are subject to same financial reporting standards as other US firms, their reporting quality is enhanced. The empirical result indicates that there is no significant difference between the performance of CRMs and Chinese IPO firms listed in US. More importantly, our multivariate tests provide evidence that Chinese firms chose to list in the US perform relatively better than Chinese domestic firms.

**Keywords:** bonding incentive, listing rules, listing domicile, Chinese Reverse Mergers (CRMs), CHINEXT

## **1. Introduction**

Previous studies suggest that many CRM companies seek overseas listings because it is difficult to gain access to corporate debt financing. In China, the bond market is mainly dominated by government bonds. Besides, the domestic listing requirements in the Main and SME Boards are stringent. The vetting system is highly political. Only listing candidates with strong political connections are deemed successful (Yang, 2012). However, once the listing application has been approved, the mechanism of continuing listing and delisting does not seem to work effectively. Over the past decade, virtually no delisting case has occurred. Moreover, corrupted corporate customs increase the cost of going public. For example, firms have to give some stockholding to local government for free in order to expedite the approval process. Although there are regulations back in 2007 prohibiting stock allotment to local governments, corruption still prevails.

The number of CRM transactions has grown substantially in the last decade<sup>1</sup>. Reverse merger (RM) is commonly used by Chinese companies to get access to US stock markets through acquisition of a public “shell” company<sup>2</sup> which has no operation but to seek a private company to merge with. The majority of these shell companies are listed on the OTC Bulletin Board or the Pink Sheets markets. Figure 1a shows that the CRM deals were extremely active in the last decade but diminished to a trivia level of 8 deals in 2012 as a result of the alleged fraudulent activities.

Private Investment of Public Equity (PIPE) has become a vital funding source for Chinese companies to buy a shell by selling their stock (normally “restricted” stock linked to an equity investment) to institutional investors such as hedge funds or mutual funds at a discount price. After completion of PIPE, the shell and the Chinese private company will sign a merger document to effect the deal enabling shareholders of the Chinese company to take over the majority of the stock. Formally, the SEC does not require any regulatory or administrative reviews<sup>3</sup>. This scheme effectively allows a private company to bypass the costly and arduous traditional IPO process<sup>4</sup> which is a vital vetting system to protect investors.

After completion of the reverse merger, the CRM will remain trading in the OTC market until they are able to fulfil the listing requirements of the exchanges and get uplisted. The reporting requirement in the OTC market is relatively lax. The companies are not required to file timely reports to maintain the OTC status. It is only until the company officially files a Form 15 to terminate its registration with SEC that the OTC status will be nullified.

With the involvement of investment banks serving as “placement agents”, an alternative public offering (APO) has a higher successful rate than the traditional standalone method.

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<sup>1</sup> According to the data from Deal Flow Media’s Reverse Merger Report, the number of RM increases from 46 in 2000 to 204 in 2004, and maintains at around 200 per year up to 2008 (Deal Flow Media, 2009).

<sup>2</sup> Public Company Accounting Oversight Board (PCAOB) has estimated that 159 out of the 603 reverse merger transactions was related to companies from China region during the period of 2007 to 2010, and the CRM number has tripled during this period, representing 26% of the total RM (PCAOB, 2011)

<sup>3</sup> While all IPOs are required to file the Registration Statement with SEC to give details on all aspects of a company’s business, including financial results, growth strategy, and risk factors, RM transactions are only required to file the 8-K and the significant information related to the merger.

<sup>4</sup>The RM process could be as fast as 45 days (normally 3 or 4 months) to consummate whereas IPO process may take up an average of 12 months. A typical RM costs less than \$1 M (sometimes as low as \$200,000), and is significantly lower than IPO which costs at least several millions. As a result, RM is less subject to the market condition and volatility (Feldman, 2006)

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APO is the combination of a reverse merger with a simultaneous PIPE. Investment bankers seem to play a role of lowering issuers' information cost by providing certification (Dai *et al*, 2009). According to Deal Flow Media, APO accounts for 25 % of total RM transactions during 2008-2011. The vibrant activities reached the peak of 34.8% in 2008 and descended to the trough of 10% in 2011.

As shown in Figure 2, the amount of capital raised by PIPE ranged from US \$16M to \$324M. While the amount of capital funded by PIPE in relation to total market capitalization in APO hovered between 10.4%~15.2%, the number of APO has decreased sharply during the recent two years (from 28 to 4 deals). The insignificant PIPE capital illustrates that APO constitutes only a modest portion of CRM deals. Moreover, the motivation for CRM companies to go public solely for securing public funds does not seem sufficiently tenable.

The advent of CHINEXT in the Shenzhen Stock Exchange in 2009 offered an alternative capital raising channel for young and innovative companies. Nevertheless, access to investment in growth enterprises exposed domestic stockholders to a higher risk. The first 28 companies (e.g., Huayi Bros. Media Group) underwent a rollercoaster ride in stock prices after their initial openings. In an effort to curb speculation and warn investors against potential risks, the China Security and Future Commission (CSFC) selectively approved firms from various industrial sectors for listing so as to alleviate risks and market volatility. In 2011 the SFC also initiated the adoption of some institutional innovations<sup>5</sup>. The China Insurance Regulatory Commission ("CIRC") also announced that insurance funds were forbidden to acquire stocks in CHINEXT (Wenfei Ltd.,2010). Given the enforcement of above measures, CHINEXT can effectively match an independent entrepreneur with venture capital for optimization of social capital. More than 350 companies have successfully been listed since its inception. It is perceived to be a significant milestone on the development of the evolving China capital market. Given a brand new concept of a domestic platform, Chinese private firms with funding needs can make their choice in terms of their distinct characteristics. As a matter of fact, there is an upward trend of reputable Chinese firms choose to float their stocks on Chinex. In order to gain a better understanding of different listing choices made by CRM companies, we conduct a compliance test against the different listing requirements of Chinese exchanges (SME and CHINEXT) and US market (NASDAQ<sup>6</sup> and NYSE) a posteriori.

From the perspective of an entry system, Chinese stock exchange generally applies the approval system while US simply applies the registration system. The former scrutinizes the candidate firms by several criteria before offering the approvals which are tightly controlled by the central and provincial governments<sup>7</sup>. In contrast, the latter requires only registration statements (e.g. Forms S-1, F-1<sup>8</sup>) which might be much easier and straightforward. On the

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<sup>5</sup> Such innovations include: (i) investor suitability system to secure a rational and efficient market (ii) emphasize the responsibilities of intermediaries and improve market restraint mechanism (iii) introduced reforms and innovation to continuing compliance of listed enterprises regarding disclosure, surveillance system, delisting system, etc. (Shenzhen Stock Exchange,2011)

<sup>6</sup> NASDAQ Exchange owns three market tiers tailored for companies with diverse capital, namely: Capital Market, Global Market, and Global Selected Market. They are the exchanges for firms with small, middle, and large capital respectively. Here we choose Global Market to stand for NASDAQ, for it accounts for the most part of transactions, also it's the place where most of our CRM successfully uplisted.

<sup>7</sup> Firms seeking listing in China have to go through multi-step process which is quite time consuming: packaging under the approval of government agencies, lobbying the government for listing authorization, and submitting application documents. (Darrough et al, 2012)

<sup>8</sup>S-1 is the general form of registration statement, while F-1 stands for registration statement for certain foreign

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other hand, delisting seems to be a rare case in China. The average delisting rate has been less than 1% for the past 10 years. The US stock exchange has comparatively consistent standards for listing and delisting.

US IPO requirements are generally more onerous than that of China in terms of listing stipulations. Each US exchange usually offers 3 to 4 sets of alternative listing standards from which firms could opt for before listing. We combine the standards by selecting the minimum one of each item as the entry threshold. According to the financial criterion, both NASDAQ and NYSE require both revenue and asset amounts of USD 75 million. This poses a massive barrier for new entrants as the requirement is even more stringent than that of the SME. Moreover, the USD 500 million worth of capital demanded by the NYSE also far exceeds the USD 4.8 million (i.e. 30 million in RMB) required in China. In terms of cashflow, New York Exchange has a 3-year aggregate requirement of 25 million versus SME's 8 million requirement (i.e. 50 million). US listed firms have to maintain a bid price above \$4. Firms below \$1 for consecutive 90 days may face a delisting risk. The only demanding listing criterion that Chinese exchange imposes on SMEs is a minimum 3-year revenue record of 48 million in aggregate, whilst US exchange requires merely 2 million in the most recent year. In comparison, CHINEXT has the least restrictive requirement; it has no cash flow requirement and the history of business income and revenue is just one year. The profit requirement of CHINEXT is also less stringent than that of SME in terms of profit history and amount. More specifically, the four listing rules are delineated in Appendix A.

The use of reverse mergers by Chinese companies to access the public markets has raised controversies in the U.S. upon the rise of litigations and investigations on their auditing and reporting practices (Figure 3). RM companies in general are unprofitable and illiquid (Floros and Sapp, 2011). Moreover, CRMs are inferior in reporting quality to their US industry counterparts (Chen, Lin, & Lin, 2012; Givoly, Hayn, & Lourie, 2012; Jindra, Voetmann, & Walkling, 2012). Reverse merger has come under constant criticism because private firms could bypass the arduous and costly vetting system of a traditional IPO. Nonetheless, it is noteworthy that a majority of widely publicized CRM fraudulent cases which include Longtop Financial, were actually related to Chinese companies who completed a traditional IPO with renowned underwriters and auditors. This paper investigates an alternative explanation for growth Chinese firms using RM, specifically, we conjecture that the motivation of using RM after the debut of CHINEXT has changed substantially. We test implications from theory suggesting that RM is used as a bonding vehicle through subjecting themselves to the SEC oversight. China as the second largest and the most important emerging economy has attracted a huge influx of foreign investments in hope of grabbing massive profit. Foreign investors can either purchase B-shares in the Chinese stock exchanges or equity securities traded in overseas public markets. Regardless of listing locations and methods, these Chinese companies are headquartered and operated in China. A sound investment choice hinges on their performance measures. Nonetheless, the quality of financial reporting has a substantial impact on the accuracy of performance measurement. There is an important empirical implication generated by the above arguments. If bonding is an incentive likely to motivate a growth Chinese firm to use RM to differentiate themselves from other less performing Chinese firms, we hypothesize that uplisted CRM companies should exhibit better or comparable financial performance in order to signal their performance superiority in relation to their counterparts with different listing methods and places.

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private issuers. They are financial statements or formal documents required by U.S. Securities and Exchange Commission (SEC).

In order to test this hypothesis, we analyse Chinese companies listed in US through IPO or reverse mergers, and those listed in mainland China through CHINEXT and SME Boards from Year 2009 to 2011. This window has captured the critical uprisings and downfalls of the CRM deals, during which the CHINEXT Board in Shenzhen Exchange was making her debut in 2009 as alternative capital formation channel for young Chinese companies. The prevalence of CRM fraudulent allegations followed by the enforcement of new seasoning requirements in late 2011 marked the end of event period.

## **2. Background and Profiles of CRM**

We follow the subsequent status of the CRM transactions to determine how successful they can achieve the uplisting objectives. Out of the 438 identified Chinese reverse merger transactions from Dealflow Media Reverse Merger Report<sup>9</sup> for 2000-2011, 167 transactions pertain to our specified period (Year 2009-2011). This set of data is used to test the uplisting successful rate of these CRMs as well as the listing requirement compliance with the China exchanges

Table 1 (Panel A) summarize the 167 CRM deals initiated during 2009-2011 period. We search through their SEC filings for confirmation of their subsequent status. Among the 167 CRM deals, most of them remain in the OTC markets, 16 (10%) were successfully uplisted to AMEX/NASDAQ and 34 (20%) were officially terminated. The low success rate of 10% indicates a good vetting system which has been effectively blocking the unqualified companies to access capital funds.

We further examine the characteristics of these uplisted CRMs to determine if they were eligible for listing in the China stock exchanges. For the 16 successfully uplisted CRM companies, we cross check their compliance capability with the CHINEXT and SME listing rules by inspecting their initial financial positions. The results are shown in Table 1 Panel B. In hindsight, all companies could have met the core listing requirements of CHINEXT on revenue, profits and net assets independently and jointly (all companies except one also meet the listing requirements of SME Board). We also go through the SEC filings to ascertain the time these private companies first got incorporated. Only one firm cannot fulfil the two-year operating history requirement before uplisting. The findings indicate that those finally uplisted CRM companies are in no case inferior in terms of financial position. Nonetheless, they chose to bond themselves to a more transparent and stringent environment through reverse merger in US.

## **3. Literature Review**

The reverse merger is by no means a novelty. Warren Buffet took the helm of Berkshire Hathaway through a reverse merger back in the 1960s is just one of the well-known cases. RM flourished in the 1980s and again in the 1990s before the burst of the dotcom bubble. Nonetheless, it is a recent research interest. Arellano-Ostoa and Brusco (2002) document that high quality firms tend to choose IPO while less performing firms tend to use reverse mergers for going public. RM companies are also prone to subsequent financial failures and delisting after their emergence from the private arena. Consistent with the previous studies, Gleason

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<sup>9</sup> Deal Flow Media Reverse Merger Report is a publication with comprehensive coverage on news and data of the market for shell companies and reverse mergers in US

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*et al* (2005) examine 121 reverse mergers cases where troubled public companies become buying target of private companies to obtain listing status during the technology bubble. They document substantial return on the deal announcement date. However, only 46% of these companies manage to survive after 2 years. In a subsequent study, Gleason *et al* (2008) provide further evidence that the RM companies are generally smaller and less profitable. These companies demonstrate better performance in early years. However, their performance is steadily declining three years after their inception. On the other hand, Adjei *et al* (2008) adopt a more systematic approach to evaluate the determinants on the choice between IPOs versus RMs by performing tests on listing requirements fulfillment and after math survival. Their findings are consistent with the notion that smaller, younger and poorer performance companies choose RM as a spring board to access public funding. Moreover, the delisting probability is higher on RM than IPO. Floros & Sapp (2009, 2011) shift their focus to public shell companies. They find that most shell companies have no real operations or assets. Their sole existence is to be acquired for RM purpose. While the RM activities during the “credit crunch” continue to thrive, the negative perception precipitates empirically.

In response to the public outrage that Chinese firms and individuals have joined with partners in China to defraud investors through public listing in US, the SEC launched investigations for alleged accounting fraud in 2010. Templin B. (2012) examines CRM scandals from the legal standpoint and urges lawmakers to enforce stricter regulations on CRM so as to enhance investor protection. Jindra *et al*, (2012) compare CRMs with other Chinese IPOs in US and find that CRMs are related to smaller and less reputable companies who have worse performance based on company size and are more prone to litigations with smaller settlement amounts. On the contrary, Chen, Lin & Lin (2012) point out that CRM firms outperform both US companies and US listed Chinese companies in terms of sales growth and return on assets. From the reporting quality perspective, CRMs are inferior to their domestic peers in terms of restatement possibilities, accrual behavior, earnings management and conservatism (Chen, Lin & Lin, 2012; Givoly *et al*, 2012; Chen, Gotti & Schumann, 2012).

While reverse mergers are designated as black sheep to blame, the repercussion is evident by the significant decline of more than US \$8 billion in terms of market capitalization of the CRMs involved. The non-Chinese companies appear to escape the wrath and CRMs have become the scapegoat (Darrough *et al*, 2012).

#### **4. Hypotheses Development**

The Bloomberg China Reverse Merger (CHINARTO) Index<sup>10</sup> surged by 156 percent from December 2008 and reached its peak in 2010. It slumped 44 percent in 2011. This backdoor to gain entry into the U.S. public market seems to be losing its allurements. Only 41 CRM deals and 1 CRM uplisting occurred in 2011, compared to 81 deals and 20 CRM uplistings in prior year (Figure 1). Furthermore, the newly imposed seasoning requirements prolong the uplisting process. Under the new rules, a reverse merger company must have its securities trade on a U.S. over-the-counter market or another national securities exchange for one year before listing.

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<sup>10</sup> Bloomberg Chinese Reverse Merger Index (CHINARTO) currently keeps track of 92 major Chinese reverse merger companies in US and is used as an indicator on the overall stock performances of the Chinese reverse companies. The index has slumped by 72 percent since its peak in 2010.

We have shown earlier in our analysis that the amount of capital funded by PIPE was relatively small and the number of APO decreased sharply in recent years. Moreover, most uplisted CRM companies could have fulfilled the domestic listing requirements a posteriori. Despite the fact that these firms did not go through the vetting system as required by a traditional IPO, they do typically come under the same level of scrutiny for continuing listing in the US. During our study period, 2009-2011, there existed a strong motivation for Chinese private firms to seek overseas listing. The inherent weak legal environment in China provides low investor protection which in turn undermines reporting quality. On the other hand, the American stock exchanges support a bonding mechanism which enhances the visibility of high-quality issuers (Siegel, 2005). By migrating to a perceived “higher disclosure” exchange, Chinese private firms are also subject to the scrutiny of reputational intermediaries like underwriters, auditors and debt rating agencies (Coffee, 2002). Uninformed public investors would be attracted to markets with better protection. The expected surge in shareholder base allows CRM companies not just greater access to foreign capital but also more channels to issue debts.

Uplisted CRM companies convey a credible signal of higher financial reporting standards and strengthened corporate governance which in turn differentiate themselves from their domestic counterparts. Our conjecture is consistent with Coffee (1999 & 2002) and we hypothesize that uplisted CRM companies exhibit better or comparable financial performance in order to signal their performance superiority in relation to their counterparts with different listing methods and places.

## **5. Data Selection and Descriptive Statistics**

To compare the performances and characteristics of the different Chinese companies, we include Chinese companies listed in US through IPOs or RMs as well as the Chinese companies listed in local CHINEXT and SME Boards during the period of 2009 to 2011.

For Chinese companies listed in US, we base our data primarily from the Roth China Source Report<sup>11</sup> from 2008 to 2011. A total of 329 Chinese companies are identified in the Roth report, of which the majority has been classified by their listing method as IPO or Reverse Merger. For the remaining companies whose listing method was not indicated, we browsed through their related 10-Ks and financial websites for clarifications. We also compare the list with other sources to identify additional CRMs, 9 and 34 companies are added to our final sample from the Bloomberg Chinese Reverse Merger Index (CHINARTO) and Dealflow Media’s Reverse Merger Report respectively. This accounts for a total of 372 Chinese companies listed in US stock markets.

Among the 372 companies, 32 companies are eliminated due to missing or incomplete information. Another 42 companies listed on OTCBB or Pink Sheet markets are also removed due to unavailable financial data. Tentatively, 298 companies traded on the major US stock markets remain. The next stage of the screening process arises from the unavailability of Compustat data. The delistings/suspensions cases under consideration are identified through CRSP coding. Finally, our data constitutes 772 firm years for Chinese public companies in US, among which 362 firm years pertain to companies listed through IPO and 410 listed through reverse mergers (Figure 4).

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<sup>11</sup> The Roth China Source Report is a reference publication focused on providing investors with key information on publicly-traded Chinese Companies. Roth undertakes an in-depth approach, including site visits and conferences, to build a comprehensive database for the US listed Chinese companies.

The data regarding the Chinese listed companies in CHINEXT and SME is retrieved from the CSMAR<sup>12</sup>. Since this inception in 1990, CHINEXT has become a popular alternative for small to medium companies who seek capital formation and there are 282 companies listed in CHINEXT by December 2011. For the traditional SME Board, we have compared and obtained a list of 584 companies who are engaged in similar industries for comparison purpose. The performance and market indicators are run for these Chinese companies listed in Shenzhen Stock Market which allows us to compare with their US counterparts in the same period. Based on the above selection, our sample includes 2595 firm years of which distributions by year, industry type and no. of new deals are shown in Table 2.

[insert Table 2]

Figure 1 reports the trend and numbers of CRM deals and public listings of Chinese companies in US and China. CRMs have gained popularity in the last decade as indicated in the increasing numbers of deals and uplistings until 2010. The trend reversed after 2010 pursuant to the mounting up of regulatory scrutiny and battered stock prices. The rapid decline in the US public listings in contrast with the growth of the Chinese IPOs has denoted the desertion of US capital market for other markets where the Chinese firms are rewarded with better valuation. It appears that the hostile market conditions in US towards Chinese companies may have spilled over and driven away most Chinese firms, good and bad ones altogether.

In Table 3, we report the typology and characteristics of the public Chinese companies from 2009 to 2011. Whilst the US CRM companies are usually smaller in terms of sales, assets and earnings than the Chinese companies in IPO and SME category, they are generally larger than those in CHINEXT. Despite the lower absolute dollar amounts in earnings, the CRMs have consistently defeated other Chinese companies in the return on assets. The statistics is consistent with previous studies that typical CRMs are smaller in size and operations (Adjei *et al*, 2008; Chen, Gotti & Schumann, 2012), but little has accredited its superior performance relative to the operating size. (except Chen, Lin & Lin, 2012). All the Chinese firms exhibit a stable growth in the terms of means in sales, assets and earnings throughout the three year period except for Chinese IPO companies whose earnings dropped in 2011. The results reinforce our earlier conjecture that the performance of CRMs is not necessarily inferior.

[insert Table 3]

## **6. Operating Performance Measures**

We use a number of accounting ratios to measure the performance of various groups of Chinese companies. Liquidity, activity, profitability, human resource efficiency, market valuation, coverage ratios and Z-scores are compared and analysed.<sup>13</sup> The aggregate results for the raw ratios are shown in Table 4a and the year-on-year results in Table 4b. F-statistics indicates significant differences in terms of performance ratios among the different groups of Chinese companies. When the null hypothesis of equal means of the four groups of Chinese firms in an analysis of variance is rejected (9 out of 11), a formal test of the equality of multiple pairs of means is conducted to examine which means are different. Some

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<sup>12</sup> China Securities Market and Accounting Research (CSMAR) is a comprehensive database that covers the stock market and corporate data in Shanghai and Shenzhen Stock Exchange from 1990 to present.

<sup>13</sup> We also compute size adjusted (market capitalization) and industry adjusted measures. They yield similar results to those shown in Table 4.



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homoscedastic issue is noted in the variances, and alternative Games Howell post hoc analysis is employed with results shown in Table 5. We test all of the combinations of pairs of means with 6 null hypotheses for each performance measure:

$$\begin{array}{lll} H_{01}: \mu_{US\_IPO} = \mu_{US\_RM} & H_{02}: \mu_{US\_IPO} = \mu_{CHINEXT} & H_{03}: \mu_{US\_IPO} = \mu_{SME} \\ H_{04}: \mu_{US\_RM} = \mu_{CHINEXT} & H_{05}: \mu_{US\_RM} = \mu_{SME} & H_{06}: \mu_{CHINEXT} = \mu_{SME} \end{array}$$

[insert Table 4 and Table 5]

We use ROA, CFOA and ROS to measure the profitability of the different groups of Chinese companies. At aggregate level, significant F-statistics indicates that CRM and US IPO companies appear to perform better in ROA and CFOA, while CHINEXT companies perform better in ROS based on the respective absolute mean value. Similar pattern is observed from the year-on-year analysis. Besides, our analysis reveals that the profitability of US listed companies deteriorated more rapidly than the China listed companies during the event period. The convergence trend is attributed to the improvement of PRC companies' financial situation, especially after the global financial crisis.

Interestingly, it is noted that CHINEXT companies outperform other groups in ROS, partly due to the stringent listing requirements on sales and net income in the initial listing years. The ROS ratio of CHINEXT companies, while continues to show relatively strong position, starts to decline gradually. This phenomenon can be attributed to the reversal of discretionary accruals after management has finished cooking the book in fulfilment of the initial public listing requirements.

We use sales per employee, assets per employee and asset turnover ratios to measure productivity and activity. US companies (and CRMs in particular) have consistently scored better in all efficiency ratios, which is in line with the general expectations that domestic Chinese companies are being less efficient.

Tobin Q is the market value of a company's assets scaled by their replacement value. It indicates the premium price allowed by the market. While the market ratios are very similar among the different groups, the market performance of the CHINEXT companies is quite distinguished and noted to be significantly different from other groups. The difference could be attributed to the characteristics and difference in market reactions between US and China stock market. Positive market sentiments over the debut of CHINEXT and the public faith about CHINEXT stoked continuous surge in the index. However, the momentum of the CHINEXT companies began to exhibit signs of sluggishness two years after its inception. Although the Tobin Q of CRM companies was not impressive, the ratio improved dramatically after adjusted for the capitalization which suggest that certain CRMs with low capitalization have extremely low Tobin to harm the overall performance and impression of the CRM market.

Altman Z is adopted to measure the likelihood of bankruptcy for companies. All the Chinese companies have an overall Z-score of greater than 1.8, indicating that they are unlikely to fail. In light of the year-on-year analysis, Z score deteriorated rapidly during the event period for both US listed and CHINEXT companies. We conjecture that the worsening Z-score in US market was attributed to the highly publicised accounting scams, while that of

CHINEXT companies was due to the cool down of market sentiments.

The companies' liquidity and coverage are reflected by current cash debt coverage, leverage ratio and overall debt coverage. The groups do not exhibit significant difference in the overall debt coverage. CRM companies have better current cash debt coverage while CHINEXT companies have better leverage ratio. In line with the previous assumptions, CHINEXT's superior leverage ratio may be due to the fulfilment of the listing conditions. The high debt to asset ratio of US listed companies, and in particular CRM firms, echoes our conjecture that debt financing is another ultimate goal for Chinese companies to seek listing in US as domestic borrowings are not easily accessible.

## 7. Multivariate Analysis

From the univariate analysis, Chinese companies listed in US through reverse mergers and IPOs exhibit superior performances in operations. This leads us to believe that the listing domicile rather than the listing method contributes to the signaling effect on a company's financial standings. For this purpose, we group the reverse merger and IPO companies as one group, namely "US\_LISTING", to compare with the PRC listed companies in CHINEXT and SME Board. US\_LISTING is coded 1 for Chinese companies listed in US through IPOs and reverse mergers and 0 otherwise. We take the SME group as reference (control firms) and CHINEXT is coded 1 for companies listed in PRC CHINEXT Board. If uplisted CRM companies exhibit better or comparable financial performance in order to signal their performance superiority, we expect the coefficient of US\_LISTING is significant and positive.

Pooled and year-on-year OLS regressions are run on each performance measure for the three groups of companies to avoid potential serial correlation and heteroscedasticity issues. The model is controlled for the effect of size, leverage, book to market ratio and auditor change. SIZE is proxied by the logarithm of the company's assets value. LEVERAGE is defined as the portion of total liabilities to the total assets. BM denotes book to market value of the firm and  $\Delta$ AUDITOR represents change in auditors (1 coded for change of auditor and 0 otherwise).

$$\begin{aligned} & \text{ROA/ CFOA/ ROS/ SEMP/ AEMP/ Tobin's Q/ Z-Score/Current Debt Coverage/Asset} \\ & \text{Turnover/Cash Debt Coverage} = \\ & \alpha_0 + \alpha_1 \text{CHINEXT} + \alpha_2 \text{US\_LISTING} + \beta_1 \text{SIZE}_{i,t} + \beta_2 \text{LEVERAGE}_{i,t} + \beta_3 \text{BM}_{i,t} + \\ & \beta_4 \Delta \text{AUDITOR}_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (\text{Equation 1})$$

We further regroup the Chinese domestic companies into one single group as benchmark to confirm the results. Consequently, US\_LISTING is coded 1 for Chinese companies listed in US through IPOs and reverse mergers and 0 otherwise. The modified model is as follows:

$$\begin{aligned} & \text{ROA/ CFOA/ ROS/ SEMP/ AEMP/ Tobin's Q/ Z-Score/Current Debt Coverage/Asset} \\ & \text{Turnover/Cash Debt Coverage} = \\ & \alpha_0 + \alpha_1 \text{US\_LISTING} + \beta_1 \text{SIZE}_{i,t} + \beta_2 \text{LEVERAGE}_{i,t} + \beta_3 \text{BM}_{i,t} + \beta_4 \Delta \text{AUDITOR}_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (\text{Equation 1.1})$$

## **8. Empirical Results**

The pooled results shown in Panel A of Table 6 is consistent with our hypothesis. We place our focus on the domicile coefficients and differences in the domicile coefficients. For example, US Listing companies have an ROA that is 3.9% higher than SME controlled firms, and 3.52% (0.0389-0.0037) higher than CHINEXT. Among the three groups of Chinese companies (US\_LISTING, CHINEXT and SME), US listed companies always exhibit significant and higher coefficients in all performance measures (except Asset Turnover and Cash to Debt ratios), indicating superior performances compare to the Chinese domestic listed companies. It is also noteworthy that US Listing companies have a Z score that is six times less than the SME and twenty times less than the CRM companies, despite all three groups have mean Z scores higher than 1.8.

Control variables such as SIZE has significant positive impacts on most operation ratios of ROA, CFOA, ROS, SEMP and AEMP across the years, while LEVERAGE has negative correlation on ROA and CFOA. Book to market value and change in auditors are significant only to the market ratios of TOBIN Q and Z.

We obtain consistent results for the two-group analysis. For instance, US Listing companies have an ROA that is 3.73% higher than PRC listing controlled firms. Moreover, US listed companies exhibit significant and higher coefficients in all performance measures (except Cash to Debt ratio).

To summarize the results from Tables 5 and 6, Chinese companies listed in US exhibit superior performance. It is consistent to our hypothesis that uplisted CRM companies exhibit better or comparable financial performance in order to signal their performance superiority in relation to their counterparts with different listing methods and places.

[insert Table 6]

## **9. Conclusion**

While the notorious CRMs were generally believed to be lemons in light of the inherent lax listing requirements, our findings shed light on the CRM literature by providing evidence of the “bonding mechanism” and the signalling effect of using RMs on financial qualities. Our study contributes to the literature by offering a cradle analysis of CRMs from the initial stage in OTC market to comparisons of financial performances among Chinese companies with different listing domiciles and methods. From the inception of the acquisition of a public shell, CRM companies exhibit fairly strong funding position with relatively low utilization of PIPE in relation to the overall capitalization. This is contrary to the general belief that CRMs are associated with illiquid companies for accessing public funding. CRMs are often considered as black sheep because they bypass the rigorous IPO scrutiny for quality assurance. While it may be easy for a private company to acquire a shell and stay on the OTC, it takes substantial effort to migrate to a major exchange. From our statistics, only 11% of CRM companies can successfully complete uplisting during the event period. In accordance to our compliance tests, they are absolutely capable of fulfilling the financial requirements for trading in the China stock exchange. We argue that the low success rate together with the delisting regulations in US have instilled a good regulatory system for investor protection. CRM companies made their choice due to the perceived reputational benefits of pursuing

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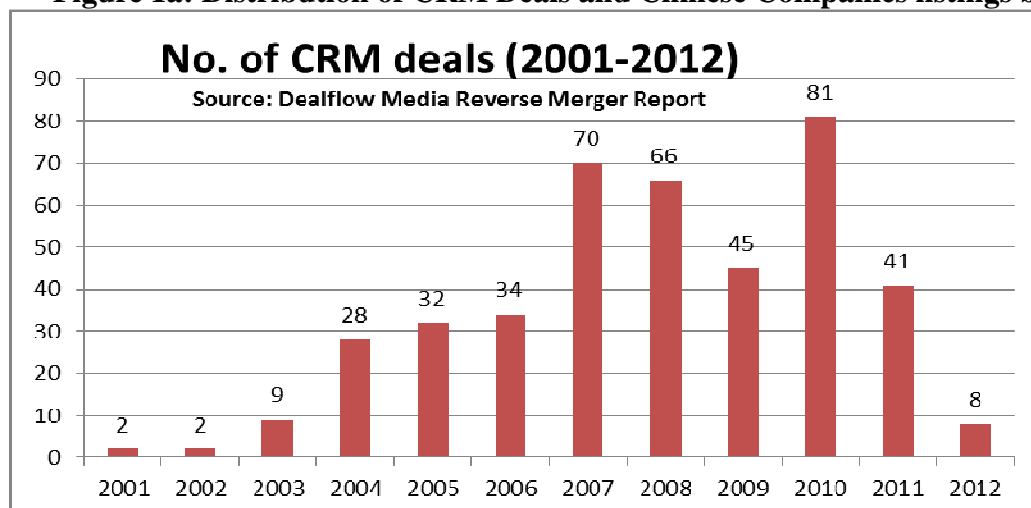
higher stock valuation and lower cost of capital. The recent statistics in the litigation cases also provide insights into the flimsy accusations against CRMS. The enforcement of seasoning requirements is a political process through which US regulators are trying to curb the growing influence of emerging economies on US capital markets.

Our findings indicate that Chinese firms listed in the US exhibit superior financial performance than their domestic counterparts. These companies, especially, CRM firms bond themselves to US capital market which is subject to stringent financial reporting standards. In our multivariate analysis, signalling effect is noted as Chinese companies perform differently by their listing domicile instead of listing method. While US listed companies perform better in most operating measures, PRC listed companies are able to achieve better market valuation ratios. We therefore conclude that the listing domicile signals Chinese firms' financial qualities.

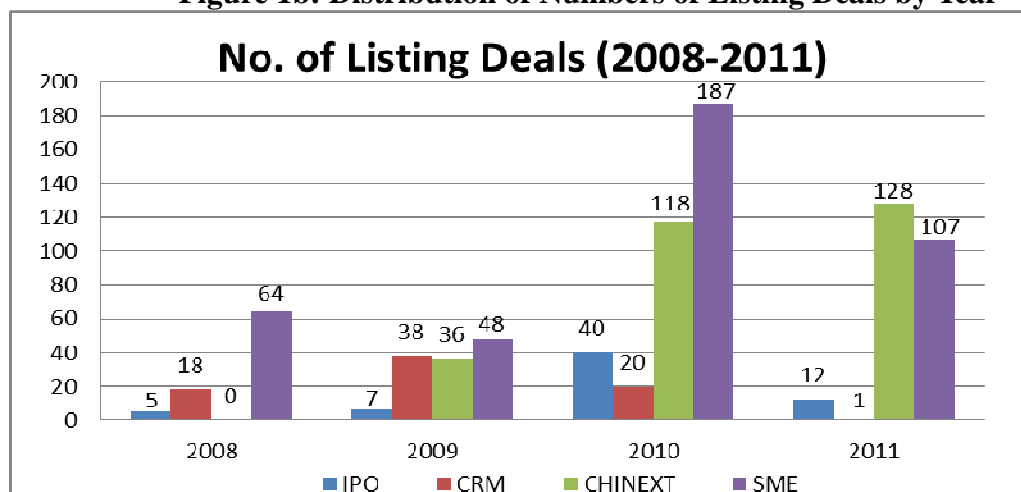
**Figure 1: No. of CRM Deals and Listings of Chinese Companies**

Year	No. of CRM deals	Listings of Chinese Companies				
		IPO	CRM	CHINEXT	SME	Total
2001	2					
2002	2					
2003	9					
2004	28					
2005	32					
2006	34					
2007	70					
2008	66	5	7	40	12	64
2009	45	18	38	20	1	77
2010	81	0	36	118	128	282
2011	41	64	48	187	107	406
2012	8					

**Figure 1a: Distribution of CRM Deals and Chinese Companies listings by Year**



**Figure 1b: Distribution of Numbers of Listing Deals by Year**



**Figure 2: Proportion of APO in the CRM transactions (Source: Deal Flow Media)**

Items Years	Number of CRM Transactions	Number of APO	APO Proportion	PIPE Amount	Post-RM/PIPE Shares Issued and Outstanding X Closing Stock Price	PIPE % in Total Market Capitalization
2008	66	23	34.8%	\$171M	\$1,507M	11.3%
2009	45	9	20%	\$62M	\$597M	10.4%
2010	81	28	34.6%	\$324M	2,132M	15.2%
2011	41	4	10%	\$16M	\$127M	12.6%

**Figure 3: Annual Number of Class Action Filings (Source: Cornerstone Research, 2012)**

Class Action Types	Others	Credit Crisis Filings	CRM Filings	M&A Filings	Total
1997	174				174
1998	242				242
1999	209				209
2000	216				216
2001	180				180
2002	224				224
2003	192				192
2004	228				228
2005	182				182
2006	120				120
2007	138	39			177
2008	123	100			223
2009	107	53		7	167
2010	114	13	9	40	176
2011	111	3	31	43	188
2012	129	0	10	13	152

Figure 3a: Annual Number of Class Action Filings (Source: Cornerstone Research, 2012)

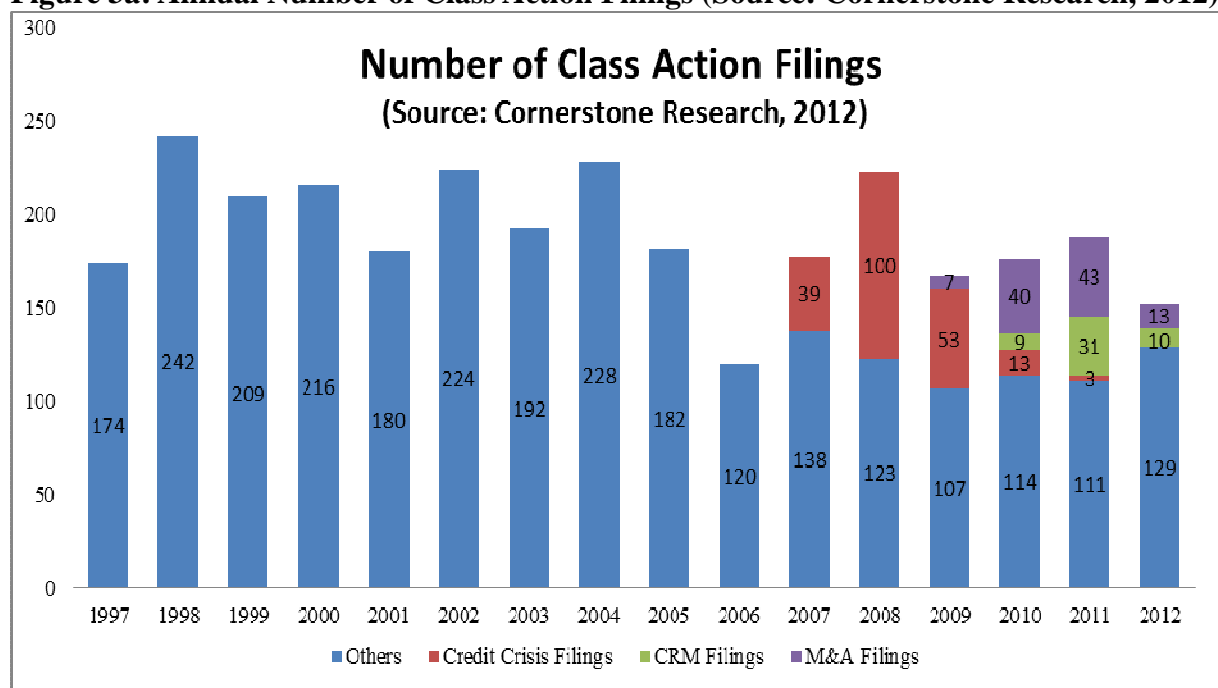


Figure 4: Sample Data for Chinese public companies in US

	2009	2010	2011	Total
Chinese companies from Roth reports	329	329	329	987
Additional CRMs from Bloomberg CHINARTO index	9	9	9	27
Additional CRMs from Dealflow Media	34	34	34	102
	372	372	372	1116
Initial Screening:				
Less: companies with incomplete information	-32	-32	-32	-96
Less: companies in OTC/pinksheet	-42	-42	-42	-126
	298	298	298	894
Delisted/Suspended/unavailable Information:				
Less: dropped due to bankruptcy	-1	-1	-2	-4
Less: dropped due to merger		-3	-10	-13
Less: dropped due to stock price		-1	-2	-3
Less: dropped due to delinquent in filing		-3	-3	-6
Less: dropped due to failure to meet financial requirements for		-7	-14	-21
Less: dropped due to investor protection		-3	-7	-10
Less: dropped due to privatization		-1	-1	-2
Less: Information for available in Compustat	-13	-10	-40	-63
	284	269	219	772
Recap:				
Chinese IPOs in US	122	125	115	362
Chinese Reverse Merger	162	144	104	410
	284	269	219	772

**Table 1: Summary of 2009-2011 CRM Deals  
(Source: Dealflow Media Reverse Merger Report)**

**Panel A: Subsequent Status on the CRM Deals from 2009-2011:**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
Chinese Reverse Merger Deals	45	81	41	167
Subsequent Status from SEC filings:				
Successful uplisting	9	7	0	16
remain in OTC	23	43	28	94
registration terminated	10	18	6	34
not traded	3	13	7	23
	<u>45</u>	<u>81</u>	<u>41</u>	<u>167</u>
delisted after uplisting	2	4	0	6
Success Rate	20%	9%	0%	10%
Failure Rate	22%	22%	15%	20%

**Panel B: CHINEXT and SME listing requirements compliances:**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
Total CRM uplisting (according to RM year)	9	7	0	16
Average revenue	72.38	132.61	N/A	98.73
Average net profit	8	18.53	N/A	12.61
Average net asset value	25.36	47.73	N/A	34.31
<u>Companies that meet individual CHINEXT listing requirements:</u>				
CHINEXT revenue compliance (>8M USD)	9	7	N/A	16
CHINEXT net income compliance (>0.8M USD)	9	7	N/A	16
CHINEXT asset compliance (>3.2M USD)	9	7	N/A	16
Companies that meet all CHINEXT listing requirements	9	7	N/A	16
<u>Companies that meet individual SME listing requirements:</u>				
SME revenue compliance (>48M in 3 years)	8	7	N/A	15
SME net income compliance (>4.8M in 3 years)	9	7	N/A	16
SME asset compliance (no minimum requirement)	9	7	N/A	16
Companies that meet all SME listing requirements	8	7	N/A	15



**Table 2: Data Distribution**

**Panel A: Distribution of Sample by Years**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
IPO	122	125	115	362
CRM	162	144	104	410
CHINEXT	36	154	282	472
SME	290	477	584	1351
Total	610	900	1085	2595

**Panel B: Distribution of the Chinese Companies by Industries**

	<u>IPO</u>	<u>CRM</u>	<u>CHINEXT</u>	<u>SME</u>	<u>TOTAL</u>
Agriculture, Forestry and Fishing	1	8	6	13	28
Communications	3	3	53	57	116
Construction	0	2	2	16	20
Electric, Gas and Sanitary Service	2	3	0	0	5
Finance and Insurance	2	0	0	0	2
Manufacturing - Apparel	2	3	0	2	7
Manufacturing - Electronics	27	23	31	58	139
Manufacturing - Food & Beverages	1	12	4	28	45
Manufacturing - Machinery	5	11	85	147	248
Manufacturing - Metals &	1	17	9	69	96
Manufacturing - Others	1	2	3	15	21
Manufacturing - Paper & Printing	1	3	3	20	27
Manufacturing - Petrochemicals	9	36	32	88	165
Manufacturing - Pharmaceuticals	3	1	23	33	60
Mining	1	9	4	0	14
Movies and Amusements	2	1	10	2	15
Others	0	0	1	1	2
Real Estate	5	4	0	0	9
Restaurants	1	0	0	0	1
Services	52	17	13	15	97
Transportation	3	4	2	1	10
Wholesale and Retail	5	12	1	19	37
	127	171	282	584	1164

**Panel C: Listing Deals by Year**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
IPO <sup>(1)</sup>	5	7	40	12
CRM <sup>(2)</sup>	18	38	20	1
CHINEXT <sup>(3)</sup>	0	36	118	128
SME <sup>(3)</sup>	64	48	187	107
	87	129	365	248

Source: (1) Darrrough et al (2012), (2) Chen et al (2012) and (3) www.szse.cn

**Table 3: Descriptive Statistics for the Chinese companies based on different listing methods (Year 2009 - 2011)**

	Year 2009				Year 2010				Year 2011			
	Median	Mean	Std. Dev.	N	Median	Mean	Std.	N	Median	Mean	Std.	N
<b>US IPO</b>												
Sales	143.32	356.66	1052.95	122	191.16	513.76	1491.21	125	240.98	662.33	2035.38	115
Assets	241.15	833.13	2733.96	122	303.95	1008.47	3209.42	125	351.25	1229.04	3947.37	115
Earnings	13.60	32.45	150.54	122	24.06	68.76	148.53	125	17.02	52.39	168.83	115
ROA	0.07	0.09	0.18	122	0.08	0.09	0.14	125	0.05	0.05	0.13	115
<b>US RM</b>												
Sales	66.81	115.22	179.55	168	82.00	147.91	227.98	144	102.62	182.08	291.01	104
Assets	88.46	155.16	217.36	168	123.10	204.27	286.80	144	158.22	261.78	432.42	104
Earnings	11.62	15.92	25.02	168	12.44	20.61	54.51	144	9.94	29.50	119.32	104
ROA	0.14	0.14	0.22	167	0.11	0.10	0.19	144	0.07	-0.08	1.32	104
<b>CHINEXT</b>												
Sales	39.04	47.67	39.08		46.97	65.12	67.74	154	55.86	77.23	71.83	282
Assets	105.93	124.37	64.82		138.11	171.47	100.33	154	149.25	184.48	117.58	282
Earnings	7.48	10.01	9.21		8.94	11.84	10.29	154	9.17	12.53	10.92	282
ROA	0.11	0.12	0.04		0.01	0.01	0.01	154	0.01	0.01	0.01	282
<b>SME</b>												
Sales	98.86	197.35	535.68	290	128.09	246.08	594.51	477	158.10	322.48	779.60	584
Assets	165.42	246.00	369.15	290	210.93	316.73	434.26	477	255.21	409.80	697.54	584
Earnings	9.96	18.51	44.13	290	13.23	24.58	54.72	477	14.30	28.30	64.45	584
ROA	0.07	0.08	0.07	290	0.01	0.01	0.01	477	0.01	0.01	0.01	584

(2009 Exchange Rate 1 USD = 6.8279 RMB)\*

(2010 Exchange Rate 1 USD = 6.6515 RMB)\*

(2011 Exchange Rate 1 USD = 6.3281 RMB)\*

\* Source: People Bank of China, Statistics and Analysis Department (<http://www.pbc.gov.cn/publish/diaochaotongjisi/133/index.html>)

**Table 4a: Aggregate Performance ratios for Chinese companies with different listing method (2009-2011)**

Listing Method		N	Raw Mean
ROA	US IPO	362	.0792
	US RM	415	.0737
	CHINEXT	472	.0897
	SME	135	.0781
	Total	260	.0797
	F (Sig.)	0.267 (0.849)	
CFOA	US IPO	358	.0926
	US RM	413	.0292
	CHINEXT	472	.0194
	SME	135	.0478
	Total	259	.0459
	F (Sig.)	6.913 (0.000)*	
ROS	US IPO	361	.0225
	US RM	413	-.8743
	CHINEXT	472	.2001
	SME	135	.1121
	Total	259	-.0412
	F (Sig.)	5.386 (0.001)*	
Sales/ Employee	US IPO	345	158.30
	US RM	395	227.20
	CHINEXT	472	109.82
	SME	135	155.45
	Total	256	158.49
	F (Sig.)	13.452 (0.000)*	
Asset/ Employee	US IPO	345	279.39
	US RM	395	293.34
	CHINEXT	472	241.27
	SME	135	198.70
	Total	256	231.98
	F (Sig.)	16.231 (0.000)*	
Tobin Q	US IPO	322	1.9697
	US RM	398	2.0735
	CHINEXT	461	4.3655
	SME	132	2.4143
	Total	250	2.6618
	F (Sig.)	42.725 (0.000)*	
Z	US IPO	322	5.8791
	US RM	398	5.2599
	CHINEXT	461	24.3273
	SME	132	9.0355
	Total	250	10.8419
	F (Sig.)	155.16 (0.000)*	

Listing Method		N	Raw Mean
Current cash debt coverage	US IPO	358	.4653
	US RM	408	.6081
	CHINEXT	470	.4343
	SME	135	.3097
	Total	258	.4009
	F (Sig.)	7.599(0.000)*	
Asset Turnover	US IPO	362	.7423
	US RM	413	.9192
	CHINEXT	470	.5250
	SME	135	.8059
	Total	259	.7642
	F (Sig.)	41.4 (0.000)*	
Debt to Total Asset	US IPO	362	.3358
	US RM	413	.8095
	CHINEXT	470	.1541
	SME	135	.3294
	Total	259	.3749
	F (Sig.)	4.58 (0.003)*	
Cash debt coverage	US IPO	358	.2670
	US RM	411	.3019
	CHINEXT	470	.2454
	SME	135	.2174
	Total	259	.2427
	F (Sig.)	1.379 (0.247)	

\* A formal test of the equality of multiple pairs of means is conducted when F statistics is significant at conventional levels

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**Table 4b: Year-on-Year Performance ratios for Chinese companies with**

Listing Method		2009		2010		2011		Listing Method		2009		2010		2011	
		N	Raw Mean	N	Raw Mean	N	Raw Mean			N	Raw Mean	N	Raw Mean	N	Raw Mean
ROA	US IPO	122	.0914	125	.0907	115	.0539	Z	US IPO	89	6.7987	118	7.1997	115	3.8123
	US RM	167	.1438	144	.1015	104	-.0773		US RM	153	6.3836	141	5.7398	104	2.9563
	CHINEXT	36	.1205	154	.0920	282	.0845		CHINEXT	34	37.6281	152	35.3403	275	16.5956
	SME	290	.0773	477	.0863	584	.0718		SME	284	7.1822	470	7.9003	573	10.8851
	Total	615	.1007	900	.0903	1085	.0589		Total	560	8.7515	881	12.1950	1067	10.8218
F (Sig.)		7.234 (0.000)*		0.829 (0.478)		4.334 (0.005)*		F (Sig.)		60.714 (0.000)*		114.259 (0.000)*		39.175 (0.000)*	
CFOA	US IPO	122	.1269	123	.0920	113	.0561	Current cash debt coverage	US IPO	122	.5876	123	.4424	113	.3580
	US RM	167	.0849	143	.0644	103	-.1101		US RM	166	.6237	140	.8096	102	.3063
	CHINEXT	36	.0926	154	.0301	282	.0042		CHINEXT	36	.8000	153	.4594	281	.3738
	SME	290	.0767	477	.0588	584	.0245		SME	290	.4006	477	.2155	584	.3414
	Total	615	.0898	897	.0593	1082	.0097		Total	614	.5215	893	.3817	1080	.3483
F (Sig.)		3.542 (0.014)*		8.525 (0.000)*		5.225 (0.001)*		F (Sig.)		2.817 (0.038)*		11.796 (0.000)*		0.081 (0.97)	
ROS	US IPO	121	-.0188	125	.0690	115	.0154	Asset Turnover	US IPO	122	.7806	125	.7261	115	.7192
	US RM	166	-1.4952	143	-.6548	104	-.1851		US RM	167	.9925	142	.9103	104	.8138
	CHINEXT	36	.2282	154	.2134	282	.1893		CHINEXT	36	.6097	153	.5163	281	.5188
	SME	290	.1049	477	.1184	584	.1104		SME	290	.7868	477	.8210	584	.8031
	Total	613	-.3456	899	.0048	1085	.0925		Total	615	.8311	897	.7699	1084	.7215
F (Sig.)		1.281 (0.280)		3.209 (0.022)*		7.135 (0.000)*		F (Sig.)		5.508 (0.001)*		15.38 (0.000)*		20.522 (0.000)*	
Sales/Employee	US IPO	118	136.22	118	156.95	109	183.65	Debt to Total Asset (Leverage)	US IPO	122	.3599	125	.3058	115	.3426
	US RM	157	196.50	137	200.25	101	285.91		US RM	167	.3716	142	.6896	104	1.6762
	CHINEXT	36	99.59	154	114.14	282	108.76		CHINEXT	36	.1321	153	.1318	281	.1691
	SME	290	136.47	477	149.35	584	169.85		SME	290	.3642	477	.3176	584	.3217
	Total	601	149.89	886	152.11	1076	166.13		Total	615	.3518	897	.3432	1084	.4143
F (Sig.)		2.429 (0.064)		2.811 (0.038)*		9.568 (0.000)*		F (Sig.)		12.191 (0.000)*		3.900 (0.009)*		3.837 (0.01)*	
Asset/Employee	US IPO	118	271.42	118	284.71	109	282.25	Cash debt coverage	US IPO	122	.4400	123	.0920	113	.2708
	US RM	157	251.94	137	270.80	101	345.96		US RM	167	.5411	141	.0654	103	.2378
	CHINEXT	36	179.65	154	240.84	282	249.37		CHINEXT	36	.7431	153	.0303	281	.2987
	SME	290	172.74	477	185.22	584	222.59		SME	290	.3630	477	.0351	584	.2940
	Total	601	213.22	886	221.38	1076	247.23		Total	615	.4489	894	.0469	1081	.2874
F (Sig.)		5.094 (0.002)*		6.242 (0.000)*		6.420 (0.000)*		F (Sig.)		2.464 (0.061)		9.998 (0.000)*		0.132 (0.941)	
Tobin Q	US IPO	89	2.1487	118	2.5344	115	1.2517		US IPO	122	1.2517	115	1.2517	115	1.2517
	US RM	153	1.9578	141	1.6977	104	2.7533		US RM	153	1.9578	104	2.7533	104	2.7533
	CHINEXT	34	8.0519	152	5.8208	275	3.1053		CHINEXT	34	8.0519	275	3.1053	275	3.1053
	SME	284	2.1915	470	2.3499	573	2.5775		SME	284	2.1915	573	2.5775	573	2.5775
	Total	560	2.4767	881	2.8691	1067	2.5878		Total	560	2.4767	1067	2.5878	1067	2.5878
F (Sig.)		139.231 (0.000)*		133.470 (0.000)*		3.716 (0.011)*									

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**Table 5: Paired Tests on the Mean Differences (Raw Mean)**

**Panel A: Pooled (2009-2011)**

Mean Difference		ROA	CFOA	ROS	Sales/ Employee	Assets/ Employee	Tobin Q	Z	Current Debt Coverage	Asset Turnover	Debt/ Total Assets	Cash Debt coverage
US IPO	US RM		0.0634	0.8968	-68.90	-13.95	-0.1038	0.6191	-0.1429	-1.769*	-0.4737	
	CHINEXT		.0731*	-.1776*	48.48*	38.11	-2.3958*	-18.448*	0.0310	.2173*	.1817*	
	SME		.0447*	-0.0896	2.85	80.69*	-.4446*	-3.1564*	.1556061*	-0.0636	0.0064	
US RM	US IPO		-0.0634	-0.8968	68.90	13.95	0.1038	-0.6191	0.1429	.1769*	0.4737	
	CHINEXT		0.0098	-1.0745	117.38*	52.07	-2.2920*	-19.067*	0.1738	.3943*	0.6554	
	SME		-0.0186	-0.9864	71.75*	94.64*	-0.3408	-3.7755	.2984761*	.1133*	0.4801	
CHINEXT	US IPO		-.0731*	.1776*	-48.48*	-38.11	2.3958*	18.4482*	-0.0310	-.2173*	-.1817*	
	US RM		-0.0098	1.0745	-117.38*	-52.07	2.2920*	19.0673*	-0.1738	-.3943*	-0.6554	
	SME		-.0284*	.0881*	-45.63*	42.57*	1.9512*	15.2918*	.1246422*	-.2809*	-.1753*	
SME	US IPO		-.0447*	0.0896	-2.85	-80.69*	.4446*	3.1564*	-.1556061*	0.0636	-0.0064	
	US RM		0.0186	0.9864	-71.75*	-94.64*	0.3408	3.7755*	-.2984761*	-.1133*	-0.4801	
	CHINEXT		.0284*	-.0881*	45.63*	-42.57*	-1.9512*	-15.2918*	-.1246422*	.2809*	.1753*	

**Panel B: Year 2009**

Mean Difference		ROA	CFOA	ROS	Sales/ Employee	Assets/ Employee	Tobin Q	Z	Current Debt Coverage	Asset Turnover	Debt/ Total Assets	Cash Debt coverage
US IPO	US RM		-0.0524	0.0420		19.47	0.1909	0.4151	-0.0360	-0.2119	-0.0117	
	CHINEXT		-0.0291	0.0343		91.77	-5.903*	-30.829*	-0.2124	0.1710	.22783*	
	SME		0.0141	.0502*		98.68*	-0.0429	-0.3835	0.1870	-0.0061	-0.0043	
US RM	US IPO		0.0524	-0.0420		-19.47	-0.1909	-0.4151	0.0360	0.2119	0.0117	
	CHINEXT		0.0233	-0.0077		72.30	-6.094*	-31.245*	-0.1764	.38284*	.23957*	
	SME		.0665*	0.0082		79.21*	-0.2337	-0.7986	0.2231	.20575*	0.0074	
CHINEXT	US IPO		0.0291	-0.0343		-91.77	5.903*	30.830*	0.2124	-0.1710	-.22783*	
	US RM		-0.0233	0.0077		72.30	6.094*	31.245*	0.1764	-.38284*	-.23957*	
	SME		.0431*	0.0159		6.91	5.860*	30.446*	0.3995	-0.1771	-.23212*	
SME	US IPO		-0.0141	-.0502*		-98.68*	0.0429	0.3835	-0.1870	0.0061	0.0043	
	US RM		-.0665*	-0.0082		-79.21*	0.2337	0.7986	-0.2231	-.20575*	-0.0074	
	CHINEXT		-.0431*	-0.0159		-6.91	-5.860*	-30.446*	-0.3995	0.1771	.23212*	

**Panel C: Year 2010**

Mean Difference		ROA	CFOA	ROS	Sales/ Employee	Assets/ Employee	Tobin Q	Z	Current Debt Coverage	Asset Turnover	Debt/ Total Assets	Cash Debt coverage
US IPO	US RM		0.0276	0.7239	-62.15	-17.27	.837*	1.4599	-0.3672	-0.1841	-0.3837	0.0267
	CHINEXT		.0619*	-.1444*	42.81	43.87	-3.286*	-28.141*	-0.0170	.2098*	.174*	.0617*
	SME		0.0333	-0.0494	7.60	99.48*	0.1845	-0.7006	.2269*	-0.0948	-0.0118	.0569*
US RM	US IPO		-0.0276	-0.7239	62.15	17.27	-.837*	-1.4599	0.3672	0.1841	0.3837	-0.0267
	CHINEXT		0.0344	-0.8683	104.96*	61.14	-4.123*	-29.600*	0.3502	.3940*	0.5578	0.0351
	SME		0.0057	-0.7733	69.75	116.75*	-.652*	-2.1605	-.5941*	0.0893	0.3719	0.0302
CHINEXT	US IPO		-.0619*	.144*	-42.81	-43.87	3.286*	28.141*	0.0170	-.2098*	-.174*	-.0617*
	US RM		-0.0344	0.8683	-104.96*	-61.14	4.123*	29.600*	-0.3502	-.3940*	-0.5578	-0.0351
	SME		-.0287*	.095*	-35.21	55.62*	3.470*	27.440*	.2439*	-.3047*	-.1858*	-0.0048
SME	US IPO		-0.0333	0.0494	-7.60	-99.48*	-0.1845	0.7006	-.2269*	0.0948	0.0118	-.0569*
	US RM		-0.0057	0.7733	-69.75	-116.75*	.652*	2.1605	-.5941*	-0.0893	-0.3719	-0.0302
	CHINEXT		-.0287*	-.095*	35.21	-55.62*	-3.470*	-27.440*	-.2439*	.3047*	.1858*	0.0048

**Panel D: Year 2011**

Mean Difference		ROA	CFOA	ROS	Sales/ Employee	Assets/ Employee	Tobin Q	Z	Current Debt Coverage	Asset Turnover	Debt/ Total Assets	Cash Debt coverage
US IPO	US RM		.1311	0.1662	0.2005	-102.26	-63.71	-1.5015	0.8560	-0.0946	-1.3335	
	CHINEXT		-.0306	.0518*	-.174*	74.89*	32.88	-1.8536*	-12.783*	.2004*	.1736*	
	SME		-.0180	0.0316	-0.0951	13.80	59.66	-1.3257*	-7.073*	-0.0839	0.0210	
US RM	US IPO		-.1311	-0.1662	-0.2005	102.26	63.71	1.5015	-0.8560	0.0946	1.3335	
	CHINEXT		-.1617	-0.1143	-0.3745	177.16	96.58*	-0.3520	-13.639*	.2949*	1.5071	
	SME		-.1491	-0.1346	-0.2956	116.06	123.37*	0.1758	-7.929*	0.0107	1.3545	
CHINEXT	US IPO		.0306	-.0518*	.174*	-74.89*	-32.88	1.8536*	12.783*	-.2004*	-.1736*	
	US RM		.1617	0.1143	0.3745	-177.16	-96.58*	0.3520	13.639*	-.2949*	-1.5071	
	SME		.0126*	-.0202*	.0789*	-61.10*	26.78	.5279*	5.710*	-.2843*	-.1526*	
SME	US IPO		.0180	-0.0316	0.0951	-13.80	-59.66	1.3257*	7.073*	0.0839	-0.0210	
	US RM		.1491	0.1346	0.2956	-116.06	-123.37*	-0.1758	7.929*	-0.0107	-1.3545	
	CHINEXT		-.0126*	.0202*	-.0789*	61.10*	-26.78	-.5279*	-5.710*	.2843*	.1526*	

\* represents significant level at 5%

US RM

2.8520\*

.0920\*

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**Table 6: Pooled and Year-On-Year OLS Regression Analysis of performance ratios by listing domicile (raw data)**

**Panel A – SME vs. CHINEXT vs. US\_LISTINGS (3 Groups)**

<b>Pooled</b>	<b>ROA</b>	<b>CFOA</b>	<b>ROS</b>	<b>SEMP</b>	<b>AEMP</b>	<b>TOBIN Q</b>	<b>Z</b>	<b>Current Debt</b>	<b>Asset Turnover</b>	<b>Cash Debt</b>
Constant	0.0198	-0.0242	-5.7526 ***	-155.2859 ***	-230.6745 ***	3.7977 ***	21.0457 ***	0.2409	0.8936 ***	0.1683
CHINEXT	0.0037	-0.0327 ***	0.5726 **	-19.2054	79.5821 ***	2.0057 ***	14.3902 ***	0.1261 **	-0.2916 ***	0.0320
US_LISTING	0.0389 ***	0.0504 ***	0.9949 ***	129.9870 ***	212.8259 ***	-1.0386 ***	-6.3474 ***	0.2220 ***	-0.0192	0.0579
SIZE	0.0123 ***	0.0133 ***	0.8056 ***	42.6829 ***	58.9583 ***	-0.2278 ***	-1.6289 ***	0.0078	-0.0107	0.0070
LEVERAGE	-0.0905 ***	-0.0720 ***	0.0548	2.2855	2.6384	1.0404 ***	-0.3337 ***	-0.0129	-0.0065	-0.0078
BM	-0.0024 *	-0.0018	0.0237	0.3111	0.2723	-0.2010 ***	-0.7753 ***	0.0238 *	-0.0022	-0.0023
ΔAUDITOR	0.0063	0.0061	0.1790	14.7896	23.1794	0.2694 **	2.0095 **	0.0101	-0.0480	0.0170
R <sup>2</sup>	0.80	0.70	0.03	0.03	0.06	0.69	0.17	0.01	0.04	0.00
F-Stat	1683.7(0.000)	986.27(0.000)	13.42(0.000)	14.62(0.000)	27.51(0.000)	930.15(0.000)	87.75(0.000)	3.928(0.001)	17.69(0.000)	0.735(0.621)
Observations	2549	2543	2546	2519	2519	2506	2506	2540	2549	2543

<b>Year 2009</b>	<b>ROA</b>	<b>CFOA</b>	<b>ROS</b>	<b>SEMP</b>	<b>AEMP</b>	<b>TOBIN Q</b>	<b>Z</b>	<b>Current Debt</b>	<b>Asset Turnover</b>	<b>Cash Debt</b>
Constant	0.1110 ***	0.0281	-13.0276 ***	-52.4703	-172.0842 **	3.6177 ***	21.1704 ***	0.8043 ***	1.1031 ***	0.9465 ***
CHINEXT	-0.0056	0.0008	0.4263	-2.1503	52.6105	4.9239 ***	22.2134 ***	0.0323	-0.1698	0.0095
US LISTING	0.0470 ***	0.0414 ***	3.2724 ***	90.4394 ***	191.8559 ***	0.1032	-0.5498	0.2183 **	-0.0697	0.0912
SIZE	0.0099 **	0.0143 ***	2.2142 ***	23.2970 **	45.9066 ***	-0.0120	-0.3017	0.0381	-0.0550 **	0.0075
LEVERAGE	-0.2437 ***	-0.1129 ***	-6.4983 ***	53.2416	25.7900	-1.2000 ***	-24.7093 ***	-1.7136 ***	0.2396 **	-1.6305 ***
BM	-0.0217 ***	-0.0147 **	-0.0562	0.0028	14.5029	-1.4759 ***	-5.1245 ***	-0.0710 *	-0.0181	-0.0702 **
ΔAUDITOR	0.0073	0.0025	0.4169	37.4529	24.0254	0.3058 *	2.4911 *	0.0301	-0.0363	0.0469
R <sup>2</sup>	0.16	0.05	0.09	0.02	0.07	0.57	0.40	0.16	0.03	0.17
F-Stat	17.97(0.000)	5.203(0.000)	8.91(0.000)	2.03(0.06)	6.95(0.000)	123.69(0.000)	61.41(0.000)	17.24(0.000)	2.39(0.27)	19.555(0.000)
Observations	572	572	570	564	564	559	559	571	572	572

<b>Year 2010</b>	<b>ROA</b>	<b>CFOA</b>	<b>ROS</b>	<b>SEMP</b>	<b>AEMP</b>	<b>TOBIN Q</b>	<b>Z</b>	<b>Current Debt</b>	<b>Asset Turnover</b>	<b>Cash Debt</b>
Constant	0.0063	-0.0412	-3.3085 ***	-157.8620 **	-209.0123 ***	3.2522 ***	21.6590 ***	0.4998 *	0.8247 ***	-0.0646 **
CHINEXT	0.0092	-0.0214 **	0.3716	-8.9068	90.1077 ***	3.4324 ***	26.3464 ***	0.2056 **	-0.3087 ***	0.0022
US LISTING	0.0365 ***	0.0478 ***	0.4865 *	125.2967 ***	215.8698 ***	-0.4881 **	-4.8784 ***	0.3562 ***	0.0062	0.0715 ***
SIZE	0.0122 ***	0.0143 ***	0.4762 ***	42.5965 ***	54.4641 ***	-0.1215 *	-1.8728 ***	-0.0402	0.0011	0.0143 ***
LEVERAGE	-0.0230 ***	-0.0053 **	0.0094	3.8000	3.3382	0.0377	-0.9460 **	-0.0502 **	-0.0139	-0.0055 **
BM	-0.0003	-0.0003	0.0086	-0.3039	-0.2482	-0.1387 ***	-0.5929 ***	0.0270 **	-0.0001	-0.0005
ΔAUDITOR	0.0044	-0.0022	0.1016	12.6627	27.5426	0.3377 *	2.1461	-0.0104	-0.0424	-0.0038
R <sup>2</sup>										
F-Stat	23.76(0.000)	7.699(0.000)	4.751(0.000)	5.099(0.000)	9.259(0.000)	72.79(0.000)	61.65(0.000)	6.233(0.000)	6.68(0.000)	7.68(0.000)
Observations	893	890	892	880	880	880	880	889	893	890

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Year 2011	ROA	CFOA	ROS	SEMP	AEMP	TOBIN Q	Z	Current Debt	Asset Turnover	Cash Debt
Constant	-0.1563 ***	-0.2231 ***	-0.4716 **	-230.0369 ***	-281.3305 ***	6.1027 ***	25.3856 ***	-0.2514	0.7011 ***	-0.0209
CHINEXT	0.0216 **	-0.0074	0.1323 **	-25.5619	73.8191 ***	0.3440 ***	4.4200 ***	0.0780	-0.2793 ***	0.0293
US LISTING	0.0515 ***	0.0755 ***	-0.0621	161.5602 ***	222.5969 ***	-1.3749 ***	-7.8004 ***	0.0801	-0.0062	0.0043
SIZE	0.0352 ***	0.0369 ***	0.0768 ***	53.7824 ***	68.0289 ***	-0.4644 ***	-1.7642 ***	0.0759 *	0.0152	0.0398
LEVERAGE	-0.0954 ***	-0.0768 ***	0.0058	2.7941	3.0960	1.1271 ***	-0.2641 **	-0.0006	-0.0036	-0.0025
BM	-0.0022	-0.0012	0.0162	4.8108	-2.0740	-0.9194 ***	-3.0613 ***	0.0647	-0.0007	0.0383
ΔAUDITOR	0.0053	0.0100	0.0407	2.2562	22.3413	0.0095	0.9085	-0.0063	-0.0613	0.0137
R <sup>2</sup>	0.93	0.88	0.03	0.05	0.06	0.92	0.13	0.01	0.06	0.00
F-Stat	2350.7(0.000)	1308.8(0.000)	4.537(0.000)	8.51(0.000)	11.62(0.000)	2059.4(0.000)	25.46(0.000)	0.921(0.48)	10.57(0.000)	0.647(0.69)
Observations	1084	1081	1084	1075	1075	1067	1067	1080	1084	1081

The Regression Model:

ROA/ CFOA/ ROS/ SEMP/ AEMP/ Tobin's Q/ Z-Score/Current Debt Coverage/Asset Turnover/Cash Debt Coverage

$$= \alpha_0 + \alpha_1 \text{CHINEXT} + \alpha_2 \text{US\_LISTING} + \beta_1 \text{SIZE}_{i,t} + \beta_2 \text{LEVERAGE}_{i,t} + \beta_3 \text{BM}_{i,t} + \beta_4 \Delta \text{AUDITOR}_{i,t} + \varepsilon_{i,t}$$

Here, ROA/ CFOA/ ROS/ SEMP/ AEMP/ Tobin's Q/ Z-Score/Current Debt Coverage/Asset Turnover/Cash Debt Coverage are performance and operating measures of the Chinese companies through different listing methods.

Whereas CHINEXT is dummy for the Chinese companies listed in PRC CHINEXT Board, US\_LISTING is the dummy for Chinese companies listed in US through IPOs and reverse mergers.

SIZE is proxy by the logarithm of the asset value of the company and LEVEAGE is calculated based on the portion of total liabilities on the total assets.

BM represents the book to market value of the firma and ΔAUDITOR controls if the firm change auditors during the study time period.

\*\*\*, \*\* and \* represent statistical significances at 1%, 5% and 10% respectively.

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**Table 6: Pooled and Year-On-Year OLS Regression Analysis of performance ratios by listing domicile (raw data)**

**Panel B – PRC\_LISTINGS vs. US\_LISTINGS (2 Groups)**

<b>Pooled</b>	<b>ROA</b>	<b>CFOA</b>	<b>ROS</b>	<b>SEMP</b>	<b>AEMP</b>	<b>TOBIN Q</b>	<b>Z</b>	<b>Current Debt</b>	<b>Asset Turnover</b>	<b>Cash Debt</b>
Constant	0.0230	-0.0523 ***	-5.2599 ***	-172.0481 ***	-161.2164 ***	5.5175 ***	33.3844 ***	0.3493 **	0.6435 ***	0.1959 *
US LISTING	0.0373 ***	0.0639 ***	0.7595 ***	137.9704 ***	179.7445 ***	-1.8533 ***	-12.1930 ***	0.1700 **	0.1007 ***	0.0447
SIZE	0.0120 ***	0.0161 ***	0.7576 ***	44.3231 ***	52.1618 ***	-0.3939 ***	-2.8201 ***	-0.0028	0.0136	0.0043
LEVERAGE	-0.0906 ***	-0.0717 ***	0.0493	2.4741	1.8572	1.0211 ***	-0.4718 ***	-0.0141 *	-0.0037	-0.0081
BM	-0.0023 *	-0.0018	0.0247	0.2769	0.4139	-0.2095 ***	-0.8358 ***	0.0240 **	-0.0027	-0.0023
ΔAUDITOR	0.0060	0.0086	0.1353	16.2790	17.0075	0.1144	0.8974	0.0005	-0.0258	0.0146
R <sup>2</sup>	0.80	0.70	0.03	0.03	0.05	0.65	0.08	0.01	0.01	0.00
F-Stat	2021(0.000)	1170.9(0.00)	15.07(0.000)	17.21(0.000)	27.1(0.000)	943.8(0.000)	41.85(0.000)	3.908(0.002)	2.485(0.03)	0.762(0.58)
Observations	2549	2543	2546	2519	2519	2506	2506	2540	2549	2543

<b>Year 2009</b>	<b>ROA</b>	<b>CFOA</b>	<b>ROS</b>	<b>SEMP</b>	<b>AEMP</b>	<b>TOBIN Q</b>	<b>Z</b>	<b>Current Debt</b>	<b>Asset Turnover</b>	<b>Cash Debt</b>
Constant	0.1086 ***	0.0284	-12.8437 ***	-53.4126	-149.0284 **	5.7521 ***	30.7996 ***	0.8181 ***	1.0306 ***	0.9505 ***
US LISTING	0.0480 ***	0.0412 ***	3.2001 ***	90.8085 ***	182.8245 ***	-0.5689 ***	-3.5818 **	0.2129 **	-0.0409	0.0896
SIZE	0.0101 **	0.0143 ***	2.2005 ***	23.3679 **	44.1727 ***	-0.1420 **	-0.8883 *	0.0371	-0.0496 **	0.0072
LEVERAGE	-0.2422 ***	-0.1131 ***	-6.6103 ***	53.8157	11.7419	-2.5045 ***	-30.5943 ***	-1.7221 ***	0.2842 **	-1.6330 ***
BM	-0.0217 ***	-0.0147 **	-0.0585	0.0145	14.2158	-1.8687 ***	-6.8965 ***	-0.0712 *	-0.0172	-0.0702 **
ΔAUDITOR	0.0075	0.0025	0.4012	37.5311	22.1118	0.1216	1.6599	0.0289	-0.0301	0.0465
R <sup>2</sup>	0.16	0.05	0.08	0.02	0.07	0.33	0.29	0.16	0.02	0.17
F-Stat	21.59(0.000)	6.254(0.000)	10.693(0.000)	2.44(0.033)	8.11(0.000)	54.07(0.000)	45.89(0.000)	20.71(0.000)	2.39(0.04)	23.51(0.000)
Observations	572	572	570	564	564	559	559	571	572	572

<b>Year 2010</b>	<b>ROA</b>	<b>CFOA</b>	<b>ROS</b>	<b>SEMP</b>	<b>AEMP</b>	<b>TOBIN Q</b>	<b>Z</b>	<b>Current Debt</b>	<b>Asset Turnover</b>	<b>Cash Debt</b>
Constant	0.0141	-0.0594 **	-2.9915 ***	-165.5970 **	-130.7597 **	6.1790 ***	44.1243 ***	0.6751 **	0.5617 ***	-0.0627 **
US LISTING	0.0329 ***	0.0562 ***	0.3402	128.8417 ***	180.0051 ***	-1.8420 ***	-15.2706 ***	0.2751 ***	0.1278 **	0.0707 ***
SIZE	0.0114 ***	0.0161 ***	0.4444 ***	43.3775 ***	46.5637 ***	-0.4133 ***	-4.1126 ***	-0.0578	0.0274	0.0142 ***
LEVERAGE	-0.0232 ***	-0.0048 **	0.0008	4.0098	1.2155	-0.0413	-1.5520 ***	-0.0550 **	-0.0067	-0.0055 **
BM	-0.0003	-0.0004	0.0092	-0.3193	-0.0915	-0.1401 ***	-0.6036 **	0.0274 **	-0.0007	-0.0005
ΔAUDITOR	0.0040	-0.0013	0.0863	13.0535	23.5894	0.1902	1.0138	-0.0189	-0.0296	-0.0039
R <sup>2</sup>										
F-Stat	28.31(0.000)	8.22(0.000)	5.31(0.000)	6.1(0.000)	8.7(0.000)	17.5(0.000)	15.88(0.000)	6.6(0.000)	1.22(0.3)	9.2(0.000)
Observations	893	890	892	880	880	880	880	889	893	890



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Year 2011	ROA	CFOA	ROS	SEMP	AEMP	TOBIN Q	Z	Current Debt	Asset Turnover	Cash Debt
Constant	-0.1279 ***	-0.2329 ***	-0.2976 *	-264.0773 ***	-183.0267 ***	6.5579 ***	31.2352 ***	-0.1483	0.3338 ***	0.0179
US LISTING	0.0395 ***	0.0797 ***	-0.1360 *	176.0859 ***	180.6487 ***	-1.5508 ***	-10.0610 ***	0.0361	0.1499 ***	-0.0122
SIZE	0.0322 ***	0.0379 ***	0.0587 **	57.3528 ***	57.7181 ***	-0.5110 ***	-2.3632 ***	0.0651	0.0535 ***	0.0358
LEVERAGE	-0.0957 ***	-0.0768 ***	0.0043	3.1001	2.2121	1.1230 ***	-0.3179 ***	-0.0015	-0.0003	-0.0028
BM	-0.0019	-0.0013	0.0179	4.4555	-1.0478	-0.9304 ***	-3.2031 ***	0.0657	-0.0044	0.0387
ΔAUDITOR	0.0030	0.0108	0.0267	4.9728	14.4960	-0.0262	0.4497	-0.0147	-0.0318	0.0106
R <sup>2</sup>	0.93	0.88	0.02	0.04	0.07	0.92	0.11	0.01	0.01	0.00
F-Stat	2805.3(0.000)	1570.9(0.000)	4.31(0.001)	9.94(0.000)	11.29(0.000)	2449(0.000)	26.4(0.000)	0.979(0.43)	2.5(0.03)	0.74(0.59)
Observations	1084	1081	1084	1075	1075	1067	1067	1080	1084	1081

The Regression Model:

ROA/ CFOA/ ROS/ SEMP/ AEMP/ Tobin's Q/ Z-Score/Current Debt Coverage/Asset Turnover/Cash Debt Coverage

$$= \alpha_0 + \alpha_1 \text{CHINEXT} + \alpha_2 \text{US\_LISTING} + \beta_1 \text{SIZE}_{i,t} + \beta_2 \text{LEVERAGE}_{i,t} + \beta_3 \text{BM}_{i,t} + \beta_4 \Delta \text{AUDITOR}_{i,t} + \varepsilon_{i,t}$$

Here, ROA/ CFOA/ ROS/ SEMP/ AEMP/ Tobin's Q/ Z-Score/Current Debt Coverage/Asset Turnover/Cash Debt Coverage are performance and operating measures of the Chinese companies through different listing methods, whereas US\_LISTING is the dummy for Chinese companies listed in US through IPOs and reverse mergers.

SIZE is proxy by the logarithm of the asset value of the company and LEVEAGE is calculated based on the portion of total liabilities on the total assets.

BM represents the book to market value of the firma and ΔAUDITOR controls if the firm change auditors during the study time period.

\*\*\*, \*\* and \* represent statistical significances at 1%, 5% and 10% respectively.

**Appendix A:**

<b>Chinese Exchange Requirements(RMB)</b>		
	<b>SME</b>	<b>CHINEXT</b>
<b>Operating History</b>	Minimum 3 years' operating history	Minimum 2 years' operating history
<b>Profit</b>	Profit history of 3 years, aggregate profit > RMB 30 million	Profit history of 2 years, aggregate profit > RMB 10 million in growing trend, net profit of last year>5 million
<b>Revenue</b>	Aggregate revenue of last 3 years>300 million	Revenue of last year>50 million, 2 years growth rate>30%
<b>- Business Income</b>	Aggregate business income from last 3 years > RMB 300 million	Business income from last year > RMB 50 million
<b>- Assets</b>	Intangible assets cannot exceed 20% of net assets	Minimum assets of RMB 20 million
<b>- Cashflow</b>	Aggregate cashflow from last 3 years > RMB 50 million	No cashflow requirement
<b>- Capital</b>	Minimum market cap of RMB 30 million before IPO	Minimum market cap of RMB 30 million after IPO
<b>- Shareholders</b>	Minimum 1000 shareholders holding shares worth at least RMB 1,000	
<b>- Reporting/ Governance</b>	Required to establish internal controls, disclose Investor relations management, examine usage of raised funds	In addition to SME's requirement on controls, audit committee is required

<b>NASDAQ Global Market: Financial and Liquidity Requirements(USD)</b>				
<b>Requirements</b>	<b>Income Standard</b>	<b>Equity Standard</b>	<b>Market Value Standard*</b>	<b>Total Assets/ Total Revenue Standard</b>
Income from continuing operations before income taxes (in latest fiscal year or in two of last three fiscal years)	\$1 million	---	---	---
Stockholders' Equity	\$15 million	\$30 million	---	---
Market Value of Listed Securities	---	---	\$75 million	---
Total Assets and Total Revenue (in latest fiscal year or in two of last three fiscal years)	---	---	---	\$75 million
Publicly Held Shares	1.1 million	1.1 million	1.1 million	1.1 million
Market Value of Publicly Held Shares	\$8 million	\$18 million	\$20 million	\$20 million
Bid Price	\$4	\$4	\$4	\$4
Shareholders (round lot holders)	400	400	400	400
Operating History	---	2 years	---	---

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New York Stock Exchange Listing Requirements(USD)					
Requirements	Standard 1	Standard 2	Standard 3	Worldwide	
# of Shares Publicly Held	1.1 million	1.1 million	1.1 million	2.5 million	
# Public Board Lot Holders	400	2,200 total shareholders and 100,000 shares monthly trading volume (most recent 6 months)	500 total shareholders and 1,000,000 shares monthly trading volume (Most recent 12 months)	5,000	
Market Value of Publicly Held Securities	\$100 million	\$100 million	\$100 million	\$100 million	
	unless IPO, carve-out /or spin-off \$40 M	unless IPO, carve-out or spin-off \$40 M	unless IPO, carve-out or spin-off \$40 M		
Trading Price <sup>2</sup>	\$4.00	\$4.00	\$4.00	\$4.00	
Shareholders' Equity	N/A	N/A	N/A	\$55 million	
<b>Must Meet One of the Following:</b>					
<b>#1 - Earnings:</b>					
Aggregate Pre-Tax Income for Last 3 yrs	\$10 million	\$10 million	\$10 million	\$100 million	
Min. Pre-Tax Income in each of 2 Preceding Years	\$2 million	\$2 million	\$2 million	\$25 million	
	(all 3 year must be positive)	(all 3 year must be positive)	(all 3 year must be positive)		
<b>or:</b>					
Aggregate Pre-Tax Income for Last 3 yrs	\$12 million	\$12 million	\$12 million	N/A	
Min Pre-Tax Income in Most Recent Year	\$5 million	\$5 million	\$5 million	N/A	
Min. Pre-Tax Income in Most Recent Year	\$2 million	\$2 million	\$2 million	N/A	
<b>#2 Valuation/Cash Flow</b>					
Global Market Capitalization	\$500 million	\$500 million	\$500 million	\$500 million	
Revenues (most recent 12-month period)	\$100 million	\$100 million	\$100 million	\$100 million	
Aggregate Cash Flow for last 3 years	\$25 million	\$25 million	\$25 million	\$100 million	
	(all 3 years must be positive)	(all 3 years must be positive)	(all 3 years must be positive)		
Min. Cash Flow in each of 2 preceding yrs	N/A	N/A	N/A	\$25 million	
<b>#3 Valuation/Revenue:</b>					
Global Market Cap	\$75 million	\$75 million	\$75 million	\$75 million	
Revenues (most recent fiscal year)	\$75 million	\$75 million	\$75 million	\$75 million	
<b>#4 - Affiliated Companies:</b>					
Global Market Cap	\$500 million	\$500 million	\$500 million	\$500 million	
Operating History	12 month	12 Months	12 Months	12 Months	
<b>#5 Assets/Equity</b>					
Global Market Cap	\$150 million	\$150 million	\$150 million	N/A	
Total Assets	\$75 million	\$75 million	\$75 million	N/A	
Stockholder's Equity	\$50 million	\$50 million	\$50 million	N/A	

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