

## ABSTRACT

The objective of this thesis is to study the factors affecting dividend policy of listed companies in China. The factors include investment opportunities, stability in earnings, alternative sources of capital, degree of financial leverage, signalling incentive and stockholder characteristics.

The data is collected from annual reports of listed companies in China 2001. A sample of 563 listed companies that paid cash dividends was chosen.

The data analysis methodology used is multiple regression. The proxies of each factors are: growth rate in firm's assets for investment opportunities, variance in EPS for stability in earnings, ROA, ROE, cash flow per share and total assets for alternative sources of capital, debt/equity ratio and Beta for degree of financial leverage, PE ratio for signalling incentive, and the proportion of floating stock and Herfindahl index of top ten stockholders for stockholder characteristics

The results show that stability in earnings, alternative sources of capital, degree of financial leverage, signalling incentive, and stockholder characteristics are determinants affecting the dividend policy of listed companies in China, and that dividend theories are relevant to the stock market in China.

However, the results also show a significant problem, in which the dividend policy was controlled and affected by non-floating stockholders (state-owned share and legal-person owned share), where the problem of a higher PE ratio exists. For this reason, there are asymmetric information and speculation in the Chinese stock market which cause the dividend policy of listed companies in China to be abnormal.

The thesis therefore recommends that the government should allow the state-owned shares and legal-person share trade in the market, this will reduce the

proportion of non-floating stock in listed companies, and with the modification of some regulations in company law within China, for the purpose of reducing speculation.

