

Marketability, Control, and the Pricing of Block Shares

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Abstract

Unlike in other countries, negotiated block shares have huge discounts in China. We argue that trading restrictions help to explain this puzzle. Block shares in China face trading restrictions in the open market and can only be traded in the form of block transfers at negotiated prices. Using a dataset of 233 block transfers in China between 2002 and 2003, we find that discounts on block share prices increase with the proportion of restricted shares in the ownership. We also find the discounts decrease with the likelihood of private benefit of control. Furthermore, private institutions offer a higher price than state-owned institutions.

JEL Classification: G30 G12

Key words: trading restrictions, block shares, private benefit of control

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I. Introduction

There has been a large literature on the effects of block shares on corporate governance. Shleifer and Vishny (1986) argue that block shares can help overcome the free rider problem. Holders of block shares can improve corporate governance by monitoring the management and facilitating value enhancing takeovers. Consistent with this, Wruck (1989) finds an abnormal return of 4.5% associated with announcement of private offering of equity, and the size of the firm value appreciation is strongly correlated with increases in ownership concentration. Apart from benefit of corporate governance improvement, share blocks will also generate private benefit of control, which is exclusive to block holders only. One way to identify this is to compare the price of negotiated block shares and other shares in the open market. In Barclay and Holderness (1989), the price of share blocks has an average 20% premium above the post-announcement exchange price on average, and it increases with block size. They consider this the evidence of private benefit of control, which accrues to block holders only. Dyck and Zingales (2004) provide international evidence on the value of private benefit of control, which varies with legal environment and capital market development.

Block shares in China happen to be an interesting exception. Chen and Xiong (2001) find that restricted shares in China are priced at a massive discount of 77.93% and 85.59% in auctions and in private transfers respectively. In this paper, we argue that trading restrictions help to explain this puzzle. The majority of shares of listed companies in China are restricted institutional shares and government shares, which are not tradable in the open market, and can only be transferred at negotiated prices. Because restricted shares are less marketable than ordinary shares, investors may require price recessions.

In the asset pricing literature, the impact of trading restrictions on security prices has also caught increasing attention. In Longstaff (1995, 2001), trading restrictions

exist in the form of limits on the number of shares that can be traded within a short period, resulting in large discounts on these stocks. Such trading restrictions are not uncommon. For example, selling restrictions are usually included in executive stock contracts. Kahl, Liu and Longstaff (2002) argue that executives facing a 5-year trading restriction would be theoretically better off selling their restricted holdings at a 30%~80% discount below the market price.

The work most closely related to this paper is Silber (1991). He explores the pricing of securities issued by a company but not registered with the SEC. Under provisions of the SEC's Rule 144, holders of these securities can sell these shares only after a two-years holding period. Silber (1991) shows that such stocks have an average price discount of 33.75% relative to unrestricted shares, and that the size of this discount increases in the fraction of such stocks in the ownership structure. However, Barclay, Holderness and Sheehan (2003) suggest that privately placed stocks are often issued to passive investors, helping managers to solidify their control of the company. Thus discounts on such shares may also reflect management entrenchment effect.

This study explores a dataset of 233 block transfers in China between 2002 and 2003. The nature of our dataset means we can provide a cleaner test on the impact of trading restrictions on stock prices without the concern of management entrenchment problems. We find that marketability problems caused by trading restrictions have a significant impact on negotiated block prices. The average price of the block is only 28% of the market price prior to the announcement. Consistent with the marketability explanation, the dramatic discounts on block share prices increase with the proportion of restricted shares in the ownership. Consistent with the literature on the private benefit of control, we also find the discounts are lower when block size is larger, or when there is change of control. Furthermore, private institutions offer a higher price than state-owned institutions.

The rest of the paper is organized as follows: section II gives background information on trading restrictions in China's stock market and the regulator's attempt to resolve such restrictions. Section III describes the data. Section IV explores the determinants of the price of negotiated block shares in China. Section V concludes.

II. Background

In the early 90's, China started to float her state-owned enterprises at the newly created Shanghai and Shenzhen Stock Exchanges. The aim was to improve corporate governance by introducing external investors and to reduce the fiscal burden of the government by soliciting external finance for these companies. The move was objected by suspicion that the government would one day lose control of these companies, which may be fully privatized. As a compromise to these suspicions, the ownership of each company was split into several classes upon IPO: a) government shares: these are shares directly owned by various government bodies, called State Shares; b) SOE shares, these are owned by a non-listed state-owned enterprise, called State Legal Person Shares; c) institutional shares: these are shares owned by non-government-related corporate institutions, called Social Legal Personal Shares; and d) ordinary shares traded in the open market. The first three types of shares have the same voting rights and cash flow rights as ordinary shares, but are not allowed to trade in open markets.

Figure 1 shows the movement in the average percentage of these restricted shares in the ownership from 1994 to 2003. Government ownership of companies takes the form of direct government control at the beginning and it has gradually changed into the form of indirect control. As a result, although government ownership has stayed at around 40% of all shares throughout the 10 years in Figure 1, direct government ownership has reduced from 25% to 12%, with the control moved to state-owned companies. The fraction of corporate institutional shares has slightly dropped from 25% to around 20%. Thus the ownership of all restricted shares has maintained at a

quite stable fraction of around 60% of all shares.

Nonetheless, the Chinese government and corporate institutions have been looking for ways to cash out their holdings in listed companies by removing trading restrictions. There have been several moves to do so. The first is the experiment of share auctions. Since August 2000, there had been increasing activities of auction of SOE shares and institutional shares. The majority of the auctions were held in Shanghai. These usually took place when the original owner failed to honor its debt obligations and had to sell part of its holdings in a law suit. There were 35 auction houses participating the business at the peak of this, involving thousands of small-size transactions and around 250 listed companies (see Chen and Xiong, 2001). This experiment was called off in October 2001 due to concern that auction activities would grow out of government control and may finally involve companies with no immediate default risk. Another major policy was initiated in June 2001, when the government announced its plan to remove trading restrictions on all government shares and gradually reduce its presence in company ownership. This was followed by a market crash with a loss of almost one third of market valuation within three months after the announcement. The government had to called of its plan in October 2001. The final move took place in May 2005, when the government released another full-scale plan to float the restricted shares. Under this new scheme, restricted shares will enter the open market provided that ordinary shareholders get enough compensation. The most common deal involves share dividends paid to ordinary shareholders.

Given the dominance of restricted shares in the ownership structure, block transfer is the most likely way to gain control in China. The pricing of these shares is therefore an interesting issue. Chen and Xiong (2001) is the first to find that restricted shares in China have a much lower price than ordinary shares at negotiated transfers. Given that these transfers usually involve share blocks, which have price premiums in other countries, this proves to be an interesting phenomenon. Previous studies have

explored other pricing puzzles in China, especially the price differences between shares listed in China's segmented markets (see Sun and Tong, 2000; Fernald and Rogers, 2002; Jiang and Wang, 2004). Investigation into the pricing of block shares in China may help us to have a better understanding of China's financial markets.

III. Data and Descriptive Statistics

We collect data on negotiated transfers of restricted shares from company reports as required by the Chinese Security Regulation Committee. Share prices and company financial data are collected from Sinofin, a database provided by the Chinese Center of Economic Research. The sample includes 233 transactions involving at least 3% of common stock. These transactions come from 151 companies during 2002 and 2003. We do not consider two types of transactions in our database. First, the transaction of ST/PT shares are deleted. When a listed company has experienced 2 years of net loss, it will be classified as a Special Treatment (ST) share, and its daily price fluctuation is restricted within 5%. If the income loss extends to a third year, the stock will be classified as a Particular Transfer (PT) stock, which will only be traded every Friday. The prices of these stocks are usually subject to heavy manipulation (see Bai, Liu and Song, 2002). Second, we drop transactions between related parties, e.g. group companies. These transactions are usually a result of corporate restructuring, or strategic concerns like diversification or political connection. Thus an accurate explanation of their prices may be difficult.

We summarize the key variables in Table 1. We measure the relative price of the block transfer as the announced block price over the price of its counterpart ordinary shares on the day of announcement¹. Table 1 shows that the average transaction involves about 15% of all shares in the company. Unlike evidence in most other

¹ If leaking is possible, the announcement day may not be the day when market receives the news of block transfer. However, it is virtually impossible to estimate the likelihood and the date of leaking in the Chinese market.

countries, these blocks are priced at a massive discount with an average price of only 28% of the price of ordinary shares. This is largely due to the trading restrictions on these shares. Indeed 61% of total shares in a typical company in the sample are not tradable in open markets.

Different types of parties take place in these transactions. As Table 2 shows, non-government-related corporate institutions are the buyers in 185 out of the total 233 transactions, 72 of which involve a corporate institution buying shares from a government body or a state-owned company. Government itself is not active in increasing its shareholdings and only participates as a buyer in 11 transactions (10 of which take place between different government bodies or different regional governments). The rest 37 blocks are bought by state-owned enterprises.

The block transfers also lead to significant changes in the ownership status of the participants. In Table 3 we break down the sample according to different participants' status in the ownership structure of the target firm around the transfer: 1) The majority (196 cases) of the transactions take place between an outside buyer (one who has no share in the firm) and an insider. 3 cases involve the largest shareholder increasing their shares. 34 transactions take place between two non-controlling shareholders. 2) About half of the transactions (107 cases) involve the largest shareholder selling off part or all his shares. Among these sales, the seller keeps his controlling position in 36 cases and keeps no position in the firm in 30 cases after the transfer. 3) The buyer becomes the largest shareholder in 60 transactions, 56 of which involve direct transfer of controlling position from the largest shareholder. 4) The seller sells all his holdings in 132 transactions.

IV. Explaining the Pricing of Block Shares

We first try to explain the price discounts of block shares in China. The Chinese stock market is dominated by restricted shares, which account for around

60% of total market capitalization. In Figure 2 we graph the scatter plot between relative block prices of each transaction and the proportion of restricted institutional shares of the target company. We can see a clear negative relation between the two. Silber (1991) is the first to document the negative relation between the percentage of restricted shares and the price of such shares. Silber (1991) argues that this is consistent with the marketability problems found in Mikkelson and Partch's (1985), i.e. selling a large block in the secondary market quickly is usually difficult and requires price recessions. This is because demand is not perfectly elastic (see Scholes, 1972) and the buyer will discount the price pressure by offering a lower price. Thus the larger the proportion of restricted shares, the larger the market pressure, and the lower their price. Of course this is only possible when investors anticipate increases in stock supplies when blocks enter the secondary market. Given that the Chinese regulator finally started to remove trading restrictions from May 2005, it is very likely that restricted share prices already contains investors' expectation on future increases in stock supplies. Therefore a larger proportion of restricted shares, which implies larger market pressure and less marketability, will result in a larger discount.

There might be other reasons why the proportion of restricted share might generate cross-sectional differences in block prices. First, because of the overwhelming presence of restricted shares in the ownership, they become the only voting shares, while ordinary shares are non-voting. Bergstrom and Rydqvist (1992) suggest that voting shares have a lower price when their proportion in the company is larger. Second, a high concentration of ownership may indicate block owners have to share control benefits with other large shareholders, therefore he will pay a lower price in this case. These suggest why the proportion of block shares may lead to differences in control premium. However, they cannot explain why these shares will have price discounts. We believe the marketability problems induced by trading restrictions explain both the discounts on block shares in China and the size of the discounts.

We also summarize two other factors that may also generate cross-sectional differences in block prices:

A. Private benefit of control. If the buyer can extract private benefit of control, he is willing to pay a higher price. Barclay and Holderness (1989) find that block prices increase with the size of block. They argue that this is because the buyer is more likely to gain control when the block he purchases is large. We therefore use block size as a proxy for private benefit of control. However, Nicodano and Sembenelli (2004) argue that control benefit does not only depend on the size of the block, but also on the distribution of shareholdings. For example, one may gain control by purchasing a small block if he has already had a significant number of shares, or if block shares are diversely distributed among other large shareholders. We thus consider two additional factors that may also capture the effect of control benefit. The first is change of control. If the buyer becomes the largest block holder of the company after the transaction, he is willing to pay a higher price due to the private benefit of control he enjoys as the controlling shareholder. The second is whether the seller sells off all his shares. If control benefit is one important payoff from holding a share block, then getting rid of the block may signal that such benefit is small or difficult to extract. We predict a lower block price in this case. This may also signal block holders' private information about a low firm value, but this then should also lead to price drops in the open market, and will not affect the relative price of block shares.

B. Improvement of firm value. If share prices do not fully reflect the firm value improvement on the announcement day of the block transfer, cross-sectional differences in the block price relative to market price should reflect differences in changes in firm value due to the transfer. Barclay and Holderness (1991) suggest that the specific skills and expertise of block holders are important determinant of firm value. If the block is transferred from the government or a state-owned company to the hands of a non-government-related corporate institution (transaction type 3 and 6

in Table 2), we consider it as privatization and assume that there will be more improvement in corporate governance and firm value and hence a higher price². Of course, a higher block price when the purchaser is a private institution is also consistent with the hypothesis that these institutions are more likely to extract private benefit of control. But even if this is true, private institutions are less likely to overpay compared with managers of state-owned enterprises, who are not subject to effective corporate governance and monitoring mechanisms. Thus if private buyers offer higher block prices, this is probably due to their superior management skills, rather than more rent-seeking activities.

We present average block prices (relative to the announcement day market price) between different types of transactions in Table 4. In Table 4, the effect of trading restrictions emerges when we split the sample into two according to the median value of the proportion of restricted institutional shares. The group with a higher fraction of such shares has an average relative block price of 24%, and the other group has a higher price of 32%. The difference is highly significant with a t-statistic of 4.76. Thus a higher proportion of restricted shares leads to a larger price discount.

Table 4 shows that control benefits also affect the price of block shares. When the buyer gains control of the company after the transaction, the price he pays is an average 31% of ordinary share price, compared with 26% in other events. The difference is significant with a t-statistic of 2.39. This suggests that change of control means transfer of control benefit to the buyer. Furthermore, when the seller sells all his shares, he gets an average price of 26% of open market price, otherwise the price is a higher 30%. The difference is significant with a t-statistic of 2.60. This suggests that block holders are more likely to fully exit from the company when control benefit is lower.

² See Megginson and Netter (2001) for a survey on the effect of privatization on firm performance.

When a non-government-related corporate institution purchases block shares from the government or a SOE, the average negotiated price is 32% of the price of ordinary shares on the announcement day of the transaction. Other types of transactions have an average relative price of 26%. The t-statistic between the two is 3.18, showing that the difference is statistically significant. Thus private parties are willing to pay a higher price from government-related parties, possibly due to more improvement in corporate governance.

The overall picture seems to suggest two offsetting forces in the pricing of block shares: while trading restrictions on block shares in the Chinese capital market lead to massive discount on their prices, private benefit of control and improvement in corporate governance help to restrain the size of such discount. We explore the determinants of block prices in regression analysis.

Regression Analysis

We try to estimate the joint impact of trading restrictions and control benefit on block price by using the following baseline regression:

$$P_T / P = \alpha + \beta \times ratio + \lambda \times control + \varepsilon$$

where P_T is the negotiated price of the block, P is the price of ordinary shares on the day of announcement. The dependent variable measures the price of block shares relative to other shares. Thus the smaller it is, the larger the price discounts. *Ratio* is the proportion of restricted block shares in the ownership structure, it measures the impact of trading restrictions. We expect a negative coefficient on it. *Control* measures the impact of private benefit of control, and we expect a positive coefficient on it. We use two proxies for control benefit. The first is the size of the block, which is calculated as the number of shares involved in the transaction over total number of

shares in the company, it measures impact of control benefits. This is the same as in Barclay and Holderness (1989). However, as we have discussed before, the size of the block may be an imperfect measure of control benefit. Therefore we also use a second measure: a dummy variable which indicates change of control.

We also explore the impact of other variables that may affect the size of control benefit and henceforth cross-sectional differences in block prices. They are: a) Seller exit, which indicates if the seller fully exits from the firm, an action that we consider to signal low control benefit; b) Firm size, which is taken to be the log of the total market value. Large firms may offer more private benefits, but it is also more difficult to extract rent from large firms since they are closely monitored by analysts and regulators. c) Cash, which is defined as cash stock over total assets. As Barclay and Holderness (1989) argues, more cash facilitates investments by the new controlling shareholder and more generous compensation, thus the buyer is willing to pay a higher price for a company with a large cash stock. d) Leverage, which is measured as the book value of debt over the book value of assets. According to Jensen (1986), a higher leverage has the effect of curtailing free cash flow, an important source of private benefit of control, and the buyer may pay a lower price for the block accordingly.

In addition to these, we put change of nature of ownership as an explanatory variable, which indicates if the block is privatized after the transfer. If privatization improves firm value, we will see a positive coefficient before it.

Table 5 presents regression results. Panel A and B use the size of block and change of control as proxies for control benefit respectively. Consistent with our hypothesis, trading restrictions have a large negative impact on price discounts. Its coefficient is around -0.6 in all the regressions and is significant at 1%. Other things being equal, the baseline model suggests that block shares of the median firm in the sample, where 62% of the shares face trading restrictions, will only have a price of

27% of ordinary shares. This is very close to the median price of block transfers in our sample, which is 26% of ordinary shares. A 10% increase in the percentage of restricted shares will cut the relative price of these shares by 6%. This suggests trading restrictions can explain a significant amount of cross-sectional differences in the discounts on restricted blocks.

Private benefits of control have positive impact on block prices. The coefficient on block size is 0.13, but it is significant at just 10%. The two dummy variables of control benefit have better performance. Change of control has a coefficient of 0.04 and is significant at 5%. This shows that purchaser pay a higher price if they can gain control of the company. Block prices are lower when the seller fully exits from the company, and the coefficient on the seller exit dummy is -0.05 and is significant at 1%. This shows that block holders will give up their control benefits if such benefits are small or difficult to extract, consequently they have a lower price.

Other variables also have the same sign as we expect. Firm size has a negative impact on the block price, but the coefficient is not significant. Large firms usually have more analysts' coverage, closer monitoring from the media, and more transparent information disclosure. Thus block holders of large firm may find it difficult to extract control benefit. Leverage has a negative and significant impact on block prices. The effect of cash stock on the block size is positive but insignificant. The sign on these two variables are in line with the free cash flow argument of Jensen (1986). When leverage is low or cash stock is large, the controlling shareholder may find it easier to extract control benefit, thus he is willing to pay a higher price for the block.

Privatization has positive effects on the block price. The dummy variable of privatization has a coefficient of 0.05, and it is significant at 1%. This indicates private institutions offer a higher price than other buyers. This is consistent with the privatization literature, which argues that privatization improves firm management

and enhances firm value.

Robustness tests

The size of the block indicates control benefits, it may also indicate marketability as in Mikkelson and Partch (1985). Once we control for control benefits, block size may have a negative impact on block prices. Furthermore, as Nicodano and Sembenelli (2004) suggest, block price measures control rents only when there is change of control. We can check this by running regressions on firms with change of control. We would also like to check if the regression results hold in other sub-samples.

Table 6 divides firms according to if there is transfer of control, if the seller fully exits from the company, and if the transfer results in privatization. The percentage of restricted shares raises price discounts in each group. As one may expect, the block size turn out to have negative impact on block prices when the buyer gains control of the firm. It has a coefficient of -0.06 in this case, but it is not significant. When the buyer does not gain control, the coefficient before block size sharply increases to 0.47 . This suggests that block size increases the likelihood of control benefit, but once the buyer gains control of the firm, the costs of a larger block size will offset its benefit. Block size has positive coefficients when we divide the sample by seller exit and privatization, but they are not significant. We conclude that block size works as a measure of control benefit when the transaction does not result in change of control.

In summary, we have found the effect of both trading restrictions and private benefit of control on the pricing of block shares. Regression results show that the most important determinant of block price in China is the proportion of restricted institutional shares, which measures the costs of marketability. Control benefits reduce the discounts on restricted blocks.

V. Conclusion

Using a dataset of 233 block transfers in China between 2002 and 2003, we find massive discounts on these restricted blocks. We find that this is largely due to marketability problems induced by trading restrictions. Discounts on restricted block share prices increase with the proportion of restricted shares in the ownership, and decrease with the likelihood of private benefit of control. Furthermore, private institutions offer a higher price than state-owned institutions.

Our results extend early empirical studies on the role of control benefit and marketability in share pricing. While Barclay and Holderness (1989) focus on the role of control benefit in generating price premiums, Silber (1991) focuses on the role of marketability problems rooted in trading restrictions in generating price discounts. Our study analyzes the trade-off between these two effects in a unified framework. Consistent with the theory, we find positive impact of private benefit of control, and negative impact of trading restrictions on the pricing of block shares.

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Figure 1. Percentage of Restricted Shares, 1994-2003

Percentage of the number of government shares, shares owned by state-owned-enterprises, and shares owned by non-government-related institutions out of total number of shares of listed companies in China between 1994 and 2003.

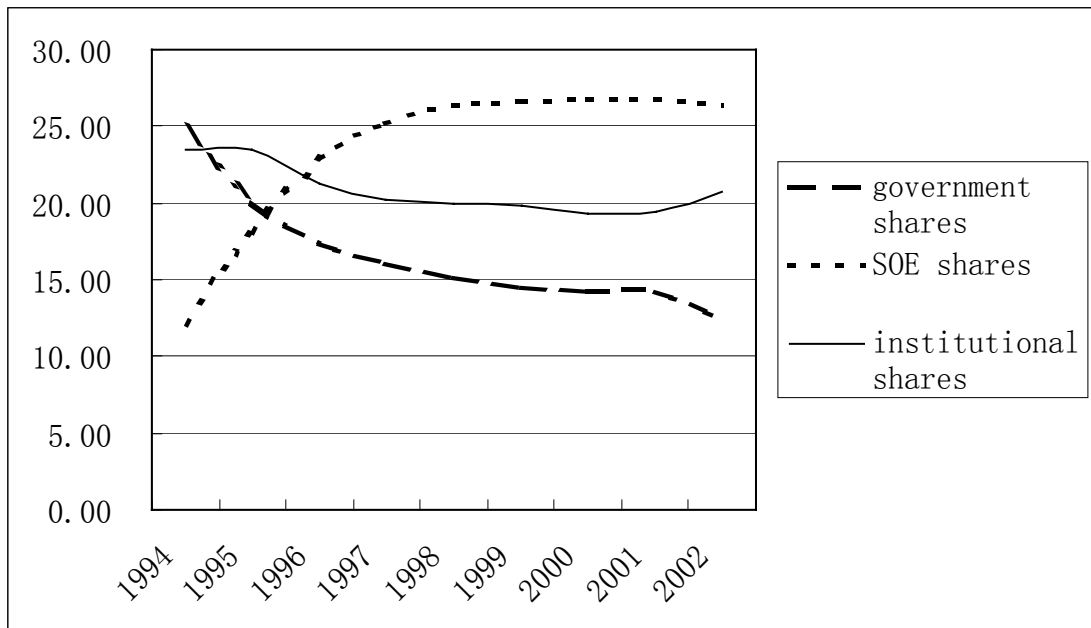


Table 1. Descriptive Statistics

Descriptive statistics on 233 negotiated block transfers involving 151 companies in China during 2002 and 2003. Relative price is the price of the block divided by the price of ordinary shares on the day of announcement. Block size is the number of shares involved in the transfer divided by total number of shares outstanding. Ratio of restricted shares refers to the percentage of restricted shares in the ownership. Firm size is the log of market value of the firm. Leverage is the book value of debt over the book value of assets. Cash is firm's cash stock over total assets.

	mean	median	minimum	maximum	Sd. deviation
Relative Price	0.28	0.26	0.05	0.78	0.14
Block size	0.15	0.11	0.03	0.68	0.12
Ratio of restricted shares	0.61	0.62	0.22	0.91	0.11
Firm size	21.39	21.35	19.94	23.09	0.48
Leverage	0.41	0.43	0.03	0.87	0.16
Cash	0.19	0.16	0.001	0.57	0.13

Table 2. Nature of Transaction Parties

This table classifies transactions between different types of participants.

Type	Seller type	Buyer type	Incidence
1	Government	Government	10
2	Government	SOE	13
3	Government	Non-government-related institution	37
4	SOE	Government	1
5	SOE	SOE	15
6	SOE	Non-government-related institution	35
7	Non-government institution	Government	0
8	Non-government institution	SOE	9
9	Non-government institution	Non-government-related institution	113

Table 3. Status of Buyers and Sellers Before and After The Block Transfer

This table breaks down frequencies of different block transfers according to changes in the ownership status of participants after the transaction. One party is in control if he is the largest shareholder in the target company, he is an outsider if he holds no share, otherwise he has a non-controlling position in the firm.

		Seller status before the block transfer		Seller status after the block transfer		
		Control	Non-controlling	Control	Outsider	Non-controlling
Buyer status before the block transfer	Control	0	3	0	3	0
	Outsider	94	102	34	109	53
	Non-controlling	13	21	2	20	12
Buyer status after the block transfer	Control	56	7	1	34	28
	Non-controlling	51	119	35	98	37

		Buyer status after the block transfer		Seller status after the block transfer		
		Control	Non-controlling	Control	Outsider	Non-controlling
Buyer status before the block transfer	Control	3	0	0	3	0
	Outsider	47	149	34	109	53
	Non-controlling	13	21	2	20	12
Seller status before the block transfer	Control	56	51	36	30	41
	Non-controlling	7	119	0	102	24

Figure 2. Trading restrictions and block prices

The horizontal axis measures the proportion of restricted block shares in the ownership structure. The vertical axis measures block prices relative to open market prices.

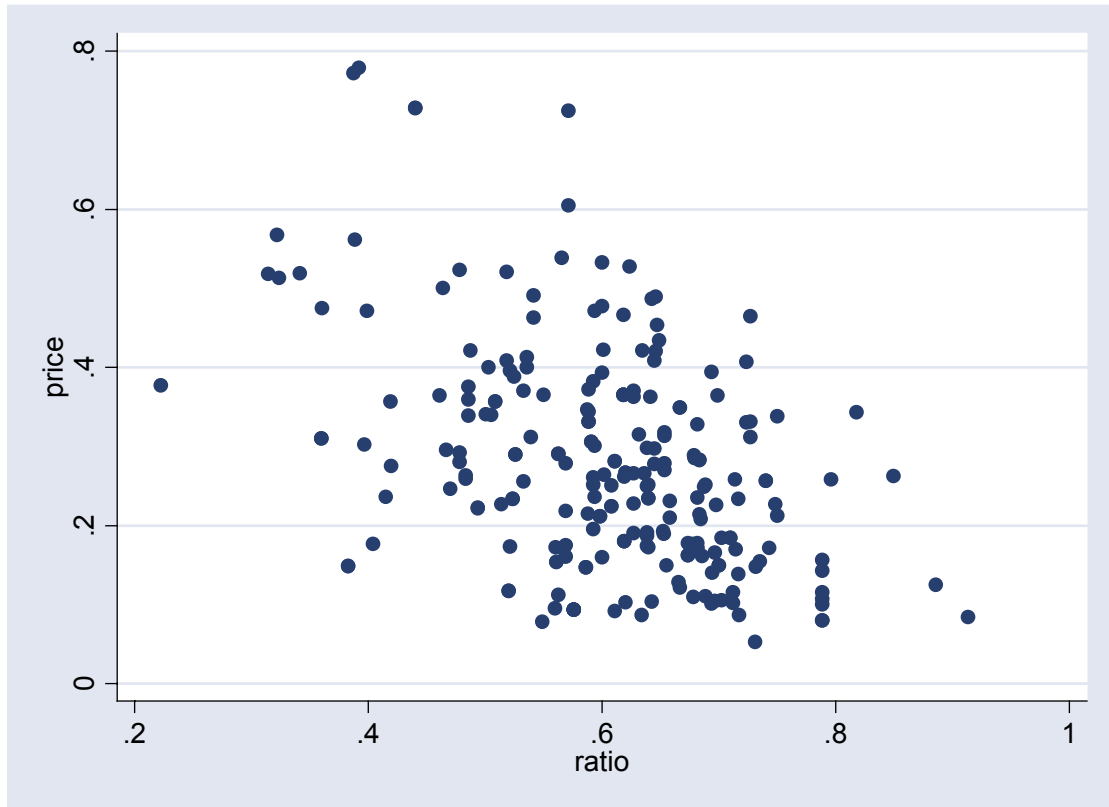


Table 4. Transaction Types and Block Prices

This table summarizes the average relative price of block shares of different types of transactions. T-statistic tests the difference between prices. Change of control is 1 if the buyer gains control, 0 otherwise. Seller exit is 1 if the seller sells all his shares, 0 otherwise. Trading restriction is 1 if the proportion of restricted shares of the firm is among the top 50% in the sample, 0 otherwise. Privatization is 1 if a non-government-related institution purchases blocks from the government or a SOE, 0 otherwise.

	Incidence	1	0	t-statistic
Change of control	60 vs. 173	0.31	0.26	2.39
Seller exit	132 vs. 101	0.26	0.30	2.60
Trading restriction	120 vs. 113	0.24	0.32	4.76
Privatization	72 vs. 161	0.32	0.26	3.18

Table 5. Regression Results

Regression results of relative block prices. The dependent variable is negotiated block price over the price of ordinary shares on the day of announcement. *Ratio* is the percentage of restricted shares in the ownership. *Block Size* is the number of shares involved in the transfer divided by total number of shares outstanding. *Control Change* is 1 if the transaction results in changes of control, 0 otherwise. *Exit* is 1 if the seller sells all his shares, 0 otherwise. *Private* is 1 if a non-government-related institution purchases blocks from the government or a SOE, 0 otherwise. *Lnmv* is the log of market valuation of the firm. *Leverage* is total debt over total assets. *Cash* is cash stock over total assets. ***, **, and * denote significance at 1%, 5%, 10% respectively.

Panel A.

<i>Ratio</i>	***-0.60	***-0.60	***-0.59	***-0.61	***-0.60	***-0.58
<i>Block size</i>	*0.13	*0.12	**0.14	*0.13	**0.15	0.09
<i>Exit</i>		***-0.05				
<i>lnmv</i>			-0.02			
<i>Leverage</i>				**-.010		
<i>Cash</i>					0.10	
<i>Private</i>						***0.05
constant	***0.62	***0.65	***1.07	***0.67	***0.60	***0.60
R square	0.22	0.25	0.22	0.23	0.23	0.24

Panel B.

<i>Ratio</i>	***-0.56	***-0.57	***-0.55	***-0.57	***-0.56	***-0.55
<i>Control Change</i>	**0.04	**0.03	**0.04	*0.03	*0.04	*0.03
<i>Exit</i>		***-0.05				
<i>Lnmv</i>			-0.02			
<i>Leverage</i>				*-0.10		
<i>Cash</i>					0.10	
<i>Private</i>						***0.05
constant	***0.60	***0.64	***1.05	***0.65	***0.58	***0.59
R square	0.22	0.25	0.22	0.23	0.23	0.25

Table 6. Results in Sub-samples

Regression results of relative block prices in sub-samples. The dependent variable is negotiated block price over the price of ordinary shares on the day of announcement. *Ratio* is the percentage of restricted shares in the ownership. *Block Size* is the number of shares involved in the transfer divided by total number of shares outstanding. 1 indicates there is change of control, or the seller fully exits from the company, or the firm is privatized, 0 otherwise.

	Change of control		Seller exit		Privatization	
	1	0	1	0	1	0
<i>Ratio</i>	***-0.68	***-0.56	***-0.53	***-0.70	***-0.77	***-0.50
<i>Block size</i>	-0.06	***0.47	0.12	0.14	0.13	0.08
constant	***0.73	***0.55	***0.56	***0.71	***0.75	***0.55
R-square	0.30	0.20	0.19	0.27	0.30	0.17