

Motivations and compliance of China-based companies  
listed overseas: Evidence from the Australian Securities  
Exchange

YIFEI LIU

Bachelor of Accounting (Victoria University)

Bachelor of Accounting (Henan University)

Master of Accounting and Finance (University of Sydney)

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## **Abstract**

The major motivations for the foreign stock market listing of China-based companies and their compliance with overseas disclosure requirements are examined in this thesis, with a focus on the Australian Securities Exchange (ASX). Research in this field is scarce. Chinese multinational companies are an emerging group in Australia and meeting an increasing demand from pre-Initial Public Offering (pre-IPO), existing China-based firms, regulators and investors is necessary.

Fourteen confirmed Chinese companies that delisted from the ASX between 2018 and 2021 are analysed, along with 20 China-based companies that remain listed on the ASX. Most of the 14 firms were forced to delist, with only a few voluntarily delisting. In this thesis, the general and special motivations for listing, and reasons for the delisting of China-based companies on the ASX, as identified in the previous literature, are examined. The general motivations of companies listed overseas include raising capital, improving international reputation, and enhancing corporate governance. Motivations for listing include international business expansion, improving international recognition and achieving director's self-interest. Based on descriptive analysis results, delisted China-based companies had lower opportunities for growth, lower liquidity, lower financial visibility but higher leverage compared with other ASX companies. Content analysis and case studies are used to analyse the motivations and compliance issues of China-based companies on the ASX. The content and case study analysis results indicate that the delisted China-based companies met various compliance issues during their listing. The two main issues include the difficulty of international money transfers from China to Australia, and failure to lodge annual or half-year financial reports. This is the first study, to the researcher's knowledge, that systematically examines the China-based companies on the ASX. The results of such analyses are expected to assist pre-IPO Chinese companies considering listing on the ASX, existing Chinese firms on the ASX, Australian securities regulators and international investors.

## **Declaration of Authenticity**

I, YIFEI LIU, declare that the master's thesis entitled "Motivations and compliance of China-based companies listed overseas: Evidence from the Australian Securities Exchange" is no more than 60,000 words in length including quotes and exclusive of tables, figures, appendixes, references, and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree. Except where otherwise indicated, this thesis is my own work.

Signature:

YIFEI LIU

Date: 3 August 2022

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## **List of Abbreviations**

ABS	Australian Bureau of Statistics
ADRs	American Depositary Receipts
AMES	American Stock Exchange
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BOSO	Buy-Out Offer with Squeeze-Out
CAPM	Capital Asset Pricing Model
CGC	Corporate Governance Principles and Recommendations
CGLI	Corporate Governance Laws and Institutions
CLS	Companies Limited by Shares
CPMI	Committee on Payments and Market Infrastructures
CSI	Chinese Securities Index
CSRC	China Securities Regulatory Commission
EBIT	Interest Before Interest and Tax
FIEs	Incorporated Foreign-Invested Enterprises
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GPT	Going Private Transaction
HK	Hong Kong
IASB	International Accounting Standards Board
IASs	International Accounting Standards
IDPs	Indian Depositary Receipts
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	Technical Committee of the International Organization of Securities Commissions
IPO	Initial Public Offering
LBOs	Leveraged Buyouts
LSE	London Stock Exchange
M&As	Mergers and Acquisitions
MBOs	Management Buyouts
NEEQ	National Equities Exchange and Quotations
NBS	National Bureau of Statistics of China
NYSE	New York Stock Exchange
OECD	Organization for Economic Cooperation and Development
PRC	People's Republic of China
RBA	Reserve Bank of Australia
RDD	Regression Discontinuity Design
ROA	Return on Assets
S&P	Standard & Poor's
SAFE	State Administration of Foreign Exchange

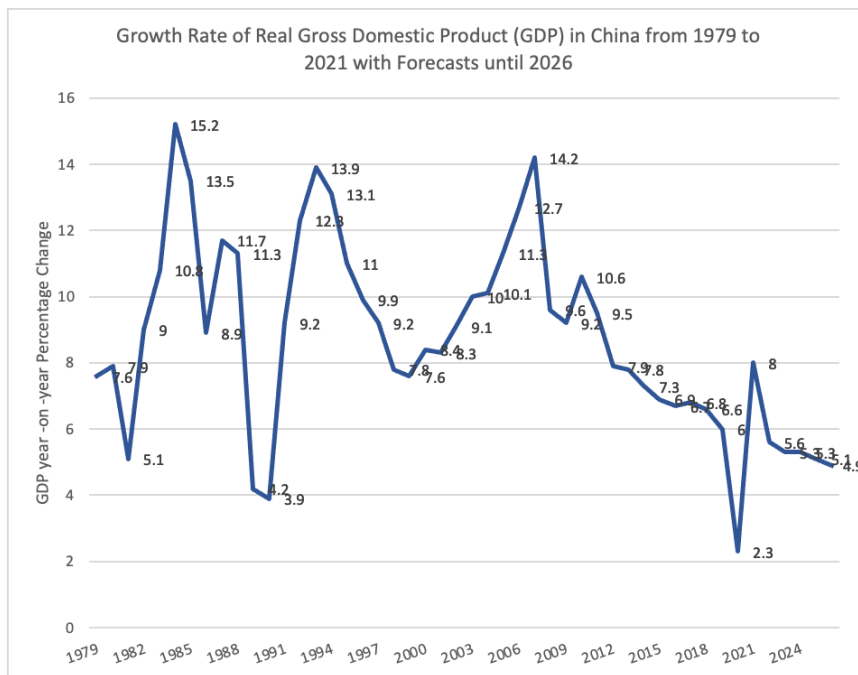
SEC	Securities Exchange Commission
SHSE	Shanghai Stock Exchange
SOEs	State-Owned Enterprises
SOX	Sarbanes-Oxley Act
SZSE	Shenzhen Stock Exchange
TYO	Tokyo Stock Exchange
U.S.	United States
VIE	Variable Interest Entity
WDI	World Development Indicators
WFE	World Federation of Exchanges

## Chapter 1: Introduction

### 1.1 Overview

Forty years ago, firms in China had an opportunity to contribute to the economic reform of the country. Prior to opening to foreign trade and investment and implementing free-market reforms in 1978, China had been poor, stagnant, inefficient, and relatively isolated from the world economy (Morrison 2013). China has since become one of the fastest-growing economies in the world, with real annual gross domestic product (GDP) growth averaging almost 10% a year; this growth is projected to reach 8.5% in 2021 even during the suppression of the COVID-19 pandemic (The World Bank, 2021).

**Figure 1:** Growth Rate of Real Gross Domestic Product (GDP) in China from 1979 to 2021



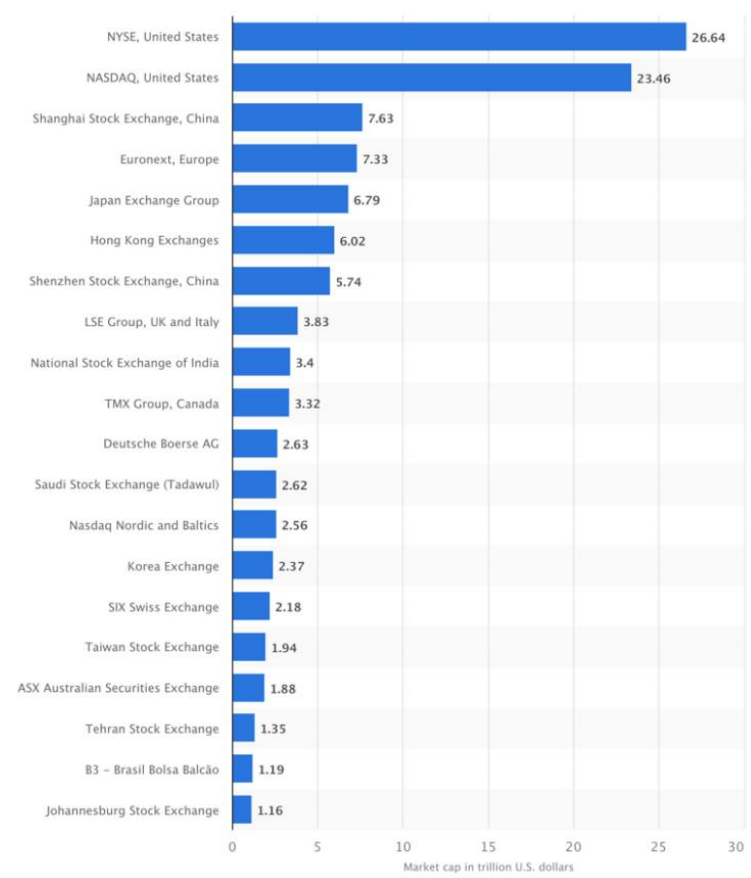
**Source:** International Monetary Fund (IMF) and Chinese National Bureau of Statistics (NBS)

As the economy of China matured, the country established its own stock markets and supervision systems, and the stock market became a new mode of investment. Two stock exchange markets operate in mainland China, namely the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE). The Chinese government

launched the SHSE and SZSE in the early 1990s to modernise the economy of the country, alongside the founding of the China Securities Regulatory Commission (CSRC) (Goldman Sachs, 2019). After a three-decade period of considerable effort, the SHSE mainboard, SZSE mainboard, Shenzhen Small and Medium-sized Cap Board, Shenzhen Growth Enterprises Market, National Equities Exchange and Quotations, and regional equity exchange centres in each province together provided an integrated national stock exchange system (Lu & Ye 2018). The Hong Kong (HK) stock market was integrated as part of other Chinese exchanges. After 30 years of development, China has become the second-largest economy in the world after the United States (U.S.) and Japan. In this situation, China's stock markets are incapable of satisfying all the demand from Chinese companies for capital, and firms are increasingly seeking overseas listings to support their growth and development (Lu & Ye 2018).

In the past few decades, many researchers have investigated the motivations and the compliance issues of Chinese companies listed abroad, and nearly all of the researchers focus on the HK or U.S. stock markets for geographical and policy reasons (Doidge 2004; Foerster & Karolyi 2000; Hail & Leuz 2009; Karolyi 1998; King & Segal 2009; Luo, Fang & Esqueda 2012). Sixteen major stock exchanges operate worldwide, each of which has a market capitalisation of more than US\$1 trillion (see Figure 2). The New York Stock Exchange (NYSE) and Nasdaq in the U.S. currently rank first and second by market capitalisation, respectively, followed by the SHSE, Euronext, and Japan Exchange Group, among others. Meanwhile, the Australian Securities Exchange (ASX) ranked 18th on the list (World Federation of Exchange (WFE), 2021). Although the ASX is not a large exchange market, its relatively lax entry and listing requirements have attracted numerous domestic and foreign firms to submit listing offers every year.

**Figure 2:** Worldwide Sixteen Largest Stock Exchanges by Market Capitalization in trillion U.S. dollars



**Source:** World Federation of Exchanges (2021)

The ASX emerged from the merger of the Australian Securities Exchange and the Sydney Futures Exchange in July 2006 to become the leading stock exchange in Australia (ASX, 2021). Furthermore, the ASX is the fourth largest pension pool in the world; its value is expected to grow to A\$10 trillion by the mid-2030s and its composition is projected to include more than 2,200 listed firms across multiple sectors and geographies (ASX, 2021). Meanwhile, an average of A\$10 billion in IPO capital was raised annually during the period of 2014 to 2019. Up to 45% of international investors provide opportunities for global capital, and more than 260 international companies are listed on the ASX (Figure 3). Companies from the US and New Zealand account for nearly half of the international companies (i.e., 47 companies are from the U.S. and 56 from New Zealand) (ASX, 2021).

The number of different countries listed on the ASX is shown in Figure 3. The total

number of China-based companies listed on the ASX is relatively small; the researcher can only confirm 34 China-based companies listed on the ASX; furthermore, 14 Chinese companies had delisted from the ASX since 2018 (ASX, 2021).

This investment trend is not only a new one but is also a major curiosity. The phenomenon of many China-based companies delisted from the ASX in a short period of time is unique and interesting; hence, the researcher has a great motivation and also responsibility to supplement and improve existing knowledge of this matter.

Listing on a foreign stock market can be divided into two forms: first time entry for a firm into an exchange market (overseas-listing) or after having listing on the domestic stock market (cross-listing). The China-based companies that are discussed in this thesis only focus on ‘overseas-listing’ even though some of them have already listed on the Hong Kong stock market, in order to decrease the complexity.

**Figure 3:** International Companies Listed on the ASX and New IPOs in Recent Years



**Source:** ASX International Companies (2021)

**Figure 4:** New IPOs Exclude Exchange Traded Funds, Debt issues, Spin-Offs, and Reverse Takeovers

Year	Number of New IPOs	Total Capital Raised
2020	78	\$5.3B
2019	63	\$6.9B
2018	95	\$8.5B
2017	123	\$6.4B
2016	96	\$8.3B
2015	85	\$8.6B

**Source:** ASX (2021)

### 1.1.1 Overview of China-based Companies Listed overseas

The Chinese government launched several economic reforms beginning in 1979, including crops free market, free foreign investment, and permission for citizens to freely start their own businesses. In particular, the government established four special economic zones along the country's coast to encourage foreign investment, boost exports, and encourage high technology companies to bring their products into the Chinese market (Morrison 2013). The decentralisation of economic policymaking and control was a key reform that considerably changed the business activities in China. The central government's control of enterprises was given to provincial and local governments, which were allowed to operate and compete on free-market rules. In addition, citizens were encouraged to start their own businesses, an endeavour that resulted in the wave of *xia hai*, which means leaving the current position and to have own business (Morrison 2013). In other words, Chinese economic reforms constituted the key to the economic success of the country. Furthermore, the vital driver of China's integration into the global economy was its export-led growth strategy. This export-oriented development path successfully maximised the comparative advantages of Chinese companies, such as low-cost labour, artificially cheap inputs to products, and undervalued currency (Morrison 2013).

For firms in any country, going public activity has commonly meant choosing to list their shares on the domestic stock market. However, with the development trend of the firms, they may bypass domestic listing by listed on the foreign stock market, as the domestic stock market is incapable of satisfying their demand to some extent (Wójcik & Burger 2010). According to Wójcik and Burger (2010), listing on the foreign market can be divided into two major forms. The first one pertains to a firm's initial entry into the foreign capital market, which is also referred to as overseas listing. In the second form, firms list overseas while they are already listed on the domestic stock market, which is referred to as cross-listing. As capital markets and economies are becoming increasingly integrated into the global economy, the number of domestic firms seeking to raise capital, connect to global markets, and find opportunities to list on the

international stock exchange market has grown accordingly (Ernst & Young, 2012). For these firms, the ideal approach to raising capital is through the direct listing of shares on the most competitive stock exchanges to achieve the best returns (Clark & Wójcik 2007). The growth of China-based companies listed overseas on foreign stock exchanges in the past decade is the major trend (Wójcik & Burger 2010).

Pan and Brooker (2014) focused on the geography of China-based firms overseas listing on international stock exchanges. They found that China-based firms listed overseas may generate vital and varied consequences for different fields. According to Pan and Brooker (2014), China-based companies find that domestic resources and capital markets are incapable of fulfilling their demand and that seeking overseas capital markets is an alternative way to explore possibilities for industry upgrading, economic development, and innovation technique. Furthermore, these China-based companies can boost their reputation, enhance corporate governance, and utilise foreign technology, which may include but is not limited to new technology that may improve a firms' productivity, and local employees' mature technology skills may help China-based companies optimise production processes. Thus, strengthening their product competitiveness in stock markets overseas. Meanwhile, overseas listings allow companies to experience a regulation system that differs from their domestic regulations, which can improve firms in terms of competitiveness and convergence in corporate regulation (MacNeil 2001).

The trend of Chinese companies listed abroad started in the late 1980s; although this phenomenon is a relatively new one for new China, overseas and cross-listing can date back to the 17th-century (Braithwaite & Drahos 2000). At the same time, as the Chinese domestic market began in the 1990s, in the beginning, the Chinese governments started to experiment with the foreign listing of medium to large State-Owned Enterprises (SOEs). To facilitate and regulate these overseas listing and cross-listing financial activities, the State Council implemented the *Special Regulations of the State Council Concerning Floating and Mandatory Provisions for Companies Listing Overseas*. In September 1992, the State Council created a list of the nine SOEs selected to be the first ever to issue equity overseas (Luo 2014). In July 1993, Tsingtao Brewery, which



produces the famous Chinese *Tsingtao beer*, became the first Chinese company to be listed on the HK Stock Exchange. In the light of the success in HK, the scale of overseas listing expanded. On 4 August 1994, Shandong *Huaneng Power Development* became the first Chinese company to directly list its shares on the NYSE. In March 1997, Datong Electric Power was the first Chinese firm to be listed on the London Stock Exchange (LSE) (Luo 2014).

Nevertheless, the overseas listing of Chinese firms has grown to a wide range of stock markets over the past 30 years, thereby reflecting the cyclical nature and the macro-economic trends and rules. Hence, more China-based companies listed on the most competitive stock markets are expected, whether the destination is domestic or overseas.

**Figure 5:** The Number of Chinese Firms Listed on Various Stock Exchanges

Country	Abbrivation Code/Years	Number of Listing companies from China						
		1990	1996	2001	2006	2011	2017	2021
Hong Kong	H share	0	19	52	135	168	252	291
	Red Chips	5	37	62	78	93	102	189
	Other	1	4	39	120	288	163	413
	Total	6	60	153	333	549	517	893
New York, US	Nasdaq	0	0	10	41	179	223	331
	NYSE	0	5	15	23	84	112	142
	AMEX	0	0	1	8	43	18	21
Singapore	SGX	0	7	21	117	182	173	173
London, UK	LSE	0	1	6	7	7	7	5
	AIM	0	0	2	47	81	47	47
Toronto, Canada	TSX-main	0	2	3	10	15	17	17
	TSX-growth	0	1	1	9	32	43	45
Sydney, Australia	ASX	0	0	0	2	13	55	55
Frankfurt, Germany	FSE	0	0	0	0	39	45	46
Tokyo, Japan	TSE	0	0	0	1	3	3	3
Seoul, South korea	KRX	0	0	0	0	17	17	17
Taipei, Taiwan	TWSE	0	0	0	0	7	7	7

**Source:** China Stock Market & Accounting Research Database (2021)

### 1.1.2 China-based Companies Listing and Delisted from Foreign Stock Markets

At the end of 2020, 5,392 Chinese firms are listed on both domestic and overseas stock markets (Chinese Security Index (CSI), 2021). Chinese domestic stock markets include A and B shares; the total number of Chinese listing firms in 2021 is 4,428 compared to 1,625 in 2008 (CSI, 2021). Additionally, CSI reports that the number includes 1,331

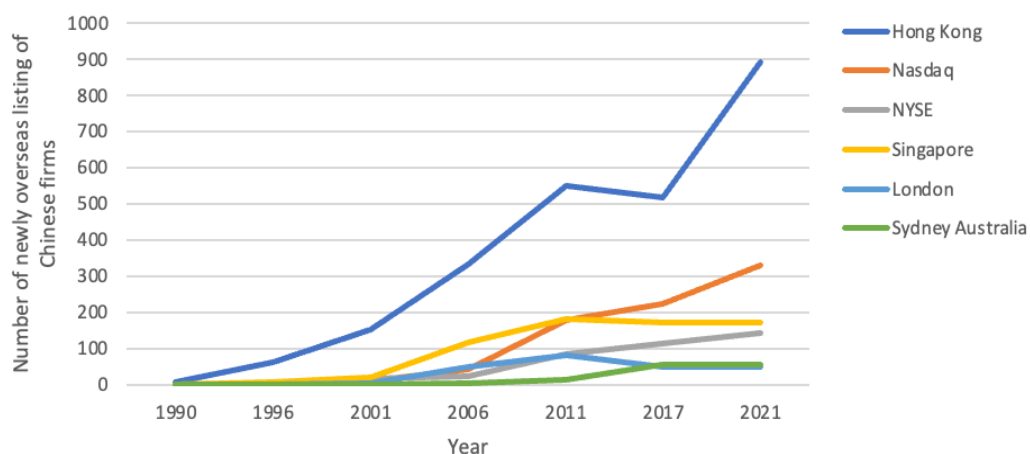
Chinese firms listed on the HK stock market, and 248 Chinese firms listed on the U.S. stock market with a total market capitalisation of US\$2.1 trillion, while this number was 286 in 2020 (CSI, 2021). Eight national-level Chinese state-owned enterprises (SOEs) are listed on the three major U.S. exchanges (U.S.-China Economic and Security Review Commission, 2021). In Australia, 20 Chinese firms are remaining listed on the ASX. These listed firms are mainly focused on consumer service, materials, and high technology (ASX, 2021). In comparison to other exchange markets, the total capitalisation of China-based listing firms on the ASX is small; furthermore, these firms are focused on certain fields, which does not reflect diversification.

The HK security market is the first destination for China-based companies listed on the outbound stock market. The historical number reveals several key facts. First, Chinese companies listed on the HK stock market is a political result rather than a private initiative. Second, the ‘bonding’ strategy is a primary reason that explains why Chinese companies list in HK. Third, listing in HK serves different purposes in different historical periods, which is incidental to the Chinese government’s policies toward the construction of the domestic capital market (Meng 2011).

Two main stock exchanges operate in the U.S., namely the Nasdaq and NYSE. The NYSE is the world’s largest stock exchange by market capitalisation of its listed companies at US\$26.64 trillion as of 2021, and the average monthly trading value is roughly US\$1452 trillion (WFE, 2021). Although Chinese stock markets (HK and A and B shares) launched trading and allowed traders anywhere in the world to buy and sell shares, these markets are relatively smaller than the U.S. stock exchange. As for Nasdaq, the second-largest stock exchange in the world, the market capitalization of its listed companies reached US\$23.46 trillion in 2021, and the average monthly trading value is US\$1262 trillion (WFE, 2021). These two U.S. stock exchanges remain the most important equity markets in the world, and they have a larger capitalisation than the next eight exchanges combined. Euronext is a pan-Europe stock exchange, which includes the stock exchanges of seven countries; the total market capitalisation of Euronext in 2021 is US\$7.33 trillion and the average monthly trading volume is US\$174 trillion (LSE, 2021).

According to Accounting Research Database data, Figure 6 illustrate that Hong Kong is the most popular overseas listing destinations for China-based companies. Nasdaq exceeded Singapore in 2011 became the second popular foreign listing destination. However, the numbers in London and Sydney Australia keep the same in recent years.

**Figure 6:** Timeline of Chinese Overseas Listed Firms in Major Markets

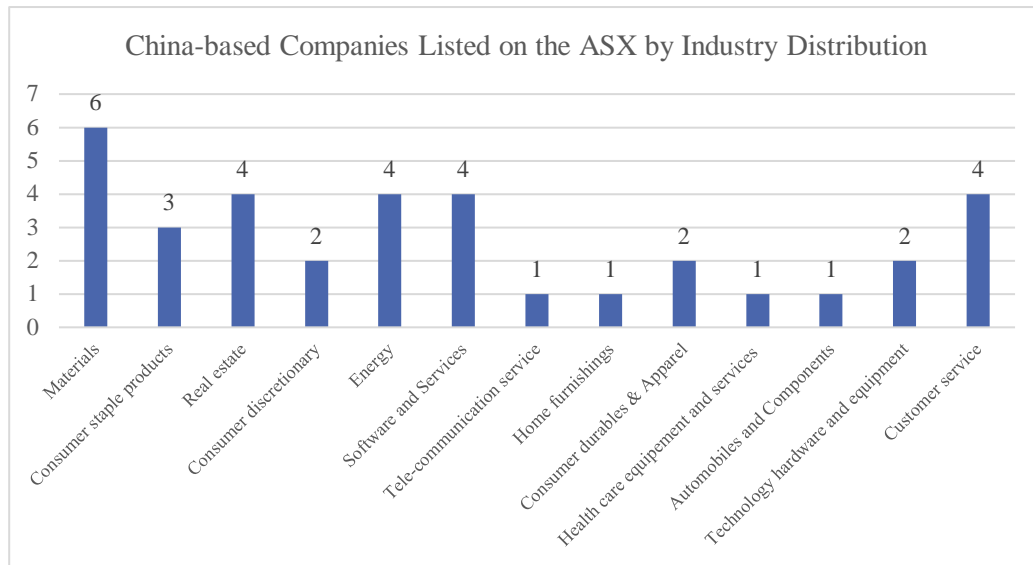


**Source:** China Stock Market & Accounting Research Database (2021)

#### 1.1.2.1 Analysis of China-based companies listed on the ASX by industry

Based on the statistical data, Figure 7 shows 6 China-based companies in the materials sector, which account for the highest number among 34 confirmed China-based companies. Based on the Australian Securities Exchange's (ASX's) official information, the materials sector on the ASX includes five industries: metals and mining, chemicals, construction materials, container and packing, paper and the forest products industry. The main business of the China-based companies are the metals and mining industries, material section, since there are 6 companies belonging to material section. And their total market capitalization accounts for \$164.43 million. Real estate, Energy, Software and Services, and Customer service are second largest sections, they have 4 China-based companies respectively.

**Figure 7: China-based Companies Listed on the ASX by Industry Distribution**



**Source: ASX (2021)**

The reasons for China-based mining companies to list on the ASX can be discussed from two perspectives. The first perspective is the rich natural resources in Australia. Australia has the most advanced mining sector in the world (Drysdale & Findlay 2009). Streifel (2006) states that interest in natural resources investment in the world is driven by an appetite for natural resources due to rapidly growing Chinese and Indian domestic demand. The significant markets for ores slag and ash and metals are not affected by the global economic crisis and Covid-19. Australia's ores slag and ash and metals exports to China in 2021 continued to increase, reaching A\$97.29 billion and A\$5.26 billion dollars separately, which ranked first and second on the list of Australia's exports to China (Trading Economics, 2022). China's substantial demand for natural resources has built a robust economic relationship with Australia, playing a significant role in the global resources business (Kloppers & du Plessis 2008). According to the present research, of the 34 confirmed China-based companies listed on the ASX, 5 are subsidiaries of SOEs. In particular, they are all in the mining or energy industry (ASX Tickers: ACS; EME; MMG; RMT; YAL). The information about whether China-based companies listed on the ASX are SOEs or not can be found in Appendix 2. The second perspective is the favourable import and export regimes for China and Australia.

Chinese state-owned enterprises (SOEs) always operate different policy regimes when importing raw material products into China (Drysedale & Findlay 2009). For instance, MMG Limited is a mining company from China, and MMG is an important SOE in the raw material importing and mining business. MMG went public on the ASX in 2015 to better manage and operate its mining business in Australia. Particularly, listing on the ASX is another way to invest in the mining industry for MMG (MMG media release, 2016). Furthermore, SOEs chose to list on the ASX since it is convenient to raise capital in Australian markets when they are operating their main business (exporting natural resources from Australia to China). For example, Energy Metals Limited (ASX: EME) is a dedicated Australian Uranium exploration company. Particularly, Energy Metals's largest shareholder (66.45% of issued capital) is held by China Uranium Development Co., Limited, a wholly owned subsidiary of the major Chinese utility China General Nuclear Power Group (CGN). CGN is one of only two companies authorised by the Chinese government to import and export uranium. This unique relationship with CGN gives Energy Metals Limited direct exposure to the uranium market as well as access to significant international capital and investment (EME, 2022).

#### **1.1.2.2 Analysis of the China-based companies listed on the ASX by listing date**

Based on the statistics of China-based companies listing dates, Figure 8 shows that the highest number was five in 2015, which was followed by four in 2017. These figures confirm the previous statement that many China-based companies chose to list on the ASX between 2015 and 2017.

**Figure 8:** Number of China-based Companies Listing in Each Year



**Source:** ASX (2021)

China-based companies listing on the ASX focused on the period between 2015 and 2017. The reasons for the listings in this period can be discussed from two perspectives.

### **1) Policy discriminates between SOEs and private companies in China**

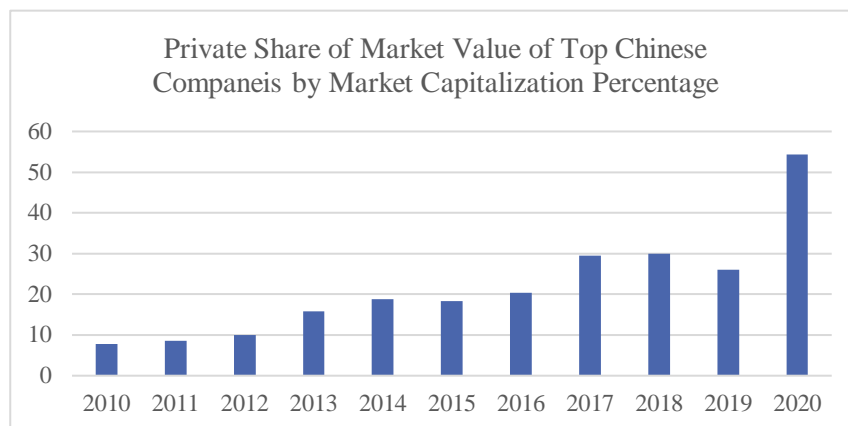
Chinese SOEs are defined as legal entities that undertake commercial activities on behalf of governments (Wikipedia State-owned enterprises of China, 2021). In various industries, SOEs could do business with no limits, while their characteristics are that they usually have political objectives (Gao, Y 2011). State-owned enterprises accounted for over 60% of Chinese companies' total market capitalisation in 2019 (Hissey, 17 December 2019) and generated US\$15.97 trillion in 2020 (Guluzade, 21 May 2020). Therefore, “SOEs have played a vital role in many developing economies with dominated state influence, by fostering economic development and serving as a political tool for policy implementation” (Guluzade, 21 May 2020). Favourable national policy support leads the SOEs to enjoy many benefits. In contrast, Chinese private companies are more disadvantaged. For instance, it is difficult for a small- to medium-sized private company to apply for bank loans to support new projects since banks are less trusting of their ability to repay. However, if private companies cannot obtain bank loans, they may lose development opportunities. An early study from

Brandt and Li (2003) has found that domestic banks in China discriminate against Chinese private companies in issuing new loans. The limitations for developing SOEs in China are the lack of supervision and weak corporate governance (Guluzade, 21 May 2020). These limitations lead to activities driven by self-interest and absentee owners. Once these SOEs go public abroad, many issues emerge, and this situation is usually worse for Chinese private companies listed overseas (Guluzade, 21 May 2020). Chari and Gupta (2008) have stated that strong, state-owned companies create incentives for local governments to limit foreign direct investment in certain industries.

## **2) Complex listing process and long waiting time**

The Chinese private companies have difficulty in listing on the domestic stock markets due to the complex listing process and long waiting time for private companies in China. One primary motivation for building the Chinese stock market was to raise much-needed capital for SOEs. Thus, the initial equity markets showed a tremendous bias toward SOEs over non-SOEs (Ding, Zhang & Zhang 2007). The first private, listed companies in China appeared in 1992, but the number listed was still negligible between 1992 and 1997, given the rapid growth of the Chinese capital market. In 1997, less than 6% of listed companies on the Chinese stock market were privately owned (Ding, Zhang & Zhang 2007). However, in 1998, this imbalance had changed. By the beginning of the 21st century, 197 privately listed companies were on the Chinese stock market (Wind, 2021). According to *Bloomberg News* (30 March 2022), Figure 3 illustrate that of China's top 100 listed companies by market capitalisation, 53 were privately owned. However, this number was 18 privately owned companies in 2015 and 20 in 2016. This phenomenon matches 2015 and 2017 in Australia when many China-based companies were IPO on the ASX.

**Figure 9:** Private Share of Market Value of Top Chinese Companies by Market Capitalisation Percentage



**Source:** Peterson Institution for International Economics (2021)

The complex listing process and the long waiting time is another main reason for Chinese private companies listing overseas. In China, companies must receive approval from the China Securities Regulatory Commission (CSRC) for initial public offerings (IPOs). The CSRC is a screening committee that rejects approximately 20% of the IPO applications annually. According to previous research, if a Chinese firm's auditors have political connections, the likelihood of receiving approval for an IPO increase (Yang 2013). Du (2011) has also found that the possibility of obtaining permission to list on the stock market is positively affected by the strength of the company's political connections or government background. The initial IPO requirements in the 1990s in Article 152 of the Company Law are as follows (Wan & Yuce 2007):

- (1) "the stocks need to be approved by the CSRC and to have been publicly issued;
- (2) the total capital of the corporation must not be less than RMB 50 million;
- (3) the corporation must have been established for at least three years and to have made an annual profit for the most recent three years. If the corporation was reformed from a SOE or was created after the Company Law became effective, and the major initiator was a large- or medium-sized SOE, the previous profit years before the corporation became a joint stock company could be included to calculate the profit years;
- (4) at least 1,000 shareholders should hold RMB 1,000 face value of stocks or above. The value of tradable shares should be at least 25% of the total value of the corporation.



If the total value is more than RMB 400 million, the value of tradable shares must be over 15% of the total value;

(5) the corporation should not have engaged in any severe, illegal activities and false accounting practices in the last three years;

(6) other requirements set by the state council”.

In previous years, Chinese private companies found it challenging to apply for listing on the domestic stock market because the stock markets were primarily built for SOEs, and the listing requirements and relevant policies were biased toward SOE applicants rather than non-SOEs (Wan & Yuce 2007). However, this situation has improved in recent years, and private companies have more opportunities and equal rights to list on the domestic stock markets.

#### **1.1.2.3 Analysis of the China-based companies listed on the ASX by characteries**

Companies can be divided into parent and subsidiary these two types. A subsidiary can be defined as a controlled company or affiliate that owned by parent company and whose decision-making power is directly or indirectly subject to the latter. A parent company can be defined as an entity that controls an investee, thus, the parent must own more than half of aa subsidiary’s voting shares, as well as holding the majority ownership of subsidiary companies. (Vargas, 11 January 2021). Information about whether those China-based companies listed in Australia are parent companies or subsidiaries can be found in Appendix 2.

Twenty-six of the 34 confirmed China-based companies listed on the ASX are subsidiaries with only 8 companies being parent companies. Thus, subsidiaries account for the majority of China based companies listed on the ASX. Meanwhile, as I mentioned in the above sections, 14 China-based have been delisted from the ASX in the past few years, while 11 among 14 companies are subsidiaries, only 3 companies are parent companies.

### **1.1.3 Literature Review on the Motivations and Compliance Issues**

Before going to the literature review section, the definition of China-based companies should be clearly defined. Many different definitions of ‘Chinese companies’ are available. The common definition refers to those firms that generate their revenues primarily from business activities in China, or those companies with controlling shareholders chiefly from China. Several Chinese privately-owned companies have changed their corporate address to foreign locations; some literature includes Chinese companies that meet the two criteria above, regardless of whether the firm is incorporated in China (Pan & Brooker 2014). Humphery (2012) has provided a definition of Chinese companies (i.e., firms that are headquartered in China) when they used China’s merits review approach to analyse overseas delisting. Meng (2011) has discussed the history of Chinese companies listed on the HK stock market and defined Chinese firms within the realm of SOEs, or companies controlled by the government. Meanwhile, Kung and Cheng (2012) have examined a sample of SHSE (A-share) companies listed on the HK stock market to determine the relationship between the listing decisions of companies and their corporate governance, here, the China-based companies defined as the companies already listed on the main land stock market.

#### **1.1.3.1 Motivations for Going Public Abroad**

There have been many previous studies focusing on the motivations of listed overseas and cross-listing (Foerster & Karolyi 2000; Karolyi 1998; Pagano et al. 2001; Torabzadeh, Berlin & Maxon 1992). During the period of a country’s prosperity, it is more likely to have overseas and cross-listing since the stocks can gain more on markets, and also it is easier to raise capital from worldwide investors at the same time (Edison & Warnock 2008; Pagano, Panetta & Zingales 1998; Pagano et al. 2001). Narrowly speaking, the motivation of companies listed overseas can be interpreted as raising share prices and reducing the cost of capital (Pan & Brooker 2014). Besides the raising capital motive, the traditional rationale for explaining the motivations for overseas

listing and cross-listing also includes broadening the base of shareholders, strengthening competitive position, enhancing the corporate governance, and increasing brand awareness and visibility (Franck & Cuscha 2001; Karolyi 1998; Lins, Strickland & Zenner 2005; Pagano, Röell & Zechner 2002). These factors correspond to the company life cycle theories, agency theory, bond theory liquidity hypothesis and market segmentation hypothesis.

Going public is an important stage in the life cycle of a firm (Khurshed 2000; Latham & Braun 2010; Pagano, Panetta & Zingales 1998). Chemmanur and Fulghieri (1999) used life cycle theory to explain the phenomenon that when a company becomes large, it chooses to go public as it needs to disperse share ownership and convince the venture capitalists that the company's project is worth investing in and that the share price can gain publicity. Maksimovic and Pichler (2001) also have discussed the going public decision from a corporate control aspect in which the firm's IPO conveys valuable information to competitors and this can improve the efficiency of the capital market and strengthen the companies' competitive position.

The IPO can attract more investors such as venture capitalists and outside investors, which could help the company in raising capital and adjusting the capital structure (Altı 2005; Baker & Wurgler 2002; Baker, M & Wurgler, J 2002; Brau & Fawcett 2006; Ritter & Welch 2002), thus evidencing the liquidity hypothesis and market timing theory (Altı 2005). Furthermore, these companies choose to go public when the outsider benefits exceed the insider gains (Loughran & Ritter 1995). Maksimovic and Pichler (2001) have argued that market competition can be intensified through a higher market price, which comes from listing behaviour. Meanwhile, according to Ritter and Welch (2002), the non-financial reason is that the IPO companies intend to increase publicity, boost the company's reputation, and ultimately enhance the firm's value. Bernstein (2015) has concluded that a company would opt to go public abroad after an innovation breakthrough. Helbing (2019) focused on the overseas IPO from a broader viewpoint to identify the motivations in the U.S. and UK as mature stock markets and used the theories and hypotheses in the specific stock market.

Caglio, Hanley and Marietta-Westberg (2016) have investigated the function of global

underwriters, the characteristics of their industries and their home country. In particular, the conditions of the domestic stock market, the regulatory regimes of the home country and the trend of financial globalization are determinants of going public abroad (Pagano et al. 2001). Meanwhile, one positive consequence of listed overseas is that companies are subject to higher levels of regulation in the mature stock market, which improved the corporate governance of overseas-listed companies.

Prior literature has suggested that domestic companies in the overseas market protect minority shareholders due to more stringent standards (Ferris, Kim & Noronha 2009; Karolyi 2006). In addition, firms listed overseas are normally less motivated by developing active markets, rather than their potential benefits, such as improved access to international equity issuance, enhanced corporate governance by using stricter listing rules in the foreign market, expansion by mergers and acquisitions, or only looking for better ways to get visibility and reputation in international markets (Halling et al. 2008). However, the market segmentation hypothesis states that overseas listing and cross-listing motives cannot be explained by one theory in one capital market because of the presence of many other segmentations in the world. Therefore, following Stulz (2009) and Helbing (2019), they emphasized the uniqueness of the U.S. stock market due to its strong regulatory environment; additionally, the types of firms listed in the U.S. differ from other listing destinations such as the UK, Hong Kong, and Singapore.

Previous literature has analysed tax avoidance as another motivation for companies listing abroad. In the U.S, the federal government loses corporate income revenue from companies shifting their profits and income into low-tax countries (Gravelle, 2009). In particular, tax avoidance is refers to legal reduction in taxes, while tax evasion refers to tax deductions that are illegal (Gravelle, 2009). For instance, a multinational firm that constructs a factory in a low-tax country rather than in the U.S. to take advantage of low corporate tax rates and deferral of U.S. tax is engaged in tax avoidance (Gravelle, 2009). However, China has lower tax rates for new technology companies (15%) and a standard tax rate of 25% (CSTA, 2019) compared with the Australian general tax rate of 30% (ATO, 2022). Australia is not a tax heaven country. There is little prospect of tax avoidance being a motivation for China-based companies listing on the ASX.

### **1.1.3.2 Compliance Issues of Companies Listed on the Foreign Stock Markets**

Overseas listing and cross-listing firms specifically account for a large percentage of all Australian companies. Some of the companies from emerging markets (e.g., the Chinese stock market) have enjoyed the benefits of listed overseas since improving their corporate governance in the developed stock markets (Coffee 1998, 2002; Stulz 1999). However, this overseas listing journey does not always proceed smoothly. Several bodies of literature discussed the compliance of China-based companies listed on the U.S. stock market. Non-U.S. firms listed on the American stock market are bound by American regulations and accounting rules (Bradshaw, Bushee & Miller 2004; Coffee 1998, 2002; Doidge 2004). Siegel (2005) argued that the legal bonding can rarely bind these firms, but the ‘reputational bonding’ can force non-U.S. firms to manage their performance. As Coffee (2002) has argued that these international companies can increase the level of disclosure in major exchanges, and become more credible for investors, and this will further enhance the company’s ability to gain in the longer term. Meanwhile, the negative consequences of the financial restatement announcements for listing companies are discussed in some studies in the literature (Palmrose, Richardson & Scholz 2004). The results of these studies approximated the China-based companies being delisted or receiving warning letters from the ASX, as they were not compliant with, or were in breach of, the listing rules, thus causing penalty or delisting risks. Furthermore, there is some previous research discussing compliance with the code of corporate governance in European countries. For example, the central element of the code is the ‘comply-or-explain’ principle, and listing companies need to submit compliance statements and corporate governance reports in which they should state whether they comply with the code and give reasons for non-compliance (Cadbury 1992). However, very little is known about how the mechanism functions in practice. There are some surveys on the compliance rates and correlations between compliance rates and firm’s corporate governance (Werder, Talauciar & Kolat 2005; Werner, Goncharov & Zimmermann 2006). Thus, the results of these studies demonstrate that research about the compliance of China-based companies listed on the

ASX can be undertaken through compliance surveys and empirical analysis. In particular, some main capital markets have undertaken actions to modify their listing rules or legislation to mitigate non-compliance behaviour. These moves include the *Sarbanes-Oxley Act (SOX) (2002)* in the U.S. and the *ASX Corporate Governance Principles and Recommendations (2019)* in Australia.

According to Pan and Brooker (2014), overseas listing brings different impacts compared to the domestic market in China to the global mature stock market. Particularly in the U.S. stock market, some Chinese firms listed on the New York Stock Exchange have successfully attracted venture capital and equity funding from the prosperous U.S. capital market. Therefore, listing overseas does not always meet with difficulty, and improvement and opportunities are highly likely to be achieved. Thus, compliance is a pivotal issue; it entails overseas listing companies complying with the legislation and listing rules in the foreign stock market and adjusting for their operating mechanisms to reduce the credit risk and avoid a delisting crisis.

### **1.1.3.3 Causes of Voluntary and Involuntary Delisting**

As discussed in the above sections, the delisting phenomenon cannot be ignored since there were 14 China-based companies delisted from the ASX between 2018 and 2021. What is more, most of them were involuntary delistings, and the research on this phenomenon is important for investigating the motivations and compliance issues of China-based companies in the Australian markets. There have been a number of studies examining the reasons for both the voluntary and involuntary delisting of companies. In the study on the listing of companies on the Tokyo Stock Exchange, Konno and Itoh (2018) identify three main reasons for delisting behaviour in recent years. The reasons include delisting for substantial failures such as bankruptcy, liquidation, and discontinuity of business; voluntary delisting, which is decided after management buyouts (MBOs); or Mergers and Acquisitions (M&As) and later opting to go private; and involuntary delisting, whereby companies are forced to delist due to a serious warning from the listing office.

Voluntary delisting has been extensively discussed in the previous literature (DeAngelo, DeAngelo & Rice 1984; Jonathan, Maureen & David 2008; Macey, O'Hara & Pompilio 2008; Martinez & Serve 2017; Murphy 1985) that focused on different aspects. For example, the agency cost between managers and shareholders is reduced through voluntary delisting (Murphy 1985). Voluntarily delisting can minimize the listing maintenance cost which is a significant expense for the listing of small-to-medium-sized companies (DeAngelo, DeAngelo & Rice 1984). Furthermore, the firm ceases to trade in a foreign market but continues to trade in its domestic market (Karolyi 2006). As for involuntary delisting, three main factors have been considered and analysed in the previous studies. These factors include the characteristics of the IPO firm, the effective control of the firm after breaching the listing rules, the target stock market's listing rules and the firm's effective strategies for dealing with the risks (Martinez & Serve 2017). For instance, Fama and French (2004) have focused on the characteristics that would decide the issue of whether the IPO firms could survive. Yang (2006) obtained similar results finding that the risk of involuntary delisting was due to the violation of the listing requirements. Pour and Lasfer (2013) have suggested that the delisting often occurs four years after the IPO date, the delisting time is close to the result from Wang, H (2011) and Luo, Fang and Esqueda (2012). Wang, H (2011) has indicated that their financial performance sharply increased before the IPO and evidently decreased three years from the overseas IPO. Luo, Fang and Esqueda (2012) have examined the Chinese stocks' post-IPO performance, especially focusing on the performance of 'China concepts stock' in the U.S. stock market. The authors revealed that Chinese companies listed on the U.S. stock market generally underperformed compared to their industry peers after three years of the IPO. The poor performance may become one reason of involuntary delisting.

## **1.2 Status of China-based Companies Listing Overseas**

Until the middle of 2021, 1,615 China-based companies have listing overseas, and this number is expected to increase (CSRC, 2021). However, China is undergoing an

important stage and is predicted to launch a series of restructuring activities of its economic model. China has experienced long-term high-speed growth; however, this development has produced significant consequences such as heavy air and environmental pollution, income inequality, financial systems with a low level of efficiency, and overcapacity in many industries. Thus, the old-growth model may no longer be suitable for sustainable development. The ‘New Normal’ has emerged and permeated every field and sector, especially the energy industry (Morrison 2013). The sustainable development policy of China is also evident in China-based companies listed on the foreign stock market. China-based companies began to find a way to improve their corporate governance, trying to conform to the trend of the times.

In July 2021, the Chinese government announced a policy decision in which China will increase its supervision of Chinese firms listed offshore; the policy decision was made after Beijing launched an investigation into Didi Global (DIDI.N), which is a ride-hailing application that listed on the U.S. stock exchange (Reuters, 7 July 2021). China’s cabinet announced that under these measures, China will improve the regulation of cross-border data flows and security, reducing illegal activities in the stock market and punishing securities issuance fraud, market manipulation, and insider trading. Additionally, China will also ‘check the source of securities investment and control leverage ratios’ (Reuters, 7 July 2021). In fact, in March 2021, the U.S. security regulator initiated a rule to delist or remove foreign companies, including China-based firms, that do not comply with US listing auditing standards and *Holding Foreign Companies Accountable Act (HFCAA)* from American Securities Exchange Commission (SEC). In response to these announcement and laws, the Chinese government launched an investigative action and began to pay more attention to U.S. regulators that will potentially gain increased access to the audit documents of U.S.-listed China-based companies through ‘legal ways’ (Reuters, 7 July 2021). However, China-based companies have no choice but to follow the national rules.

As discussed in the previous sections, China-based companies listed overseas experienced a long period of prosperity. However, overseas listing companies encountered multiple domestic and international challenges in recent years, such as the



national trade conflict between the United States and China (Council on Foreign Relations, 1 March 2022). China-based companies contended not only with reforms in the domestic economy but also with changes in international relationships. Even the previous literature and studies are typically focused on HK and U.S. stock markets (Doidge et al., 2004); hence, the existing research results, ideas, and information can still disclose many truths that are suitable for the practical use of Chinese firms listing all over the world. Some of these truths are as follows: the decision of China-based companies to list abroad is not purely economic; the motives of Chinese firms listed overseas have substantially changed; and the compliance and performance issue requires increased attention (Luo, Fang & Esqueda 2012). Despite the improvements in the past years, the weakness of the post-listing compliance and corporate governance issues of Chinese companies listed overseas remains; that is, the assets and operations of these Chinese firms are predominantly located in China, thereby causing the overseas stock market regulators' difficulty in undertaking effective supervision and enforcement without the assistance of Chinese regulators Morrison (2013). The enhancement of bilateral information and regulation communication is critical, but this endeavour is not given sufficient attention in the past few years.

However, in the end of 2021, as a response to the U.S. new rules, the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) and the updated *Special Administrative Measures for Foreign Investment Access (2021 Edition)* (China Briefing, 3 January 2022), China's securities watchdog proposed a series of tightening rules to oversight Chinese companies listed abroad, which will improve the level of oversight Chinese foreign listing (Reuters, 24 December 2021). Despite the negative affect on the securities markets, the rules release is a great enhancement of bilateral information and foreign listing regulations.

### **1.2.1 Status of China-based Companies Listed on the ASX**

On the one hand, the relationship between China and Australia has constantly changed in recent years; friction and cooperation have sometimes occurred. On the other hand,

the close relationship between the two countries made them cannot leave each other (Parliament of Australia, 1997). The main industries of China-based companies listed on the ASX are high technology, consumer products, agriculture, and mining. Mining has been the most representative and prosperous industry between China and Australia in the past years. In a recent study, Huang and Staples (2018) focused on eight Chinese-controlled mining companies listed on the Australian stock market and their board of directors' governance practices in Australian companies. Fourteen China-based companies have been delisted from the ASX since 2018 (The *Australian Financial Review*, 10 April 2021). Most of these firms were involuntarily delisted because they failed to comply with the ASX listing rules (for example, as found in the current research, China-based companies failed to submit annual reports and failure to properly transfer investors' funds). In this situation, the minority's listing motivations and compliance on the ASX merit an in-depth reflection. Chinese companies encounter several critical issues. They have received warning letters in recent years, and some have even been delisted from the ASX. The ASX has tackled the problem of these companies' compliance for the past several years. Meanwhile, the issue of whether Chinese companies achieve their primary listing objective of improving their competitive capability and raising international capital is important to examine.

No new China-based company IPOs have been listed on the Australian stock exchange since 2018. Several factors involving the external environment and internal decisions explain this case. The external environment includes political reasons, the COVID-19 pandemic, and the new restrictions on exchange markets. By contrast, internal decisions include stricter listing requirements and lower expectations for ASX listing. China-based companies have encountered more challenges and difficulties while listed on the ASX, and the gains from listing have become smaller than before, regardless of their status (The *Australian Financial Review*, 10 April 2021).

### **1.3 Research Methods**

This section discusses the theories, hypothesis and research methods used in the thesis.

### **1.3.1 The Theories and Hypotheses**

Life cycle theory (Pagano, Panetta and Zingales, 1998) states that the nature of the IPO or the decision to go public is a key part of the life cycle of companies. At a certain stage, companies need to raise capital to support growth and then decide to go public. An IPO can attract capital providers or investors, and the insiders or founders can transact with outsiders, hence achieving a high level of liquidity in the company's shares. The benefits of going public exceed the insider private benefits; once the firms become very large, they opt to go public (Chemmanur & Fulghieri 1999).

Signalling theory is based on information asymmetry in which the companies' equity may be over or undervalued. Thus, in favourable market conditions (overvalued companies' equity) firms choose to go public (Lowry 2003). In the past few years, the global economy has rapidly grown and the level of international trade and cooperation has risen to new heights. In this prosperous market condition, going public brings opportunities to overvalue the company's equity or create a price premium, which may become one of the motivations for going public.

The agency theory states that the overseas listing can contribute to a company's corporate governance value by increasing the company's free cash flow and reducing the leverage. There are two main reasons, and one is that free cash flow has a strong connection with the foreign IPOs and ADRs listed on the U.S. markets for the long term. It is not only affected by the agency decision, but also has different effects on different companies (Luo, Fang & Esqueda 2012).

The bonding hypothesis supports that the mature stock markets such as the U.S. and European stock markets can improve firm's corporate governance and lower the cost of capital (Luo, Fang & Esqueda 2012). Because these developed stock markets always have mature investor protection systems including established listing requirements, creditable market oversight systems and valuable security investors (Doidge, Karolyi & Stulz 2004).

The liquidity hypothesis claims that the overseas listing can reduce the cost of capital because of the higher liquidity and lower share spreads. Specifically, the early market

segmentation or risk premium studies argue that firms look for overseas listings to overcome the domestic barriers and gain more investors from global markets (Foerster & Karolyi 1998, 1999)

Given the information asymmetry in the capital market equilibrium model, Merton (1987) has proposed the investor recognition hypothesis. This hypothesis states that investors hold various information for different shares; additionally, the hypothesis indicates that keeping other conditions equal, the more information investors receive, the lower the cost of capital. The market value of the company in the stock market is eventually improved. Therefore, Chinese companies may prefer to go public to achieve information transparency and boost their brand reputation. According to Coffee (2002), investor protection is a motivation for listed on the stock market where strict legal regulations are enforced to protect the investors' benefits.

### **1.3.2 Content Analysis as a Research Method**

Content analysis is a research technique to make replicable and valid references from data to their context (Krippendorff, K 1980). The most frequently used data source for content analysis is from a qualitative context (Krippendorff, Klaus 2018). Particularly, the most common part of previous studies that use content analysis is empirically driven rather than theoretically driven (Stemler 2015). Many prior kinds of literature and studies have reviewed and utilised disclosure measurements such as disclosure indices and content analysis techniques (Hackston & Milne 1996; Jones & Shoemaker 1994; Marston & Shrives 1991; Owusu - Ansah & Yeoh 2005; Yeoh 2005). For example, Jones and Shoemaker (1994) have reviewed 68 empirical methods that use the content analysis method to analyse accounting and financial disclosure issues. Furthermore, Hackston and Milne (1996) have found that the qualitative data can be measured through content analysis by counting the word items (i.e., the number of words, the number of sentences, and the number of pages). Others have tried to summarise all available measurements of disclosure (Beattie, McInnes & Fearnley 2004; Healy & Palepu 2001); for instance, Healy and Palepu (2001) found that weak corporate

disclosures caused the information asymmetry and agency problems, and they used three proxies through content analysis to measure the voluntary disclosure behaviour of listed companies.

In the present research, the researcher only uses one main content analysis: a conceptual content analysis. Relation content analysis is another important method, but it is not suitable for the present research. As for previous disclosure studies, the use of conceptual content analysis was more commonly used (Hassan & Marston 2019). The conceptual content analysis determines the existence and frequency of certain words or data within specific contexts (Hassan & Marston 2019). Particularly, content analysis can be used either manually or automatically or both. However, with the development of research techniques, the manual method has many drawbacks; thus, the use of automated content analysis has become more popular since the 1980s (Breton & Taffler 2001; Kothari, Li & Short 2009; Smith & Taffler 2000).

On the one hand, automated content analysis has many advantages: it is easy to use and conserves time and money since it can examine different content styles and cover a sizable number of samples. On the other hand, content analysis has some disadvantages: it may isolate the meaning of whole sentences and miss the same words in different tenses and synonyms (Hassan & Marston 2019). Nevertheless, automatic content analysis results are negatively affected by the limits of different software. For example, certain software can only conduct an analysis in the format of text and excel files since image files and PDF files are not compatible. The researcher used the automated conceptual content analysis technique via *Weiciyun*, a professional content analysis software from China. The study's sample consisted of 168 query letters received from the ASX and the responses to those query letters for 14 delisted China-based companies. The researcher collected these relevant documents from the website *HotCopper*. *HotCopper* provides numerable and relevant completed firms' information. For example, if one company has already been delisted from ASX, there is no information that could be found on ASX's official website, but *HotCopper* keeps firms' trading and listing information for a long time. In particular, *HotCopper* provides all of the target company's public announcements and annual and half-year financial reports during its

listing life, making it the best channel to search for relevant information. For target companies' announcements, please check Source Documents for Content Analysis

### **1.3.3 Content Analysis Method in Practice**

The principle of content analysis is that the words of a text can be classified into certain categories, and each category consists of identical or similar words or words phrases. These words and phrases can be counted and compared. Particularly, the similarities are based on the part of speech and the meanings of words and phrases (for example, gathering synonyms together) or picking several words that are associated with one concept (for instance, capital raising, brand reputation, or continuous disclosure). Therefore, content analysis can be used to analyse different types of communication based on the meanings of the words themselves (*Columbia Public Health, Content Analysis Method and Examples*, 2022).

The content analysis five basic steps are:

- (1) Define the words and words phrases
- (2) Define the categories
- (3) Test sample of texts files
- (4) Use coding software (Weiciyun)
- (5) Repeat steps three to five times until all the results are reliable.

The researcher imported 168 relevant documents of China-based companies into software (Weiciyun) and found the high frequency of 140 words or word phrases.

### **1.3.4 Case Study as a Research Method**

China-based companies listed on the ASX comprise a small group, and the available information for the current research project is limited. Therefore, this study focuses on three representative case studies, namely Traditional Therapy Clinics (ASX: TTC), Animoca Brands (ASX: AB1) and XPD Soccer Gear Group LTD (ASX: XPD).

The case study method on listed companies normally has four steps to conduct high-

quality case studies (Hamilton & Corbett-Whittier 2012):

- Step 1: monitor the case study process.
- Step 2: record the company's primary listing motivation and compliance.
- Step 3: compare primary performance with performance over its listing time.
- Step 4: propose solutions and suggestions for improving the compliance ability of remain listing Chinese companies on the ASX.

Data is collected from the second-hand sources such as companies' prospectus or pre-IPO public announcements. The case study aims to provide solutions and suggestions to the post- and pre-IPO foreign firms. Meanwhile, based on these suggestions, the regulators of Australian stock markets can take actions to improve and monitor current listing rules so that enhance the attraction of potential IPO firms all over the world.

### **1.3.5 Case Study Method in Practice**

The brief introduction for three representative China-based companies are as follows.

#### **1.3.5.1 Case Study One: Traditional Therapy Clinics (ASX: TTC)**

The operator of Chinese wellness clinics, Traditional Therapy Clinics (TTC), was listed on the ASX in September 2015. TTC is a well-established business with over 300 owned and franchised clinics in 26 of the 33 administrative divisions in China and a compound annual revenue growth rate of 69% over the previous four years before the IPO on the ASX (TTC prospectus, 2015). The company successfully sought up to A\$15 million through an IPO of 30 million shares priced at A\$0.50 each. Furthermore, TTC operates under the "Fuqiao" brand, which is highly recognised throughout China and is a government-recognised industry leader (*Protective*, 3 July 2015).

As a China-based company from an emerging industry, and with the heatwave of China-concept companies listed on the U.S. stock markets in recent years, TTC attracted

considerable attention from Australian investors after the IPO. Its quarterly and annual financial reports were also remarkable. TTC in Australia service markets touting a net profit of A\$22.66 million dollars in the three years. The share price closed at A\$0.48, (date) representing a 17% increase from one week ago (*Protective*, 2 November 2015). In the 2016 financial year, after one year of listed on the ASX, the after-tax profits of TTC are A\$17 million dollars (TTC annual report, 2016). However, in 2018, after receiving the ASX's last query letter, TTC was forced to delist from the ASX since the company did not comply with the ASX listing rules, after being listed for three years. This incident within three years of listing raises some questions: What happened to TTC? Despite its apparently satisfactory operating and financial returns, why was it compelled to delist? Some public documents and relevant announcements and policies can answer these questions through case studies and content analysis.

#### **1.3.5.2 Case Study Two: Animoca Brands (ASX: AB1)**

Black Fire Minerals was a minerals exploration company corporate in 2006, and its main business focus was Western Australia, Nevada, the U.S., and the Democratic Republic of Congo. In 2014, Black Fire Minerals acquired Animoca Brands, and this acquisition helped Black Fire Minerals move out of the mineral exploration business and become a mobile games company. After the acquisition, the company issued their prospectus and offered 12,000,000 new shares at 20 cents per share to raise A\$2,400,000 dollars from the ASX. Black Fire Minerals stated in its prospectus that after the acquisition proceeds, the Black Fire Minerals would maintain its listed on the ASX and change its name to Animoca Brands Corporate Ltd (AB1 prospectus, 2014).

In January 2015, the new Animoca Brands disclosed its first document to the public, indicating that the company had started trading on the ASX. Animoca Brands is a technology company and wholly owned Hong Kong subsidiary of Animoca Brands Limited. After the completion of the reverse takeover by Black Faire Minerals, the ticker symbol on the ASX was changed from "BFE" to "AB1", and its main business focuses on gamification, blockchain and AI technology (AB1 prospectus, 2014).



Animoca Brands ranked in the *Financial Times* list of *High Growth Companies Asia-Pacific 2021*. Meanwhile, Animoca Brands develops and publishes a broad portfolio of products (*The Market Herald*, 10 March 2020).

At the beginning of 2019, AB1 received warning letters from the ASX, as it had been non-compliant with some listing rules, although, in mid-2019, AB1 still performed well in the market (*The Market Herald*, 10 March 2020). To deal with this crisis, the management group in AB1 hired some professional people and found further solid legal support to help the company overcome these difficulties. As AB1 co-founder Yat Siu said, ‘we have tried our very best. Nevertheless, the ASX sent another warning letter in December 2019 and required Animoca to submit a detailed document explaining why it should not be removed from the ASX. AB1 conducted positive actions to solve the problem, including gathering people and documents to avoid a delisting from the ASX; however, all the arrangements had slowed down when the COVID-19 outbreak occurred (*The Market Herald*, 10 March 2020). On 9 March 2020, AB1 announced that the ASX had removed the company from the Official List, and the letter from ASX dated 24 December 2019 emphasised the reasons, including certain governance issues, involvement in cryptocurrency-related activities and substantial use of funds issued by subsidiaries (AB1 ASX removal from the official list, 24 December 2020). However, after AB1 delisted from ASX, the market capitalization has changed from US\$3 million to US\$100 million in 2021. Two questions will be addressed in the case study of AB1: Why have the company’s remedial measures not worked? Why AB1 perform better after delisted from the ASX. This case will reveal some hidden issues that investors should pay attention to before making investment decisions.

### **1.3.5.3 Case Study Three: XPD Soccer Gear Group LTD (ASX: XPD)**

XPD is a sportswear business operating in China and founded in 1992 in Jinjiang City of Fujian Province, China. Particularly, the XPD group operates a vertical business model where its design, development, manufacturing, and distribution of sportswear products are all under the XPD brands. Thus, this business model gives the XPD group

control of its brands and products. Meanwhile, XPD offers a range of sportswear, sports apparel, and accessories (XPD prospectus, 2015)

XPD joined the ASX in 2015 after raising A\$15 million AU dollars at an issue price of 0.20 each share, and investors got a combined 18 per cent stake for their money. Therefore, XPD as a whole was worth A\$85 million (XPD prospectus, 2015). It reported annual revenues of more than A\$100 million a year from 2016 to 2019 and cumulative profits of about A\$45 million over that time (Rolfe, 2021). The financial results were enough to attract the backing of wealthy Queensland businessman Soheil Abedian, whose ASX-listed property development company Sunland built the Palazzo Versace and Q1 on the Gold Coast (Rolfe, 2021). However, because international funds cannot be transferred from China to Australia to pay dividends on time, XPD was forced to be delisted from the ASX in August 2020 after a lengthy suspension. During its listing, XPD received the largest number of query letters from ASX. The total listing time is four years (XPD ASX removal from official list, 20 August 2020). One question will be addressed in the case study of XPD: Why company received so many query letters?

**Table 1:** XPD Corporate Structure



**Source:** XPD prospectus (2015)

## 1.4 Data and Research Outcomes

In this section, the data and sample collection methods will be discussed.

### 1.4.1 Data Collection

Literature focusing on China-based companies listed on the ASX is scarce; thus, only a

few articles have provided definitions of China-based companies. However, many studies in the previous literature have offered definitions of China-based companies listed on the U.S. stock exchanges or the HK stock market (Pan & Brooker 2014). Luo, Fang and Esqueda (2012) discussed the post-performance of the ‘China concepts stock’ in the U.S. stock market. They defined the ‘Chinese concept stocks’ as a set of stocks issued by companies with assets, earnings, and significant activities in mainland China. For each set of foreign listings, Sarkissian and Schill (2004) have eliminated all the inactive listings and those of investment funds or trusts. Sarkissian and Schill (2008) explored overseas listing to analyse the influence of geographic distance, which is classified by firm characteristics. They omitted not only countries with unreliable or limited financial data but also markets that provide no role other than that of corporate tax havens such as the Cayman Islands, Bermuda, Jersey, and the Netherlands Antilles. Ma (2013) provided one table (Table 2) to explain the criteria for the selection of samples of overseas-listing Chinese companies.

**Table 2:** The Criteria and Standards of Selecting Overseas-Listing Companies

Criteria	Standard
Market capitalisation of the listed company	Large and mega capitalisation are preferable
Number of employees	Larger number of employees is preferable
Date of overseas listing	Earlier listing date is preferable
State Owned Enterprise or private company	State Owned Enterprise is preferable
Attributes of the sector	Sectors with higher state presence is preferable
	Sectors with higher asset intensity are preferable
Cross-listing (triple-listing)	Cross-listing (triple-listing) is preferable

Source: MA. SHUANG (2013) Doctoral thesis

### 1.4.2 Sample Collection

Based on the literature review, many Chinese companies have opted to register their

company address in HK or foreign countries, or the main shareholders have decided to change their nationality to another one. Thus, the definition covers Chinese companies whose controlling shareholders or original IPO assets and earnings are from mainland of China, regardless of the company's registration location or the main shareholders' current nationality. Meanwhile, there are many definitions of foreign company. The most common definition that literature uses is 'foreign companies are defined as a corporation that does business in a state but is incorporated in a different state or a foreign country' (Mathias, 2022). Based on Ma (2013), a new table (3) was developed.

**Table 3:** The Criteria and Standards of Selecting China-based Companies Listed on the ASX

Criteria	Standard
Original registration location	Mainland China
Controlling Shareholders' nationality	Mainland China
Date of overseas listing	Earlier listing data is preferable
State Owned Enterprise or private company	Both are preferable
Headquarters' location	Mainland China
Financial companies and inactive listings	Ignore them

The sample for the present study consists of 34 China-based companies with a presence or a delisting from the ASX. The data include annual reports, ASX announcements, trading history data and news reports. All the data can be found in *Australian and New Zealand Newstream*, Bloomberg and the ASX official website. The advantages of these databases include the effective processing of large amounts of data and the straightforward generation of various data objects (i.e., tables and reports can be created by using databases). In particular, these databases have already classified the original data that can be used directly through data analysis methods.

Based on fundamental ASX listing requirements, the annual report is a mandatory document that listed companies must submit to the ASX by the due date (ASX listing rules, 2021). The annual report must include the corporate governance information and the director's report, which signifies that the use of the financial report information

combined with the ASX announcements will provide the most reliable data to assist in the empirical analyses. The history and current director's report can especially disclose the firm's strategies and their implementation, thereby helping the researcher to verify whether the company created effective plans for daily management and development and to review the compliance issues of the firm.

This study also includes the various forms of overseas listing, given that China-based companies adopt different overseas listing forms, with depository receipts and convertible bonds being the two most popular forms of listing (Meng 2011).

### **1.5 Survey and Interviews**

To further explore the motivations and compliance of China-based companies listed on the ASX, the author is aiming to undertake some interviews with senior directors of the China-based companies listed on the ASX. Interviews are conducted in this study because the sample size is small; furthermore, strong evidence to support the hypothesis is sometimes difficult to provide. Thus, the interviews are designed to complement the data analysis and case study (Boyce & Neale 2006).

Online surveys will also be used in this study because surveys can get results quickly and easily (SurveyAnyplace, 8 March 2019). With the cost of software and hardware decreasing and the popularity of the internet increasing, more researchers are using the internet for research and information communication. Additionally, compared to interviews, surveys allow the researchers to gather a large range of answers, such that the researchers can promptly adjust the questions and receive the rich information they require (Yun & Trumbo 2000). The nature of the questionnaires also allows easy analysis to obtain results (Yun & Trumbo 2000).

The survey will use a questionnaire model and the first three questions are similar to those in the survey by Franck and Cuscha (2001) of European firms cross-listed on foreign stock exchanges. The survey will be anonymous and the companies' name and other private information will not be identified. The survey will include four parts. The first part includes questions about the profile and the degree of stock market

involvement of firms. The second part contains questions about the foreign listing performance and also their listing motivations. The third part includes questions about the benefits and weaknesses of foreign listing based on their experience. In the last part, the interviewees are required to answer the questions about the compliance issues and the consequences of foreign listing. Especially, the interviewees will be asked whether they plan to continue their listed on the ASX or to delist in the future.

The author planned to use the survey and interview methods, but they were not able to implement in this research because no company answer or gave feedbacks for the invitation e-mails or phone call. The author tried many times, but the result is not good.

## **1.6 Statement of Significance**

As mentioned in the research aim, the motivations and compliance issues of overseas companies listed on foreign stock exchanges are widely discussed in the previous literature; however, little is known about the listing and delisting of China-based companies in Australian stock markets.

### **1.6.1 Contribution to Knowledge (Academic Contribution)**

Going public abroad is a significant step in raising capital and achieving financial globalisation (Doidge, Karolyi & Stulz 2013), and these motives are universal in the global stock market. Life cycle theory (Pagano, Panetta & Zingales 1998) and signalling theory (Lowry 2003) have been used in many studies to discuss the core motivations of going public abroad. By listing on the Australian stock market, foreign companies, including Chinese firms, must report significant changes in equity and submit the semi-annual reports to the ASX on time. Those firms that do not comply with the regulations and legal provisions are meted out serious punishment (Coffee 1999, 2002; Doidge 2004; Siegel 2005). Furthermore, some of these firms are forced to delist from the stock market, which is the worst consequence of non-compliance with the regulations (Fama & French 2004; Yang, ST 2006). By addressing the lack of literature on China-based companies listed on the ASX, this research thesis is the first

work to combine popular theories and literature with important case studies and content analysis identifying listing motivations and compliance issues.

- develops a comprehensive analysis report of the previous literature on China-based companies listed on the foreign stock markets.
- investigates the special motives of China-based companies other than the traditional views about multinational companies listed overseas.
- integrates the theories in the theoretical framework, the case studies and content analysis to identify the factors that impact the listing motives and compliance issues.

### **1.6.2 Significance of the Research Project (Practical Contribution)**

China is the major trading partner of Australia. In the 2018–2019 financial year, the bilateral trade between China and Australia increased by 21% to A\$235 billion, as the number of deals decreased by 43% in the past two years. Mengniu Dairy Company's acquisition of Australia Bellamy Limited, which constituted the most significant Chinese investment in Australia, was approximately A\$1.5 billion, accounting for nearly half of the total investment that year (KPMG and USYD, 2020). The ASX is one of the largest market capital pools globally, amounting to US\$1.88 trillion in 2021, ranking at 17 of the world securities markets. According to the Australian Bureau of Statistics, the value of investments in leveraged buyouts (LBOs), Initial Public Offerings (IPOs) and listings in 2020 account for 21.1% of the companies in Australia (ABS, 2020). As for Chinese companies listed on the Australian stock market, no new listing of companies occurred since 2017; meanwhile, 14 China-based companies were delisted from the ASX between 2017 and 2021. Only 20 confirmed China-based companies could be traced on the ASX official website.

With the development of trade activities and communications between the two countries, some initial trade agreements turn into M&As and even IPOs. In particular, the ASX has unique advantages that attract multinational companies from emerging markets to invest or list in Australia, including the country's rich natural resources and relatively simple stock market entry requirements compared with other stock markets

in the world (ASX, 2020). As for China-based companies, even though they have some similar motivations to other overseas-based firms, special motives still exist. For example, the early China-based companies listed on the ASX focused on the mining and agriculture industry because China, a country with a large population, depends heavily on overseas import transactions (*Small Caps*, 25 April 2019). Some previous Sino-foreign joint venture Chinese companies turn to IPOs on the ASX to raise capital and expand the international market. However, research indicates that Chinese firms listed on the ASX are small-to-medium-sized companies with relatively small market shares. China-based companies listed on the Australian stock market constitute a small and emerging group, and the literature about them is scarce. The ASX even rejected some IPO applications from Chinese companies; moreover, some of the firms were delisted or privatised from the ASX in the past few years, even though they effectively operated before receiving a warning letter about breaching the listing rules (*Stockhead*, 6 May 2019). Therefore, changing the current situation and investigating the existing problems to offer reasonable advice to pre-listing China-based companies that are in the economic interests of Australia.

This study's practical implications for companies and regulators are also important. Such analyses are expected to guide pre-IPO Chinese companies to adopt appropriate strategies and assist existing Chinese firms. The pre-and post-IPO companies can subsequently pay more attention to the problems that they will or may confront and thus undertake effective actions to avoid or reduce the negative impact of these issues.

The ASX or other regulators can adjust or create new policies to supervise and manage the stock market, maintain a fair and open market environment, and achieve sustainable development.

This thesis has three objectives. They are presented below:

### **Objective 1**

The first research objective of this study is to find the main motives of China-based companies listed on the ASX, which is the most pivotal part of this study. The rich natural resources and relatively simple IPO requirements are the two most probable motives to attract Chinese multinational companies to invest and listed in Australia.



The IPO prospectuses and pre-IPO announcements will be reviewed to analyse this research objective. The IPO prospectus will provide an overview of the pre-IPO firm's original motivations to list on the ASX. Additionally, the prospectus includes the firm's basic information, such as company size, shareholder's equity, and leverage.

- **[Objective 1]:** To examine the motivations of China-based companies listed on the ASX.

## **Objective 2**

The second research objective is to analyse why some China-based companies were delisted from the ASX. The common reasons for explaining the delisting include breaching certain listing rules, illegal behaviour and delisting voluntarily due to the low liquidity and high trading cost. Before undertaking the analysis, data collection for each company is important and will include the following three aspects.

Firstly, the firm's characteristics consist of the company size, age (years), capital expenditure, ROA and debt/equity or firm's leverage. According to Jensen and Meckling (1976), the high leverage of a company can reduce the managerial opportunities, which directly affects the quality of corporate governance. Furthermore, the high level of debt may create competitive disadvantages (Wright et al. 2000).

Secondly, corporate governance characteristics include board size, board independence, and CEO duality. Particularly, previous studies on board size and board independence have argued that controlling shareholders have more substantial power and more opportunities than small shareholders to supervise managers and directors, improving corporate governance (Claessens, Djankov & Lang 2000; Shleifer & Vishny 1986). Meanwhile, Jensen (1993) has argued that when the CEO and Chairman are the same people, the supervision mechanisms of the board are reduced.

Thirdly, the attributes of financial visibility include stock turnover, stock volatility and beta, representing the sensitivity of shares to market movements. Mehran and Peristiani (2010) have suggested that companies that lack turnover and volatility are highly likely to go private or voluntarily delist. Descriptive analysis will be used to verify the hypotheses in Chapter 3. The mean, median, the minimum, maximum, and standard

deviation will be calculated to indicate the firms' performance after the IPO.

To analyse this objective, the researcher will record and analyse the key information from the ASX announcements, companies' response to query letters and warning letters through the webpage *Delisted Australia* and *HotCopper* (*delisted.com.au*), which includes all the delisting information for companies examined in this study.

- **[Objective 2]:** To identify and analyse the reasons for China-based companies delisted from the ASX.

### **Objective 3**

The third objective involves investigating the compliance issues of delisted China-based companies from the ASX. The case studies and content analysis results for each company will be used to enhance the understanding of the results and heighten the awareness. Finally, these advantages will help the researcher clarify that different companies and their performance affect the results in different ways so that the objective can be addressed (Esser & Vliegthart 2017).

After the data collection and comparative study, the researcher will have a comprehensive understanding of the delisting behaviour and the special delisting reasons for each China-based company, which can also help provide greater insight into the motivation and compliance.

- **[Objective 3]:** To discuss the compliance issues of delisted China-based companies.

## **1.7 Structure of the Thesis**

This thesis is organised as follows. Chapter 1 presents an overview and discussion of the history of Chinese reform and current economic situations, the overseas listing phenomenon, and the motivations and compliance issues of China-based companies listed overseas. It also includes a review of the relevant literature and research methods. Chapter 2 is focused on the motivations of China-based companies listed overseas. In Chapter 3, Chinese firms delisted from the ASX are examined. Moreover, the potential

reasons and attempts to suggest solutions of avoiding involuntary delisting are described. Chapter 4 discusses the compliance issues of delisted China-based companies through content analysis. Finally, the conclusion is presented in Chapter 5.

## **1.8 Introduction Chapter 1 - Conclusion**

In the first section, the researcher briefly introduces China's economic reform, the country's economic development, the establishment and improvement of Chinese domestic stock markets. This background information provides an overview of development activities in modern China. Improving the business environment can contribute to building a mature domestic market, thereby offering both public and private companies an opportunity to seek overseas prospects. In this historical background, many China-based companies opted to list overseas. The research motivations for researcher can be supported by showing interesting phenomenon that many China-based companies listing overseas in the past few years, and then some of them were forced to delisted from the foreign stock markets in a short period time. Particularly, early Chinese overseas listings activities, and current situation of China-based companies listed on the foreign stock markets and on the ASX have been discussed. Subsequently, China-based companies encountered various challenges and risks, including compliance issues and changes in the listing requirements of both domestic and foreign stock markets. The detailed information about the challenges and difficulties have been discussed and analysed.

Furthermore, the research significance in academic and in practice and research objectives and methodologies have been explained in section 1.4 and 1.5. The sample, data collection, and data sources have also been introduced. The completed information about case studies and content analysis research method are in section 1.3. Therefore, this thesis constitutes an integral part of the investigation in this study to identify mitigating strategies eventually. The next chapter analyses the motivations of China-based companies listed overseas, the historical background, and the distinct motivations for listed on different foreign stock exchanges, specifically on the ASX.

## **Chapter 2: Motivations of China-based Companies Listing Overseas**

### **2.1 Chapter Overview**

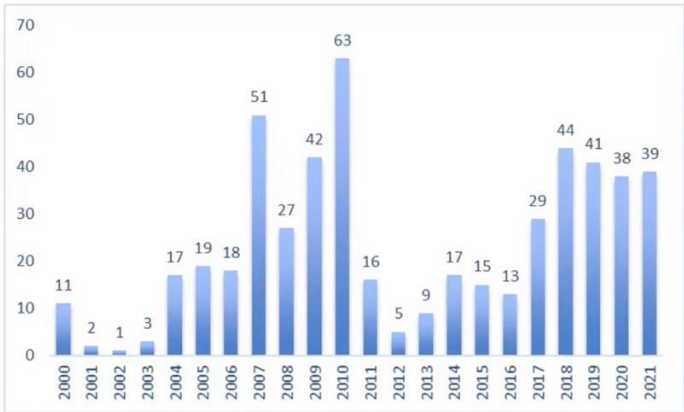
With the increase in the number of China-based companies listed overseas, research interest in the motivations of such companies has grown considerably. Chapter 1 discussed how companies incapable of satisfying their demand for capital on the domestic market may seek international equity. Zhang, C and King (2008) have confirmed that the limitations of domestic markets motivate the issuers to list overseas. The limitations of domestic markets, such as Chinese security markets, have engendered the trend of listing numerous companies on foreign security markets, especially in the developed security markets.

China has implemented a multi-tier security market system since the end of the 1980s. This multi-tier security market system, which consists of the Shanghai Stock Exchange Main Board (A share), Shenzhen Stock Exchange Main Board (B share), Beijing Stock Exchange Main Board, national over-the-counter (OTC) markets (National Equities Exchange and Quotations (NEEQ)), and regional OTC markets (equities exchange centres in each province), is gradually becoming a mature national security market system (Lu & Ye 2018). However, specific issues and challenges ensue as markets flourish. Despite the thriving security markets, many Chinese high-technology companies have chosen to list overseas to reduce the influence of legal and technical barriers to IPOs, which they encounter in mainland China. These companies consequently gain significant opportunities to access international capital and investors (Lu & Ye 2018). Legal barriers mainly emanate from the Chinese government. According to Wang, H-y and Bai (2011), potential listing companies are subject to strict rules. Governments and oversight institutions set standards on security markets to prevent large-scale private ownership and thus ensure that the listed SOEs maintain their vital position in these markets. Meanwhile, technology barriers pertain to commercial interests such as external capital, foreign expertise, and global demand for products.

At the end of 2020, 5,392 Chinese firms were listed on domestic and overseas stock markets (CSI, 2020). Stock markets in mainland China are comprised of A and B shares. Additionally, the CSI (2021) reports that the number includes 1,331 Chinese firms listed on the Hong Kong stock market and 248 Chinese firms on the U.S. stock market with a total market capitalisation of US\$2.1 trillion. (The number was 286 in 2020.) Eight national-level Chinese SOEs are listed on the three major U.S. exchanges (U.S.- China Economic and Security Review Commission, 2021). In Australia, 20 Chinese firms remain listed on the ASX. The number of China-based companies on the ASX was 55 at the end of 2017, but more than half of them were delisted within three years. The listed firms are primarily focused on consumer service, commercial real estate and mining, with most China-based companies' ownership belonging to privately owned enterprises (Hendrischke et al. 2019).

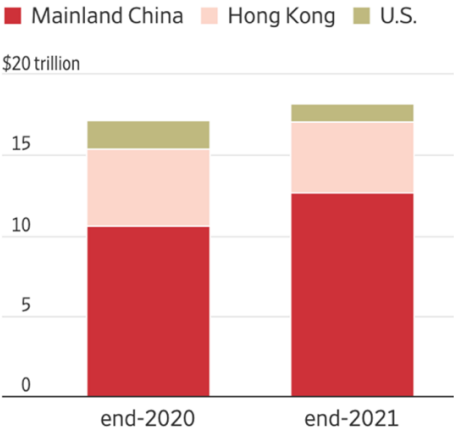
The number of China-based companies listed on U.S. security markets from 2000 to 2021 is shown in Figure 10. The figure illustrates that the highest number of China-based companies listed on the U.S. security markets was 63 in 2010. However, the number decreased after 2010, and the lowest number was in 2012, which was five companies. From 2018 to 2021, the listing number was maintained at around 40 companies. The market capitalisation of Chinese stocks is presented in Figure 11 from Standard & Poor's (S&P). By the end of 2021, the market capitalisation of Chinese stock in mainland China increased from US\$10 trillion to US\$12.5 trillion, while the Hong Kong and U.S. stock markets' capitalisation slightly decreased in 2021 (S&P Global Market Intelligence, 2021). This change shows that the attraction of mature stock markets has declined in recent years.

**Figure 10:** Number of China-based Firms Listed on U.S. Stock Market from 2000 to 2021



**Source:** Wind (2021)

**Figure 11:** The Market Capitalisation of Chinese Stocks in Mainland China, Hong Kong and U.S.



**Source:** S&P Global Market Intelligence (2021)

As the preceding shifting numbers show (Figure 11), a decrease in the trend of listed companies in mainland China is evident, and the motives for listed companies overseas may have changed as well. The negative impact of the COVID-19 pandemic should also be considered. Aside from the pandemic effect, the decline in the number of Chinese firms that opted to list in Australia may also be due to the continued restrictions on exports issued by the Chinese government, deteriorating bilateral political relations between Australia and China and increased stringency of post-listing requirements announced by the ASX, causing instability in the business activities of the two countries

(Hendrischke et al. 2019). That China-based companies' overseas-listing activities have stagnated for many years is hardly surprising. More China-based companies have finally delisted from the ASX (delisting issues are discussed in Chapter 3). Meanwhile, compared to other exchange markets, the total capitalisation of China-based firms listed on the ASX is relatively small; the small number of firms listing does not reflect diversification, as these firms are especially focused on specific fields.

The body of literature and the number of studies focusing on the motives for listing overseas is sizeable (Karolyi 2006). However, existing studies broadly underscore the value and effects of overseas listings in U.S. security markets (Doidge, Karolyi & Stulz 2004). Most of the theories and hypotheses are based on mature stock markets such as Hong Kong and European security markets. The samples and data used in these studies are mostly based on domestic firms with listings on foreign stock markets. Most of the China-based companies are small to medium in size and are privately owned. An analysis of why such China-based companies became the leading group to choose to list on the ASX is necessary. Other aspects should be examined, including the difference between being listed on domestic stock markets and foreign markets. This examination can identify the motives and consider the issue of whether traditional theories and general research results can explain the behaviour of China-based companies listed on the ASX or if other factors affect overseas-listing activities.

The 2021 index performance of three security markets is shown in Figure 12. The figure shows that the fluctuation of index performance in mainland China is relatively stable. The fluctuation of index performance on the Hang Seng and Nasdaq, however, was volatile in 2021.

**Figure 12:** Index Performance of Three Securities Markets in 2021



**Source:** FactSet (2021)

To fill the gaps and answer these questions, the motivations of China-based companies listed overseas, with a particular focus on the ASX, are examined in this chapter. Case study and content analysis methods are used to collect information, select key evidence, and analyse each company's evidence. Section 1 is an overview of the chapter. Section 2 includes a review of the literature, theories and relevant studies. The motivations of China-based companies listed overseas are discussed in Section 3. The analyses of three case studies are detailed in Section 4. The conclusion is presented in the final section.

## 2.2 Literature Review

A common perspective is that the primary motivation for listing overseas is to achieve financial gain by increasing stock prices and reducing the cost of capital (Pan & Brooker 2014). In several previous studies, the issue of whether this hypothesis about the financial benefits of the overseas listing is true has been tested (Foerster & Karolyi 2000; Karolyi 1998). However, the motivation for overseas listing cannot be simply explained as one that involving activity for an additional source of raising capital. Based on the mainstream literature, investment in overseas markets is spurred by five major intents: raising capital, obtaining high-level technologies, searching for more resources, diversifying the structure of shares, and improving international reputation or visibility



(Deng 2004). The motivations for firms from emerging countries listed overseas are often different from the intentions of firms from developed active markets listed in the major exchanges; other motives are apparent, such as improving access to local equity issuance, adhering to stricter corporate governance rules, expanding via mergers and acquisitions, increasing the product market visibility, and boosting the corporate reputation (Halling et al. 2008). From the detailed studies and data analysis of China-based companies listed on foreign stock markets, the motivations are deemed to be similar to the current research results but with some distinctive features.

### **2.2.1 Raising Capital: Liquidity Hypothesis**

Studies on early market segmentation or risk premium have indicated that firms seek overseas listing to overcome domestic barriers and obtain more investors from global markets (Foerster & Karolyi 1998, 1999). Based on market segmentation hypothesis, liquidity hypothesis been used to states that overseas listing can reduce the cost of capital, as the higher liquidity of shares leads to lower share spreads that reduce the cost of share dispersion. Foerster and Karolyi (1998) and Pagano et al. (2001) have also suggested that overseas listing in a highly liquid stock exchange could help companies increase their own shares' liquidity. In support of this argument, previous literature and studies have confirmed that overseas listing provides additional opportunities for companies that encounter barriers or limits in domestic security markets and thus increases their share liquidity and reduces their leverage in international markets (Burns 2004; Pagano, Röell & Zechner 2002). Using analysis to examine the data of nine developed countries, Koedijk and Van Dijk (2004) have confirmed that the cost of capital is much lower for overseas-listing companies compared to firms without overseas listings. Through a time-series regression model, Lins, Strickland and Zenner (2005) have also revealed a substantial decline in the cost of capital for overseas-listing companies. Sami and Zhou (2008) have built on the previous studies and used regression techniques. They contended that China-based companies with overseas listings had a lower capital cost than their non-overseas-listed counterparts. According

to Sarkissian and Schill (2004), economic, cultural, and industry proximity are the main determinations for listing overseas.

Therefore, the U.S. and European security markets are more attractive to foreign companies when considering the market size and share liquidity (Luo, Fang & Esqueda 2012). The study results of Doidge, Karolyi and Stulz (2004) indicated that non-U.S. firms listed on the U.S. exchange market outperformed local firms by 37% after controlling the firm- and country-level characteristics. King and Segal (2009) have reported that Canadian firms listed on U.S. stock markets had permanent increases in valuation regardless of the U.S. shareholder's holding for this company. Sarkissian and Schill (2008) continued their previous study in 2009 and found that firms that had chosen to list on mature foreign markets were required to comply with strict rules and information disclosure regulations; on average, these firms gained higher abnormal returns given the higher share liquidity. Furthermore, Sarkissian and Schill used 10 years before and after the cross-listing event to analyse the performance of overseas-listing firms; however, they found little evidence of a permanent effect on stock returns in the long term. Hail and Leuz (2009) have examined foreign companies with listings in the U.S. stock market by using an accounting-based valuation model; they indicated that the firms' cost of capital declined, and such an effect on the cost of capital was obviously more significant for firms from countries with ineffective supervision entities and rules. In their analysis of firms from 31 countries with overseas listings from 2005 to 2011, Caglio, Hanley and Marietta-Westberg (2016) found that the overseas IPO had functioned as an important channel for firms to raise capital. Liquidity hypothesis can help analyse the motivation to raise capital; meanwhile, domestic barriers of extreme difficulties in listing in the domestic market could also induce firms to go public abroad. As previously mentioned, Foerster and Karolyi (1998, 1999) have suggested that overcoming domestic barriers is one motivation for companies with overseas listings. Chemmanur and Fulghieri (2006) have revealed that many high-tech Chinese companies opt to list abroad due to their failure to satisfy domestic IPO requirements such as earning one-year positive net profits or their unwillingness to wait for a long time to obtain a domestic listing.

### **2.2.2 Enhancing Corporate Governance: Agency Theory and Bonding Theory**

Agency theory states that overseas listing can contribute to corporate governance value by increasing the company's free cash flow and reducing the leverage. Two main factors underlie this phenomenon. The first factor pertains to the strong connection of free cash flow with foreign IPOs and ADRs listed on the U.S. markets for the long term. This case is not only affected by agency decisions but is also characterised by different effects on different companies (Luo, Fang & Esqueda 2012). According to the previous literature, a company's free cash flow influences the management's foreign investment decision; in the long run, investment ability is also connected with the level of the leverage, or the amount of debt that a firm uses to finance its assets (Jensen 1986). The other factor denotes the strong effect of the capital structure for debt and asset leverage both in the long term and short term. Denis, Denis and Sarin (1994) have argued that reducing agency cost can be beneficial for increasing the earnings. Jensen (1986) and Stulz (1999) have similarly suggested that a change in leverage significantly affects the post-performance of publicly listed firms. Therefore, the structure of capital and free cash flow based on agency theory can offer essential information about the future abnormal returns of foreign companies.

Bonding theory states that outside investors need to ensure that corporate insiders do not obtain private benefits from the corporation beyond the contracted level and that insiders constantly put investment capital to the best use (Licht 2003). The existing bonding hypothesis supports that mature stock markets such as the U.S. and European stock markets can improve the corporate governance of foreign firms and lower the bonding cost. These developed stock markets typically have a mature investor protection system to reduce the risk of agency problems, including established listing requirements, creditable market oversight systems and valuable security investors. For example, Abdallah and Goergen (2008) showed in their Tobin's q regression results that the minority shareholders' benefits of overseas-listing companies are effectively

safeguarded because investor protection regimes in mature stock markets oblige companies to bond themselves to those minority shareholders. In addition, Frésard and Salva (2010) and Huang, Elkinawy and Jain (2013) stated that mature stock markets (e.g., U.S. security markets) with strong investor protection regimes, strict disclosure requirements and effective disclosure regulations have an effective bonding mechanism for changing those overseas-listing companies. Firms from weaker stock markets are likely to be required by their managers to enhance investor protection. Furthermore, Doidge, Karolyi and Stulz (2004); Karolyi (2006) have underscored that the controlling shareholders of the company and its insiders might bond themselves not only to their private benefits but also to the external prosperity of the company.

The bonding hypothesis has proven that overseas-listing companies strive to protect the benefits of minority shareholders because well-established foreign security markets require these firms to adhere to more stringent rules and accounting standards. This bonding relationship can elicit a positive response in share market prices and help to enhance the corporate governance and operating performance of companies (Doidge, Karolyi & Stulz 2004). For instance, Sarkissian and Schill (2008) have cited that the evidence of firms listed in foreign markets underscores the necessity of providing a higher level of information disclosure to ensure that they achieve higher abnormal returns and better corporate governance. Del Bosco and Misani (2016) have tested the S&P Global 1200 index and concluded that cross-listing increases the companies' corporate social responsibility.

### **2.2.3 Strengthening International Reputation: Bonding Theory and Signal Theory**

The motivation to boost overseas-listing companies' international reputation or visibility is relatively difficult to measure. Bonding theory can explain the intent of firms to improve their visibility in international security markets. The disclosure and transparency standards in Chinese domestic security markets are comparatively lacking in maturity; hence, some China-based companies are compelled to seek listings on

foreign security markets with more rigorous corporate governance requirements that satisfy their development demand (Luo 2014). These bonded companies are highly likely to have a sound international reputation and high global recognition, which can engender higher abnormal returns and reduce expropriation after the foreign listing (Luo 2014). Improving a company's reputation may strengthen its competitive power in the industry and enhance its position with suppliers, customers and employees. The overseas listing is a type of advertisement for the company's products; thus, it can increase sales by satisfying customer demand and boosting the trust and confidence of suppliers and employees (Luo, Fang & Esqueda 2012). In their empirical study, Baker, M and Wurgler, J (2002) have indicated that high visibility can be obtained by listing on the NYSE or LSE.

In contrast to bonding theory, consumer-commercial market bonding theory is more traditional and specific. Howson and Khanna (2014) have argued that this bonding has an advertising effect, such that the international reputation of firms can be enhanced when they list overseas. Standard Chartered recently issued *Indian Depository Receipts (IDPs)* in India, and this issuance was intended to increase market visibility and brand perception in India.

Signalling theory states that overseas-listing behaviour can convey a positive signal to the market regarding firms' quality and long-term profitability. By committing themselves to increased levels of disclosure in major exchanges, overseas-listing firms could become more credible for potential investors, further increasing firm earnings in the longer run. Through empirical evidence, Jay (1991) and Loughran and Ritter (1995) have confirmed that overseas-listing companies successfully time their offerings for a period when the company's valuation is high, thus reducing the long-term abnormal returns of investors. Core, Guay and Rusticus (2006) have argued that the economic characteristics of firms are also vital factors in the overseas-listing decision except for the companies' corporate governance features. Company size is particularly critical for determining whether the firm will list on the U.S. or European security markets. Larger firms usually have good corporate governance and a desirable asset size (Pagano, Röell & Zechner 2002). Therefore, when considering the motivations of China-based

companies listed overseas, their distinct characteristics, such as firm size, post-performance, market-to-book ratio, and leverage, should be considered.

Overall, the motivating factors for listing overseas include the impact of raising capital, amount of capital raised, time distribution of listing, new stock issuance, speed of IPO, post-IPO performance and the cost of raising capital in foreign stock markets.

#### **2.2.4 Other Motivations**

Going public abroad can also be a feasible approach to solving the home bias issue in the financial market. Several authors, such as Kang (1997) and Coval and Moskowitz (1999), have indicated that a diversified world market portfolio can maximise risk-adjusted returns, as suggested in the capital asset pricing model (CAPM); in this case, home bias is viewed as a consequence of the high information cost of overseas listing. In the light of the home bias situation, the overseas listing is deemed to be a feasible solution. According to Edison and Warnock (2004) and Ammer et al. (2012), an overseas listing that is incorporated into the U.S. portfolio with total international CAPM weights predominantly increases visibility in terms of print media attention and paper analysis coverage (Baker & Wurgler 2002; Baker, M & Wurgler, J 2002; Bris et al. 2012; Foucault & Gehrig 2008; Lang, Lins & Miller 2003).

Meanwhile, the evidence affirms that international investment segmentation or international investment portfolio diversification also presents barriers to overseas-listing companies (Stehle 1977). These barriers include transaction costs, information costs and overseas-listing regulations. Black (1974) has initiated the analysis of the effect of such barriers on the international capital market. Stapleton and Subrahmanyam (1977) have subsequently examined the impact of investment restrictions or market segmentation on corporate financial decisions. By the late 1980s, the finance literature confirmed that firms undertaking overseas listings might obtain better prices for their shares in foreign jurisdictions (Alexander, Eun & Janakiramanan 1987).

## **2.3 Analysis of the Motivations of China-based Companies Listed Overseas**

According to the background analysis and literature review, firms listed on foreign security markets have common motivations, but their unique characteristics remain distinct. One objective of this research is to identify these motives, which constitutes a vital step in discussing the next chapter (i.e., analysis of the distinctive delisting reasons of China-based companies on the ASX). In the following sections, overseas-listing motivations are classified into three main types, which are the most relevant ones connected with Chinese firms. These motivations are then explored in detail, considering the special situation of China-based companies listed on the ASX through case study and content analysis methods. This section aims to determine the primary motivations of China-based companies listed on the ASX based on the prior studies.

### **2.3.1 Financial Motivation**

A common belief among firms is that going public abroad in countries such as the United States could help them to raise capital and reduce the cost of capital given their budget constraints (Lu 2020). Thus, financial motivation is a key argument in most of the previous studies and the literature. For example, Koedijk and Van Dijk (2004) used a decomposition method based on the monthly database of the information of listed companies in nine developed countries. They revealed that the cost of capital was substantially lower for overseas-listing companies after listing on the foreign securities market. Lins, Strickland and Zenner (2005) and Sami and Zhou (2008) have adopted regression techniques and found that overseas-listing firms have considerably lower capital costs after cross-listing. Meanwhile, Sami and Zhou (2008) have showed that cross-listed firms have lower capital costs than their non-cross-listing counterparts. In their study covering 21,809 firms from 31 countries from 1995 to 2011, Caglio, Hanley and Marietta-Westberg (2016) have revealed that overseas listing is a significant channel for raising capital.

According to Fernald and Rogers (2002), Chinese firms are subject to many domestic market restrictions; China's inconvenient listing situation has directly prompted

Chinese firms to seek international opportunities. Subsequent studies have analysed and supported the argument regarding such problematic listing situations. For instance, Yang, ST (2006) and Li and Zhou (2008) have showed that H shares have a significant advantage in contrast to A and B shares in mainland China. In particular, the different treatment between Chinese SOEs and private companies caused discrimination in applying to become an IPO on the Chinese stock markets. Bancel and Mittoo (2001) have argued that significant financial benefits occur when national stock markets of different countries are segmented, which belongs to the segmentation theory. They discussed that the segmentation of stock markets is caused by the barriers to international capital flows, such as government controls on capital flows and the difficulty of collecting foreign trading information in domestic stock markets. Therefore, the government controls domestic companies to raise capital globally. Yang and Wu (2006) have studied the impact of government regulations on China's share market issues and why the performance of the Chinese stock market has been unsatisfactory in the past few years. They found two phenomena: one is that the Chinese government tightly controlled the IPO process requirements, and the other is the poor and incomplete listing regulations with ineffective supervision providing opportunities for directors and regulators to manipulate returns to maximise their self-interests from the IPO. Private companies with no government background are usually in a disadvantaged position. Piotroski and Zhang (2014) have find that the listing motivations of increasing sales and free cash flow is stronger for non-state-owned entities than SOEs. They believe the difference proved that the IPO decision of private companies is relatively more sensitive to future growth opportunities and the demand to raise external capital to support future growth. Although the private companies are more susceptible to IPO policies, the politicians are still biased to control companies to extract significant political benefits, for example, using SOEs to meet the full employment targets and gain advantages with political targets (Dinc & Gupta 2011). In addition to the academic research results, the market performance of China-based companies listed on the foreign markets has drawn ample attention. For example, the negative impact of ride hailing giant Didi Global (DIDI.N) illegal listing on the U.S.



stock exchange resulted in the implementation of stricter registration procedures for the offshore listing of Chinese firms, beginning in the last quarter of 2021 (Reuters, 24 December 2021). Some key figures have been discussed in the latest articles. Chinese firms raised about US\$12.8 billion in the U.S. listings in 2021; in the same year, the valuation of the stock markets in mainland China increased to roughly US\$12.7 trillion (*The Wall Street Journal*, 3 January 2022). The total value of onshore Chinese stocks rose by 20% in 2021, while Chinese stocks listed in the United States and Hong Kong declined by 42%, equivalent to US\$758 billion (CSI, 2021). Chinese IPOs on international security markets reached a record US\$100 billion in 2021 (Reuters, 24 December 2021). In the past, CSRC had oversight of the offshore listings of Chinese firms with a variable interest entity (VIE) structure. Variable interest entities are primarily used by companies that list on offshore stock markets. A VIE structure can provide most overseas-listed Chinese technology companies, including Alibaba Group Holding and JD.com Inc., with increased flexibility to raise capital in international markets while simultaneously bypassing the strict and prolonged IPO process in domestic security markets (Reuters, 24 December 2021). Mainboard listing and a relatively sophisticated investor base in Australia are among the advantages of China-based companies (Burrows and Fang, 15 February 2019). The current overseas-listing situation is undesirable; however, the basic overseas listing is obvious. Therefore, international share diversification and raising capital are important motivations for China-based companies going public abroad.

### **2.3.2 International Reputation**

As indicated in the previous literature, bond theory and agency theory can explain the phenomenon regarding the decision of many firms to list overseas. Such a strategy allows them to gain higher abnormal returns, attract the attention of more investors and improve their corporate governance (Luo 2014). Additionally, more investment and greater corporate governance signify a more robust international reputation or global identity, which is a positive change. The foreign listing motivations supplement each

other to support the listing entities development in the competitive markets. International security markets represent a new and open stage for most firms in emerging markets, where overseas-listing companies can gain more resources to support their development. For instance, the limitations of Chinese domestic security markets have compelled many China-based companies to pursue ‘going out’ opportunities to improve their international reputation and eventually become international and competitive companies (MacNeil 2001).

In particular, one interesting phenomenon is that foreign direct investments in China and foreign-listed China-based companies received many favourable conditions and policies from Chinese governments. Compared with the level of economy and technology of the United States, European and other developed countries, China is working hard to learn and catch up. Therefore, it is not surprising to find that so many China-based companies want to go public abroad to open new markets and improve their international reputation or investor recognition. With the development of the economy and opening-up policy implementation in China, many favourable, inward, foreign, direct investment policies have been introduced. According to the history data, China received around 20% of all FDI to developing countries over the past 10 years and over \$100 billion in 2008 (The World Bank, 16 July 2010). In particular, after China joined the WTO in 2002, FDI was triggered to turn to service industries. For instance, by 2009, FDI in the service industry increased three times from 2000 (The World Bank, 16 July 2010). By the end of 2021, China had attracted a total of US\$98 billion in the first quarter in inward FDI. Portfolio inflow is another form of FDI. In 2021, equity investors purchased around \$35 billion in the Chinese stock market, which is 50% higher than in 2019 (Peterson Institution for International Economics, 22 July 2021).

The Chinese governments and market regulators made a series of policies to protect foreign investors and provide favourable conditions to attract more FDI to China. In 2002, China issued the Provisions on Guiding the Orientation of Foreign Investment, which introduced more favourable investment policies (Provisions on Guiding the Origination of Foreign Investment, 2002). Meanwhile, the local governments are increasingly seeking ways to ensure the administration and operation activities are

efficient. One common method is setting up a 'one-stop' service center where foreign investors can deal with all procedures in one place (The World Bank, 16 July 2010).

Despite the great benefits provided to FDI (named Super-National Treatment), the foreign listing China-based companies also enjoy benefits for their business in China. For instance, the tax rate in China for the foreign companies and foreign-listed China-based companies is 15%, while the domestic firms had to pay 33% tax rate before 2008 (Tobin and Sun, 2009). Although the benefits for China-based companies listed overseas have been cancelled gradually, the foreign listing experience can still bring good international recognition for China-based companies as well as other benefits. For example, benefits include the equal treatment of foreign companies, foreign-listed China-based companies, and the Chinese domestic companies (Tobin and Sun, 2009). On the one hand, favourable conditions and policies have attracted many foreign direct investments or even listing activities in mainland China. On the other hand, the experience of listing on the foreign stock markets can help companies gain international visibility (Hasan, Kobeissi & Wang 2011; Herrmann, Kang & Yoo 2015), which is essential for future development. Meanwhile, overseas listing allows companies to experience a regulation system that differs from their domestic regulations, which can improve firms in terms of competitiveness and convergence in corporate regulation (MacNeil 2001).

Compared to other security markets, Australian securities markets have relatively lower entry requirements, which is the most attractive factor for these foreign companies. As Australia's largest security exchange platform, trading on the ASX can help China-based companies improve their international reputation and attract more attention from international investors interested in investing.

### **2.3.3 Corporate Governance**

Listing rules have a significant role in corporate regulations by controlling how companies raise capital through the issue of securities and the subsequent trading of those securities between investors (MacNeil & Lau 2001). A study by Bell, Filatotchev

and Aguilera (2014) indicates a positive effect of foreign-listing on foreign IPO valuation through adopting stringent corporate governance mechanisms. Cross-listing affects corporate governance practices, such as the higher propensity to terminate non-performing CEOs (Lel & Miller 2008).

### **2.3.3.1 Three-tier structure of corporate regulation in mature stock market**

The regulatory role of listing rules can be characterised as one that is top tier in a system of regulation for listed companies, and the lower tiers are represented by securities law and corporate law. Company Law applies to all firms, regardless of their division into public and private companies, whereas listing rules apply only to the much smaller group of companies, the shares of which are admitted to list. Company Law largely consists of default rules that are subject to change by the shareholders, whereas listing rules are essentially regulatory in nature (Easterbrook & Fischel 1996). The three tiers of regulation should be generally combined to avoid conflict or overlap within a single country. However, this case may not hold when listing rules regulate companies that are incorporated in other countries ('foreign companies') because the general corporate laws and securities laws that govern such companies are different from the ones of the listing jurisdiction (Licht 2003). The central issue underlying overseas listings is the 'mismatch' between the first two tiers of corporate regulation (company law and securities regulation) and the third tier (listing rules). No mismatch occurs within a single jurisdiction without overseas listings; however, a mismatch arises when a company lists on the foreign markets whether or not they comply with the listing rules. Some elements of the regulatory regime are drawn from the country of incorporation, and other details are derived from the country of listing (MacNeil & Lau 2001).

### **2.3.3.2 Corporate governance in China**

Compared to developed countries, China has a relatively weak corporate governance environment. For instance, SOEs account for a large percentage of the Chinese

domestic stock market, reducing the possibility for other public and private companies to list on the mainland stock markets (Clarke 2003). According to Zhang, CX and King (2010), those SOEs could obtain easy access to bank loans and other benefits because the privileged policies and rules from the government directly support their development and listing activities.

In 1978, the central government launched a long-term economic reform to revitalise the national economy; Chinese SOEs were then restructured into joint-stock companies (Huang, Liu & Yeung 2018). The restructuring of SOEs changed the nature of socialist public ownership, which is subject to the central control power of companies (Chen & Strange 2005). In particular, a key characteristic of Chinese listed companies is the high proportion of non-tradable shares. Non-tradable shares in China are categorised into two main types: state and legal shares; these non-tradable shares account for nearly two-thirds of the total shares of one listing firm in China (Yeung 2009). This situation shows that these listed companies are mainly SOEs. According to Luo, Fang and Esqueda (2012), many non-tradable shares are available in Chinese stock markets because the government intends to maintain its control over public firms. However, the large amount of non-tradable shares caused serious agency problems and weakened the corporate governance environment (Luo, Fang & Esqueda 2012).

To reiterate, bonding theory can directly affect the level of corporate governance in local security markets. The NYSE in the US is an effective example for discussing the development of the corporate governance regime via the mechanism of bonding theory (Licht 2003). In *Ties that Bond*, Alexander, Eun and Janakiraman (1987) have argued that the one-share-one-vote listing rules and stricter investor protection rules compel insiders to seek the lower cost of capital because of bonding, a promise that insiders cannot gain private benefits from the investment capital. The fact that local companies in the United States could use the NYSE listing to bond their insiders to comply with corporate governance standards raises the issue of why foreign firms could not employ the same approach. Coffee (1999) has suggested that researchers should realise that the most visible motivation to make the foreign listing decision is that overseas-listing companies opted to join markets with higher regulatory or disclosure standards to

implement the bonding responsibility. Coffee (1999) has further asserted that mature markets (e.g., the ones in the United States and the United Kingdom) with laws that provide better protection for minority shareholders tend to attract firms that have dispersed ownership; by contrast, markets in countries with a low level of corporate governance have a share of companies with concentrated ownership. This phenomenon confirms that Chinese security markets have SOEs characterised by concentrated ownership, creating an environment with a low level of corporate governance.

Corporate governance is also analysed in Chapter 4, in which corporate governance principles and recommendations are connected to the disclosure compliance issues for China-based companies. To further examine the corporate governance motivation for China-based companies, the following sections include a comparison between the listing rules of mature security markets and the domestic requirements for those overseas-listing companies.

### **2.3.3.3 Listing requirements of mature security markets**

#### **⑩ Listing requirements for foreign companies listing on US stock markets**

Foreign issuers that list on the NYSE or Nasdaq typically follow the same rules and regulations as US companies. However, certain exceptions apply to foreign companies. Some of the more significant regulations are listed below (Bartholomew and Hunsaker, 19 February 2019). In particular, the following regulations apply to U.S.- based public companies but not foreign-listed companies:

- (1) Report on a quarterly basis. International companies must have a majority independent board. The independence test is focused on the audit committee of firms, and this committee can consist of one person for an international company. Furthermore, US domestic companies must have a compensation or a nominating committee. Nonetheless, the audit committee is the only committee required for a global company.
- (2) Use International Financial Reporting Standards (IFRS) instead of the U.S.

Generally Accepted Accounting Principles (GAAP), and changes passed in 2007 are not an option for US companies. Still, they enable international companies to use IFRS reporting language in their filings.

- (3) As for foreign private companies listed on the foreign stock markets through American Depositary Receipts (ADRs), they are not limited to using the listing rules. The regulations governing foreign private companies can be highly advantageous, even when some U.S. companies complain about foreign issuers having such loose standards. A company could save millions of dollars and thousands of hours if it qualifies as a foreign private issuer and is allowed to use local accounting standards or governance practices.

## **⑩ Listing requirements of the ASX**

The two key requirements for a foreign company to be eligible to list on the ASX under the listing standards are outlined below (ASX listing requirements, 2021).

### **(1) Registration as a foreign company**

Any foreign company seeking to list on the ASX needs to register with Australian Securities and Investments Commission (ASIC) as a foreign firm operating in Australia. This requirement involves the establishment of a registered office in Australia, the appointment of an Australian local agent and the translation into the English language of any foreign language company constituent documents (e.g., constitution or articles of association) by a qualified translator. As the process can have a long lead time, action should be commenced in advance of the listing application lodgement date.

### **(2) Profit test or asset test**

**Profit test:** Under the profit test, the company must have a profit of at least A\$1million over the past 3 financial years (in aggregate) and a profit of at least A\$500,000 for the past 12 months before the listing.

**Asset test:** Under the asset test, the company must have net tangible assets of at least A\$4 million or a market capitalisation of at least A\$15 million (proposed to be increased to A\$5 million and A\$20 million, respectively).

Above all, listing in a foreign country can be a complex process, even though many favourable conditions are provided by foreign security markets (Bartholomew and Hunsaker, 19 February 2019).

### (3) Dual Listing

A company that had already listed on a foreign exchange market that met the minimal admission criteria can also list on the ASX as an ASX Listing. A company dual listed on the ASX must generally comply with all the ASX Listing Rules.

## ⑩ The ASX Listing Rule introduction

The Listing Rules govern the admission of entities to the official list, quotation of securities, suspension of securities from quotation and removal of entities from the official list. Meanwhile, Listing Rules also govern disclosure and listed entities' conduct. In particular, if an entity does not comply with the Listing Rules, its 'securities may be suspended from quotation, or it may be removed from the official list' (ASX listing rules introduction, 19 December 2016).

The principle of Listing Rules has eight points, including the obligations and rights for listed entities and investors. The main content is about the pre-listing and securities issuing requirements, the disclosure rules, and the rights of shareholders (ASX listing rules introduction, 19 December 2016).

As for applying and using the listing rules, the ASX has emphasised its absolute discretion. Listed entities can use listing rules to guide and audit themselves, and the investor can supervise the listed entity and defend themselves by using the listing rules (ASX listing rules introduction, 19 December 2016).

### 2.3.3.4 Listing requirements of Chinese securities markets

The primary legislation that applies to all companies in China is the Company Law of the People's Republic of China (PRC) and the judicial interpretations of that law made by the Supreme Court of the PRC (together, the 'Company Law'). The corporate



governance of public companies (including all listed companies and firms that have offered shares publicly but are not listed on the stock exchanges) must follow PRC laws concerning listed companies. In particular, the securities law of the PRC (or ‘Securities Law’) provides specific requirements for companies, shareholders, boards of directors and management, including information disclosure and corporate governance procedures. The Corporate Governance Guidelines of Listed Companies (the ‘Governance Guidelines’) and the Guidelines for the Articles of Association of Listed Companies (the ‘Articles Guidelines’) provided by the CSRC also play a key role in companies' corporate governance. In particular, all companies in China must provide a principal document: the articles of association (the ‘articles’). This document includes the regulations and rules for the company and reflects the contract and relationship with shareholders. Thus, the articles contain essential details of corporate governance issues that supplement the legislation (China Corporate Governance Laws and Regulations, 2021).

In practice, the Chinese corporate governance discourse is focused almost exclusively on agency problems; it also involves only two types of firms, namely SOEs, especially after their transformation into one of the corporate forms provided under the Company Law, and listed companies or Companies Limited by Shares under the Company Law (referred to from now on as Corporate Governance Laws and Institutions (CGLI)). A fundamental dilemma of Chinese CGLI stems from the state policy of maintaining entire or controlling ownership interest in enterprises in several sectors. More listed companies that are non-SOEs are active in Chinese security markets; PRC capital markets and the corporate governance regime continuously strengthen their efforts to identify the best corporate governance practices and methods (China: Corporate Governance Laws and Regulations, 2021). Foreign-listed China-based companies impart their overseas-listing experiences and techniques back to China, which is beneficial for developing and implementing changes in Chinese capital markets. (The detailed information on PRC’s Company Law and Securities Law is not provided in this section)

## **2.4 Three Case Studies on Foreign Listing Motivations**

The cases of three China-based companies listed on the ASX but delisted in recent years are analysed in this section. To supplement the data about the small sample of 34 confirmed China-based companies, case studies are a suitable research method to explain further the motivations of China-based companies listed on the ASX. There are three key motivations: raising capital, international reputation and corporate governance. For each case, the particular motivations are discussed. The content analysis method is used to support the arguments of each case study. Please see Section 1.6.4 case studies on brief introductions on the companies.

### **2.4.1 Case Study One: Traditional Therapy Clinics (ASX: TTC)**

#### **2.4.1.1 Motivations for listing on the Australian Securities Exchange**

On 1 July 2015, TTC officially announced their replacement prospectus. In the Chairmen's letter (TTC prospectus, 2015), Chairman Andrew Sneddon first mentioned that listing on the ASX aims to achieve three aims:

- (1) To gain access to capital to accelerate its growth plans.
- (2) To assist future development to gain more candidate franchisees.
- (3) To enhance its operating and governance standards.

The three aims stated by TTC are consistent with the literature (Franck & Cuscha 2001; Karolyi 1998; Lins, Strickland & Zenner 2005; Pagano, Röell & Zechner 2002) on reasons for listing on the ASX, including raising capital, improving brand recognition to attract more investors, and enhancing corporate governance.

In the following sections, these three main motivations are examined.

- Raising capital

Traditional Therapy Clinics is a successful franchised company in China and is also one of the most prominent participants in this growing Chinese market. According to the company's prospectus estimation, TTC would grow from A\$43.99 billion in 2014 to A\$58.45 billion in 2017, after the listing process on the ASX. The company believed

that international investors and mature capital markets could bring more opportunities to raise more funds (TTC prospectus, 2015). As TTC claimed in their key growth drivers, the company grew gradually through the expansion of its franchised operation (TTC prospectus, 2015). The new investment supports international business expansion, and capital raising is an important channel.

- International reputation

As a Chinese traditional service company, as of 30 April 2015, the company had 58 registered trademarks and four design patents in China. Particularly, ‘it has registered key names and logos in Hong Kong, Macau, Taiwan, the USA, Germany, and Singapore’. One of TTC’s primary motives for going public overseas was to further open new markets in Oceania (TTC prospectus, 2015). Going public abroad was seen as an opportunity for TTC to attract investors’ attention and enhance the company’s brand recognition and visibility in the international markets.

- Corporate Governance

As TTC mentioned in their aims for listing on the ASX, improving corporate governance was one of the listing motivations. Traditional Therapy Clinics is an Australian entity. Its operating businesses are wholly owned subsidiaries of TTC (TTC prospectus, 2015). Under Listing Rule Appendix 4G 4.7.3, an entity must lodge with ASX a completed Appendix 4G, which is the disclosure of Corporate Governance Council Principles and Recommendations template every year. The preliminary prospectus states TTC’s corporate governance policy. The board of TTC realised that there was a ‘need for a well-articulated and robust corporate governance framework; and good corporate governance is essential to the preservation and enhancement of shareholder value’ (TTC prospectus, corporate governance, 2015, p74). Furthermore, TTC’s board members believe that ‘the success of the business cannot leave enhanced corporate governance by implementing clearly articulated policies to achieve accountability, efficiency, and the reliable measurement of performance’ (TTC prospectus, corporate governance, 2015, p74). Therefore, the strict and timely corporate

governance oversight system of the ASX presents an opportunity for China-based companies to enhance their corporate governance. This analysis result is identical to Coffee (1999), who has stated that the most visible motivation for companies listing overseas is that they can opt into higher regulatory or disclosure standards' markets to implement bonding responsibility and enhance corporate governance.

- Special motivation-International business expansion

International market expansion is another listing motivation for TTC. Based on content analysis, TTC mentioned 'expansion' 10 times in their prospectus (Figure 13). The key driver of growth for TTC is expanding business, and it is also a vital part of daily franchise operations (TTC prospectus, 2015). The comprehensive strategies include 'expanding the number of owned clinics by the acquisition of existing franchises and becoming the appropriately qualified and dedicated therapists by improving in-house training facilities' (TTC prospectus, key strategies for growth, 2015, p8). Furthermore, according to TTC's 2016 annual report (IPO one year later), TTC opened 38 new franchises and acquired 7 new clinics in 2016 (TTC annual report, 2016) .

- Special motivation-immoral capital raising and directors' behavior

Traditional Therapy Clinics received four query letters from ASX, and three of the four query letters were about money transferability from China to Australia to achieve dividend payment for shareholders. As discussed above, its business activities are operating in China. Thus, the profits come from China. Significantly, the dividend payment ability can prove a company's earning power, which is an important factor of concern to shareholders. Therefore, the researcher can assume that TTC had another listing motivation, such as raising capital and satisfy directors' self-interest first, and then going back to China without fulfilling its legal obligations as a listing company.

#### **2.4.1.2 Content analysis**

Before undertaking content analysis, the first step is to classify and manage each

company's prospectus file to identify keywords and word phrases that can support the above arguments about the foreign listing motivations. According to prior literature, going public abroad in countries such as the U.S. stock markets could help them raise capital and reduce the cost of capital given their budget constraints (Lu 2020). Meanwhile, as indicated in the previous literature, bonding theory and agency theory can explain the phenomenon regarding the decision of many firms to list overseas. Such a strategy allows them to gain high abnormal returns, enhance their international reputation, and improve corporate governance (Luo 2014). Therefore, there are three main phrases, "capital raising", "international reputation", and "corporate governance", used to analyse three China-based companies. For each company, the author selected other words that were most likely to identify the company's special motivations of listing overseas.

**Figure 13:** The Frequency of Keywords and Word Phrases of TTC

Keywords and Word phrases	Frequency
<b>Capital raising</b>	80
<b>International reputation</b>	10
<b>Corporate governance</b>	24
<b>Expansion</b>	10
<b>Grow/Growth</b>	67
<b>Trademark</b>	53
<b>Acquisition</b>	38
<b>Benefits</b>	31
<b>Regulations</b>	26
<b>Policies</b>	25
<b>Obligations</b>	18
<b>Liquidity</b>	13

**Source:** TTC prospectus (2015)

#### **2.4.1.3 Main results analysis**

As seen in the above Figure 13, based on the content analysis method, the frequency of word phrases: ‘capital raising’, ‘corporate governance’ and ‘international reputation’ was 80, 24 and 10 times, respectively. The results may indicate that capital raising is one important motivation for TTC to go public abroad. Meanwhile, the other high-frequency words: ‘trademark’ and ‘growth’ suggest TTC aims to improve its brand reputation in the international markets and continue growing on the ASX during its listing lifetime. Furthermore, ‘regulations’, ‘policies’ and ‘obligations’ appeared 26, 25 and 18 times, respectively, perhaps indicating that the company was aware of the importance of corporate governance.

Therefore, the frequency result may prove the above arguments about the motivations of TTC listed on the ASX and support the hypothesis about the company’s special motivations for going public abroad.

#### **2.4.2 Case Study Two: Animoca Brands (ASX: AB1)**

##### **2.4.2.1 Motivations for listing on the Australian Securities Exchange**

In October 2014, Animoca Brands (AB1) officially announced its replacement prospectus. In the chairman’s letter, non-executive chairman Michael Billing from Black Fire (the parent company of AB1) first mentioned that the main drivers of value for the acquisition of Animoca Brands or their primary motivations were as follows (AB1 prospectus, 2014):

- (1) More certain returns to shareholders’ value creation.
- (2) Increase liquidity in the securities of the company.
- (3) Provide current and future shareholders with exposure to an existing, well-managed experience in the mobile games industries.
- (4) Exposure that Animoca Brands provides to global markets.

- Raising capital

As per the ASX mandatory requirements, all IPO companies must state their capital raising plan (ASX listing requirements, 2020). Meanwhile, many international investors would like to invest in technology and online entertainment companies because of their rapid growth and high investment returns (Morgan Stanley, Investment management, 26 Feb 2021). According to AB1's chairman's letter, raising capital is one primary motive for Black Fire Minerals to acquire Animoca Brands, transform from mineral to technology industry, and then re-list on the ASX. In particular, as the Chairman's letter stated, 'the existing and new funds will be directed to accelerate growth by funding additional sales and marketing activities as well as continuing product and service development to obtain market leadership' (AB1 prospectus, chairman's letter, 2014, p6)

- International reputation

Listing on the ASX can help AB1 gain international brand recognition and attract more investors in the foreign market. It can also provide the company with an opportunity to advertise their games to the world markets. The video game industry has emerged to become a vital part of the world media, and within the category of video games, the mobile game is the newest and fastest-growing component, accounting for US\$17.5 billion in revenues in 2013, US\$21.7billion in 2014, and expected to grow to US\$35billion by 2017 in the world (AB1 prospectus, chairman's letter, 2014). The 'mobile games market in the Asia Pacific region can account for US\$5.9 billion in 2013 to US\$12.2 billion in 2014' (AB1 prospectus, chairman's letter, 2014, p6).

Therefore, going public on the ASX helps AB1 enter international markets, enhancing the company's international reputation and successfully capturing the Asia Pacific mobile games markets.

- Corporate governance

One characteristic of Australian security markets is the strict listing rules during the listing period. The ASX requires all listing companies to follow the rules without exception. Otherwise, the companies receive query letters and warnings, or worse, the company may be forced to delist from the ASX if the company cannot remedy the issues

on time (ASX listing requirements, 2021). For AB1, as a technology company, going public in one international security market can help them raise money and improve their reputation, but stricter listing rules after the IPO can also bring many benefits. For example, strict disclosure rules can enhance AB1's corporate governance, which is the engine for future development. There are 16 pages in the company's prospectus discussing how the board of directors is responsible for its corporate governance, including its strategic development (AB1 prospectus, 2014). The detailed introduction and remuneration information from the director's team also indicated that AB1 is trying its best to follow ASX's corporate governance rules.

- Special motivations—increasing liquidity

Increasing liquidity in the security market motivated AB1 to list on the ASX. The company can have a higher share liquidity by attracting more investors and becoming a high-quality and popular company on the ASX.

#### 2.4.2.2 Content analysis

**Figure 14:** The Frequency of Keywords and Word Phrases of AB1

Words and word phrases	Frequency
Capital raising	8
International reputation	3
Corporate governance	15
Development	58
Investment	50
Brand	41
Marketing	38
Revenue	41
Independent	32
Policies	22
Legal	16
Director	99

Source: AB1 prospectus (2014)



### **2.4.2.3 Main results analysis**

As seen in the Figure 14, the three keyword phrases are ‘capital raising’, ‘international reputation’ and ‘corporate governance’, which appeared 8, 3 and 15 times, respectively. Although the word combination’s frequency is much lower than the single word, AB1 has three of the same foreign listing motivations as TTC and the XPD Soccer Gear Group (XPD). Moreover, the high frequency of ‘development’, ‘investment’, ‘brand’ and ‘marketing’ are high, which may indicate that AB1 expected to improve itself during its listing on the ASX through new investments and building a robust brand reputation. Furthermore, ‘policies’ and ‘legal’ appeared 22 and 16 times in the prospectus, and the word ‘director’s’ appeared 99 times. These figures may indicate the company was aware of corporate governance as an issue. Above all, the frequency analysis can prove the above arguments about the possible motivations of AB1’s listing on the ASX and support the hypothesis about the company’s special motivations.

### **2.4.3 Case Study Three: XPD Soccer Gear Group LTD (ASX: XPD)**

#### **2.4.3.1 Motivations for listing on the Australian Securities Exchange**

On 12 March 2015, XPD issued its official prospectus, and in the ‘Investment overview’ (XPD prospectus, chairman’s letter, 2015, p6), Chairman Shui-Chiao Chang stated that listing on the ASX offered access to:

- (1) Capital to be raised under this IPO which will primarily be used to accelerate XPD’s revenue growth and expand its market share.
- (2) A sophisticated and liquid capital market to access capital for future expansion.
- (3) An internationally recognised and sustainable corporate governance environment, which the company believes will enhance its relationships with government, suppliers, and customers and provide a suitable platform for its expansion.
- (4) Diversify the company’s shareholder base.

- Raising capital

The primary motivation for XPD listing on the ASX was raising capital since the company's first post-listing action was to cooperate with wealthy Queensland businessman Soheil Abedian (XPD prospectus, 2015). The words 'capital', 'raise' and 'accelerate' appeared five times or more in its prospectus, which means that XPD thought the ASX could provide XPD with access to international capital markets so that foreign listing could accelerate revenue growth and expand its market share in China and global markets.

#### ⑩ International reputation

According to the company's prospectus, XPD wanted to diversify the company's shareholder base through a respected stock exchange, such as the ASX (XPD prospectus, 2015). The ASX, as a mature stock market, could provide an international environment to help XPD expand its brand reputation and recognition.

- Corporate Governance

Enhancing corporate governance is another listing motivation for XPD (XPD prospectus, 2015). The XPD Group conducts all its business operations in the PRC; thus, XPD Group's results of operations, financial conditions and prospects are significantly dependent on the economic and political conditions in China. The corporate governance requirements also follow the relevant Chinese laws. As discussed above, the Chinese security markets are still in development. In this situation, listing on the ASX can mean that XPD is subject to stricter continuous disclosure rules, which may help the company grow faster and healthier in the future. However, XPD met considerable difficulty in corporate governance due to their inefficient corporate governance disclosure system.

- Special motivation—personal interests

Ten query letters were received by XPD from the ASX during the 2017 to 2018 financial years, and the final few letters were concerned with the company's inability to provide

a clear statement of how much interest its directors had in the company. In this situation, according to agency problem theory, it is very likely that the directors gain self-interest illegally. Meanwhile, they did not carry out their obligations correctly and could not solve the problems in an effective and timely manner. It is very likely that the board of directors earned benefits themselves rather than company and shareholders' benefits. The other potential listing motivation for illegal international assets transfer is possible.

#### 2.4.3.2 Content analysis

**Figure 15:** The Frequency of Keywords and Word Phrases of XPD

Words and word phrases	Frequency
Capital raising	14
International recognition	9
Corporate governance	31
Grow/Growth	66
Independent	41
Investment	39
Remuneration	32
Marketing	38
Profit	36
Laws	29
Legal	28
Shareholders	67

Source: XPD prospectus (2015)

#### 2.4.3.3 Main results analysis

According to the Figure 15, the three keyword phrases 'capital raising', 'international recognition' and 'corporate governance' appeared 14, 9 and 31 times, respectively, which supports the above arguments about the China-based companies' potential

foreign listing motivations. Therefore, XPD has three foreign listing motivations, like TTC and AB1. In particular, the word ‘growth’ appeared 66 times in the prospectus, indicating that growth in the Australian markets may be a primary aim. The frequency of ‘shareholders’ was 67, much higher than the other selected words. As discussed in the XPD’s aims, the last aim is to diversify the shareholder base, thus, the high frequency of ‘shareholders’ may indicate that XPD wished to attract more investors from international markets to invest in the company during its listing on the ASX. Other words, such as ‘legal’ and ‘laws’, indicate that the company is conscious of relevant regulations.

The frequency analysis can prove the above arguments about the motivations of XPD listing on the ASX and support the hypothesis about the company’s special motivations for listing abroad.

## **2.5 Motivations Chapter 2 - Conclusion**

This chapter has empirically investigated the motivations of China-based companies listed on the ASX and analysed three China-based companies which listed on the ASX to examine their motivations for listing, which were primarily raising capital, international reputation, and corporate governance.

The overview section discussed the foreign listing situation, IPO requirements, Chinese domestic security markets, and China's current foreign listing trend. The literature review section presented more detailed studies and theories about foreign listing motivations. The main motivations identified in the research based on China-based companies’ IPO prospectus include financial motivation, enhancing corporate governance in the mature security markets and improving international visibility. The researcher then examined the listing requirements of China-based companies listed on the U.S., Australian, and Chinese security markets. In Section 2.4, the case study method was used to supplement the lack of data on China-based companies listed on the ASX. Three selected China-based companies were used to illustrate their

motivations for listing on the ASX. The special motivation for each company was different, and the analysis of each special motivation can help Australian investors and regulators understand investment strategies further.

The stated special overseas listing motivation for TTC is international business expansion. According to TTC's 2016 Annual Report (IPO one year later), TTC opened 38 new franchises and acquired 7 new clinics in 2016. As for AB1, the researcher found that AB1 chose to list on the ASX because the company wanted to increase its share liquidity to attract more investors and reduce the listing costs. Also, XPD's IPO prospectus stated that XPD listing on the ASX since company can access to international capital, enhance corporate governance and diversify company's shareholder base. Furthermore, XPD received some query letters from ASX about the company's inability to clearly state how much interest its directors have in the company. And the evidence proved that XPD was listed on ASX since the directors were looking for self-interests. In conclusion, China-based companies and other foreign-listed companies have some common motivations. However, the potential motivations for all overseas-listing firms are different. Some companies seek an international reputation, while others consider the ASX to be a good platform to show themselves to international investors and raise capital. Whatever their motivation, these three case study companies were forced to delist from the ASX because they breached the ASX Listing Rules. In the next chapter, the China-based companies delisted from the ASX are discussed to further analyse the phenomenon of these companies.

## Chapter 3: The Reasons for Delisting China-based Companies

### 3.1 Chapter Overview

According to figures from the past 20 years, the delisting phenomenon has attracted more attention than IPOs in the US and UK and the security exchanges in continental Europe (Fidanza 2018). Delisting is defined as removing a listed company from trading on a stock exchange (Chandy, Sarkar & Tripathy 2004; Sanger & Peterson 1990). Macey, O'Hara and Pompilio (2008) clearly distinguish between voluntary and involuntary delisting, depending on whether regulators or firms initiate the delisting. If the stock market regulators initiate the delisting, this is an automatic delisting, and previous literature on involuntary delisting appears simple. In contrast, if firms initiate delisting, this is a voluntary delisting, and there have been varied responses to this issue in the previous literature (Macey, O'Hara & Pompilio 2008).

**Figure 16:** Statistics on Delisted, Listed and Newly Listed Firms by Geographical Area

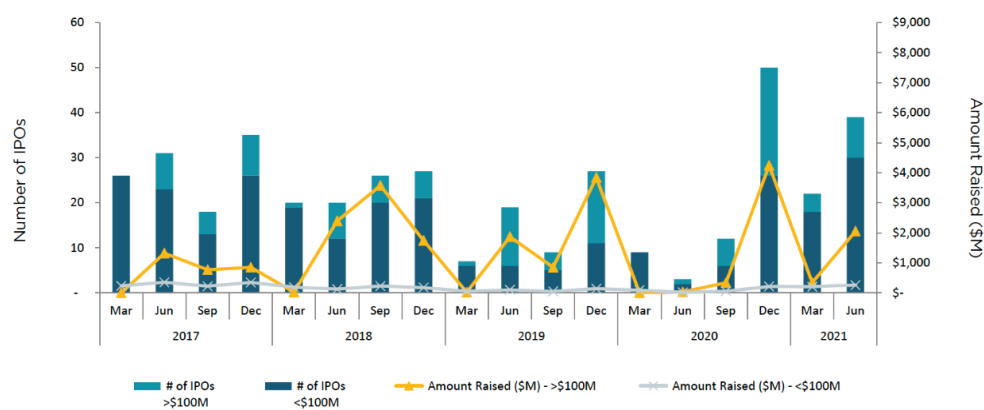
Delisting by geographical area	2015	2016	2017	2018	2019	2020	2021
<b>Listed firms</b>							
US (Include OTC)	11498	10754	10511	10328	9962	9979	10494
Canada	2639	2517	2501	2546	2951	2692	3195
UK	1570	1522	1529	1500	1436	1383	1466
Australia	1817	1787	1835	1838	1780	1749	1843
<b>New lists</b>							
US(Include OTC)	228	144	253	268	260	591	951
Canada	73	51	126	172	126	75	181
UK	87	63	108	81	30	39	118
Australia	103	105	108	84	65	81	204
<b>Delisting</b>							
US (Include OTC)	1118	2759	1593	1568	2370	1770	1931
Canada	321	322	218	193	165	169	212
UK	211	199	169	245	606	328	417
Australia	446	454	367	352	419	406	331

Source: Bloomberg (2021)

The ASX is a popular IPO destination for firms in emerging markets. In recent years, ASX has dramatically increased the number of new listings with large capitalisation. Table 11 illustrates that new lists on the Australian stock markets rose in 2019 after a continual decrease from 2017 to 2018, and 204 companies chose to list on the ASX in

2021. Meanwhile, the number of listed firms on the Australian stock markets slowly increased from 2019 to 2021. This number reached 1,843 listed entities in 2021, which is the highest number in six years. Canada experienced a similar situation. However, the number of listed firms in the United Kingdom and the United States decreased from 2015 to 2020. In 2021, the number increased to 10,494 and 3,195 separately.

**Figure 17: IPO Activity Per Quarter**



**Source:** Australia IPO Watch Mid-Year Report (2021)

As shows in the Figure 17, the highest number of IPOs and the amount raised can always be found in December, and the performance of IPO activity is most outstanding in 2021 after the downturn from 2019 to 2020.

Since 1995, coinciding with the collapse of the tech industry bubble, more than 7,350 firms have been delisted from the U.S. stock markets. Almost half of these delistings were involuntary, and many other equity markets experienced a similar situation (Macey, O'Hara & Pompilio 2008). In the Figure 16, the number of delisting firms on U.S. stock markets was 1,931 in 2021, and the highest overall number was 2,759 in 2016. A delisting wave also occurred in Oceania. Over the last few years, many China-based companies and other listed companies have delisted from the ASX. Nearly 80% of delistings occurred 'at the request of the ASX office' or due to 'breach of listing rules' or 'violations', which is categorised as involuntary delisting (ASX, 2020). Involuntary

delisting differs from other forms of delisting, such as takeover, bankruptcy, corporate rehabilitation, business discontinuity, voluntary delisting and transfer to a more regulated stock market. With involuntary delisting, the firms' shareholders only have one choice: they must sell their shares immediately to prevent losing all their investments. Shareholders' rights are normally negatively affected (Chandy, Sarkar & Tripathy 2004), and the relevant literature is scarce. There is a need for more research to better understand involuntary delisting.

Before delisting from the ASX, the company experiences an extended period of 'Queries-Responses'. Before sending official remove letters, the ASX compliance office investigates the listed firms, examines the issues, and then sends query letters or suspension requirements to problematic firms. These letters require them to explain their situations and provide feasible solutions. Companies that do not reply to these queries correctly and promptly are forced to stop normal trading activities on the ASX until their issues have been solved. If the ASX is unsatisfied with the final solutions, these companies are forced to delist from the ASX after a number of days. As shows in Figure 18, in 2021, the number of China-based companies listed on the ASX dropped to less than 50% of the 2017 number. Only 20 China-based companies remained listed on the ASX compared to 55 in 2017 (*The Australian Financial Review*, 9 April 2021).

**Figure 18:** Delisted China-based Companies Compared with Total Delisting Numbers on the Australian Securities Exchange Between 2015 and 2021

Group/Years	2015	2016	2017	2018	2019	2020	2021
China-based Companies	0	0	0	1	4	7	2
Total Delisting Number from the ASX	446	454	367	352	419	406	331

**Source:** ASX (2021)

The author of this study focused on previous delisting literature to provide deeper insights regarding delisting phenomena on the ASX. According to prior studies, delisting is more likely to occur around four years after the IPO date (Pour & Lasfer



2013). This delisting time closely aligns with the results from Wang, H-y and Bai (2011) and Luo, Fang and Esqueda (2012). Delisted firms exhibit lower capital and less firm information published at the IPO date than control groups, which are defined as non-delisted firms and other countries' IPO firms (Wang, H-y & Bai 2011). In contrast, Pour and Lasfer (2013) have discussed how the IPO fundamental characteristics, including leverage, first-day return, and raised equity capital amount, cannot predict the probability of delisting at the IPO date. They have proven that they remain at the initial level during the firms' quotation life. In contrast, firms with low growth opportunities, profitability, and liquidity, as measured by stock turnover, trading volume, and stock volatility, are highly likely to delist from the stock market. Delisting reasons for China-based companies have something in common, but the difference still exists. According to the research, delisted firms are highly likely to be small, less profitable, and generate lower excess stock returns than other ordinary listed firms on the ASX. China-based delisted firms have specific reasons for delisting, and they thus enact different decisions and strategies to deal with challenges and problems. There is no literature review on this issue despite the importance of the delisting phenomenon for China-based companies delisted from the ASX. This is probably due to the historically small proportion of China-based companies listed on the ASX. One of the earliest papers to have distinguished between involuntary and voluntary delisting was Macey, O'Hara and Pompilio (2008). For an involuntary delisting situation, the firm must delist from the stock exchange market because firm has breached regulations. Another leading cause for involuntary delisting is the bankruptcy or liquidation of the firm (Macey, O'Hara & Pompilio 2008). However, this present research does not analyse bankruptcy or liquidation because this delisting type cannot explain the unique phenomena of China-based companies delisted from ASX. Moreover, the data shows that no China-based firms have involuntarily delisted from ASX due to bankruptcy.

Regarding voluntary delisting, Brav (2009) and Aslan and Kumar (2011) have explained that the delisting firms that want to transfer to the main market are very likely to go private within two years. These delisting firms that transfer to other main markets are more likely to be larger, more profitable, and have higher opportunities for growth

than other firms. They thus seek to move to more extensive and more competitive markets to raise their capital levels (Aslan & Kumar 2011; Bharath & Dittmar 2006; Marosi & Massoud 2007).

This research thesis provides a comprehensive review of the delisting literature, and the literature review aims to answer two questions regarding delisting operations. First, why have some firms been delisted from a stock market during their listing time? Second, what is the impact of delisting on the Australian market and investors, and what can China-based companies and other listed firms learn from this special phenomenon? The reasons for and consequences of such voluntary and involuntary delisting remain unclear. To structure the knowledge provided by this chapter, the author first analyses the main reasons for the delisting of each China-based company from the Australian stock market. Some common causes are that they did not meet all the listing rules, and there was a lack of understanding and information regarding listing on the ASX. In the present research, using secondary data, the researcher tests whether the involuntary delisting of China-based firms from the Australian stock market can be predicted according to their characteristics during the listing. Consequently, the researcher analyses delisted China-based companies' financial reports and the announcements from China-based firms and the ASX. This helps provide a more precise overview of China-based companies' delisting situations in the accounting field.

To the author's knowledge, this study is the first to investigate the unique delisting phenomena of China-based companies on the Australian stock market. Additionally, the researcher compares the analysis results with the previous literature, finding some common delisting reasons despite specific differences. The purpose of the literature review is discussed as follows. First, the objective is to understand why China-based firms are subject to delisting from ASX. The relevant literature review is focused on the ability of IPO firms to survive and the impact of varying stock exchange requirements and listing rules on these delisted companies. The researcher also examines the strategies that firms can implement to avoid delisting. The second objective of the literature review is to assess the impact of delisting on the stock market and investors. Indeed, involuntary delisting negatively affects investors and markets because it sends

a poor signal. Finally, except for the delisting reasons and consequences, the review identifies gaps in the delisting literature, such as the involuntary delisting phenomenon. The researcher tests the data using descriptive analysis method to find the main reasons for delisting decisions given the changes that have occurred to China-based firms' characteristics over time. The results illustrate that leverage is the one vital factor influencing the final decision to delist for China-based companies and has the same influence on voluntary and involuntary delisting. Regarding firms that delist using alternative methods, the author uses the case studies to help supplement the limitation of only having a small sample of China-based companies. The researcher chose three representative China-based companies listed on the ASX to undertake case studies. This chapter is organised as follows. Section 1 provides an overview of delisting in world markets, focusing on Australian stock markets. Section 2 presents a literature review on the types of delistings and their reasons. In Sections 3 and 4, the researcher explains the definitions of variables, hypotheses, and then uses descriptive methods to analyse 34 confirmed China-based companies listed on the ASX. Section 5 includes three case studies that focus on three representative China-based companies that have already delisted from the ASX. The final section provides a conclusion to the chapter.

### **3.2 Literature Review and Hypotheses**

Many recent studies have focused on firms that have delisted from the United States since the middle of the 1990s (Doidge, Karolyi & Stulz 2015; Grullon, Larkin & Michaely 2015). However, few studies have focused on firms delisted from the ASX. According to the previous literature and the data shown in Figure 16, U.S. exchange markets have the world's highest listing and delisting numbers. In contrast, the Australian stock markets have significantly fewer listing and delisting numbers than the United States. China-based companies listed on the ASX are a small group. As some relevant literature has discussed, the delisting wave can be explained by macroeconomic reasons such as M&As that are more popular for private firms than

IPOs (Martinez & Serve 2017). There are also microeconomic reasons, such as policy or regulatory requirements (Gao, Ritter & Zhu 2013; Grullon, Larkin & Michaely 2015). This section provides a comprehensive review of the delisting literature.

There were several steps involved in determining the scope of the literature review. First, the researcher began with the original delisting paper by DeAngelo et al. (1984), and then found the literature published after 1984. The researcher used specific keywords to search for articles, such as ‘delisting’, ‘cross-listing’, ‘going public’, ‘overseas listing’, ‘public to private’ and ‘IPOs and re-listing’. Second, the researcher divided the literature into different categories by topics, such as ‘involuntary delisting’, ‘voluntary delisting’ and ‘delisting requirements or process’. The last step was to analyse and then summarise the topics.

### **3.2.1 The Impact of Economic Relationship for Delisting Phenomenon**

The China-Australia Free Trade Agreement (ChAFTA), which began on 20 December 2015, dramatically impacts the China-based companies listed on the ASX. Close international cooperation between the two countries cannot be achieved without an efficient economic agreement or contract. Trade between China and Australia is complementary and covers a variety of goods, including agricultural goods, mineral resources, traditionally manufactured products, services, and higher value-added products (Cheng 2008; Siriwardana & Yang 2008).

However, due to political reasons and the Covid-19 pandemic, the relationship between China and Australia has faced severe challenges in the past three years. This phenomenon can be directly shown by the business decline of Australian red wine and lobster exports, negatively affecting normal trade and customer confidence (*The Australian Financial Review*, 9 April 2021).

**Figure 19:** The Australia's Trade and Investment Relationship with China from 2014 to 2015

Australian merchandis trade with China, 2014-2015 (A\$m)				Total share	Rank	Growth (yoy)
Exports to China	81,464			31.80%	1st	-18.60%
Imports form China	57,104			21.10%	1st	14.00%
Total merchandise trade (exports+imports)	138,568			26.30%	1st	-7.70%
Australia's trade in services with China, 2014-2015 (A\$m)				Total share	Rank	Growth (yoy)
Exports of service to China	8833			14.10%	1st	17.60%
Imports of service from China	2392			3.40%	8th	10.60%
Major Australia service exports, 2014-2015 (A\$m)				Major Australian services imports, 2014-2015 (A\$m)		
Education-related travel	4694			Transport		749
Personal travel excluding education	2477			Personal travel excluding education		712

**Source:** Australia Government, Department of Foreign Affairs and Trade Statistics (2016)

As shows in the Figure 19, the financial year with the highest prosperity in the past decade was 2014–2015. Meanwhile, according to the most recent data (Figure 20), Australia's exports to China jumped 16% from 2020, reaching over 116.82 billion AUD in 2021 despite the intense relationship between the two countries and the Covid-19 pandemic in the past two years (Trading Economics, 2022).

**Figure 20:** Australia's Exports to China by US\$ billion from 2016 to 2021



**Source:** United States COMTRADE database (2022)

China's relationships with the United States and Australia have experienced drastic change over the past few years. The United States has imposed a series of restrictions for China-based listed companies on the U.S. stock exchanges. Similarly, the ASX also pursues strict rules against China-based companies, has expelled companies from the exchange markets and proposes to impose new regulations to punish some listed companies and rule breakers (*The Australian Financial Review*, 7 January 2019). The ASX has increased its scrutiny of companies proposing to list on the local market. The

reasons for companies delisting from ASX include failure to publish half-year and annual financial reports, failure to meet corporate governance problems, failure to respond to ASX queries, breach of listing rules and long-term suspension. Some examples of ASX Listing Rules breaches are if the main shareholders are the CEO and chairman or if one of their spouses is on the board (*The Australia Financial Review*, 7 January 2019).

### **3.2.2 Types of Delisting**

The types of delisting can be divided into voluntary and involuntary delisting. The following sections focus on previous literature on the types of delisting.

#### **3.2.2.1 Involuntary delisting**

The definition of involuntary delisting provided by the previous literature is that it occurs when a company fails to meet the listing requirements as determined by the exchange market (Pour & Lasfer 2013). Other leading causes of involuntary delisting include bankruptcy, financial restructuring, and liquidation (Macey, O'Hara & Pompilio 2008). Nevertheless, this phenomenon deserves further analysis and research for at least three reasons. First, involuntary delisting due to failure to meet the minimum listing requirements raises the question of how strictly stock exchanges enforce their rules. Indeed, the most attractive factor for China-based companies listed on the ASX is the relatively relaxed listing rules and entry requirements. This factor has disappeared gradually since the tighter rules released by ASX in recent years. Second, involuntary delisting might be the consequence of a series of voluntary actions, such as bankruptcy and strategically not complying with the listing rules (Martinez & Serve 2017). Third, involuntary delisting is associated with the level of corporate governance and the IPO firm's characteristics. For instance, setting up a board of directors with more outside directors can produce higher survival rates (Charitou, Louca & Vafeas 2007).

### **3.2.2.2 Voluntary delisting**

Voluntary delisting is clearly defined as an action initiated by the firm and not forced by external power (Macey, O'Hara & Pompilio 2008). Martinez and Serve (2017) have argued that voluntary delisting can be divided into two categories. One is voluntary delisting with no subsequent trading. This kind of delisting can be achieved by merging with another firm or announcing a public takeover bid, which is called a 'going private transaction' (GPT) (Leuz, Triantis & Wang 2008). If the delisting activity changes the structure of the firm's ownership, this creates another form, LBOs (DeAngelo, DeAngelo & Rice 1984). In this situation, 'GPT' is about the change of ownership structure or the nature of initiators, while LBOs are about the change of control of the firms. The second category is voluntary delisting with subsequent trading and the firm being transferred to another main market where it can continue to trade. This phenomenon is widespread in the world stock trading market. For example, the firm ceases to trade in a foreign market but continues to trade in its domestic market (Karolyi 2006). This phenomenon is also widespread among China-based companies listed in the leading overseas market. For instance, in the past few years, large public China-based companies such as internet giants Alibaba and Baidu have returned and issued their shares on the Hong Kong stock exchange (Reuters, 7 July 2021).

### **3.2.3 Delisting Procedures**

The delisting procedures vary in different countries' stock markets.

#### **3.2.3.1 Involuntary delisting process on the Australian Securities Exchange**

The previous delisting literature has focused on the U.S. market, which has a specific institutional setting for this type of delisting. Failure to meet minimum listing requirements can lead to regulatory delisting. The minimum listing requirements generally include numerical standards for share price, the amount of market

capitalisation, the number of shareholders, certain thresholds for revenues, the amount of income and cash flow, the date of submitting annual reports and the requirements of corporate governance.

The delisting situation is quite different in the Australian stock market, and no specific literature has focused on involuntary delisting on the ASX. The regulations imposed under the *Australian Corporate Act 2001 (Cth)* require that IPOs undertaken in Australia will principally be governed by the requirements set out in the Corporations Act (the disclosure should be included in the prospectus, which ASIC regulates) and the listing rules (which are controlled by ASX). The ASX states that ‘the circumstances in which a listed entity may be removed from the official list are set out in Listing Rules 17.11 to 17.16’. These rules apply to all entities admitted to the official list, including domestic and foreign. The ASX guide classifies removal rules into two categories: removal from the official list at the request of an entity and removal from the official list at the instigation of ASX. Removal from the official list at the instigation of ASX is divided into four different situations: voluntary suspension and removal following compulsory acquisition; automatic suspension and removal for failure to pay an annual listing fee; automatic removal of entities suspended for an unacceptably long period; and other circumstances in which ASX may terminate a listing.

**Figure 21:** Australian Securities Exchange Announcements for Main Removal Reasons and Number of Delisted China-based Companies

The Main Removal Reasons	Numbers of China-based Companies
Failing to lodge accounts	1
Corporate government problems	3
Failing to respond to ASX queries	5
Breaching certain listing rules	2
Long-term suspension	1

**Source:** ASX official announcement (2021)

Finally, according to the ASX and US listing rules, the main difference between the Australian and US stock markets is that the listing rules are stricter in the U.S. stock market. However, despite this difference, the regulations for listed on the stock market in Australia and United States are characterised by a standard theory: contract theory.



This theory refers to the study of how people and organisations construct and develop legal agreements. It analyses how parties with conflicting interests build formal and informal contracts (*Investopedia*, 26 June 2019).

### **3.2.3.2 ASX Voluntary delisting process**

In the United States, the voluntary delisting process involves a tender offer, and two types of techniques can be used. One type is a ‘long-term merger’. Here, controlling shareholders experience no damage, while the minority shareholders no longer have shares in the company but instead hold cash or non-equity securities. The other type is a ‘short-term merger’, where the voluntary delisting entity launches a voluntary offer to buy all the outstanding shares (Martinez & Serve 2017).

Providing the voluntary delisting requirements in Australia is the last step known as GPT. At this point, shareholders receive shares in the surviving corporation according to the agreed-upon exchange ratio by both the board of directors and the shareholders (Lew & Ramsay 2006).

### **3.2.4 Reasons for Delisting**

Involuntary delisting raises questions regarding whether firms must leave a public market. In contrast, voluntary delisting raises questions regarding firms’ incentive to leave a public market (Martinez & Serve 2017).

#### **3.2.4.1 Reasons for involuntary delisting**

In summary, the previous literature on involuntary delisting has focused on three different aspects (Martinez & Serve 2017). The first aspect is how an IPO firm’s characteristics predict the possibility of delisting. The second aspect is the effectiveness of control by the regulators after a firm violates stock exchange requirements. The last aspect is the firm’s strategies for avoiding involuntary delisting. The detailed information is as follows.

### **IPO firms' characteristics and the possibility of delisting**

The newly listed firms' (IPO firms) characteristics can be used as the index to analyse and judge the likelihood of delisting. Some previous empirical studies have focused on IPO firms. Baker and Kennedy (2002) have examined stock returns before the delisting and found that the firm's value significantly decreased from 10 years to 1 year before delisting. Post-IPO survival is an important topic to consider. For instance, Fama and French (2004) have analysed how the characteristics of new IPO firms affected firm survival, disappearance through mergers, and delisting. One crucial phenomenon regarding firm performance before delisting is that more than two out of every five IPO firms are delisted within 10 years for poor performance.

Meanwhile, Wagner and Cockburn (2010) have analysed the innovative firms' involuntary delisting due to underperformance in the target stock market. They examine the role of patents in delisting, and the results show that firms without patents exhibit weak performance and a higher risk of involuntary delisting than firms with patents. Since newly listed firms are likely to experience delisting in the future due to their poor performance, some studies have focused on the characteristics of IPO firms. For instance, Peristiani and Hong (2004) have found that the initial characteristics of delisted firms are low performers (measured by ROA) with low capitalisation (measured by the equity/assets ratio) compared with control groups. Li (2006) have focused on the accounting quality of IPO firms and have analysed the link between earnings management in the IPO process and delisting risk. Their results show that IPO firms with aggressive earning management are more likely to be delisted due to poor performance. In contrast, IPO firms with conservative earnings management are more likely to merge or acquire other firms.

### **Effectiveness control after breach of stock exchange requirements**

By studying delisted firms from NYSE and the American Stock Exchange (AMEX), Sanger and Peterson (1990) have highlighted that delisting often results from a failure to meet listing standards such as the minimum net income, change of proportion directors' interests, and market value of equity. They have also proposed that stock

exchanges might also consider factors such as failures in accounting practices or conflicts of interest with creditors in addition to the numerical criteria. Chen, KC and Schoderbek (1999) have analysed the American Stock Exchange (AMEX) delisting process and found that most of the delisted firms did not breach the listing accounting standards. Moreover, only 21.7% of the delisted firms breached the rules after their first breach. Thus, Chen and Schoderbek have suggested that the delisting decision was not based on strict rules or professional accounting measures but rather on the following factors: 1) the beginning of bankruptcy and lawsuits by firms' shareholders; 2) trading volume, and 3) auditor opinion. The researchers conclude that the AMEX relies on auditors' opinions to make delisting decisions to decrease the investigation cost.

The 'delisting dilemma' is an interesting phenomenon that highlights the gap between strict listing rules and the flexible enforcement of delisting when firms breach the rules (i.e., whether to delist a firm or not). Macey, O'Hara and Pompilio (2008) discussion of the dilemma has highlighted that the delisting decision is not solely dependent on whether firms have breached the listing rules. The enforcement power of listing rules becomes weakened, and the order of the stock market is likely to experience chaos. Macey, O'Hara and Pompilio (2008) have suggested that the best way to solve this delisting dilemma is to transfer responsibilities to a regulated body or share responsibility between stock markets and U.S. regulators. Harris, Panchapagesan and Werner (2008) have reviewed the Nasdaq ranking for the reasons for involuntary delisting. This ranking correlates with the degree of uncertainty about future firm value. It presents bankruptcy as the most severe reason for delisting, followed by corporate governance rule breaching. Serrano (2013) has concluded that self-regulated stock markets create a better trading environment than non-self-regulated markets due to contradictions in enforcing listing rules.

### **Listing requirements and firms' strategies**

The involuntary delisting literature has carefully examined the nature of the difficulties faced by firms (Leuz, Triantis & Wang 2008; Yang 2006). Firms may use various strategies, such as earnings management, to solve financial problems and avoid

delisting to deal with delisting risks. For example, in the case of deregistration, Leuz, Triantis and Wang (2008) have highlighted that some firms show lower earnings quality (proxied by accruals) than ordinary firms through earnings management. Yang (2006) has found similar results in her study of firms at risk of involuntary delisting due to breaching stock market requirements. She has posited that managers have incentives to increase the stock price using earnings management and attributing bonus shares. In addition, earnings management is more significant in firms that do not distribute bonus shares than those that do not. Yang (2006) has found that earnings management by the firms most likely to be delisted is associated with high production information costs and weak share liquidity. Cornanic and Novak (2015) have also verified that firms that are 'in danger' of being delisted from Nasdaq normally increase their stock price by reporting higher performance-adjusted discretionary accruals.

#### **3.2.4.2 Reasons for voluntary delisting**

##### **Trade-off: cost or benefit**

Bharath and Dittmar (2010) have argued that since the trade-off between listing costs and benefits explains the decision to go public, the costs of listing exceeding the benefits can be used to explain why firms decide to leave a public market. In particular, firms face different trade-offs before the delisting, depending on the types of voluntary delisting and how firms deal with the problems after the voluntary delisting.

When listed companies choose to go private, there is no subsequent trading on the stock market. In this case, the firm's trade-off is between the costs and benefits of listing. Firms receive economic benefits from listing on the securities markets from one perspective. Pagano, Panetta and Zingales (1998) have investigated this issue based on the data from Italian firms. They have found that these firms chose to go public for different reasons, including rebalancing the leverage and lowering the cost of raising capital. Bancel and Mittoo (2009) have argued that firms mainly go public to raise capital, improve bargaining power with banks or other financial institutions, and enhance their reputation and visibility. From a different perspective, going public

increases variable costs, and these costs can be direct or indirect. First, the direct costs include the cost of legislation to consult the target stock market regulators and IPO launch fees. Second, the indirect costs refer to, for examination, the compliance costs that include the consulting fees and auditing fees and the agency costs stemming from conflicts of interest between shareholders and managers. Early literature has discussed that the primary voluntary delisting reason as saving on costs (DeAngelo, DeAngelo & Rice 1984; Lehn & Poulsen 1989).

In the cross-listing case, the listed firms made delisting decisions based on the overall environment of foreign and domestic stock markets. The bonding theory can explain the cross-listing firms' delisting decision (Doidge, Karolyi & Stulz 2010). This theory also argues that the bond relationship between managers and companies leads the managers to make efficient decisions based on the firm's actual situation. Therefore, when the insiders think that the firms' growth opportunities have declined or do not exist anymore, they make the delisting decision to decrease losses.

Increases in compliance costs in the Australian stock markets are also viewed as the main reason for China-based companies delisting from the ASX. According to the present research, although only two China-based firms can be confirmed as voluntarily delisted from the ASX, the high listing cost is one of the main reasons for delisting. For further information on firm characteristics and compliance issues regarding voluntary delisting, please see Chapter 4.

### **Other reasons for delisting**

In reality, according to the present research, some China-based companies chose to list on the ASX and opted to delist from the ASX after a few years listing voluntarily or involuntarily. From this perspective, China-based companies' potential purpose is simply to boost their international reputation and gain development power in the future. Some evidence shows that certain China-based companies that delisted from the ASX had reasons for doing so. For example, some China-based companies had lower listing and delisting costs compared to other foreign firms. Although these China-based companies had already gained numerous benefits during the listing, such as a good

reputation, capital from investors and overseas-listing experience, they subsequently delisted from the stock market. A case study on this topic is necessary because investors and regulators need to be aware of certain matters, including the misuse of listing rules; damage to the interests of investors; intentional missing of the deadline for reports issue, such that warning letters are received from regulators to achieve involuntary delisting; and lack of communication with the ASX regulators or deliberate non-response to letters or queries. Listing rules are breached via these behaviours, and such conduct is distinct from real involuntary delisting.

### **3.3 Data Sources and Collection**

The researcher used the ASX official website to gather the data, which classifies the reasons for delisting into four categories: voluntary delisting if the firm wants to delist at its request; transfer to the relatively more regulated main market; takeovers, which occur when the delisted firm takes over a private firm, changes its name and becomes private; a demand to delist because of a breach of listing requirements, such as the late submission of an annual report or annual listing fee. The researcher excluded financial firms (e.g., banks and investment firms) since they have special characteristics.

At the end of 2017, the accumulative number of China-based companies listed on the ASX was 55. The researcher did not include 21 of the 55 China-based companies since they could not confirm the companies and find viable data. The author collected accounting information, including annual reports, half-year reports, and ASX announcements from HotCopper. The companies' prospectuses, including all pre-IPO information, were also downloaded from *HotCopper*. The researcher checked all selected firms on the ASX and Delisted Australia websites to verify that all firms have a China-related background and have not been re-listed on ASX under a new name. Thus, the final sample size included 34 China-based companies, where 14 firms had already delisted from the stock exchange, while 20 firms had remained on the ASX as of June 2021 (*The Australia Financial Review*, 9 April 2021). The researcher collected

listed firms' financial indexes and first IPO date prices and price offers from Bloomberg and DataStream. Three case studies were used to supplement the limitation of the small sample size.

### **3.3.1 Definition of the Variables and Hypotheses**

The phenomenon of many China-based companies involuntarily delisted from the ASX in a short period is interesting and requires further research, therefore, the analysis and case studies focus on involuntary delisting. As for voluntary delisting, there are only 2 out of 34 China-based companies which published voluntary delisting announcements, and clearly explained the delisting reasons. MMG limited (ASX: MMG) stated in the voluntary delisting announcement that "The board of MMG believes that the financial, administrative and compliance obligations and costs associated with maintaining MMG's ASX Foreign Exempt Listing are no longer justified" (MMG voluntary delisting announcement, 1 November 2019). Lion Hub Group Limited (ASX: LHB) provided its reasons for voluntary delisting as including the low liquidity of trading shares, long time suspension, limited operations in Australia and listing costs being no longer justified (LHB voluntary delisting announcement, 17 June 2021).

Many previous studies have realised that involuntary delisting from a major stock market imposes high costs on shareholders (Jonathan, Maureen & David 2008; Macey, O'Hara & Pompilio 2008; Shumway & Warther 1999). Bakke, Jens and Whited (2012) have used regression discontinuity design (RDD) to examine the real effects of delisting on a firm's financial decisions. They have found that delisting is accompanied by sharp drops in liquidity and hard access to finances and financial transparency. Table 17 presents several variables to measure the delisting effect factors on firms' financial decisions. This section focuses on capital raising, agency problems (free cash flow), asymmetric information, liquidity, and financial visibility. A detailed explanation for each index is provided below.

## **Five hypotheses:**

Pagano, Panetta and Zingales (1998) have state that companies choose to go public and raise money because the enhanced transparency can help increase their bargaining power with banks or other financial entities and diversify their sources of capital. They also indicate that some listed companies have chosen to use investment capital to support their growth opportunities, while others use these funds to re-balance their leverage. According to the early research by Jensen and Meckling (1976), a company with low leverage can reduce managerial opportunities, directly affecting corporate governance quality. The high level of debt may create competitive disadvantages (Wright et al. 2000), which negatively affects the companies' ability to market competitions. Therefore, the author expects firms to delist if they cannot gain access to raising capital to re-balance their leverage. The author tests this hypothesis by calculating firms' leverage, market value over book value of equity (MB), and capital expenditure intensity.

**H1:** China-based companies with high leverage and low ability to access capital raising are highly likely to delist from the ASX.

Corporate governance characteristics include board size, board independence, and leadership structure (Chancharat et al., 2012). Prior studies on leadership structure have argued\ that when the CEO and Chairman are the same person, the supervision mechanisms of the board are reduced (Fama & Jensen 1983; Jensen 1993). The empirical evidence shows that the CEO should not serve as board chairman (Xiao, Dahya & Lin 2004). Furthermore, Jensen and Meckling (1976) have claimed that the free cash flow problem is primarily based on the agency problem that arises from a conflict of interest between managers and shareholders. Selfish managers may use funds to decorate a luxurious office or enact unreasonable mergers and acquisitions. In these cases, excess cash can create an over-investment problem, also referred to as a free cash flow or agency problem. Marosi and Massoud (2007) have discussed how free



cash flow is highly significant for firms with high undistributed cash flow and low growth opportunities since they can choose to go private. Furthermore, Martinez and Serve (2017) have used accounting ratios to show that, before delisting, delisted firms performed more poorly than their listed counterparts with a lower return on assets (ROA). The author tested this hypothesis by calculating firms' ROA and free cash flow, using the firm's free cash flow index to divide total assets.

**H2:** China-based companies with low ROA and low free cash flow in their daily operations are highly likely to delist from the ASX.

Asymmetric information is also primarily based on agency problems, and managers typically have better information than investors regarding investments and business operations (Healy & Palepu 2001). Therefore, an asymmetric information issue arises from the information difference and conflict between investors and managers. In some serious situations, an 'information problem' may lead to a breakdown in the function of the security markets (Akerlof 1970). When a company is publicly traded, investors are less informed than insiders about the actual value of their firm, resulting in an adverse selection problem (Pour & Lasfer 2013). This problem inversely affects the firms' quality as well as their share prices. Therefore, firms with asymmetric information are more likely to delist to avoid the cost of adverse selection (Bharath & Dittmar 2010). Early literature has used Size to measure asymmetric information; size is calculated by logarithm market value of equity and the proportion of intangible assets over total assets as variables to solve the adverse selection problem (Pagano, Panetta & Zingales 1998). The author tested this hypothesis by calculating listed firms' size, intangibility, and under-pricing (calculated by  $(1\text{st-day price} - \text{price offer})/\text{price offer}$ ).

**H3:** China-based companies with high levels of asymmetric information are highly likely to delist from the ASX.

Liquidity is another important factor in measuring post-listing performance, as higher levels of liquidity are almost always driven by lower transaction costs (Pagano, Panetta & Zingales 1998). Previous empirical evidence has shown that share liquidity is a vital motivation for firms to go public (Bancel & Mittoo 2009). Liquidity measures the ability of listed firms to meet the short-term liability, and a low liquidity level indicates that the firm may face difficulties regarding short-term financial liability (Amengor 2010). Bancel and Mittoo (2009) have found that listed firms with low liquidity are more likely to delist from stock markets than those with high liquidity. The researcher tested liquidity by calculating the natural logarithm of firms' daily shares traded in the past 12 months and stock turnover (i.e., total trading volume divided by total outstanding shares).

**H4:** China-based companies with low liquidity are highly likely to delist from the ASX.

Financial visibility also arises from agency problems between investors and managers (Jensen & Meckling 1976). Increased financial visibility in capital markets raises firms' public profiles, which enhances their overall performance from the perspective of investors and consumers (Mehran & Peristiani 2010). Falkenstein (1996) has found that high visibility firms are more likely to attract the investors' attention. Furthermore, Mehran and Peristiani (2010) have suggested that companies with lower turnover and higher volatility are very likely to delist. The attributes of financial visibility include stock turnover (i.e., total trading volume divided by total outstanding shares) and stock volatility. The latter is measured by the stock return's annual standard deviation, representing shares' sensitivity to market movements.

**H5:** China-based companies with low financial visibility are highly likely to delist from the ASX.

**Table 4:** Definitions of Variables Used to Measure the Access to Raising Capital, Agency Cost, Asymmetric Information, Financial Visibility and Liquidity

Variables	Description	Hypothesis
Leverage	Total debt/total assets	Access to capital raising
MB	Market value over book value of equity	Access to capital raising
Capex/Sales	Capital expenditure/total sales	Access to capital raising
ROA	EBIT/total assets	Agency cost (free cash flow problem)
Free cash flow	Free cash flow/total assets	Agency cost (free cash flow problem)
Size	Log market value of the equity	Asymmetric information
Intangible assets	Intangible assets/total assets	Asymmetric information
Under-pricing	(1st day price - price offer)/Price offer	Asymmetric information
Ln(trade volume)	Natural Logarithm of daily shares traded in the past 12 months	Liquidity
Stock turnover	Volume/outstanding shares	Liquidity
Stock volatility	Stock return's annual standard deviation	Financial visibility

### 3.3.2 Methodology

As previously explained, the researcher collected the firms' financial data from Bloomberg and DataStream. The total number of China-based companies listed on the ASX was 34, where 14 had already been delisted from the ASX, while 20 were still listed as of June 2021. The researcher aimed to analyse the delisted China-based companies (A Group), remaining listed China-based companies (B Group), and other listed companies (C Group). The analysis results tested whether these three groups, with 11 dependent variables, have significant differences by analysing the variance method (One-Way ANOVA). However, the A and B groups only included 14 and 20 companies, respectively, which does not satisfy the minimum requirement of the T-test and one-way ANOVA test. The minimum requirement is 30 per group. Without this minimum number, the significance of the results is invalid.

Due to these testing limits, the researcher used descriptive analysis to predict the factors that affect the delisting decisions. Descriptive analysis used mean, standard deviation, median, minimum, and maximum values to prove the five hypotheses discussed above. The researcher used the following selection criteria to choose control Group C: first, consider listed companies' market capitalisation if the first criteria are not satisfied, and then consider their industry and IPO dates that are most close to Groups A and B.

### 3.4 Descriptive Statistics

Table 4 presents the five hypotheses and three groups with 11 index variables. The total sample includes 74 listed and delisted firms on the ASX using the available Bloomberg data from 2011 to 2021. (Note: Some China-based companies and other non-delisted companies on the ASX were IPO before 2011, which means there is no public data before their IPO date that does not fall within the assumed period from 2011 to 2021).

Group A: Delisted China-based companies from the ASX

Group B: Remaining listed China-based companies on the ASX

Group C: Control group of listed companies (which are not China-based companies)

**Figure 22:** Descriptive Analysis Results for the Five Delisting Hypotheses

		Mean	Std dev	Median	Minimum	Maximum
<b>Group A</b>						
<i>Capital Raising</i>	Leverage	0.462	0.563	0.310	0.025	2.127
	MB	-7.879	30.585	-1.464	-89.835	16.950
	Capex/sales	-0.186	0.199	-0.146	-0.583	-0.004
<i>Agency problem</i>	ROA	0.080	0.356	0.132	-0.701	0.436
	Free cash flow	-0.242	0.410	-0.062	-1.281	0.088
	Size	1.388	0.649	1.380	0.546	2.475
<i>Asymmetric information</i>	Intangibility	0.129	0.209	0.052	0.001	0.688
	Under-pricing	-0.312	0.388	-0.200	-0.994	0.154
	Ln (trade volume)	15.024	3.123	15.972	9.536	18.976
<i>Liquidity</i>	Stock turnover	168957.187	210697.019	61930.708	381.412	746171.710
	Stock turnover	168957.187	210697.019	61930.708	381.412	746171.710
<i>Financial visibility</i>	Stock volatility	113.248	58.665	91.327	37.768	0.996
<b>Group B</b>						
<i>Capital Raising</i>	Leverage	0.461	0.422	0.383	0.021	1.911
	MB	23.641	151.635	4.172	-146.631	595.708
	Capex/sales	-0.335	0.563	-0.085	-1.602	-0.015
<i>Agency problem</i>	ROA	-0.570	0.915	-0.183	-2.595	0.362
	Free cash flow	-0.333	1.061	-0.062	-4.680	0.081
	Size	1.625	0.862	1.461	0.509	3.843
<i>Asymmetric information</i>	Intangibility	0.154	0.136	0.121	0.024	0.476
	Under-pricing	-0.231	0.435	-0.111	-0.966	0.493
	Ln (trade volume)	15.340	1.985	14.882	11.663	18.267
<i>Liquidity</i>	Stock turnover	119052.679	219828.461	24383.420	627.216	779222.330
	Stock turnover	119052.679	219828.461	24383.420	627.216	779222.330
<i>Financial visibility</i>	Stock volatility	93.654	28.522	88.463	45.872	136.544
<b>Group C</b>						
<i>Capital Raising</i>	Leverage	0.442	0.449	0.290	0.007	2.025
	MB	17.550	40.967	8.551	-5.746	249.103
	Capex/sales	-1.167	2.331	-0.113	-7.219	-0.007
<i>Agency problem</i>	ROA	-2.637	4.358	-0.587	-14.653	0.244
	Free cash flow	-0.727	1.131	-0.331	-6.096	0.133
	Size	0.996	0.581	0.967	0.218	2.484
<i>Asymmetric information</i>	Intangibility	0.155	0.160	0.105	0.000	0.613
	Under-pricing	-0.322	0.630	-0.403	-1.000	1.132
	Ln (trade volume)	16.689	1.813	17.065	13.246	19.632
<i>Liquidity</i>	Stock turnover	479838.010	375402.967	418493.227	26965.455	1700742.438
	Stock turnover	479838.010	375402.967	418493.227	26965.455	1700742.438
<i>Financial visibility</i>	Stock volatility	155.460	67.399	140.480	34.641	372.094

As seen in the first three lines of each group (Figure 22), which relate to H1 (leverage problem), the mean of leverage (0.462), the standard deviation of leverage (0.563) and the mean of market capitalisation over total sales (-0.186) for Group A were higher than for groups B and C. Group A's average market over book value of equity (-7.879) was much lower than that of groups B and C. The securities market undervalued delisted China-based companies' equity, and this may indicate that these China-based companies have lower growth opportunities as compared with companies in groups B and C. The leverage descriptive results showed that, as compared with control group C, the China-based companies experienced over-leverage. This may illustrate that China-based companies are less likely than the control group to raise capital during their public life due to high leverage levels. Regarding agency problems H2 (i.e., free cash flow problems), the descriptive results showed that Group A has a relatively higher mean ROA (0.08) and free cash flow (-0.242) than groups B and C. Of the latter indexes, Group B showed higher results (-0.333) than Group C (-0.727), confirming that China-based companies' post-listing performance and profitability are better than other listed companies during this period.

Consistent with H3, the results showed that delisted China-based companies had lower mean intangible assets (0.129) than Groups B and C. Of the mean intangible assets indexes, Group B showed higher results (0.154) than Group C (0.155). This may indicate that Group A does not have a higher possibility of having asymmetric information than groups B and C. As China-based companies were small to medium size, their amounts of intangible assets may be smaller than other listed companies (Group C) on the ASX. The results of H4 and H5 illustrate that, as measured by stock turnover and trade volume, Groups A and B have a lower mean of trade volume and stock turnover than Group C. Of the latter indexes, Group A shows much lower results (168957) than Group C (479838). Delisted China-based companies, therefore, have lower liquidity and lower financial visibility. Low liquidity increases the listing transaction cost, and insufficient financial visibility of listed companies is less likely to attract investors' attention.

Overall, the results of the descriptive statistics showed that delisted China-based

companies have lower capital raising and growth opportunities, lower liquidity and lower financial visibility, but higher leverage than Groups B and C. Therefore, the results show that the hypotheses H1, H4 and H5 can be proven through descriptive analysis. However, H2 and H3 cannot be confirmed by using this analysis method. According to the results in Table 18 and the above analysis, China-based companies perform well after the IPO based on the ROA and intangible assets indicators. However, their corporate governance and ability to continue disclosure measured by liquidity and financial visibility have some problems that require China-based companies to pay more attention and improve in the future.

Although the One-Way ANOVA analysis results were invalid, since the minimal number of 30 per group was not satisfied, it shows the same results that the Ln (trade volume), stock turnover, stock volatility indexes of liquidity and financial visibility of Group A (H4 and H5) are significantly different with Groups B and C.

### **3.5 Three Case Studies on Delisting Reasons**

#### **3.5.1 Overview of the Delisting Phenomenon**

Three case studies are used to supplement the limitation of only having a small sample of China-based companies. As discussed in Chapters 1 and 2, many China-based companies were delisted from the ASX recently. The delisting of the Chinese companies illustrates one phenomenon: Chinese companies meet problems and cannot efficiently solve the problems. After they were forced to leave the stock markets for different reasons, their business activities were seriously affected. In the worst situation, they could not exist in the Australian markets anymore due to the decreased company reputation and investors' confidence (ASX listing rules introduction, 19 December 2016). China-based companies and the ASX and investors are negatively affected by this situation. For China-based companies, involuntary delisting damages their brand reputation and shareholders' benefits. For the ASX, many involuntary delistings are likely to undermine the confidence of foreign firms and investors to list or invest in the

ASX. However, it is not as simple as the surface issues and reasons for these involuntary delisted companies; many potential reasons may lead to this situation. In this section, the researcher focuses on three representative cases, TTC, AB1 and XPD, to analyse their delisting reasons.

Some evidence shows that some China-based companies delisted from ASX for selfish benefits. For example, some China-based companies thought they had low listing and delisting expenses; meanwhile, they had already gained many benefits during listing on the ASX, such as reputation, capital, and enhanced corporate governance. After acquiring these benefits, they chose to delist from the stock market. Case studies are necessary since investors and regulators need to know whether these China-based companies intentionally misused the listing rules or did not comply with the listing requirements. Intentional performances may harm the benefits of investors. These intentional performances include missing reports deadlines deliberately so that the company receives warning letters from regulators to achieve involuntary delisting and not communicating with ASX's regulators or not responding to query letters on purpose. These behaviours may lead to unusual delisting behaviour that requires further research and analysis.

### **3.5.2 Case Study One: Traditional Therapy Clinics (ASX: TTC)**

#### **3.5.2.1 Delisting reasons**

One law case from ASIC is critical to discuss. The concerns raised by ASIC briefly summarise the issues of TTC during its public life. Following, is the main information extracted from ASIC's official website (19-004MR ASIC applies to wind up Traditional Therapy Clinics, 2019).

On 11 January, ASIC applied to the Federal Court to wind up TTC. This company was previously listed on the ASX and had business operations in China. The application across from ASIC's concerns that:

- (1) "TTC has no directors ordinarily residing in Australia and no company secretary

after two chairmen and one secretary resigned.

- (2) TTC's external auditors found irregularities in bank records that they received from the company's China operating entities.
- (3) TTC failed to provide authorisation to its external auditors for them to obtain independent confirmation of TTC's cash balances directly from the Chinese banks.
- (4) Funds raised from investors may have been improperly diverted or dissipated.
- (5) TTC has failed to lodge its half-year report for the period ending on 30 June 2018" (19-004MR ASIC applies to wind up Traditional Therapy Clinics, 2019).

The above five concerns raised from ASIC are similar to the discussion in Chapter 4 compliance case studies. Traditional Therapy Clinics was forced to delist from ASX because of bad corporate governance, irregular bank records, improper use of funds and failure to lodge their half-year financial report. To sum up, TTC did not comply with the ASX listing rules and had severe corporate governance issues, so the ASX forced TTC to delist (TTC ASX removal from the official list, 3 September 2018).

### **3.5.2.2 Discussion**

Traditional Therapy Clinics is a successful company in China with some merits that other companies could learn from, but the issues of TTC listing on the ASX need to be avoided. First, complying with ASX listing rules is most important, for example, submitting half-year financial reports on time. Second, trying to enhance corporate governance before the IPO and during the listing life. This is an essential lesson for listed firms to learn and improve to achieve sustainable development in foreign stock markets. Third, positively disclosing the firms' information. As discussed in Chapters 2 and 3, when a company voluntarily discloses business information, there is a reduction in asymmetric information and the agency problem between insiders and outsiders (Healy, Palepu & Hutton 1995; Healy & Palepu 1993, 2001; Lambert, Leuz & Verrecchia 2007). The issues of TTC are not a single example. The other China-based companies could learn from TTC's experience to enhance corporate governance and avoid breaching the listing rules.



### **3.5.3 Case Study Two: Animoca Brands (ASX: AB1)**

#### **3.5.3.1 Delisting reasons**

- (1) On 24 December 2019, ASX emphasised the delisting reasons of AB1 including the issue of certain governance items, ‘involvement in cryptocurrency-related activities; substantial use of funds issued by subsidiaries’ (AB1 ASX removal from official list response, 24 December 2019).
- (2) On 9 March 2020, AB1 was officially delisted from the ASX. In ASX’s opinion, AB1 breached Listing Rules 3.1, 4.2B, 4.3A, 4.3D, 4.7.4 and 4.10.3; the former Listing Rules 3.10.5A, 7.1A.3, and 7.1A.4,1 and Listing Rules 12.5, 15.7 and 19.11 (AB1 ASX removal from the official list, 9 March 2020).

Listing Rule 4 requires periodic disclosure, including half-year and annual year disclosure. Listing Rule 7 is the requirement for changes in capital and new issues. Listing Rules 12, 15 and 17 are about ongoing requirements, disclosure document requirements and trading halt and suspension requirements.

The Australian Securities Exchange explained that AB1 lacked adequate resources, systems and controls to comply with its obligations under the listing rules. While the ASX acknowledged that AB1 had recently taken on some additional staff to boost its compliance resources and had taken actions to solve the prior problems, but the ASX was not satisfied that these measures would be sufficient to achieve the level of compliance ASX reasonably expected of a listed entity (AB1 ASX removal from the official list, 9 March 2020). Based on the explanation from ASX, the question is if AB1 had a sound and efficient corporate governance system to support various functional departments to comply with their obligations.

#### **3.5.3.2 Discussion**

Despite the poor performance and negative effects of delisting, AB1 had a solid ability to raise capital before and after the delisting. On 19 January 2022, AB1 officially announced that the company had raised roughly A\$360 million at a more than A\$5

billion valuation. According to the Crunchbase (reference) data, the company had introduced an estimated A\$604 million (*TechCrunch*, 2022). Yat Siu, CEO of AB1, explained why AB1 was delisted from ASX as, 'It didn't like the fact that we were dealing with crypto' (*TechCrunch*, 2022). Now, Animoca operates as an unlisted public company. However, according to the ASX's opinion above, AB1 cannot comply with listing obligations, which means the firm's characteristics are not suitable to list on the stock markets. In the author's opinion, if the company wants to list on the stock markets, it is suggested that the company make a primary assessment. The evaluation should include the ability of the company to comply with strict listing rules and balance the cost of listing. The cost consists of the cost of the IPO process, annual listing fees and auditors' fees. If the company cannot afford the costs or does not want to be supervised by ASX, the company is very likely to be forced to delist or voluntarily delist from the stock market. Above all, the remaining listed companies are advised to enhance corporate governance and use raised funds legally and correctly.

### **3.5.4 Case Study Three: XPD SOCCER GEAR GROUP LTD (ASX: XPD)**

#### **3.5.4.1 Delisting reasons**

According to the query letters received from the ASX, XPD did not comply with the ASX listing rules since (XPD ASX removal from the official list, 20 August 2020):

- (1) XPD met the problem that the company cannot repatriate money or convert Chinese RMB into foreign currencies.
- (2) XPD did not provide correct information about the number of directors' interests and shares of the substantial holder.
- (3) XPD failed to lodge Form 603 Notice of Initial Substantial Holder, and the ASX was unsatisfied with the reinstatement documents.

#### **3.5.4.2 Discussion**

The company appears to have tried to resolve these problems. Unfortunately, the ASX

was dissatisfied with their responses (XPD ASX removal from the official list, 20 August 2020). Objectively speaking, XPD made many mistakes; for example, it misled the ASX about its ability to transfer money to Australia. Meanwhile, XPD breached many listing rules simultaneously. As mentioned in the previous two cases discussed, delisted China-based companies are not innocent. They did not comply with the listing rules and breached the laws. In the researcher's opinion, China-based companies and other listed companies from emerging countries are recommended to enhance corporate governance first and then learn advanced management experience from mature listed companies. Last and most importantly, these companies should learn and understand the listing rules.

### **3.6 Delisting Chapter 3 - Conclusion**

This chapter has empirically investigated why China-based companies were delisted from the ASX. It has classified the delisting behaviour into two main types: voluntary delisting and involuntary delisting. Section 1 provided an overview of the delisting phenomenon in the global stock markets. Section 2 presented a literature review, highlighting how most previous studies about delisting have focused on mature stock markets, such as the United States, Canadian, and European. In this chapter, however, the researcher extended the relevant studies and theories to the challenges of China-based companies listed on the ASX. Furthermore, Section 2 also discusses the voluntary and involuntary delisting process in China and Australia. Section 3 presented the data sources and definitions of variables and methodology used in this chapter. Due to the population size of China-based companies listed on the ASX, the One-Way ANOVA method and regression models cannot be used in this empirical analysis and are replaced by descriptive analysis. The descriptive statistics results show that delisted China-based companies have lower opportunities for growth, lower liquidity, lower financial visibility, but higher leverage in Australian stock markets as compared with other companies. As a result, these results prove this study's hypotheses related to raising

capital, liquidity, and financial visibility. However, these results cannot support the hypotheses related to asymmetric information and agency problems. Section 4 provided a complete analysis of these issues. Lastly, Section 5 further investigates the delisting reasons for the three delisted China-based companies and offers some possible solutions. As discussed in Section 5, the three companies in the case studies did not comply with the ASX listing rules and did not exhibit strong corporate governance. Therefore, they were forced to delist. However, the remaining listed companies and potential foreign IPOs should learn from delisted companies' experiences and avoid the possibility of being forced to delist.

In summary, the many China-based companies delisted from the ASX in recent years are an interesting phenomenon in the Australian stock market. Researchers examining delisting reasons may assist listing companies and regulators in the future.

## **Chapter 4: Compliance Issues of China-based Companies**

### **4.1 Chapter Overview**

Chapters 2 and 3 discussed and analysed IPO motivations and delisted China-based companies on the ASX. In Chapter 2, the researcher used the case study and content analysis research method to find the motivations of China-based companies listed on the ASX by analysing these companies' IPO prospectus and other relevant documents. One of the motivations of companies going public abroad was to enhance corporate governance since mature stock markets have stricter IPO entry requirements and post-listing disclosure rules. Subsequently, in the delisting chapter, the researcher analysed the delisting reasons of China-based companies. One of the common delisting reasons is China-based companies breaching some ASX listing rules since complying with listing rules are mandatory requirements for all companies that are listed on the ASX. If the listed companies breached the rules, or did not comply with the disclosure obligations, they were forced to delist from the exchange markets immediately. Therefore, corporate disclosure is essential for every listed company.

Corporate disclosure has been identified as a vital element of effective corporate governance and a critical function of an efficient capital market (Healy & Palepu 2001). Financial information disclosure is divided into two categories: mandatory and voluntary (Cheung, Jiang & Tan 2010). There are many strict requirements for compulsory information disclosure in the security markets worldwide. The disclosed information includes basic accounting, financial and operating information. Sometimes, the regulators may require listed companies to disclose non-financial information such as corporate governance and economic, environmental and social sustainability reports (Dumay & Hossain 2019). According to the ASX listing compliance official document, based on the *Corporations Act 2001 (Cth)*, all entities admitted to the ASX official list are contractually bound to the ASX's listing rules. the ASX compliance document has four main types of obligations and two main types of disclosure obligations that all participants need to comply with. Listed companies are required to immediately

disclose any information that would impact on the value of their securities; that is why the ASX compliance office scrutinises firms disclosed financial information (ASX listing compliance 2021).

According to *Monitoring and Enforcing Compliance with ASX's Listing Rules*, the disclosure obligations imposed on listed entities under the listing rules can be divided into three main categories:

The continuous disclosure obligations are requiring a listed entity to disclose immediately any information that a reasonable person would expect to have a material effect on the price or value of its securities; the periodic (annual, half-yearly and, in some cases, quarterly) reporting obligations; and the additional reporting requirements that apply to mining entities and oil and gas entities (*Monitoring and Enforcing Compliance with ASX's Listing Rules*, 2021).

Notably, a vital part of mandatory disclosure requirements is disclosing financial and accounting information such as half-year and annual financial reports, cash flow reports and movement of directors' reports.

One of the more widely available sources of corporate disclosure is financial statements (Kothari, Li & Short 2009). A financial report is a primary document that listed companies use to communicate with the public (Yeoh 2005). Information availability is the primary way to minimise the informational asymmetry between insiders and outsiders and inform potential investors of a company's market performance and potential for continued growth (Cheung, Jiang & Tan 2010). Post-listing regulations regulate the critical financial and accounting information found in companies' annual reports in Australia. Disclosing entities must prepare and present half-year financial reports according to Section 302 of the Corporation Act. Disclosing entities include a company whose shares are listed on the ASX. However, a regulatory framework cannot guarantee that all ASX-listed companies follow ASX disclosure rules. Recently, many China-based companies, voluntary or involuntary, delisted from the ASX, and the query letters they received from the ASX illustrate that China-based companies breached specific disclosure rules. The early studies from Adhikari and Tondkar (1992) and Riahi-Belkaoui (1995) have found that the listed companies in developed security

markets are more likely to comply with mandatory disclosure requirements than their listed counterparts in developing capital markets. Simultaneously, Coffee (1999) has found that higher quality and larger firms were more likely to list on high-quality, mature stock markets, while lower quality, smaller firms remained listed on domestic stock markets, with the result that the local stock market-listed companies upgraded and improved efficiently after learning from the experiences of foreign-listed companies. Therefore, for China-based companies that experience challenges in foreign stock markets, their valuable experience with compliance with foreign listing rules can positively affect domestic listing companies' performance and improve the overall level of disclosure supervision of the domestic market.

Financial reporting is vital to the growth and development of security markets (Ali, Ahmed & Henry 2004). Although enhanced corporate governance and compliance with stringent disclosure rules are ideal aims for all IPO companies, especially ones based in developing security markets. Their performance after the IPO is typically under regulators' expectations since the companies that come from emerging markets underperformed compared to the companies of developed capital markets (Ali, Ahmed & Henry 2004). The gap between developing and developed securities markets in the financial information disclosure requirements leads to delisted foreign-listed companies' poor performance. Therefore, these developed securities markets need to update disclosure requirements to oversee these foreign companies.

As for the disclosure rules, some previous literature (Saudagaran & Diga 1997) has focused on compliance with International Accounting Standards (IASs). With the development of emerging countries and globalisation, these developing countries began converging to use IASs developed wholly or with minorly modifications by the International Accounting Standards Board (IASB) (Saudagaran & Diga 1997). The Chinese securities market system was built at the end of the 1980s. However, the China mainland security markets have recently become complete and mature stock markets compared with other emerging security markets. However, these markets still have some defects and issues present. As discussed in Chapter 2 on foreign listing motivations, Chinese SOEs have many privileges; there are complex IPO application

procedures for private companies and listing limitations for small to medium-sized companies. Therefore, some China-based companies chose to list on the ASX to look for more opportunities.

This chapter is organised as follows. Section 2 provides an overview of Australian securities and a brief description of the compliance requirements for the ASX and Chinese equity markets. Section 3 presents literature reviews on the compliance issues of companies in the security markets. Section 4 employs the content analysis method and offers the data source, keywords frequency and results analysis. Section 5 has three case studies about the compliance issues of delisted China-based companies. The last section is the conclusion of the chapter.

## **4.2 An Overview of the Australian and China Stock Markets' Compliance Rules**

### **4.2.1 The Obligations for Listed Companies to Comply with Compliance Rules**

The ASX operates in a highly regulated environment supervised by two independent Australian government agencies: the ASIC and the Reserve Bank of Australia (RBA). The Committee on Payments and Market Infrastructures and the Technical Committee of the International Organization of Securities Commissions are responsible for establishing a range of international standards for the regulation and conduct facilities. The ASX is part of the Australian security markets since the ASX is an entity also listed on the Australian Securities Market. According to an announcement from the ASX, the entity has received certain trading and market operating recognition from several international regulators. It must comply with certain regulatory obligations issued by those international authorities to maintain authorisation. The ASX also has various regulatory obligations under the *Corporations Act 2001 (Cth)* (ASX, 2021).

ASX Listings Compliance is a special function that includes listing compliance, operating compliance, and executive office compliance (ASX listings compliance, 2021). The following is detailed information on listing obligations for listed companies.



## **⑩ The listing rules**

There are four main types of obligations ASX-listed entities must meet to be admitted to and remain on the ASX official list:

the obligation to disclose certain information to the market; the obligation for certain transactions to be subject to security holder approval; the other obligations, such as the requirement for directors to submit themselves to re-election every three years, and the contents are required to be included in proxy forms. (ASX listings compliance, 2021)

There are two types of disclosure obligations under the ASX Listing Rule:

the periodic (e.g., quarterly, half-yearly and annual) reporting obligations and continuing disclosure obligations. A listed entity must disclose any information to the public immediately if a reasonable person would have a material effect on the share price. (ASX listings compliance, 2021)

These rules can help the ASX make adequate arrangements for monitoring and enforcing its compliance role so that all listed entities can comply with listing rules.

## **⑩ The operating rules**

When the ASX discovers a participant has breached the operating rules, it takes action to deal with the breach. The action type varies depending on the seriousness of the breach and a range of other factors, including whether the participant has a positive or negative history of complying with the ASX's operating rules. Such action may include:

a simple noting of the matter on ASX's internal breach register for future reference; a conditional 'no escalation' letter noting the breach; a formal warning for the imposition of a requirement that the participant finds an independent expert to review its operations or compliance framework if the breach is repeated; the addition of a condition or restriction on the participant's right to supply particular products or its admission or access to a specific market or facility; the referral of the matter to the Enforcement Unit in the ASX's compliance department, or, in a

severe case, the suspension or termination of the participant's right to supply particular products or its admission or access to a particular market or facility. (ASX listings compliance, 2021)

## **⑩ Corporate governance**

One important framework is the fourth edition of the ASX *Corporate Governance Principles and Recommendations (ASX CGC)* (ASX CGC, 2019). The 'corporate governance' is defined as the framework of rules, relationships, systems and processes exercised and controlled within corporations, within and by which authority (ASX CGC, 2019). And the corporate governance recommendations include eight principles:

Lay solid foundations for management and oversight; structure the board to be effective and add value; instil a culture of acting lawfully, ethically and responsibly; safeguard the integrity of the corporate report; make timely and balanced disclosure; respect the rights of security holders; recognise and manage risk; remunerate fairly and responsibly. (ASX CGC, 2019)

The company must provide details of the extent to which it complies with the ASX corporate governance recommendations. While it is not a condition of listing that a company comply with all these recommendations, where a company does not comply with any recommendation, it must explain why this is the case (ASX CGC, 2019). Therefore, disclosing the fact and any changes in corporate governance is also essential for listed companies.

## **⑩ Post-listing–Disclosure obligations**

The fundamental obligation of an entity is to comply with the disclosure requirements of the ASX. The basic principle of the ASX listing rules is that, unless an exemption applies, listed companies must immediately disclose any information, when companies are aware of it, that would have a material effect on the price or value of their securities (ASX listings compliance, 2021). Moreover, ASX-listed companies must comply with

financial reporting requirements, which require the release of audited annual accounts, reviewed half-yearly reports and, for companies that do not have a track record of revenues or profits, quarterly cash flow statements. A listed company must have at least one expert to discuss listing rules with ASX. The expert must respond immediately when the listed company receives any query letters from the ASX (ASX listings compliance, 2021).

#### **4.2.2 The Chinese Securities Markets Disclosure Criteria**

China is the most significant emerging economy in the world. By the end of 2020, there were three leading securities exchanges in mainland China, and the total market capitalisation of the three security exchange markets was around \$80 trillion RMB at the end of 2020, which is the second-largest stock exchange behind the US securities markets (*Sohu finance*, 2021). Recently, there has been an increasing number of foreign investors investing in China. In 2020, the total financial assets that overseas institutions and private investors held in China reached RMB8.98 trillion yuan (*Sohu finance*, 2021). However, with the development of Chinese stock markets, this emerging market has been recognised for excessive government control and intervention, lack of transparency and underdeveloped legal and financial frameworks (*Sohu finance*, 2021). Therefore, the guidelines for corporate governance of listed companies were issued by CSRC in 2013 to enhance the standard of corporate governance in China (CSRC, 2019). Since its introduction in 1999, Organization for Economic Cooperation and Development (OECD) principles have been widely used worldwide. In the OECD's *Corporate Governance Factbook 2021*, the report officially updated the international organisation's legal and regulatory frameworks to support its 50 jurisdictions worldwide. The five principles of the OECD report are shareholders' rights, shareholders' equity treatment, shareholders' roles, disclosure and transparency and board responsibility and composition (OECD, 2021). Disclosure and transparency are the principles that help the OECD's 50 jurisdictions build and improve their stock markets' information disclosure systems. The Accounting Regulations for Joint-Stock

Limited Enterprises are the mandatory accounting standards for all listed companies in China. The nine detailed accounting standards include disclosure of related party relationships and transactions, cash flow statements, post-balance sheet events, debt restructuring, revenue, investments, construction contracts, accounting policy changes and errors, and non-monetary transaction estimates and corrections (CSRC, 2019).

### **4.3 Literature Review**

Prior literature in this field has focused on a wide range of issues such as the corporate disclosure practice for obligatory or voluntary items (or both), the determinations of voluntary disclosure or compliance with the regulations, and the disclosure's effectiveness (Hassan & Marston 2019). In this thesis, the researcher focuses on various aspects that can explain the compliance issues of China-based companies listed on the foreign stock markets. Firms listed on the foreign stock markets must follow the disclosure obligations established by different regulatory authorities. 'Reporting' and 'disclosure' are different processes, although these two terms are mainly being used synonymously. Disclosure is 'the revelation of information that was secret or unknown by the public, only can be required by publishing information', while reporting is 'the detailed accounts information of a company's activities, financial conditions and any other data that outside investors have the right to know from companies' reports' (Dumay & Hossain 2019). Disclosure is vital to mitigate agency problems and manage asymmetric information between company officials and investors (Healy & Palepu 2001). The following literature review focuses on the agency problems and asymmetric information, overseas-listed firms' information disclosure choice and firms' characteristics and how they impact the disclosure process. However, disclosure is a theoretical concept that is hard to measure through empirical methods. Some literature has provided potential measurable strategies.

#### **4.3.1 Mitigating Agency Problems and Asymmetric Information**

The relationship between investors and directors entails investors who invest in a business but typically do not want to play an active role in its management. The management responsibility is, therefore, delegated to the business directors. Once the investors invest their money into the company, the self-interested managers will decide how to spend the funds. The investment funds may be used for daily business operations or to pay compensation (Jensen & Meckling 1976). An agency problem is a conflict of interest between investors and directors (Chen, 2022). Asymmetric information occurs if there are agency problems since the internal managers and external investors typically have asymmetric information about the business' operating and investment activities. There are several mechanisms to solve the agency problem. The first mechanism for reducing agency problems is to create a contract between managers and investors. This contract can limit the self-interested behaviours of inside managers and require them to disclose information that enables investors to enforce directors to comply with contractual agreements (Healy & Palepu 2001). The second mechanism is building a board of directors monitoring and overseeing managers' behaviour in the business (Healy and Palepu, 2001). These two fundamental mechanisms for agency problems and asymmetric information can mitigate conflicts between internal management and external investors.

In particular, the first mechanism proved that the contract between directors and investors requires directors to disclose valuable information to investors and other potential users. Investors can supervise directors if they comply with the agreements, or for listed companies, if they comply with the compliance obligation and listing rules.

#### **4.3.2 The Disclosure Choice and Costs of Overseas-listed Firms**

According to stakeholder theory, Gray, Owen and Adams (1996) have discussed that companies are responsible for providing important information to their shareholders. Companies are also responsible for disclosing their non-financial information to a wide range of outside shareholders (Clarkson et al. 2008; Matsumura, Prakash & Vera-

Munoz 2014). Listed firms have to weigh their listing's cost and benefits, and, in the trade-off framework, the changes in regulations may increase or decrease the compliance costs (Martinez & Serve 2017).

The disclosure cost is another critical perspective to investigate the compliance issues based on the previous studies. For instance, as Bessler et al. (2012) have highlighted, while the costs and difficulties of complying with US securities market regulations are increased after the SOX was raised, German foreign listing companies' corporate governance has been improved. German domestic markets developed as well, narrowing the competitive gap between the two countries' markets. Leuz (2007) has stated that despite the high cost of complying with SOX, cross-listing firms increased company scrutiny, which is the vital intention of policymakers. Following the implementation of IFRS in 2005, Australia adopted IFRS despite its the unclear costs and benefits of adopting IFRS. Li, Anwar and Peng (2022) have found that firms provided more disclosure information to the public after adopting IFRS, which enhanced the liquidity and decreased asymmetric information. Meanwhile, Saha and Bose (2021) have illustrated that the disclosure requirements had negative effects on the cost of capital, which indicated a higher level of IFRS disclosure with a lower cost of capital based on the empirical studies of a sample of 157 Australian firms in 2012.

#### **4.3.3 The Firms' Characteristics Impact Annual Report Disclosure**

Prior studies have investigated the impact of corporate characteristics on annual report disclosures since 1961. These characteristics include entity size, leverage, profitability, industry, size of equity and director's ownerships. Early studies based on the equity markets in developed countries include Cooke (1989), Wallace, Naser and Mora (1994) and Dumontier and Raffournier (1998). The findings have indicated that the corporate characteristics and listing states have a significant effect on disclosure levels. For instance, Cooke (1989) has stated that the company's size (as measured by total assets), sales and number of shareholders, are vital variables. While leverage is not significantly associated with the level of disclosure, other prior findings of the relationship between

the level of disclosure and other corporate characteristics conflict with one another. For instance, Wallace, Naser and Mora (1994) have proved that there is an association between profitability and the level of disclosure. However, this finding was not supported by Dumontier and Raffournier (1998) because the different industries, capital markets and empirical methods may lead to different results.

In the next section, the researcher uses the content analysis method to measure the reasons for how delisted China-based companies encountered compliance issues on the ASX. The content analysis is based on the all-query letters and responses documents of 14 delisted China-based companies received during the public period. Particularly, the researcher selected frequently used words related to compliance that appeared in the query letters and responses documents. The researcher discusses whether these words explain the compliance issues that China-based companies have met during their listing period on the ASX.

#### **4.4 Sample Selection for Content Analysis**

The query letter is the inquiry document sent by ASX's compliance office when the ASX discovers listed companies breaching certain ASX listing rules or the ASX compliance office has questions about the information that listed companies published, such as financial reports or changes in directors' interests. The responses to query letters from listed companies, and the content of the response letter include answers for each compliance issue that the ASX compliance office requires a company to answer and the further actions of listed companies to solve the problems. For instance, the ASX may ask a question like, 'Does the company expect to be able to continue its operations and to meet its business objectives? If so, on what basis?' (LHB ASX Appendix 4C query letters, 27 January 2017). The aim of conducting content analysis was to find the main compliance issues of each delisted China-based company by counting the keywords or word phrases in the query letters and responses documents.

#### **4.4.1 Defining the Words, Phrases and Categories**

The first step was to classify and manage each company's text files to identify keywords that could explain the potential compliance issues delisted China-based companies had met during their listing. The six categories that could be used to build a classification scheme of compliance were as (Riloff 1993).

1. External market risk: competitive environment
2. Firm risk: the firm's development strategies
3. Corporate governance risk: the internal management
4. Reputation risk: the brand and reputation
5. Performance risk: the operating and listing performance
6. Regulation risk: the government legislation and listing requirements

#### **4.4.2 Main Results Analysis**

The main results discussion includes the content analysis results of 14 delisted China-based companies. The frequency of categories, keywords, and word phrases for 14 delisted China-based companies are showing in Appendix 1. All China-based companies' basic information is in Appendix 2.

As seen in the first company, AB1, 'investment', 'reclassification', 'capital raising', 'voluntary suspension' and 'failure to lodge half-year report' appeared 12, 9, 12, 17 and 2 times separately, which indicates that AB1 voluntarily required suspension many times and for several reasons. Based on the content analysis results, AB1 breached the listing rules many times, including illegal capital raising and acquisitions and failure to lodge half-year reports to ASX on time.

The analysis results for BOJUN Agriculture Holdings Limited (BAH) evidenced different compliance issues. For example, the highest frequency of words and phrases were 'resignations', 'independent directors' and 'authorisation'. The company's query letters, and response documents suggest that the compliance issues were the frequent resignations of directors (BAH ASX query letter 29 July 2019). Furthermore, the company did something that was not authorised by continuous disclosure rules or



otherwise by its board or certain officers responsible for response to ASX on disclosure matters (BAH ASX query letter 28 June 2018).

As for DONGFANG Modern Agriculture Limited (DFM), the high-frequency keywords and phrases were ‘resignations’ and ‘immediately announcements’, which may explain that ASX raised questions about DFM’s director resignations. The company did not publish announcements when something happened that would materially affect the value of shares. These two issues may directly or indirectly lead to the involuntary delisting of DFM (DFM ASX query letters 13 June 2019).

Similarly, JIAJIAFU Modern Agriculture Limited (JJF) met some compliance issues before delisting. Some directors resigned from the company, which led to the lack of independent directors who were ordinarily resident in Australia. And the company did not make announcements about material information on time (JJF ASX query letter 4 September 2019). The high-frequency keywords and phrases were ‘resignation’, ‘compliance with listing rules’ and ‘announcement’, which indicate that JJF did not appoint new independent directors after some directors resigned from the company.

Another representative delisted China-based company is LIONHUB Group Limited (LHD). According to the research, LHB received eight query letters from ASX during its listing, and the eight query letters asked the same two questions. One question was ‘Does the company expect that it will continue to have negative operating cash flows for the time being?’ and the other was ‘Has the company taken any steps, or does it propose to take any steps, to raise further cash to fund its operations?’ Due to negative operating cash flows and a high frequency of received query letters, LHB finally announced voluntary delisting from ASX. The Lionhub Group explained the reasons for voluntary delisting in its last official announcement, including low liquidation, long time suspension, limited operations in Australia and high corporate and administrative costs. Similarly, SHENHUA International Limited (SHU) encountered the compliance issues since the company repeatedly received suspension letters about failure to lodge the half and full-year financial reports (LHB voluntary delisting from ASX 17 June 2021). The word ‘lodge’ showed up six times in the text files.

The last company is XPD, one of the case studies. The researcher found many high-

frequency words and phrases. For example, ‘shareholding notice’, ‘appointment’, ‘changes’, ‘off-market transfer of shares’, ‘auditor payment’, ‘international funds transfer’ and ‘corporate governance review’. Compared with the XPD’s query letters and responses, XPD met many compliance issues, particularly the inability to provide auditing evidence and to process international funds transfers (XPD ASX query letter response, 27 September 2018).

The content analysis results showed that delisted China-based companies met different compliance issues during their listing life. Most of them took positive actions to respond and solve the problems based on their announcements and response documents. However, companies were finally delisted due to their relatively poor corporate governance and management ability. The remaining listed China-based companies and other foreign-listed companies on the ASX are recommended to learn from these delisting experiences to avoid involuntary delisting.

#### **4.5 Three Case Studies on Compliance Issues**

The three case studies are used to investigate the compliance issues during its listing.

##### **4.5.1 Case Study One: Traditional Therapy Clinics (ASX: TTC)**

###### **4.5.1.1 Compliance issue of the company**

In 2017, TTC was under strict supervision by the ASX, and the company experienced lengthy inconvenience with international money transfer issues. At the same time, TTC lost their Australian chairmen Geoff Ross, director Christian Drysdale and company secretary Nicholas Ong (Room et al., 2018). The growing number of Australian directors resigning from the listed China-based companies has attracted attention from investors. Bankers believe that the lack of appetite from Chinese entities in recent years is due to the ASX’s strict enforcement of its listing rules and ongoing suspicion from local investors of Chinese companies (Room et al., 2018).

#### **4.5.1.2 Analysis of the compliance issues of TTC**

There were four query letters that TTC received from the ASX during its listing period. Each document includes the initial query letters from the ASX and the response from the listed company.

- (1) On 19 April 2017, TTC received the first price query letter from the ASX compliance, the entity responsible for overseeing whether the listed companies comply with the ASX listing rules. The ASX compliance noticed that the price of securities changed from A\$0.435 to a low of A\$0.25 within only two trading days. According to the price query letter, TTC breached the Listing Rule 3.1:

Once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information (ASX Listing Rules).

This rule is part of the *ASX Continuous Disclosure Requirements* (TTC ASX price query, 19 April 2017).

To respond to the ASX's price query letter, TTC explained that the company had already announced the news about acquiring three franchise clinics on 19 April 2017, which was an immediate announcement under Listing Rule 3.1. The directors believed this was positive news for investors and markets (TTC price query response, 19 April 2017). According to the price query letter and response document, TTC was of the view that it had followed the listing rules and complied with its obligation as a listed company. The ASX was satisfied with the response, and there was no further warning to TTC.

Possible solutions to approach this issue:

- ⑩ The material share price change should be announced to the public immediately.
- ⑩ After a company receives the query letter from ASX, those authorised by the board should respond to ASX on disclosure matters and, at the same time, announce the share price change reasons.

- (2) On 6 September 2017, TTC responded to the 1 September ASX general query, which all listed companies with operations in China were required to respond. The two questions were about ‘if listed companies with operations in China have any difficulties repatriating money or converting into foreign currencies’ and ‘if listed companies with operations in China are aware of any changes to laws in China that prohibit repatriation of money into foreign currency’ (TTC ASX general query, 1 September 2017).

Based on the 6 September 2017 response to ASX's general query, TTC answered ‘No’ for two query questions from ASX about whether TTC had any difficulties repatriating money or converting it into foreign currencies from China. The company stated that they could convert Chinese RMB into foreign currencies after receiving approval from Chinese authorities even though Chinese laws or regulations may have subsequently changed (TTC general query response, 6 September 2017). There were four query letters that TTC received from the ASX during its listing period. Each document includes the initial query letters from the ASX and the response from the listed company.

### **Background of SAFE compliance requirements**

The main bodies responsible for overseeing the capital or money flow from foreign exchanges in China are the State Administration of Foreign Exchange (SAFE) and the People’s Bank of China. According to SAFE rules, incorporated foreign-investment enterprises (FIEs) are required to follow its general debt-to-equity ratio requirement. To regulate foreign investment or listing activity, despite the total investment of an FIE, companies must guarantee a certain percentage of their investors' capital contribution, including domestic and foreign investors (Foreign Exchange Controls in China, 2021). Due to increased levels of outbound direct investment and foreign listing activities, the Chinese government introduced many new capital controls at the end of 2016. Since July 2017, financial institutions in China must report all international cash transactions of foreign-listed companies with operations in China when the cash transaction is over RMB50,000 (US\$7,600) or more. One particular situation would not be approved unless given special approval: ‘Transactions involving domestic capital participation in

delisting overseas-listed Chinese companies' (SAFE Foreign Exchange Controls in China, 2021).

Comparing the compliance issues that ASX asked TTC to answer and TTC's situation at that time, TTC complied with the Chinese regulations, and the regulation change did not affect TTC's international foreign currency transfers. Above all, TTC's response to ASX compliance was true and appropriate.

Possible solutions to resolve this issue:

- ⑩ Respond to ASX compliance based on the 'true and fair' principle immediately.
- ⑩ Before responding to ASX compliance, consult with lawyers or professionals about the changes in Chinese international money transfer policy.

(3) On 18 April 2018, an article published in *The Australian Financial Review (AFR) Weekend* claimed: 'Chairman Ross confirmed to AFR Weekend that the company was having difficulty getting capital out of China and could not pay a dividend for 2017' (GMT, 2018). However, this new content is different from the announcement published on 6 September 2017 that TTC had no difficulties repatriating Chinese RMB into foreign currencies. Contradicting its chairman, TTC said it would transfer capital from China to avoid doubt (TTC ASX general query, 16 April 2018).

According to the response from TTC, the company denied the news about the difficulties of transferring funds out of China; at the same time, TTC reported that the company did not pay dividends for the financial year (FY) 2017 because the company had already announced to the public that the company would not pay any dividends in FY 2017. Meanwhile, to eliminate doubts about the TTC's international money transfer ability, companies planned to transfer A\$830,000 to Australia; however, TTC failed to do so (TTC general query response, 18 April 2018).

Possible solutions to resolve this issue:

- ⑩ Deny any rumours if it conflicts with the company's actual situation and explain

the details of the real situation to ASX compliance.

- ⑩ Convince ASX compliance that the company can resolve this issue by providing strong evidence or taking efficient actions.

- (4) On 10 September 2018, TTC responded to the ASX general query letter about the resignation of two Australian directors and one secretary based on Section 201A (2) of the *Corporations Act 2001 (Cth)*: ‘A public company must have at least three directors (not counting alternate directors). At least two directors must ordinarily reside in Australia’. The resignation of two directors and one secretary related to the difficulties with confirming the half-year report on 30 June 2018, since the auditor states that the bank confirmation was identified as irregular. Although the TTC promised that the new bank confirmation would be sent to the auditor before 3 September 2018, two directors and one secretary chose to resign on 1 September 2018 (TTC ASX general query letter, 6 September 2018).

In the response letter, TTC confirmed that all its actions followed Listing Rule 3.1. However, on 3 September 2018, the company advised that it had difficulty finalising its audit work since the new bank confirmation could not be sent to the auditor on time. The required further bank confirmation was not officially authorised by TTC management, which breached Listing Rule 18.7: ‘An entity must give ASX any information, document or explanation that entity is and has been complying with or will comply with listing rules, and reasonably requires to perform its obligations as a licensed market operator’ (TTC general query response, 10 September 2018). This issue led to a trading suspension, and ASX sent another announcement document about the resignation of directors and delay in auditing work (TTC ASX resignation of directors and delay in finalising audit, 3 September 2018).

- (5) On 13 September 2018, auditor BDO disclosed that it had difficulty verifying the company’s actual cash at bank balance as of 30 June 2018, which breached Listing Rule 4.2A: ‘The listed entities are responsible for providing half-year reports on

time'. The auditor noted that all Australian-based directors or officers had resigned from their positions (TTC ASX further clarification of delay in finalising audit, 24 September 2018).

- (6) Finally, TTC admitted the fraud with its cash at bank balances as of 30 June 2018, and the ASX compliance confirmed TTC had breached several listing rules (Listing Rule 18.7). Therefore, the company was forced to delist from the ASX official trading on 17 December 2018 (TTC ASX removal from the official list, 17 December 2018).

Possible solutions to resolve this issue:

- ⑩ The listed entity must prepare a half-year financial report and disclose it to ASX on time. Any delays or irregular disclosures with reporting are likely to cause the entity to receive warning letters or to be removed from the security markets.
- ⑩ The listed entity's directors must perform their duties to authorise the entity's compliance activities on time officially.
- ⑩ If the Australian-based directors, all or some, resign from the company, the company must nominate new Australian-based directors immediately.

In conclusion, the three main issues for TTC were the difficulty of transferring money between two countries, providing accurate profits in the cash balance sheet, and submitting the required documents to ASX on time. The experience of TTC is not similar to other delisted China-based companies since TTC has its special corporate governance issues. The problems that TTC met during its listing on the ASX can be an example that other China-based companies can learn from to avoid encountering the same situations.

## **4.5.2 Case Study Two: Animoca Brands (ASX: AB1)**

### **4.5.2.1 Compliance issue of the company**

On 24 January 2018, AB1 received its first query letter from ASX compliance. Then, in April 2019, AB1 received ASX's warning letter that it was non-compliant with several listing rules (*The Market Herald*, 10 March 2020). In mid-2019, AB1 continued to perform well in the market by achieving a double return. However, on 13 August 2019, AB1 received another query letter from ASX about a misleading information announcement. On 20 November 2019, ASX discovered that AB1's revenue and cash flows in its half-year report were reported to shareholders, which would have a material effect on the price or value of AB1's securities. To mitigate this crisis, the directors of AB1 hired more senior personnel and found further legal support to help the company overcome its difficulties. As AB1 co-founder Yat Siu underscored, 'We have tried our very best' (*The Market Herald*, 10 March 2020).

Nevertheless, the ASX sent another warning letter in December 2019, requiring AB1 to submit a detailed document explaining why it should not be removed from the ASX. The company conducted positive actions to solve the problem, including hiring the necessary people and submitting the required documents to avoid being delisted from the ASX; however, all the arrangements were delayed when the COVID-19 outbreak occurred (*The Market Herald*, 10 March 2020). Finally, due to AB1 breaching several listing rules and considering the company's situation, AB1 was delisted from ASX on 9 March 2020. The total listing time on ASX was around five years.

### **4.5.2.2 Analysis of the compliance issues of AB1**

Animoca Brand experienced voluntary suspensions four times and involuntary suspension once. Notably, the final two query letters directly led to its delisting. Therefore, the analysis mainly focuses on the last suspension and final two query letters. According to *ASX Listing Rules Guidance Note 16*, listed entities can request trading halts and suspensions. The ASX approves the request when the factors interrupting the trading can be kept to a minimum. The influencing factors include: 'trading in the



affected security might occur while the whole market is not reasonably informed; there could be false or disorderly markets in the affected security, or it is otherwise reasonably required by a listed entity to manage its continuous disclosure obligations’ (ASX Listing Rules Guidance Note 16).

**⑩ Four-time voluntary suspension and trading halt:**

- (1) On 24 January 2018, AB1’s first halt to the trading of its ordinary shares due to a proposed investment that was a material development was required by ASX Listing Rule 17.2: *‘The reason for the request for voluntary suspension is for the company to manage its continuous disclosure obligations before the announcement about a proposed transaction and capital raising is made’* (AB1 ASX voluntary suspension, 24 January 2018).
- (2) On 4 April 2019, the second voluntary suspension was accepted due to AB1 capital raising and acquisition (AB1 ASX voluntary suspension, 4 April 2019); On 14 May 2019, in terms of a capital raise by one of AB1’s subsidiaries, AB1 experienced the third voluntary suspension (AB1 ASX voluntary suspension, 14 May 2019); On 7 August 2019, the fourth voluntary suspension was approved due to a proposed acquisition and capital raising (AB1 ASX voluntary suspension, 7 August 2019).

**⑩ One-time involuntary suspension and three query letters**

- (1) On 9 August 2019, ASX compliance sent an ‘early release of information query’ to AB1 about the early unregulated material information release to the capital market. One article was published on 6 August 2019 under the title ‘Digital Collectables Market Seeing Renaissance as Platform Targeting Superfans Scores A\$8M Acquisition’, which was published before ASX received this information. This behaviour breached ASX Listing Rule 3.1 and Listing Rule 15.7: ‘An entity must not release information that is for release to the market to any person until it has given the information to ASX and has received an acknowledgment that ASX

has released information to the market' (AB1 ASX early release of information query, 9 August 2019).

According to the response, AB1 denied that the company was involved in the preparation of the article, and this article did not receive approval from AB1. Meanwhile, AB1 had already found that an investor participated in the early release of material information about the capital raising and acquisition of Quidd. The company took actions to ensure that restrictions on disclosures of confidential information included a provision expressly restricting the disclosure of any price-sensitive information to a third party before that information was released on the ASX official channel (AB1 ASX early release of information query response, 13 August 2019).

Traditional Therapy Clinics solved this issue by first, denying, and then explaining the reasons, and providing solutions. Animoca Brand recognised this problem and immediately mitigated the material impact on capital markets. Based on the following steps of the ASX compliance, the ASX was satisfied with the results after AB1 took some actions to solve the problems.

Possible solutions to resolve this problem:

- ⑩ Ensure that outside investors are bound by restrictions about disclosing material information to minimise the chances of unauthorised information dissemination.
  - ⑩ Protect sensitive information carefully and assign people to focus on the information storage and release.
  - ⑩ Require a trading halt promptly if the company believes that the current situation is likely to influence normal trading after negotiating with ASX compliance.
- (2) On 2 September 2019, AB1 received ASX's official quotation for involuntary suspension by Listing Rule 17.5. Because the company failed to lodge its half-year report for the period ended (30 June 2019) by the due date (AB1 ASX suspension from official quotation, 2 September 2019).

According to the response, AB1 lodged its half-year report to the ASX on the same day when AB1 received the suspension letter from ASX. The company breached Listing Rule 17.5: 'If an entity fails to give ASX the half-year report required under 4.2, ASX will suspend its securities from quotation on the trading day after the date on which the documents were due.' If one listed company cannot provide half-year financial reports on time, the basic listing requirement cannot be satisfied; listed companies cannot operate on the stock market (AB1 company updated-continued suspension, 3 September 2019).

Possible solutions to resolve this issue:

- ⑩ All listed companies must attend to their responsibility as listed companies, regardless of their basic or higher-level obligations.
  - ⑩ There is no excuse for submitting financial reports late. As discussed in the literature review, financial information is a primary media through which listed companies communicate with the public (Yeoh 2005), and the potential financial report users have legal rights to receive 'true and fair' financial reports.
- (3) On 12 September 2019, AB1 received another serious query letter from the ASX compliance about revenue and cash flows reclassified in its half-year report. It would expect a material effect on the share price for public use. According to the response from AB1, the company had already officially confirmed these reclassification accounts. The issue raised several contracts about the SAND TOKEN PURCHASE and SAFE Agreements between the Pixowl Inc., TSB Gaming Limited, and its investors were reviewed by auditor GT. The accounting issue included revenue and cash flows. However, the SAFE Agreements contained an embedded derivative and, thus, required consideration not only under AASB 15 but also under AASB 9 (financial instruments). Quantifying the embedded derivative became a problematic exercise with the company applying accounting estimates and judgements under AASB 108 (accounting policies changes in estimates and errors) (AB1 ASX query letter, 13 September 2019).

Animoca Brand addressed these issues and followed AASB 15 (revenue from contracts with customers), so the company reclassified some of its accounts in the half-year report. There were misallocations in the financial statements that Pixowl provided to calculate cash flows for Appendix 4C in the accounts of Pixowl and its wholly owned entity, TSB Gaming Ltd. Pixowl SA had exchange differences to account for under AASB 121 (the effects of changes in foreign exchange rates). Therefore, a material difference arose between the half-year report and the table requested by the accounting staff (AB1 ASX query letter response, 18 November 2019).

Certain accounting reclassification made this issue complex, and AB1 used 16 pages to explain each problematic history. The main problem was that AB1 did not carefully comply with the obligation rules. The relevant outside contracts, investments and subsidiaries did not provide realisable and verifiable accounting information, so the consolidated accounting report of the group had a significant issue. However, it seemed that the company executed a thorough investigation and explanation. Animoca Brand wanted to directly solve its problems, which was positive for the company to rebuild confidence in the capital markets and the ASX.

Possible solutions to resolve this issue:

- ⑩ Build an effective management system to manage the investment projects and subsidiaries (e.g., company financial reports disclosure requirements).
- (4) On 24 December 2019, AB1 received the last query letter from the ASX about AB1 no longer being considered an organisation appropriate for an ASX-listed company. The two serious problems for the company included ‘substantial involvement in cryptocurrency-related activities’ and ‘substantial use of SAFEs issued by subsidiaries.’ AB1 must make a case to the contrary, otherwise, AB1 would be removed from the ASX (AB1 ASX removal from the official list, 18 December 2019).

According to the company's response, AB1 made every effort to address ASX's concerns and would update the market as soon as practicable. The remedy actions included employing various consultants and advisers as well as the law firms King & Wood Mallesons, Sidley Austin and DLA Piper (AB1 ASX removal from official list response, 24 December 2019). Obviously, ASX was not satisfied with the explanations from AB1, and there must have been some problems in accounting that did not convince the ASX. Particularly, AB1 did not have to further explain its cryptocurrency-related activities and subsidiaries' issues.

(5) On 9 March 2020, AB1 was officially delisted from the ASX. In the ASX's view, AB1 breached Listing Rules 3.1, 4.2B, 4.3A, 4.3D, 4.7.4 and 4.10.3; the former Listing Rules 3.10.5A, 7.1A.3, and 7.1A.4,1 and Listing Rules 12.5, 15.7 and 19.11. Meanwhile, the ASX considers that AB1 lacks adequate resources, systems and controls to comply with its obligations under the Listing Rules (AB1 ASX removal from the official list, 9 March 2020). The ASX was not satisfied that these measures would be sufficient to achieve the level of compliance the ASX reasonably expects of a listed entity.

In conclusion, the prior voluntary suspensions did not affect the normal operating and trading activities of AB1. However, since mid-2019, AB1 has encountered many problems from different aspects: an investor releasing material information to the capital markets before sending this information to the ASX by mistake, the company not submitting its half-year report promptly, the problematic reclassifying of revenue and cash flow accounts and the company's inability to convince the ASX. Although AB1 is a foreign company from an emerging market, a listed company on the ASX must follow ASX's listing rules and especially continue to adhere to its disclosure rules. Simultaneously, the lack of effective corporate governance and management were sizeable issues that have caused companies to be delisted from the stock markets.

### **4.5.3 Case Study Three: XPD SOCCER GEAR GROUP LTD (ASX: XPD)**

#### **4.5.3.1 Compliance issue of the company**

In 2017, XPD said it would pay dividends to investors after transferring funds from China, but the company failed to do so. After the promise was broken, the ASX queried large-share trading connected to CEO Mr Jiameng Zhang and Mr Shui-Chiao Chang's interests. The ASX regulator announced the company had compliance issues and fined the company for lacking local independent directors after two directors who ordinarily reside in Australia resigned from the company. Trading was suspended for nearly one year (*Stockhead*, December 1, 2017). In December 2017, ASX-listed investment company Majority Capital (MJC) said it was writing off the entire value of its stake in XPD, which had been worth more than A\$1m just 18 months ago (*Stockhead*, December 22, 2017).

In April 2018, after taking six months' suspension, XPD still could not provide a clear and satisfactory announcement to the ASX regarding how much interest each director owned in the company. To deal with the difficulties, XPD had to lodge the number of directors' interests and substantial interest forms for three related parties and then appoint an independent expert to review and recommend changes to the company's compliance procedures after two important directors resigned from XPD (*Stockhead* April 19, 2018). Although the ASX stated in the remove from list letter that the ASX has already reserved its rights to delist XPD from the stock market for a long time, the company still could not respond to the ASX's queries. The company's stock was last traded in 2019, and the company was delisted in August 2020.

#### **4.5.3.2 Analysis of the compliance issues of XPD**

XPD Soccer Gear Group experienced suspension three times and received query letters from the ASX compliance office 10 times. Seven out of the 10 query letters were about the directors' interests.

- (1) On 24 May 2017, ASX sent a price query letter about whether the company was aware of any material information that had not been announced to the markets. According to the XPD response, the company was aware that ‘there may be some disappointment amongst some shareholders with its decision not to pay a final dividend in respect of FY2016.’ Besides this, the company was unaware that any information had not been announced in compliance with the Listing Rule 3.1 (XPD ASX price query letter response, 25 May 2017).
- (2) On 7 September 2017, XPD received a query letter about TTC’s ability to repatriate money or convert Chinese RMB into foreign currencies. According to the response from XPD, the company was able to repatriate money or convert Chinese RMB into foreign currencies (XPD ASX query letter response, 7 September 2017).
- (3) On 11 October 2017, XPD responded to the query letter dated 9 October 2017 about the XPD’s Appendix 3Y Change of director’s interest notice, and XPD was required to confirm if the registered holders held 211,550,911 shares on behalf of substantial holder Chou Quin International Co. Ltd (‘Chou Qin’). Meanwhile, in Appendix 3Y document, XPD disclosed that Mr Zhang had an indirect interest of 149,402,276 shares in XPD via his 60% interest in Chou Qin. According to the response from XPD, the company complied with the disclosure obligations under Listing Rules 3.19A and 3.19B. It confirmed the number of shares in XPD held beneficially by Chou Qin. As the ASX required, XPD would enhance the arrangements in any case through board meetings (XPD ASX Appendix 3Y-Change of director’s interests notice response, 11 October 2017).
- (4) On 12 October 2017, the ASX sent a query letter to XPD with the same questions as (3) above, but this time, XPD was required to provide more detailed shareholding information of its sub-entities and directors. According to the response from XPD, all detailed information had been provided in the Appendix 3Y notice document (XPD ASX Appendix 3Y-Change of director’s interests notice response, 17 October 2017).
- (5) On 30 November 2017, XPD received a further query letter from the ASX for the

same problem as (3) above; after receiving this query letter, XPD provided a complete and comprehensive Form 603 *Notice of Initial Substantial Holder notice* and other relevant disclosure documents to the ASX (XPD ASX Appendix 3Y-Change of director's interests notice response, 30 November 2017).

- (6) On 9 April 2018, XPD responded to the query letter about the strong possibility of being delisted from the ASX since the critical issue remained the lodgement of Form 604 for the shareholder Mr Chou Qin and another two directors. According to the response from XPD, the company was trying to make some changes to Form 604 to satisfy the ASX and then lodge Form 604 again (XPD ASX Appendix 3Y updated Form 604, 9 April 2018).
- (7) On 6 July 2018, XPD had continued to move toward reinstatement, working diligently and transparently to keep the ASX and shareholders informed and respond to the ASX's query about the 'Board Changes' (XPD ASX letter response, 6 July 2018).
- (8) On 8 August 2018, XPD encountered many problems simultaneously. According to the query letters:
  - (8.1) the ASX compliance was unclear about who paid the Australian auditor for auditing work based on the XPD's 2017 financial statements.
  - (8.2) The Chinese RMB was not freely convertible into Australian currency because the continuing viability and the going concern status of the consolidated entity were dependent on the consolidated entity being able to access and use the funds held in the financial institution in the PRC to pay the fees in listing destinations including Hong Kong and Australia.
  - (8.3) In the independent auditor's report, the auditors were uncertain about the national money transfer problem and the groups' ability to be a going concern. Meanwhile, the auditors could not obtain sufficient evidence to prove the recoverable amount of the group's investment in associated entities on 31 December 2017.
  - (8.4) ASX had observed more issues in the XPD 2017 Annual Report. According to the response from XPD, funds could be transferred from China to Australia



through one intermediary trading agent located in Hong Kong. The problem of the associate could be explained, and the board was comfortable with the associate's current carrying value. In the response document, XPD answered the ASX's questions about the XPD 2017 Financial Report issues (XPD ASX query letter response, 8 August 2018).

- (9) On 22 August 2018, the ASX required XPD to provide Appendix 4G and the company's corporate governance statement at the end of 31 December 2017. According to the response from XPD, the company provided a disclosure document of corporate governance and updated the corporate governance plan. Meanwhile, XPD was aware of the date to pay ASX listing fees and was prepared to pay the trading fees by the due date (XPD ASX Appendix 4G & Corporate Governance statement response, 22 August 2018).
- (10) On 27 September 2018, XPD received a query letter from the ASX. Again, it was about the issue of transferring funds from China to Australia to pay dividends. The requirements of PRC SAFE registration (as discussed above) that transfer funds for the purposes of a dividend payment via the mechanisms or agent in Hong Kong would not be acceptable under Chinese laws. According to the response from XPD, the company had obtained the legal opinion from one law firm, and the company was still waiting for SAFE's special approval. Otherwise, the dividend could not be paid (XPD ASX query letter response, 27 September 2018).
- (11) After XPD received the last query letter, the ASX announced the official suspension letter to the public, and a half year later, on 20 August 2020, the XPD received the removal letter under Listing Rule 17.12 (XPD ASX removal from the official list, 20 August 2020).

Possible solutions to deal with these issues:

- ⑩ XPD should provide a detailed form of each director's interests and complete notice documents to ASX on time. And the compliance issue must be solved or clearly explained after the company receives the query letter, rather than remain the same problem for an extended period and let ASX repeatedly address the same

issue. The point of unclear distribution of directors' interests is the corporate governance problem. Michael (January 21, 2013) has discussed that there is no greater risk for a company than poor corporate governance. To improve corporate governance, it is recommended that China-based companies increase the board's diversity and regularly evaluate board performance. This action could include, for instance, appointing two or more local directors or independent directors who reside in Australia. China-based companies are advised to ensure they gather timely information to guide decision-making for each material decision.

- ⑩ The international transfer issue should be solved, and the international transfer must follow the relevant requirements. Otherwise, the company's ability to pay its dividend and its going concern status is likely to be queried. As discussed in the three case studies, the three China-based companies received query letters from the ASX about the company's international money transfer ability since their main businesses operated in China. However, only XPD could not solve the problem from beginning to end. Because XPD's transfer of money from China to Australia was by an intermediary agent in Hong Kong, it was not permitted by Chinese law. Therefore, foreign-listed companies operating in their domestic markets should pay attention to international funds transfer channels that must come under the permission of the home country's overseas fund transfer laws.

In conclusion, XDP met many problems during its period of listing. The number of query letters that the company received from the ASX and the number of responses to query letters was the highest among the 14 confirmed delisted China-based companies. The compliance issues mainly included two parts. One issue was the international funds transfer, and the other was the change of director's interest notice. Although XPD is a foreign company from an emerging market with less sophisticated corporate governance than companies from mature stock markets, the company should improve itself continuously and comply with the listing rules. Simultaneously, the lack of effective corporate governance and management were significant issues that caused the company to be delisted from the Australian stock markets.

## **4.6 Compliance Issues Chapter 4 - Conclusion**

Chapter 4 investigated the compliance issues of China-based companies listed on the ASX and analysed three delisted China-based companies' compliance issues. In the overview section, the researcher explained the definition of compliance and the importance of corporate disclosure and financial reporting. The literature review section pointed out that the key compliance issue of listed companies is the continuous disclosure of financial information. Many previous studies have analysed compliance issues from two main perspectives. One is the disclosure choice of the company and the other one is the impact of firms' characteristics for disclosing information. Section 4 was an empirical analysis through the content analysis method to investigate the compliance issues of 14 delisted China-based companies. The main results show that delisted China-based companies met different compliance issues during their listing period, for example, the difficulty of international funds transfer since the laws changed and irregular capital raising and acquisition. Most of them took positive action to respond to and solve the issues according to their responses and reactions to ASX's query letters. However, companies were finally delisted from the official list due to their relatively low level of corporate governance sophistication and crisis management ability. In Section 5, the case study method was used to supplement the lack of data on China-based companies listed on the ASX. Three selected China-based companies had different compliance issues during their public life on the ASX. The researcher discussed the special compliance issue for each company and provided possible solutions and suggestions for China-based companies to remain listed. In particular, TTC's three main compliance issues were the difficulty of transferring money between China and Australia, providing accurate profits in the financial statements, and submitting the required documents to ASX on time. As for AB1, the company has encountered many problems from different aspects: not submitting its half-year report promptly, the problematic reclassifying of revenue and the company's inability to convince the ASX. While the main compliance issue for XPD was the difficulty of international funds transfer.

In conclusion, China-based companies on the ASX have many problems in compliance with ASX listing rules. The qualitative and quantitative data proved that China-based companies from emerging markets still need to learn and improve themselves. Otherwise, they are likely to lose the attention of international investors, and the mature security markets may also lose confidence and post stricter IPO and post-listing requirements for them. The next chapter is the conclusion to the thesis. The researcher concludes the thesis and suggests future research on this topic.

## **Chapter 5: Conclusion**

### **5.1 Review of Thesis Objectives and Contributions**

The overseas-listing activity of Chinese firms has increased rapidly since the late 1980s, making ‘China Speed’ a brand that connects Chinese companies to stock markets around the world (Pan & Brooker 2014). Hong Kong, New York, Euronext and Japan are the major destinations for Chinese companies to go public in foreign markets, while London, Australia, Sydney, Canada TMX and Saudi Stock Exchange are emerging destinations. Nevertheless, after 2011, the global stock markets became less liquid, had lower valuations and increased risk-taking. As expected, Chinese-listing companies tended to return to the developed economic centres of Beijing, Shanghai, and Shenzhen stock markets in recent years. China-based companies going public in Australia, with a significant number of these firms' consequently delisting from the ASX, is an interesting phenomenon. China is recognised as one of the emerging markets, with Chinese multinational companies having the capability to bring opportunities and vigour to foreign stock markets. However, some China-based companies cannot comply with listing rules and high-level corporate governance requirements.

As China becomes increasingly important to the global economy, it is necessary to understand how China-based companies listed overseas affect the global stock markets. While the role of mature stock markets for newly listed foreign companies is common knowledge, companies from emerging markets, such as China, continually fail to comply with the listing rules, which requires regulators to pay more attention.

This study investigated the motivations and compliance issues of China-based companies listed on the ASX between 2011 and 2021 through empirical analyses and case studies. The relevant literature was reviewed to assist with identifying the research gap in this field, as comprehensive studies about China-based companies listed on the ASX are lacking. Given this urgent demand, the results of this study provide pre-and post-IPO companies with key insights to assist in taking appropriate action.

### **5.1.1 Review of Introduction and Motivations of Chinese Firms Listed on the ASX**

Chapter 1 provided a brief introduction to China's economic reform and development. Due to the limitations of its domestic market, some China-based companies have opted to list overseas. These companies encountered many challenges and risks when listing on the foreign stock markets, such as stricter corporate governance rules and higher listing requirements than those of their domestic stock market. The literature review of Chapter 1 briefly outlined previous studies on the motivations for overseas listing, delisting phenomenon and compliance issues. The data source, sample collection and data analysis methods for the following chapters were explained.

In Chapter 2, the researcher investigated the motivations of China-based companies listed on the ASX. The three primary overseas-listing motivations were raising capital, international reputation and corporate governance, and these have been discussed and analysed in Chapter 2. The secondary data extracted from the companies' IPO prospectus only provided the primary motivations for each company. Thus, the last section of Chapter 2 used the case study and content analysis method to supplement the information about the special motivations of China-based companies listed overseas. The case study analysis results proved the arguments that China-based companies and other foreign listing companies have some common motivations. However, special motivations for Chinese firms listed overseas continue to exist. For example, in the TTC prospectus, chairman Mr Andrew Sneddon's letter mentioned that the company aimed to gain access to capital, assist future development and enhance its operating and governance standards while listed on the ASX. To find the special overseas-listing motivations, the content analysis method was used to support the arguments of each China-based company. For instance, one special motivation for TTC was 'expansion', which appeared 10 times in TTC's prospectus, proving the hypothesis that TTC had additional overseas-listing motivations.

### **5.1.2 Review of Delisting Reasons**

In Chapter 3, the researcher empirically investigated why China-based companies were delisted from the ASX and then classified the delisting behaviour into two main types: voluntary and involuntary delisting. Due to the lack of data on China-based companies delisted from the ASX, the One-Way ANOVA method and regression models could not be used in the empirical analysis, which was replaced by descriptive analysis. The descriptive statistic results may indicate that delisted China-based companies have fewer opportunities for growth in the Australian stock markets, since they have lower liquidity and financial visibility but higher leverage than the control group. The descriptive results prove the hypotheses that China-based companies with high leverage and low ability to access raising capital, as well as low liquidity and financial visibility, are highly likely to be delisted from the ASX. In contrast, the results could not verify the asymmetric information hypotheses and agency conflicts hypotheses. The main delisting reasons that could be proved by descriptive analysis were high-leverage and low-level corporate governance. The researcher expects the analysis results could assist the remaining listed companies and also regulators to learn from the delisting experience to avoid making the same mistakes.

### **5.1.3 Review of Compliance Issues**

In Chapter 4, the researcher investigated the compliance issues of China-based companies listed on the ASX. The case study and content analysis method were used to supplement the lack of data on China-based companies listed on the ASX. Three selected China-based companies had some common compliance issues during their public listing, such as the difficulty of international money transfers from China to Australia. The researcher also analysed the specific compliance issues for each company. For example, TTC was forced to delist from the ASX since the company could not provide ‘true and fair’ financial statements to the public and delayed submitting a half-year report to the ASX. The three companies had some common

issues, but the specific compliance issues were the fundamental reasons that led them to be delisted from the ASX. In conclusion, the foreign listing companies from emerging markets still need to improve their corporate governance, otherwise, they are likely to lose international investor attraction and regulator confidence. The positive reputation of China-based companies is also critical in the global stock markets. A minor incident from a China-based company could negatively affect the confidence of entire stock markets' investors and regulators.

## **5.2 Connected Motivations, Delisting and Compliance issues**

The logical research sequence was to find the motivations of China-based companies listed on the ASX first and then analyse compliance issues during their public life. The final step was to discuss the delisting reasons and present valuable suggestions. Here, the author tried to connect the motivations, delisting and compliance issues of China-based companies listed on the ASX to provide a comprehensive picture.

China has experienced a massive reform since the 1980s, and its domestic security exchange system was built after reform and years of development. However, if the domestic stock markets are prohibitive and suspend domestic listing, more Chinese firms may seek overseas listing (Wójcik & Burger 2010). In particular, the overseas listing provides more than raising capital, as firms also benefit from enhancing corporate governance, learning outside management knowledge and improving international reputation (Pan & Brooker 2014).

### **5.2.1 Motivations**

According to the previous literature, three fundamental foreign listing motivations are raising capital, enhancing corporate governance, and improving international reputation (Deng 2004; Foerster & Karolyi 2000; Halling et al. 2008; Pan & Brooker 2014).



### **5.2.1.1 Raising capital**

Capital raised from security markets creates the shares' diversity since the company has more shareholders holding company shares than before. These shareholders trade the shares on the stock markets daily to accelerate the liquidity of shares. The early study for market segmentation or risk premium have indicated that firms seek overseas listing to overcome domestic barriers and obtain more investors from global markets (Foerster & Karolyi 1998, 1999). Nevertheless, based on the market segmentation theory, the liquidity hypothesis states that the high liquidity of shares on the stock market could reduce the cost of capital (Sami & Zhou 2008). Meanwhile, Caglio, Hanley and Marietta-Westberg (2016) found that the overseas listing has functioned as an important channel for firms to raise capital. Therefore, companies choose to list on the foreign stock market because they want to raise capital.

### **5.2.1.2 Corporate governance**

Enhancing corporate governance is a vital motivation for China-based companies to go public abroad (Luo, Fang & Esqueda 2012). Agency theory proves that an overseas listing can increase the company's free cash flows and reduce the leverage and agency costs (Jensen 1986). Bonding theory states that overseas-listing companies try to protect minority shareholders because of the strict requirements of the foreign stock market, thus enhancing their corporate governance and reducing bond costs (Coffee 2002).

### **5.2.1.3 International reputation**

As for international reputation, the bonding theory can prove it from another perspective. Luo (2014) has analysed that the China-based companies with more rigorous corporate governance and listing rules seeking to list on the foreign security markets must disclose more information to potential users. In the mature stock markets, the foreign-listed companies could gain a sound international reputation and global

recognition since investors become more confident in the ability of the companies. Signalling theory is similar to the bonding theory. The overseas listing can convert positive signals to the markets about companies having higher quality and greater profitability than other non-listing firms (Core, Guay & Rusticus 2006). Furthermore, the unfair treatment for Chinese private companies in China leads private companies to look for reputation in foreign markets. For example, Brandt and Li (2003) have found that domestic banks in China discriminate against Chinese private companies in issuing new loans.

#### **5.2.1.4 Case studies and content analysis results**

In Chapter 2, combined with case study and content analysis methods and indicated that China-based companies have some common overseas listing motivations, but some differences continue to exist. The reason for this is that the characteristics and primary aims of a company are different when listed on the ASX. For example, TTC has common motivations with AB1 and XPD, including raising capital, improving international reputation and enhancing corporate governance, but TTC has one special motivation: expansion. Using the content analysis method through the word searching tool, the author found that the word ‘expansion’ appeared 10 times in TTC's prospectus, which indicates that TTC chose to list on the ASX since the company wanted to expand their clinic operations to Australian or international markets. Although the content analysis approach has some limitations, some of the motivations of China-based companies listed on the ASX have been identified and detailed analysed.

Once the companies are successfully listed on the foreign market and achieve their primary listing motivations, they should follow the listing rules without exception. Complying with the listing rules is the largest challenge for listing foreign companies from emerging markets.

### **5.2.2 Compliance Issues**

To summarise, the compliance issue is whether the listed companies can comply with the listing rules and disclose required information, such as financial reports and director's interests' movements reports. A financial report is a primary document that listed companies share with the public (Yeoh 2005). The company's financial information available to the public can minimise the information asymmetry between internal and external shareholders (Cheung, Jiang & Tan 2010). Continuous disclosure is a vital part directly related to the compliance issues for listed companies. Prior literature and studies have focused on listing compliance from main three perspectives: asymmetric information and agency cost, firms' disclosure choices and the impact of the firms' characters with disclosing financial information.

#### **5.2.2.1 Mitigate the agency problem and reduce the asymmetric information**

The agency problem is the conflict of interests between investors and directors. The directors are responsible for daily operation and investment activities. If the investors want to know the company's situation, they must rely on the information provided by the directors. The information that companies directors provide to investors and potential users may be incomplete or embellished, therefore, strict disclosure requirements are required to decrease misleading information and reduce asymmetric information problems (Healy & Palepu 2001).

#### **5.2.2.2 The disclosure choice of overseas-listed companies**

As discussed above, listed companies must submit their financial reports to the public. Simultaneously, the companies are responsible for disclosing their non-financial reports to external shareholders, such as carbon emission disclosure, a popular topic in recent years (Clarkson et al. 2008; Matsumura, Prakash & Vera-Munoz 2014). The disclosure choice for overseas-listed companies changes depending on which stock market they

are listed in. Bradshaw, Bushee and Miller (2004) concluded that foreign-listed firms voluntarily disclose financial information and comply with stricter U.S. corporate governance standards since they want to attract more U.S. investors.

#### **5.2.2.3 The impact of firms' characteristics on annual report disclosing**

Previous literature has examined that firms' characteristics, including entity size, leverage, profitability and size of equity and director's ownerships, impact on annual report disclosure. Cooke (1989) has analysed that the company's size and the number of shareholders is significantly associated with its level of disclosure, while the leverage has no significant relationship with the level of disclosure. The empirical studies on this topic have different results since the empirical methods, and sample bases are different. For example, Wallace, Naser and Mora (1994) have proved that there is an association between profitability and level of disclosure.

#### **5.2.2.4 Case studies and content analysis results**

In Chapter 4, like Chapter 2, the researcher used case study and content analysis methods to discuss the compliance issues of China-based companies listed on the ASX. For three case studies, each company's compliance issues could be identified by analysing the query letters and response documents. There are some common compliance issues among the three companies. For example, they all received the query letter from the ASX asking if they had a problem transferring money from China to Australia since they were operating in China. The companies must pay dividends to their Australian shareholders on time. China-based companies also met other compliance issues. For example, XPD received five query letters from the ASX since the company could not provide a detailed form of each director's interests to the ASX on time. The content analysis results for XPD also demonstrated that high-frequency phrases, including 'shareholding notice' and 'auditor payment', are related to the compliance issues that the author found in the query letters and responses. Although the

case study and content analysis cannot cover all the China-based companies listed on the ASX, the results may likely explain and prove a noteworthy phenomenon that no researcher has noticed before. As discussed in Chapter 4, listed foreign firms should treat compliance issues seriously, otherwise, companies are highly likely to be forced to delist from the ASX.

### **5.2.3 Delisting**

The delisting phenomenon has attracted more attention than IPO in the mature stock market (Fidanza 2018). Particularly, Macey, O'Hara and Pompilio (2008) have distinguished between voluntary and involuntary delisting. In 2021, only 20 China-based companies remained listed on the ASX compared to 55 in 2017 (*The Australian Financial Review*, April 7, 2021).

#### **5.2.3.1 Delisting—involuntary**

Pour and Lasfer (2013) have defined involuntary delisting as a company failing to meet the minimal listing requirements determined by the exchange market. Meanwhile, involuntary delisting may result from a series of voluntary actions, such as strategically not complying with listing rules (Martinez & Serve 2017). The reasons for involuntary delisting have been discussed from three perspectives: the IPO firms' characteristics, the effective control after breaching the listing rules and the listing requirements.

Fama and French (2004) have analysed how the characteristics of IPO firms affect the listed companies' survival rate. They have found that more than two of five IPO firms were delisted within 10 years due to poor performance. Meanwhile, Wagner and Cockburn (2010) have stated that innovative firms delisted involuntarily since they underperformed in the target stock market.

Ineffective control after breaching the listing rules may lead to involuntary delisting. In an early study, Chen, KC and Schoderbek (1999) have found that the delisting decision

was not based on strict regulations or professional accounting measurements but the following factors: bankruptcy and lawsuits, low trading volume and auditor's opinions. Effective control after breaching the listing rules can protect the company from being delisted from the stock market involuntarily.

The target stock markets may issue strict listing requirements, and listed companies should take strategies to prevent involuntary delisting. However, the listed companies that use earning management strategies would be more likely to be delisted due to their high production information costs and weak share liquidity (Yang 2006).

#### **5.2.3.2 Delisting—voluntary**

Macey, O'Hara and Pompilio (2008) have defined voluntary delisting as an action initiated by the firm and not forced by an external power. The voluntary delisting can be achieved by merging or public takeover, also called a 'GPT'. The reason for a voluntary delisting is the trade-off between cost and benefit. Bharath and Dittmar (2010) have argued that listed firms decided to leave the public market because the cost of listing on the stock market exceeds the benefits of listing.

#### **5.2.3.3 Empirical analysis hypothesis and main results**

By testing the variables of 14 delisted China-based companies, this study established that delisted China-based companies have lower opportunities to raise capital, have issues with liquidity and financial visibility but higher leverage and higher ROA. It is suggested that, while delisted China-based companies did not perform well in some indicators, it is important to note that the indicators of ROA and intangible assets perform better than control Groups B and C. It is necessary to consider the potential of China-based companies. They can perform well on the foreign stock markets only if they continue to improve themselves in corporate governance and following regulations.

### **5.3 Further Research Directions**

The literature review and the analysis focused on the motivations, compliance issues and delisting phenomenon of companies listed on the overseas stock markets, in particular the ASX. Therefore, further research on companies listed on foreign stock markets could examine the motivations, compliance, and delisting of foreign companies from other countries listed on the ASX. Moreover, further research could focus on other foreign companies listed on other foreign stock markets (e.g., U.S., Japan or Singapore securities markets).

### **5.4 Final Conclusion**

In this research thesis, the researcher discussed and analysed the motivations, delisting and compliance issues of China-based companies listed on the ASX. The case studies and content analysis are used to research more deeply for overseas-listing motivations and compliance issues. Meanwhile, descriptive analysis supported the five hypotheses about the reasons for China-based companies delisting from the ASX in recent years, which provides a different view of foreign delisting phenomenon.

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## Appendix 1. Content Analysis Results (14 delisted China-based companies)

### Statement

Source of data: *HotCopper* listed companies' announcements; *Weiciyun* content analysis  
As at 7 February 2022

Category	Company	Keywords or Word phrases	Frequency
AB1			
Firm risk		investment	12
Performance risk		revenue	34
		reclassification	9
		capital raise/raising	12
		acquisition	6
Regulatory risk		continuous disclosure/disclosures obligation/obligations	7
		breach / listing/listings rule/rules	2
		voluntary/ suspension	17
		failure / lodge	2
		half-year report	14
BAH			
Corporate governance risk		corporate governance arrangements	3
		resignations/resigned	7
		bank accounts	7
		ordinarily resides Australia	3
		independent directors	7
		auditor's comments	3
		sound system risk management	3
		internal control	3
		authorised/authorisation	11/2
Performance risk		repatriating/convertng money foreign currencies China	1
Regulatory risk		compliance with listing rules	4
		disclosure policy	2
		half year report	6

DFM		
Corporate governance risk	resigned/resignations	11
	commutations with ASX	1
	appointment	4
Performance risk	material effect	3
	aware	14
	repatriating/converting money foreign currencies China	1
	changes laws China	1
Regulatory risk	announcement/announcements	20/10
	immediately	31
	disclose/disclosure	4 6
	comply/compliance with listing rules	17
	trading policy	10
JJF		
Firm risk	application forms	6
	shareholder	21
Corporate governance risk	resignation	20
	ordinarily resides in Australia	1
Reputation risk		
Performance risk	repatriating/converting money foreign currencies China	1
	changes laws China	1
	investment/invest/invested	15/6/4
Regulatory risk	compliance/complied with listing rules	22
	announcement/announcements	21/5
KRS		
Corporate governance risk	change of director's interests	11
Performance risk	director's opinion	8
	auditor's review	4
	disclaimer	10

Regulatory risk	breach listing rules	5
	lodge late	11
	disclosure obligations	14
	comply/compliance with listing rules	8
	announcement	12
	suspension	21
<b>LHB</b>		
Firm risk	business objectives	12
Performance risk	negative operating cash flow	19
	raise further cash to fund operations	16
Regulatory risk	compliance with listing rules	19
	compliance obligations	10
<b>MHD</b>		
Firm risk	change activities	7
	trading operations	33
Performance risk	earn revenue	2
	warrant continued listing	17
	negative operating cash flow	6
	business objectives	10
	director's opinion	5
	auditor's review	3
	disclaimer	4
	going concern	8
Regulatory risk	compliance with listing rules	18
<b>MMG</b>		
Performance risk	financial	2
	administrative	1
	cost of listing	5
Regulatory risk	compliance obligations	3

SBB		
Firm risk	material effect	8
Corporate governance risk	resignation/resignations	4/7
	transfer shares	10
	receipt net cash flow discrepancies	4
Performance risk	repatriating/convertng money foreign currencies China	1
	changes laws China	1
	auditor/audit	11
Regulatory risk	announcement	23
	lodge/lodged/lodgement late	11/8
	disclosure obligation/obligations	7
	comply/compliance with listing rules	6
	delay	13
SHU		
Performance risk	repatriating/convertng money foreign currencies China	1
	changes laws China	1
Regulatory risk	lodge/lodged/lodgement late	6/2
	comply with reporting obligations	2
	failed to pay	1
	annual listing fees	2
	full year accounts	3
	half yearly reports	2
SVH		
Firm risk	capital raising	6
Performance risk	director's opinion	4
	disclaimer	5
	irregular transactions	9
	sufficient audit evidence	11
Regulatory risk	announcement	8
	delay	1
	complies/ compliance with	3
	true and fair view	3

	warrant continued listing on ASX	5
TTC		
Corporate governance risk	resigned/resignations	5/2
	audit/auditors' confirmation	10
Performance risk	repatriating/convert ing money foreign currencies China	1
	changes laws China	1
	characterisation/characterises	2
Regulatory risk	announcement/announce/announced	4
	complies/ compliance with	1
	failure to lodge	1
BTK		
Performance risk	repatriating/convert ing money foreign currencies China	1
	changes laws China	1
Regulatory risk	failure to lodge the relevant periodic report	1
XPD		
Corporate governance risk	shares holding/holdings notice	19
	appointment	15
	changes	14
	independent expert	9/4
	off market transfer of shares	13
	auditor/audit payment/evidence	10
	unpaid outstanding director's fees	4
	director's interests	4
	remuneration	5
	international funds transfer	20
	intermediary	8
	corporate governance review	47
	resignations	9
	not sufficient appropriate audit evidence	6
Performance risk	repatriating/convert ing money foreign currencies China	1



	changes laws China	1
	going concern	14
Regulatory risk	comply/complies/ compliance with	13
	lodging/lodges/lodged/lodgement	21/17/3/2
	announced/announce/announcement	35/22/10
	disclosure obligations	24

## Appendix 2. Information About the 34 China-based companies on the ASX

### Statement

Source of data: ASX company directory; *Delisted Australia* company details

Updated on 26 November 2022

Ticker	Name	Parent or Subsidiary	Industry	Date Listed	Current Status	Market Cap AU
<b>AB1</b>	ANIMOCA BRANDS CORP LTD	Subsidiary	Technology	23/01/2015	Involuntary Delisted on 09/03/2020	\$169.94m
<b>ACS</b>	ACCENT RESOURCES NL	Subsidiary of SOE	Materials	26/08/2005	Listed	\$26.09m
<b>ATR</b>	ASTRON CORP LTD	Subsidiary	Materials	11/11/1983	Listed	\$87.57m
<b>BAH</b>	BOJUN AGRICULTURE HOLDINGS L	Subsidiary	Consumer Staple Products	29/11/2017	Involuntary Delisted on 28/08/2019	\$10.82m
<b>BHL</b>	BOYUAN HOLDINGS LTD	Subsidiary	Real Estate	31/10/2016	Listed	\$37.74m
<b>CMC</b>	CHINA MAGNESIUM CORP LTD	Subsidiary	Materials	09/11/2010	Listed	\$5.56m
<b>DFM</b>	DONGFANG MODERN AGRICULTURE	Subsidiary	Consumer Staple Products	19/10/2015	Involuntary Delisted on 31/08/2020	\$348.9m
<b>EHH</b>	EAGLE HEALTH HOLDINGS LTD	Subsidiary	Retail Discretionary	03/07/2017	Involuntary Delisted on 01/04/2021	\$51.61m
<b>EME</b>	ENERGY METALS LTD	Subsidiary of SOE	Energy	09/09/2005	Listed	\$53.47m
<b>FTC</b>	FINTECH CHAIN LTD	Subsidiary	Software and Services	27/11/2012	Listed	\$32.53m
<b>GBE</b>	GLOBE METALS AND MINING LTD	Subsidiary	Materials	09/12/2005	Listed	\$35.41m
<b>HTA</b>	HUTCHISON TELECOMM (AUST)	Subsidiary	Telecommunication Service	17/08/1999	Listed	\$1.35billion
<b>JJF</b>	JIAJIAFU MODERN AGRICULTURE	Subsidiary	Consumer Staple Products	09/03/2017	Involuntary Delisted on 01/10/2020	\$3.41m
<b>KLR</b>	KAILI RESOURCES LTD	Parent	Energy	06/03/1997	Listed	\$3.24m

<b>KRS</b>	KRESTA HOLDINGS LTD	Parent	Home Furnishings	09/08/1971	Involuntary Delisted on 16/09/2020	\$7.21m
<b>LHB</b>	LIONHUB GROUP LTD	Subsidiary	Real Estate	25/10/2006	Voluntary Delisted on 19/07/2021	\$2.48m
<b>LVE</b>	LOVE GROUP GLOBAL LTD	Subsidiary	Software and Services	05/12/2014	Listed	\$4.86m
<b>MHD AU Equity</b>	MILLENNIUM LTD	Subsidiary	Commercial Materials	20/03/2009 from 2010 to 2017 change name to YAH	Involuntary Delisted on 14/08/2020	\$6.35m
<b>MHI</b>	MERCHANT HOUSE INTL LTD	Parent	Consumer Durables & Apparel	31/10/1994	Listed	\$6.98m
<b>MMG</b>	MMG	Subsidiary of SOE	Materials	14/12/2015	Voluntary Delisted on 04/12/2019 Continuing Transaction on Hong Kong Stock Market	\$7.7m
<b>99L</b>	99 LOYALTY LIMITED	Subsidiary	Software and Services	08/10/2013	Listed	\$25.51m
<b>RMT</b>	RMA ENERGY LTD	Subsidiary of SOE	Mining	07/06/2007	Listed	\$2.1m
<b>RTE</b>	RETECH TECHNOLOGY CO LTD	Subsidiary	Consumer Service	22/06/2017	Listed	\$55.89m
<b>SAN</b>	SAGALIO ENERGY LTD	Parent	Energy	15/12/2011	Listed	\$4.71m
<b>SBB</b>	SUNBRIDGE GROUP LTD	Subsidiary	Consumer Service	27/11/2013	Involuntary Delisted on 07/06/2019	\$5.66m
<b>SHU</b>	SHENHUA INTERNATIONAL LTD	Parent	Consumer Service	30/07/2009	Involuntary Delisted on 03/02/2020	\$17.62m
<b>SVH</b>	SILVER HERITAGE GROUP LTD	Parent	Real Estate	29/08/2016	Involuntary Delisted on 01/07/2021	\$12.61m
<b>TIA</b>	TIAN AN AUSTRALIA LTD	Subsidiary	Real Estate	11/12/1985	Listed	\$25.12m
<b>TTC</b>	TRADITIONAL THERAPY CLINICS LIMITED	Subsidiary	Health Care	08/09/2015	Involuntary Delisted on 31/08/2018	\$13.77m
<b>VIA</b>	VIAGOLD CAPITAL LTD	Parent	Consumer Service	07/02/1996	Listed	\$83.31m
<b>VIG</b>	VICTOR GROUP HOLDINGS LTD	Subsidiary	Software and Services	09/05/2014	Listed	\$17.17m

<b>VMT</b>	VMOTO LTD	Parent	Automobiles & Components	31/01/2002	Listed	\$110.34m
<b>WMC</b>	WONHE MULTIMEDIA COMMERCE LTD	Subsidiary	Technology Hardware and Equipment	21/12/2015	Involuntary Delisted and changed its name to Botal Technology limited- (BTK)	\$26.12m
<b>XPD</b>	XPD SOCCER GEAR GROUP LTD	Subsidiary	Consumer Durables & Apparel	21/05/2015	Involuntary Delisted on 20/08/2020	\$5.59m
<b>YAL</b>	YANCOAL AUSTRALIA LTD	Subsidiary of SOE	Energy	28/06/2012	Listed	\$4billion