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**H-share Discount on the Chinese Stock Market: The  
Post-2008 Experience**

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**Abstract**

This paper examines H-share discount before and after the Chinese RMB's Re-Peg to the US Dollar of July 2008. In the precede paper of Fung et al. (2011), we study the H-share discount before and after the Chinese RMB's Peg to the US Dollar switch to a managed floating exchange-rate regime in July 2005. The Chinese RMB's Re-Peg to the US Dollar of July 2008 offers a unique opportunity for testing the reason why H-shares trade at a discount, what happened before and after the RMB's Re-Peg to the Dollar and what's the difference between the RMB's peg to Dollar to flexible exchange-rate regime and the inverse situation (Floating to Peg)? By using the intraday data of the 26 Chinese dual-listed firms on the A- and H-share markets from April 2008 to October 2008, we find that: a large H-share discount exists before as well as after Chinese RMB's Re-Peg to the US Dollar period, and it *increase* from 47.2% to 48.2% on average of 26 stocks. The stock returns of A-shares and H-shares are positively related to market-specific risk and investor sentiment from their local markets. In the pre-period (April 2008 - June 2008), H-shares can be explained by difference of domestic and foreign market index prices and investors' speculative motive. In the post-period (August 2008 - October 2008), H-shares can be explained by our three common hypotheses: expected exchange-rate change, stock market factor and liquidity hypothesis. The expected exchange-rate change plays a more and more important role with the time.

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