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應義塾大学大学院経営管理研究科修士課程

学位論文（ 2024 年度）

論文題名

Analysis of the Market Effects of Asset Divestiture Announcements on Corporate Stock Prices in the Post-Pandemic Chinese Market: An Empirical Study Using Event Study Methodology

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論文要旨

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(論文題名) Analysis of the Market Effects of Asset Divestiture Announcements on Corporate Stock Prices in the Post-Pandemic Chinese Market: An Empirical Study Using Event Study Methodology		
(内容の要旨) Asset divestiture is a type of asset restructuring and an important form of contractionary capital operation. As a key component of asset restructuring, divestitures can improve corporate management efficiency, reduce information asymmetry, and raise funds for business development, thereby holding the potential to create shareholder value. However, the information conveyed to the market by asset divestiture activities varies across companies. The impact of divestiture announcements on stock prices also differs, as the abnormal return observed during the event window is not uniform. Additionally, under the influence of the COVID-19 pandemic, China's industrial structure has undergone significant changes. This study applies the event study method to examine the secondary market performance of stock prices during the asset divestiture announcement window. A total of 46 samples were selected from listed companies that announced asset divestitures between 2020 and 2023. By comparing the stock price data from the year before the announcement with the market average return of indices such as the Hang Seng Index, the sample was divided into two groups: well-performing and underperforming firms. Building on the traditional event study method, this study proposes and tests the hypothesis that, compared to well-performing firms, underperforming firms experience a greater positive stock price reaction following asset divestiture announcements, leading to higher shareholder value creation and a stronger announcement effect.		

Table of Contents

Chapter 1: Introduction

1.1 Research Background and Significance

1.2 Research Content and Framework

1.3 Research Methods and Innovations

Chapter 2: Review of Relevant Theories

2.1 Fundamental Concepts of Asset Divestiture

2.2 Value Creation and Driving Factors of Asset Divestiture

2.3 Market Performance of Asset Divestiture Based on the Event Study Method

2.4 Categories of Asset Divestiture

Chapter 3: Overview of Asset Divestitures in Chinese Listed Companies

3.1 General Overview of Asset Divestitures in Chinese Listed Companies

3.2 Characteristics of Asset Divestitures in Chinese Listed Companies

3.2.1 Temporal Distribution Characteristics

3.2.2 Characteristics of Related-Party Transactions

3.2.3 Settlement Characteristics

Chapter 4: Empirical Analysis of the Announcement Effects of Asset Divestitures in Chinese Listed Companies

4.1 Research Hypotheses and Event Study Methodology

4.1.1 Research Hypotheses

4.1.2 Event Study Methodology

4.2 Data Sources and Sample Selection

4.2.1 Data Sources

4.2.2 Sample Selection

4.3 Model Construction

4.3.1 Calculation of Excess Returns

4.3.2 Statistical Testing Methods

4.4 Data Analysis

4.4.1 Sample Characteristics Analysis

4.4.2 Multiple Regression Analysis

Chapter 5: Empirical Results

5.1 Analysis of the Overall Market Effect of Asset Divestiture Announcements

5.2 Analysis of Cumulative Abnormal Returns Across Different Event Windows

5.3 Regression Analysis of Market Performance and Company-Specific Variables

Chapter 6: Research Conclusions and Outlook

6.1 Research Conclusions

6.2 Research Limitations

6.3 Future Research Directions

7.0: Reference

Chapter 1: Introduction

1.1.1 Research Background and Significance

Asset divestiture refers to the act of separating existing assets and liabilities from a company. It is a type of asset restructuring and an important capital operation method within contractionary strategies. Similar to mergers and acquisitions (M&A), divestitures are strategic deployments made by companies to respond to ever-changing pressures and challenges, promoting corporate development and improving competitive positions.

In essence, the divestiture of assets by one party often entails the acquisition of those assets and the associated business expansion by another party. Divestiture and acquisition are like two sides of the same coin, representing different interpretations of asset transfer from different perspectives. The theory and practice of asset divestiture originated in Western countries in the early 20th century. Its widespread application in practice was largely driven by the failure of large-scale corporate mixed M&A strategies that became prevalent in the last century.

In the 1970s, a wave of mixed mergers driven by diversification strategies swept across the globe, a phenomenon known in Western corporate history as the "Third

Wave of Corporate Mergers." During this period, leading Western corporations engaged in mixed mergers, resulting in the emergence of large, diversified conglomerates operating across various industries.

However, the situation soon changed. Mixed enterprises repeatedly encountered setbacks in competition and development, with more failures than successes. Cases of acquisitions and even the disintegration of such companies became increasingly common. This prompted profound reflection among Western academia and the business world, leading to a serious examination of the pros and cons of the mixed business model. By the 1980s, adjustments were made.

Western companies began divesting subsidiaries or divisions unrelated to their core businesses, focusing on strengthening their primary operations and cultivating core competencies. This gave rise to the "Fourth Wave of Mergers," also known as the "De-conglomeration Wave." Established corporations such as General Electric (GE), American Telephone and Telegraph (AT&T), and IBM underwent significant transformations during this wave of divestitures, marking a new peak in their development.

However, Chinese enterprises have also experienced a path similar to that of Western companies. Following the reform and opening-up period, while achieving rapid growth, Chinese enterprises also expanded their scale at an

accelerated pace, seeking new profit-generating methods beyond their core businesses. This, however, led to increased operational risks, distorted asset structures, insufficient development funding, and the accumulation of a significant amount of non-performing or loss-making assets. This became one of the key reasons driving asset divestiture activities among Chinese enterprises.

The large-scale asset divestiture of Chinese enterprises began in the last century. State-owned enterprises initiated the process by divesting non-productive operational assets, with some state-owned companies also undergoing spin-offs to be listed in markets such as Hong Kong and the United States. As the business environment continued to evolve, asset divestiture gradually emerged as one of the effective contractionary capital operation strategies adopted by domestic listed companies, showing an upward trend and gaining increasing importance.

Despite its growing prevalence in practice, asset divestiture has not yet achieved corresponding recognition in academic research. In particular, empirical studies on the topic remain underdeveloped, with no fully established body of research or consensus, and certain controversies still persist. There is considerable room for advancement in this field, and its practical application and theoretical guidance are still in the process of development.

The primary purpose of the secondary stock market is to guide the flow of capital through stock price movements, thereby achieving optimal resource allocation. From a long-term perspective, stock price trends should ultimately be determined by the company's operational performance. According to the Efficient Market Hypothesis (EMH), the market price of a security is the result of comprehensive analysis and judgment of various information by the vast majority of investors in the market. It reflects the overall expectations of most investors and, statistically speaking, is likely the best estimation of a security's price.

Based on the EMH, this study assumes that the prices in the secondary stock market accurately reflect all publicly available information about listed companies, including various aspects of their operational performance. This assumption forms the foundation for examining the relationship between the announcement effects of asset divestitures and market reactions.

The stock price of a listed company reacts to asset divestiture announcements because the content of the announcement, to some extent, reflects the company's past performance and future strategic direction. This directly influences market investors' judgment of the company's future value. The announcement conveys relevant information about the company's operations and development to investors, which alters their expectations of the stock's original rate of return,

leading to corresponding changes in the stock price.

This is the principle behind the impact of asset divestiture announcements on stock prices. However, the specific effects depend on various factors, such as the relative scale of the divestiture, the type of transaction, the company's performance, and investors' interpretations and expectations regarding these factors. These aspects form the focus of the subsequent discussion in this study.

The pandemic disrupted global industries, leaving many businesses grappling with revenue losses and operational uncertainty. Asset divestitures became a strategic response, enabling companies to generate liquidity, reduce debt, and stabilize operations. Sectors like hospitality and aviation offloaded non-core assets to weather financial storms, while industries such as technology and renewable energy redirected focus toward innovation and sustainability. For example, General Electric and Toshiba announced plans to divest and restructure their businesses, ensuring greater focus and operational efficiency. This trend was bolstered by capital market recovery, where firms leveraged opportunities for spinoffs and IPOs to unlock value and attract investments.

The rise in divestitures reflects a broader realignment of industries. Traditional sectors, including energy and retail, saw divestitures aimed at adapting to changing consumer preferences and regulatory landscapes. Simultaneously,

technology firms focused on emerging fields like artificial intelligence, while renewable energy players shifted away from fossil fuels to align with sustainability goals. According to PricewaterhouseCoopers, global divestiture transactions grew by 10% in 2021, with significant activity in North America, Europe, and Asia-Pacific. Hong Kong-listed companies such as YuHua Education and Dragon Power divested assets to comply with regulations and streamline operations. These cases exemplify how divestitures have become essential for businesses to navigate the post-pandemic landscape, positioning themselves for future growth and resilience.

The surge in asset divestitures highlights their role as a strategic tool in a post-pandemic economy. Companies have used divestitures to address immediate financial pressures, pivot toward high-growth sectors, and embrace innovation. This trend is not merely a response to crisis but a forward-looking strategy to create value and enhance competitiveness in an evolving global market. As businesses continue to adapt to uncertainties and seize opportunities, asset divestitures will likely remain a cornerstone of corporate strategy.

1.1.2 Research Significance

For most Chinese listed companies, asset divestiture is still commonly regarded by management as a means to alleviate pressure under circumstances such as low

operational efficiency, poor performance, financial distress, or difficulties in external financing, rather than as a proactive strategic choice for corporate development. In essence, asset divestiture is a process of reallocating internal resources within the company, converting idle or inefficient assets into funds that can be reinvested in more productive activities. Compared to expansionary restructuring methods, asset divestiture resembles a "subtraction" strategy.

In the more advanced Western corporate world, divestitures and mergers operate side by side, playing equally significant roles. Moreover, asset divestiture can optimize a company's internal resource allocation, bringing it closer to a state of Pareto efficiency. The market's reaction, reflected in stock price changes, to some extent, represents an evaluation of the company's strategic choices.

Therefore, this study explores whether asset divestiture is beneficial to a company's operational development (as reflected in short-term stock price changes) and investigates its influencing factors. This holds both theoretical and practical significance and provides valuable insights for corporate decision-making regarding asset divestiture activities.

Building on the theoretical research of asset divestiture both domestically and internationally, this study conducts an empirical analysis of asset divestiture announcements by Chinese listed companies to verify whether such

announcements contribute to short-term performance improvement. Additionally, the study proposes and tests the hypothesis that "asset divestiture announcements by underperforming companies will have a greater positive impact on their stock prices."

To measure company performance, we use the net stock return relative to the market return. A low or even negative return in the one or two years preceding the divestiture announcement may indicate that the company's use of its assets has become inefficient and that it is unable to achieve normal returns due to factors such as high capital costs. This market-based metric is thus more closely related to stock price movements compared to widely used accounting-based metrics, such as industry-adjusted ROA or industry-adjusted leverage. Based on this, the study evaluates the operational performance of companies engaging in divestiture activities.

Finally, the study analyzes the results of literature reviews and empirical tests to propose corresponding policy recommendations, aiming to provide a reference for Chinese enterprises in their decision-making regarding asset divestiture activities.

1.2 Research Content and Framework

1.2.1 Research Content

The core content of this study focuses on the correlation between asset divestiture announcements by listed companies and stock price fluctuations, employing a research approach that combines theoretical analysis with empirical testing.

First, the study examines the current state of asset divestiture in China to propose the research background and methodology. Based on existing findings, it analyzes stock price changes during the event window of asset divestiture announcements for sampled companies. It also proposes and tests the hypothesis that "the abnormal return during the event window of an asset divestiture announcement is negatively correlated with the company's pre-announcement stock performance." This investigation aims to explore the relationship between the announcement effects of asset divestitures and stock price performance for Chinese listed companies.

The research content includes the following:

Chapter 1: Introduction. This chapter begins by presenting the research background, significance, content, and framework of the study. It also provides an overview of the research methods and highlights the innovative aspects of this research.

Chapter 2: Review of Relevant Theories. This chapter summarizes theoretical findings from domestic and international studies on the fundamental concepts, value creation, and driving factors of asset divestiture. It derives the theoretical foundation for the empirical research methods used in this study and outlines the approach for selecting variables.

Chapter 3: Analysis of Asset Divestiture Characteristics in Chinese Listed Companies. Based on an overview of asset divestiture activities among Chinese listed companies, this chapter focuses on analyzing their distinctive features, including the temporal distribution of asset divestitures, characteristics of related-party transactions, settlement patterns, and jurisdictional attributes.

Chapter 4: Empirical Study on the Announcement Effects of Asset Divestiture in Chinese Listed Companies. This chapter conducts an empirical analysis of the announcement effects of asset divestiture among Chinese listed companies, using data from companies on the Hong Kong Stock Exchange that implemented asset divestiture between January 1, 2020, and July 31, 2024.

The sampled companies are categorized into two groups— “well-performing” and “underperforming”—based on their stock price performance over the year preceding the announcement. The chapter introduces the data sources, theoretical models, and empirical methods employed in the study, including the event study

methodology and multiple regression analysis.

Chapter 5: Empirical Study Results and Recommendations on the Announcement Effects of Asset Divestiture in Chinese Listed Companies. This chapter summarizes the findings of the empirical study on the announcement effects of asset divestiture in Chinese listed companies. Based on these results, it provides relevant recommendations to guide corporate decision-making and improve the strategic implementation of asset divestiture activities.

Chapter 6: Research Conclusions and Future Outlook. This chapter provides a synthesis and summary of the study, drawing the main conclusions from the research. Additionally, it offers a forward-looking perspective on potential areas for future research in this field.

1.3 Research Methods and Innovations

1.3.1 Research Methods

This study primarily utilizes the following methods to examine the announcement effects of asset divestitures by listed companies and their market reactions:

1. Theoretical Analysis Method: This method involves a detailed review of existing literature in the financial field, focusing on the theoretical analysis of the driving factors behind asset divestitures and their impact on stock

returns. It lays a solid foundation and provides sufficient theoretical support for further discussions in subsequent sections.

2. Literature Review Method: By consulting, organizing, summarizing, and synthesizing domestic and international research on event study methods and empirical findings related to asset divestiture by listed companies, this method provides a comprehensive understanding of existing research outcomes, developments, and trends. It draws on the strengths of prior studies, identifies gaps, broadens perspectives, and refines research methods. Using previous research as a foundation and reference ensures that this empirical study is grounded in well-established theories and findings, making it both rational and convincing.
3. Model Construction Method: To ensure the timeliness and uniqueness of this study, the research selects the post-pandemic period as a special time frame, focusing on listed companies on the Hong Kong Stock Exchange that conducted asset divestitures between 2020 and July 2024 as the research sample. A variable coefficient regression model is constructed, leveraging tools such as R and Python to perform an in-depth analysis of the relevant relationships. Empirical analysis is employed to explain objective phenomena, followed by normative analysis to accurately present

the study's findings.

1.3.2 Research Innovations

Innovative Timeframe and Context. This study stands out by focusing on the post-pandemic period (2020–July 2024), a time of unprecedented global and economic changes. By selecting data from this unique timeframe, it provides novel insights into the impacts of COVID-19 on corporate asset divestiture activities and market reactions. The research contributes to understanding how such a significant event influences corporate behavior and decision-making, addressing a gap in the existing literature.

Methodological Advancements. The integration of market-based and accounting-based metrics offers a comprehensive evaluation framework. By using net stock return relative to market return alongside accounting indicators, the study provides a balanced view of performance evaluation. Additionally, the application of a variable coefficient regression model enables a more nuanced analysis, capturing the dynamic relationships between asset divestiture announcements and stock price performance with greater accuracy than traditional fixed-coefficient models.

Strategic Focus and Practical Implications. The research explores a less-examined hypothesis, suggesting that "asset divestiture announcements have a

greater positive impact on underperforming companies." This perspective sheds light on the strategic value of divestiture for struggling firms. Furthermore, the study offers practical recommendations for Chinese listed companies to optimize their asset divestiture strategies, bridging the gap between academic theory and business practice.

1.4 Chapter Summary

This chapter provides an overview of the research background, significance, content, framework, methods, and innovations of this study. It establishes the foundation for subsequent chapters by detailing the theoretical and practical motivations for examining the announcement effects of asset divestitures by listed companies. The research employs a combination of theoretical analysis, literature review, and empirical methods, including the use of a variable coefficient regression model, to analyze data from Chinese listed companies on the Hong Kong Stock Exchange during the post-pandemic period. Furthermore, the study introduces several innovative approaches, including a focus on the unique timeframe, integration of performance metrics, and practical recommendations, setting the stage for an in-depth exploration of the subject.

Chapter 2: Review of Relevant Theories

This chapter provides a systematic review of theoretical foundations and research findings on asset divestiture from both domestic and international perspectives. It explores the fundamental concepts, value creation mechanisms, and driving factors of asset divestitures, establishing a theoretical framework for the empirical analysis in subsequent chapters. The following sections summarize key aspects based on existing literature:

2.1.1 Fundamental Concepts of Asset Divestiture

Asset divestiture refers to the strategic reallocation of corporate resources through the sale, spin-off, or restructuring of assets that are no longer core to a company's operations (Bergh & Lim, 2008). This section discusses the scope and characteristics of asset divestitures and differentiates them from related corporate activities, such as mergers and acquisitions (M&A), to clarify its unique role in corporate strategy (Bowman & Singh, 1993).

2.1.2 Value Creation and Driving Factors

Asset divestiture can generate value by reallocating resources toward more efficient uses and reducing operational inefficiencies (Berger & Ofek, 1995). Driving factors include internal motives such as financial distress or underperformance and external pressures such as market competition or regulatory changes (Bodnaruk et al., 2020). This section examines these factors

and how they influence corporate decisions regarding asset divestiture.

2.1.3 Empirical Research and Methodologies

This section reviews empirical studies on the announcement effects of asset divestitures and their impact on stock performance. Methodologies commonly used in these studies include event studies to measure abnormal returns and regression models to analyze influencing factors (MacKinlay, 1997). The findings highlight both the opportunities and challenges in applying these methods to asset divestiture research.

By synthesizing these theoretical and empirical insights, this chapter builds a solid foundation for analyzing the announcement effects of asset divestitures in the context of Chinese listed companies, as discussed in later chapters.

2.1.4 Categories of Asset Divestiture

Asset divestitures can be classified based on various criteria, reflecting differences in strategic objectives, operational focus, and transaction methods.

The classifications are as follows:

Scope of Divestiture

- **Complete Divestiture:** This involves the sale or transfer of an entire business unit, subsidiary, or asset, removing it entirely from the company's portfolio (Bergh & Lim, 2008).
- **Partial Divestiture:** Refers to the sale of a portion of a business unit or

asset while retaining some level of control or interest in the divested entity (Bowman & Singh, 1993).

Transaction Type

- **Spin-Offs:** A process where the parent company creates a new independent entity by distributing shares of the new entity to its existing shareholders (Bodnaruk et al., 2020).
- **Equity Carve-Outs:** The parent company sells a portion of its subsidiary's equity through an initial public offering (IPO), while retaining control of the subsidiary (Berger & Ofek, 1995).
- **Asset Sales:** The direct sale of assets or business units to another company, typically for cash or other considerations (MacKinlay, 1997).

Strategic Intent

- **Proactive Divestiture:** Initiated as part of a strategic plan to optimize resources, improve efficiency, or focus on core competencies (Bergh & Lim, 2008).
- **Reactive Divestiture:** Carried out in response to financial distress, regulatory pressures, or market competition (Bowman & Singh, 1993).

Nature of Transaction Parties

- **Internal Divestiture:** Transactions occurring between subsidiaries or

within the same corporate group (Bodnaruk et al., 2020).

- **External Divestiture:** Transactions involving external buyers or investors, such as private equity firms or other corporations (Berger & Ofek, 1995).

Geographic Focus

- **Domestic Divestiture:** Transactions conducted entirely within the company's home country (MacKinlay, 1997).
- **International Divestiture:** Transactions involving foreign buyers or assets located in other countries, influenced by global market dynamics and regulatory considerations (Bergh & Lim, 2008).

This classification framework provides a structured understanding of asset divestiture, enabling a detailed analysis of its strategic significance and operational implications in corporate management.

2.2 Analysis of Value Creation in Asset Divestiture

Asset divestiture plays a significant role in creating value for companies by optimizing resource allocation, enhancing operational efficiency, and improving financial performance. This section explores the mechanisms through which asset divestitures contribute to value creation, drawing from both theoretical perspectives and empirical findings.

2.2.1 Resource Optimization

Asset divestiture enables companies to reallocate resources by divesting underperforming or non-core assets. According to Berger and Ofek (1995), divesting non-essential assets allows companies to focus on their core competencies, which can lead to enhanced profitability and competitiveness. The reallocation of resources from low-yielding activities to high-performing sectors optimizes the company's overall efficiency.

2.2.2 Improvement in Financial Metrics

Divestitures can positively impact financial metrics by reducing debt levels, improving liquidity, and generating cash flow. Research by Bodnaruk, Loughran, and McDonald (2020) highlights that proceeds from asset sales are often reinvested in more productive areas, leading to improved return on assets (ROA) and other key performance indicators. Moreover, asset divestitures can reduce financial risks associated with over-leveraged operations.

2.2.3 Market Reaction and Shareholder Value

From a market perspective, asset divestitures often signal a strategic realignment that is positively received by investors. The Efficient Market Hypothesis (EMH) suggests that the market quickly incorporates such information, reflecting it in stock price adjustments (MacKinlay, 1997). Studies have shown that well-planned divestitures result in abnormal positive returns for

shareholders, particularly when divested assets were previously underperforming.

2.2.4 Enhanced Corporate Governance

Asset divestitures also contribute to better corporate governance by streamlining operations and enabling management to focus on strategic priorities. As noted by Bowman and Singh (1993), simplifying the corporate structure through divestitures reduces managerial complexity and improves decision-making processes, thereby enhancing governance practices.

This analysis demonstrates that asset divestiture is a strategic tool for creating value, benefiting companies through resource optimization, financial improvement, positive market reactions, and strengthened corporate governance. These factors collectively support the rationale for divestiture as an essential component of corporate strategy.

The extent of value creation achieved through asset divestiture may be closely related to a company's specific performance. According to Lang and Litzenberger (1989), practices such as returning capital to shareholders through higher dividends or stock repurchases are more likely to create value for companies with poor investment opportunities. Conversely, companies with superior investment opportunities may not achieve comparable gains, as their well-performing assets often lack additional efficiency improvement potential.

Companies with strong past performance typically have their assets largely invested in high-value, high-return projects or uses, and are less likely to face issues such as negative synergies or resource constraints. Consequently, these companies have limited scope to extract additional value from existing assets. On the other hand, underperforming companies may hold assets that fail to cover their costs, interfere with core business operations, or excessively consume internal resources, such as management attention or working capital.

Based on this, it is inferred that for such underperforming companies, asset divestiture is likely to have a more significant positive impact, both in terms of improving the company's operational performance and enhancing investor confidence. This hypothesis underpins the expectation that divestitures by underperforming firms yield greater benefits compared to their well-performing counterparts.

2.3 Research on the Market Performance of Corporate Asset Divestitures

Based on the Event Study Method

The event study method is widely used to analyze the market performance of corporate asset divestitures by examining the impact of specific events on stock prices. This approach provides insights into how the market reacts to asset divestiture announcements, allowing researchers to evaluate the short-term

performance of such activities.

2.3.1 Overview of the Event Study Method

The event study method, as outlined by MacKinlay (1997), measures abnormal returns (AR) generated by stock price movements during a specified event window. This method involves three key steps:

1. **Identifying the Event and Event Window:** Determining the event date (e.g., announcement of asset divestiture) and defining the event window (e.g., [-10, +10] trading days surrounding the event date).
2. **Estimating Normal Returns:** Using historical stock price data to calculate expected returns based on a specific model, such as the market model, CAPM, or Fama-French factor models.
3. **Calculating Abnormal Returns:** Subtracting the estimated normal returns from the actual returns to determine the abnormal returns attributed to the event.

2.3.2 Application in Asset Divestiture Studies

The event study method is particularly suitable for evaluating the market performance of corporate asset divestitures due to the following reasons:

- **Market Reaction Analysis:** It captures the immediate impact of asset divestiture announcements on stock prices, reflecting investor sentiment

and market expectations.

- **Performance Differentiation:** The method allows researchers to compare the market performance of well-performing and underperforming companies, highlighting differences in the magnitude of abnormal returns.
- **Identifying Key Factors:** By integrating regression models, the method can identify factors influencing market reactions, such as transaction type, relative scale, and pre-announcement performance.

2.3.3 Key Findings from Existing Literature

Studies using the event study method have revealed that:

- Asset divestitures generally result in positive abnormal returns, particularly for companies with underperforming assets (Berger & Ofek, 1995).
- The market reaction is influenced by factors such as the strategic intent of the divestiture, the financial condition of the company, and investor expectations (Lang & Litzenberger, 1989).
- Companies engaging in proactive divestitures tend to experience stronger market performance compared to those engaging in reactive divestitures (Bowman & Singh, 1993).

2.3.4 Implications for this Study

Building on these insights, this study adopts the event study method to analyze

the abnormal returns of listed companies on the Hong Kong Stock Exchange that announced asset divestitures between 2020 and July 2024. The findings aim to provide evidence of the market's evaluation of such announcements and their short-term performance implications.

2.3 Research on the Market Performance of Corporate Asset Divestitures Based on the Event Study Method

The event study method is widely used to analyze the market performance of corporate asset divestitures by examining the impact of specific events on stock prices. It evaluates short-term market reactions and performance related to asset divestiture announcements. According to MacKinlay (1997), the event study method measures abnormal returns (AR) generated by stock price movements during a specific event window. This method typically involves three steps: first, identifying the event date (e.g., the asset divestiture announcement) and defining the event window (e.g., 10 trading days before and after the event); second, estimating normal returns using historical stock price data and models such as the market model, CAPM, or Fama-French factor models; and third, calculating abnormal returns by comparing actual returns with estimated normal returns to assess the event's impact on stock prices.

The event study method offers unique advantages for asset divestiture

research. It captures the immediate impact of asset divestiture announcements on stock prices, reflecting market evaluations of corporate strategic decisions. Additionally, the method differentiates between the market reactions of well-performing and underperforming companies, providing quantitative insights into the effectiveness of divestiture activities. By integrating regression models, the event study method can also identify key factors influencing market reactions, such as transaction type, divestiture scale, and pre-announcement financial performance.

Existing literature indicates that asset divestitures generally yield positive abnormal returns, particularly for companies with inefficient assets (Berger & Ofek, 1995). The market reaction to divestiture announcements is influenced by factors such as strategic intent, financial conditions, and investor expectations (Lang & Litzenberger, 1989). Proactive divestitures tend to result in more significant market performance compared to reactive divestitures (Bowman & Singh, 1993). Based on these findings, this study selects listed companies on the Hong Kong Stock Exchange that announced asset divestitures between 2020 and July 2024 as the research sample. Using the event study method, it analyzes the abnormal returns to evaluate market reactions and short-term performance, providing empirical evidence of the effectiveness

According to studies conducted in Western countries, the most critical variable is the relative size of the divestiture. This variable is typically measured by the ratio of the value of the divested assets to the market value of the divesting company's stock. The greater the relative size of the divestiture, the more significant the disruption it causes to the divesting company. Research by Boone and Mulherin (1998), Alexandrou and Sudarsanam (2001), Hite and Song (2006), Clayton and Reisel (2013), and Borisova et al. (2013) demonstrates a positive relationship between the relative size of asset divestitures and abnormal returns.

In the study by Alexandrou and Sudarsanam (2001), samples with relative divestiture sizes in the top quintile had an average abnormal return of 1.3%. However, companies with smaller relative divestiture sizes achieved very low abnormal returns from their asset divestitures.

Another critical variable is the operational performance of the divesting company. Most studies conclude that firms with lower asset returns are more likely to improve their performance through asset divestitures. Wamsley and Smith (2008) argue that asset divestitures enable firms with surplus assets to scale down to an optimal size or transfer assets to more efficient producers, capturing a portion of the value difference (Maksimovic & Phillips, 2001). Following this logic, poor operational performance before a divestiture may trigger stronger

market reactions to the divestiture activity.

Lui (2007) found that Australian listed companies with low asset returns demonstrated significantly high abnormal returns around asset divestiture announcements. However, this trend is not entirely consistent across listed companies in the UK and the US. Hillier et al. (2009) observed that in the UK, there was a correlation of approximately 0.93% between poor operational performance and abnormal returns for asset divestitures. On the other hand, Owen et al. (2010) and Clayton and Reisel (2013) found no significant relationship between market reactions and the operational performance of divesting firms in the US.

Interestingly, Alexandrou and Sundarsanam (2001) provided evidence from UK samples suggesting that, contrary to poorly performing companies, firms with strong operational performance achieve more positive abnormal returns from asset divestitures. Their explanation is that financially robust firms often have a stronger negotiating position when selling assets, enabling them to secure more favorable terms.

Market reactions can also be explained through the financial leverage of the divesting firm. For companies with high debt-to-equity ratios, asset divestitures can reduce financial distress costs and improve profitability once the divestiture

is completed. Lang (1995) and Baces (2005) observed that when the anticipated cost of financial distress exceeds the benefits of leverage, leading to a decline in firm value, companies often utilize the proceeds from asset divestitures to repay debts. In this sense, divestitures help reduce the debt ratio and enable firms to pursue value-enhancing investments at lower capital costs.

Lasfler (1996) demonstrated that poorly performing firms tend to exhibit greater gains upon announcing divestitures. Similarly, Lui (2007) found that among Australian listed companies, highly leveraged firms achieved higher abnormal returns within a 3-day event window surrounding the announcement of asset divestitures. However, Owen et al. (2010), using a large sample of U.S. asset divestitures, concluded that announcement returns were unrelated to the financial leverage of the divesting firms.

Based on the analysis of the aforementioned literature, it can be observed that regardless of the research methods employed by scholars, the fundamental conclusion remains consistent: asset divestitures can enhance corporate efficiency or generate profits for companies. However, differences exist in the analytical approaches, selection of indicators, and validation processes used by various researchers, which lead to variations in their findings. Nevertheless, investigations into factors such as divestiture motives, the degree of diversification, and financial

performance provide a significant theoretical foundation for this study, offering valuable insights and important contributions to the research framework.

From this, we can draw the following conclusions: the positive effects of asset divestiture on firms can be attributed to factors such as operational specialization, better alignment with market information, elimination of undervaluation, and improved capital utilization or financing efficiency. For listed companies, most studies indicate that shareholders tend to achieve significant abnormal returns before and after the announcement of asset divestitures. This suggests that some investors in the market view asset divestiture as a necessary strategic adjustment that enhances operational management quality and increases shareholder value.

However, the existing research has not established a connection between the announcement effects of asset divestitures and the historical stock performance of listed companies. Addressing this gap forms the starting point of this study.

Previous studies on influencing factors have generally categorized them into aspects such as relative divestiture size (transaction volume), operational performance, and leverage ratio. While this study will continue to explore these areas, it differs from traditional approaches that rely on financial metrics like return on assets (ROA) to evaluate operational performance. Instead, this study adopts market-based indicators, specifically the abnormal returns in the year

preceding the announcement window, to distinguish and analyze the operational performance of companies.

Chapter 3: Overview of Asset Divestitures

3.1 Overview of Asset Divestitures in Chinese Listed Companies

Asset divestitures among Chinese listed companies have emerged as a key strategic approach to address regulatory requirements, economic pressures, and evolving market dynamics. These divestitures typically involve the sale, spin-off, or transfer of non-core or underperforming assets, enabling companies to streamline operations, improve financial health, and enhance competitiveness. The significance of asset divestitures has grown in recent years, particularly as companies navigate challenges such as tightening regulations, financial instability, and the need for industrial restructuring.

The regulatory environment in China has played a critical role in shaping asset divestiture strategies. Industries such as education and real estate have experienced increased divestiture activity due to new rules and oversight. For example, YuHua Education divested its K9 and kindergarten assets in 2021 to comply with government mandates restricting private capital in compulsory education. Similarly, the debt-laden Evergrande Group undertook large-scale divestitures to address its liquidity crisis, shedding properties, land-use rights, and stakes in subsidiaries. These examples underscore how regulatory shifts can drive

divestitures as companies strive to align with policy changes while mitigating financial risks.

Economic pressures stemming from the COVID-19 pandemic and broader global uncertainties have further fueled divestiture activity among Chinese companies. Many firms, particularly in heavily impacted sectors such as manufacturing, real estate, and retail, have turned to divestitures to generate liquidity and stabilize operations. Additionally, the competitive landscape has prompted companies to refocus on core competencies. Divesting peripheral or underperforming assets allows firms to channel resources into high-growth sectors such as technology, renewable energy, and advanced manufacturing. For instance, state-owned enterprises have embraced structural reforms, shedding inefficient subsidiaries to prioritize strategic industries.

The rise of China's capital markets, including the STAR Market and ChiNext, has also created opportunities for asset divestitures. Companies increasingly use spin-offs to unlock shareholder value and raise funds for expansion. However, implementing successful divestiture strategies in China presents challenges, including navigating complex regulatory frameworks, managing market volatility, and ensuring strategic reinvestment of proceeds. Despite these obstacles, asset divestitures have proven instrumental in enabling Chinese listed companies to

adapt to regulatory changes, economic pressures, and market opportunities. By focusing on long-term goals and maintaining compliance, these firms are positioning themselves for sustainable growth in an increasingly competitive global landscape.

3.1.1 Relationship Between China's Capital Market and the Hong Kong Investment Market

The relationship between China's capital market and the Hong Kong investment market is characterized by mutual dependence, complementary strengths, and increasing integration. Hong Kong serves as a critical gateway for international capital to access Chinese markets while providing Chinese companies with opportunities to raise funds and gain global exposure. This connection is underpinned by policies such as the Stock Connect and Bond Connect programs, which enable seamless trading of equities and bonds between the two markets.

Hong Kong's investment market offers a unique blend of advantages for Chinese companies. As a global financial hub, Hong Kong provides access to an extensive pool of international investors, robust legal and regulatory frameworks, and a transparent trading environment. These attributes make it an attractive destination for Chinese enterprises seeking to diversify their financing channels

or establish an international presence. In particular, many Chinese firms leverage dual listings in Hong Kong to supplement their listings on mainland exchanges, taking advantage of the city's deep liquidity and investor diversity.

On the other hand, China's capital market plays a vital role in supporting the real economy and domestic growth. While historically more insulated, recent years have seen efforts to liberalize and open the market to global investors. Policies aimed at increasing market accessibility, such as the inclusion of A-shares in global indices, have strengthened ties with Hong Kong's investment market. This integration enables international investors to tap into China's economic growth through Hong Kong's intermediaries, creating a bridge between the mainland and global markets.

Despite their synergies, the two markets face challenges in aligning regulatory systems and addressing geopolitical risks. Differences in governance, market practices, and investor profiles occasionally lead to disparities in valuation and trading behavior. Nevertheless, the complementary nature of China's capital market and Hong Kong's investment market ensures their continued collaboration. This relationship not only facilitates capital flows and investment opportunities but also positions both markets as essential players in the global financial ecosystem.

3.1.2 Distinctive Features of Chinese Listed Companies: Red-Chip Structure and VIE Framework

Chinese listed companies exhibit unique characteristics in their capital market structures, notably the use of the red-chip structure and the Variable Interest Entity (VIE) framework. These mechanisms have evolved as responses to China's domestic regulatory constraints and the need for access to international financing, playing pivotal roles in the global operations of Chinese firms.

The red-chip structure involves establishing an offshore holding company, often in jurisdictions such as the Cayman Islands or Bermuda, which indirectly owns the Chinese operating assets. This structure allows Chinese companies to circumvent restrictions on foreign ownership in certain industries while facilitating access to international capital markets, such as those in Hong Kong or the United States. Companies like Alibaba and Tencent have successfully leveraged the red-chip structure to attract global investors. The advantages include bypassing domestic regulatory barriers, accessing a broader investor base, and optimizing tax efficiency through offshore arrangements. The structure has proven particularly useful for sectors requiring substantial international funding, such as technology, education, and telecommunications.

The VIE framework, on the other hand, is designed for industries where direct

foreign ownership is prohibited under Chinese law, including education, telecommunications, and media. Through contractual agreements, the offshore listed entity gains de facto control over the domestic operating entity without direct ownership. This approach enables companies to operate within restricted sectors while still accessing foreign capital. However, the VIE framework presents several challenges. Regulatory uncertainties persist regarding its long-term legality and enforceability, posing risks for both the companies employing this model and their investors. Moreover, disputes over the contractual arrangements between the listed entity and the domestic business can lead to operational and legal complications. Despite these risks, the VIE framework has been instrumental for companies like Baidu and Alibaba in securing overseas listings and maintaining operational control.

Both the red-chip structure and VIE framework have facilitated the globalization of Chinese listed companies, providing effective pathways for raising international capital. However, these mechanisms are not without their challenges. Regulatory scrutiny in China and abroad, coupled with evolving investor concerns over transparency and stability, necessitates greater adaptability in these structures. As China's capital markets continue to open and integrate with global systems, companies may need to refine these frameworks to align with

changing regulations and investor expectations, ensuring sustainable growth and compliance in an increasingly competitive financial environment.

3.2 Characteristics of Asset Divestitures in Chinese Listed Companies

Asset divestitures by Chinese listed companies exhibit unique characteristics influenced by the regulatory environment, economic development stage, and corporate strategic adjustments. Compared to their global counterparts, Chinese listed companies demonstrate a stronger reliance on policy directives, diverse strategic motivations, and significant adaptability in implementation.

One defining feature of asset divestitures in China is their policy-driven nature. Government guidance and regulatory interventions play a significant role in shaping corporate decisions on divestitures. For instance, the "Double Reduction Policy" implemented in 2021 triggered a wave of asset divestitures in the education sector, as companies sold or restructured their compulsory education-related assets to comply with regulations. Similarly, state-owned enterprises (SOEs) responded to government directives by divesting inefficient assets and focusing on core businesses as part of broader economic reforms aimed at high-quality development.

Another critical driver of asset divestitures is the need for financial optimization. Chinese listed companies often face high leverage ratios and

liquidity pressures, making asset divestitures a crucial tool for improving financial stability. By selling non-core or underperforming assets, companies can generate short-term capital, reduce debt burdens, and stabilize their financial structures. For example, real estate firms such as Evergrande Group addressed liquidity crises through large-scale asset sales, ensuring operational continuity despite high levels of debt.

Strategic realignment is another prominent feature of asset divestitures in China. Amid industrial upgrading and intensified global competition, companies are increasingly divesting peripheral businesses to focus on high-growth areas such as artificial intelligence, renewable energy, and advanced manufacturing. This strategic adjustment not only enhances market competitiveness but also aligns with China's broader economic transition toward high-quality growth. Many technology and manufacturing firms have used divestitures to reposition themselves in emerging markets, enabling faster resource allocation and market adaptation.

Finally, the use of complex corporate structures, such as red-chip structures and Variable Interest Entity (VIE) frameworks, adds a distinctive dimension to asset divestitures in China. These mechanisms allow companies to navigate regulatory differences between domestic and international capital markets but also

introduce legal and compliance risks. For instance, divestitures involving VIE structures often face challenges related to contract enforceability and cross-border regulatory coordination, adding operational complexity.

In conclusion, asset divestitures by Chinese listed companies are characterized by policy influence, financial optimization, strategic realignment, and the use of complex structures. These features reflect the unique dynamics of China's capital markets and demonstrate the flexibility of companies in balancing compliance, short-term pressures, and long-term objectives. As China's capital markets continue to open and globalize, the modes and characteristics of asset divestitures will diversify further, playing a critical role in corporate development and market evolution.

3.2.1 Temporal Distribution Characteristics

The temporal distribution of asset divestitures among Chinese listed companies highlights significant patterns influenced by regulatory changes, economic cycles, and market dynamics. These time-based characteristics reflect how external factors, and internal corporate strategies shape the timing and frequency of divestiture activities.

One of the most notable temporal characteristics is the clustering of divestitures around major regulatory shifts. For example, the implementation of

the "Double Reduction Policy" in 2021 led to a surge in divestitures in the education sector as companies sought to comply with new regulations. Similarly, financial tightening and debt control measures introduced during specific periods have triggered waves of asset sales, particularly in heavily indebted industries such as real estate. These clusters demonstrate the responsiveness of Chinese listed companies to policy changes and their capacity to adjust their asset portfolios accordingly.

Another temporal feature is the tendency for divestiture activities to align with broader economic cycles. During periods of economic downturn or financial instability, companies are more likely to divest non-core or underperforming assets to generate liquidity and reduce financial risks. Conversely, in times of economic growth or market optimism, divestitures are often driven by strategic realignments aimed at capturing new opportunities or reallocating resources to high-growth areas. For instance, during the post-pandemic recovery, companies in the technology and renewable energy sectors accelerated divestitures of legacy assets to focus on emerging industries.

Seasonal and quarterly patterns also play a role in the timing of divestitures. Many companies aim to complete divestiture transactions before the end of a fiscal year to optimize their financial statements and present a stronger financial

position to stakeholders. This is particularly evident in industries with cyclical demand patterns, such as manufacturing and consumer goods, where timing divestitures to align with market trends can enhance profitability.

In summary, the temporal distribution of asset divestitures among Chinese listed companies is shaped by regulatory events, economic cycles, and strategic financial planning. These patterns underscore the importance of timing in corporate decision-making, as companies navigate both external pressures and internal goals to achieve optimal outcomes from their divestiture activities.

3.2.2 Characteristics of Related Party Transactions

Asset divestitures among Chinese listed companies often involve related party transactions, reflecting distinct characteristics shaped by corporate ownership structures, regulatory environments, and strategic objectives. These transactions, which occur between a company and its affiliates, subsidiaries, or controlling shareholders, play a significant role in the asset divestiture process, particularly in China's state-dominated and family-owned corporate landscape.

One defining feature of related party transactions in asset divestitures is their prevalence among state-owned enterprises (SOEs). In the context of economic reforms, SOEs frequently engage in asset transfers within the same group or between affiliated entities to comply with government mandates, streamline

operations, and improve efficiency. These transactions often align with broader policy objectives, such as reducing debt levels or supporting national strategic industries. For example, SOEs in the energy and infrastructure sectors commonly divest assets to sister companies or government-controlled investment entities, ensuring continued control over critical resources while meeting financial or operational goals.

Another characteristic is the strategic use of related party transactions to manage financial performance. In some cases, Chinese listed companies divest assets to affiliated entities to improve balance sheets, generate liquidity, or transfer non-performing assets. This practice is particularly common in highly leveraged industries, such as real estate, where firms use related party sales to manage debt ratios and stabilize operations. However, such transactions can raise concerns about transparency and fairness, especially when pricing mechanisms or valuation methods are unclear.

Family-owned businesses in China also exhibit unique related party transaction patterns in asset divestitures. These companies often rely on affiliated entities or family-controlled subsidiaries to restructure assets, reduce operational risks, or enhance profitability. This approach enables the consolidation of resources within the family network while maintaining overall control of the

business.

Regulatory oversight plays a critical role in shaping the characteristics of related party transactions in China. The Shanghai and Shenzhen Stock Exchanges have established strict disclosure requirements for related party transactions, aiming to ensure transparency and protect minority shareholders' interests. Despite these measures, concerns about potential conflicts of interest, asset mispricing, and the misuse of corporate resources persist, highlighting the need for robust governance practices.

In summary, related party transactions in Chinese listed companies' asset divestitures are characterized by their prevalence in SOEs, strategic financial management objectives, and unique patterns in family-owned businesses. While these transactions can facilitate efficiency and resource allocation, they also pose challenges related to transparency and regulatory compliance. As China's capital markets continue to mature, improving governance and ensuring fair practices in related party transactions will remain a critical priority.

3.2.3 Settlement Characteristics

The settlement processes for asset divestitures in Chinese listed companies exhibit distinct features shaped by regulatory frameworks, financial strategies, and market conditions. These characteristics, which include payment methods,

timing, and valuation approaches, reflect the unique dynamics of China's corporate environment and capital markets.

One prominent characteristic is the frequent use of equity-based payments in settlement agreements. Particularly among state-owned enterprises (SOEs), divestitures often involve the transfer of shares instead of cash payments. This method facilitates internal restructuring and debt reduction without requiring immediate liquidity outflows. For example, transactions between affiliated entities within large conglomerates commonly rely on equity exchanges to maintain resource allocation while optimizing financial performance. Such arrangements align with government mandates for SOEs to streamline operations and reduce leverage.

Deferred payments are another common feature in asset divestiture settlements. Sellers often allow buyers to pay in installments or delay cash payments to accommodate financial constraints or align with long-term strategic goals. This flexibility is especially prevalent in capital-intensive industries like real estate and infrastructure, where buyers require extended periods to secure funding. While deferred payment terms enable smoother transaction processes, they can also expose sellers to financial risks, particularly if the buyer's solvency is uncertain.

Valuation and pricing mechanisms play a critical role in settlement processes. Chinese regulatory authorities closely monitor the valuation of divested assets to ensure fairness and protect minority shareholders. For high-value or related-party transactions, third-party appraisals are typically mandated. However, discrepancies between book values and market valuations may lead to disputes or delays, particularly in sectors with volatile asset prices, such as energy and technology. These valuation requirements underscore the importance of transparency and market compliance in settlement practices.

Cash settlements remain a standard method, particularly in private-sector transactions or those involving cross-border buyers. Cash payments are often preferred for their simplicity and immediate impact on liquidity, making them a popular choice in competitive bidding scenarios. However, large-scale cash transactions are subject to regulatory scrutiny in China to prevent undervaluation or misuse of corporate resources. The timing of settlements is also influenced by fiscal considerations, as companies often aim to finalize transactions before the fiscal year-end to optimize financial statements and meet performance benchmarks.

In summary, the settlement characteristics of asset divestitures in Chinese listed companies are shaped by a combination of equity-based payments, deferred

payment arrangements, rigorous valuation practices, and cash settlements. These practices reflect the interplay between regulatory requirements, financial strategies, and market dynamics, highlighting the complexity of settlement processes in China's evolving capital markets.

Chapter 4: Empirical Analysis of the Announcement Effects of Asset

Divestitures in Chinese Listed Companies

4.1 Research Hypotheses and Event Study Method

4.1.1 Research Hypotheses

The findings of Lang and Litzenberger (1989) demonstrate that for companies lacking high-quality investment opportunities, adopting high dividend policies or conducting share buybacks can open a new path for corporate development. This stands in stark contrast to firms with strong performance and abundant investment opportunities. Inefficiently holding cash or assets with low profitability potential is not considered optimal for shareholders. Asset divestitures share similarities with dividend payouts; both involve relinquishing current or future investments in cases where the anticipated returns are low, in exchange for cash or other valuable securities. This concept represents an extension of dividend policy theory into the domain of asset divestitures.

The motivation behind asset divestitures is also the primary source of value creation for such activities. Excluding objective or negative factors such as judicial mandates, the practical drivers of divestitures are often the key reference points for the market's reaction to asset divestiture announcements by listed

companies. These motivations significantly influence the direction and magnitude of stock price fluctuations during the event window surrounding the announcement date. As discussed earlier, the main drivers of asset divestitures for Chinese listed companies include business integration, improving operational efficiency, reducing debt burdens, and anti-takeover measures. These motivations are primarily strategic adjustments made by companies whose operational performance is not optimistic.

Based on the above analysis, this study proposes the following hypotheses:

H1: Asset divestiture announcements by Chinese listed companies are expected to have a significant impact on stock prices. During the announcement window, such events are anticipated to create excess returns for shareholders. Moreover, the extent of stock price fluctuations is hypothesized to be positively correlated with the scale of the divestiture.

H2: Compared to "well-performing" companies, listed companies with "poor stock performance" are expected to exhibit a stronger reaction to asset divestiture announcements, resulting in higher excess returns for their shareholders. The definition of stock performance will be explained in detail in the data sample section of this study.

4.1.2 Event Study Methodology

The event study methodology is a widely used approach for analyzing the impact of corporate behaviors, events, or announcements on stock returns in the securities market. It is a critical tool for evaluating whether an event has caused a change in the firm's value. In an efficient and rational financial market, information related to an event disseminates rapidly, enabling investors to quickly assess its implications and make informed decisions. The extent of an event's impact is often reflected directly in the changes in stock prices.

Stock prices, being forward-looking, encapsulate investors' expectations about a company's future prospects. If the stock price rises following an event, it indicates that investors anticipate the event will enhance the firm's value. Conversely, a declining stock price suggests that the event is perceived as detrimental to the company's development, signaling a reduction in its value. However, in a dynamic capital market, stock value can be influenced by a multitude of factors beyond the specific event or announcement. This makes investment decisions inherently risky and necessitates the careful isolation of extraneous factors when analyzing the event's effects on stock returns.

To mitigate these confounding influences, this study adopts a rigorous approach to sample selection. For instance, data from the first half of 2020, a

period marked by significant stock market volatility, has been excluded to ensure the reliability of empirical results. By controlling for such external disruptions, the study aims to more accurately measure the true impact of asset divestiture announcements on stock returns.

The primary element of an event study is the event itself, which must be clearly defined. In this study, the event refers to asset divestiture announcements made by listed companies. Following the identification of the target event, it is necessary to establish the time interval during which the event impacts stock prices. For this research, the announcement date of the asset divestiture is selected as the event date (day 0). If the announcement date is not a trading day, the first subsequent trading day is used as the baseline.

The choice of the event window is critical and should be determined based on the nature of the event. An excessively long window risks introducing excessive informational noise, which may obscure the true impact of the event. Conversely, a window that is too short may omit relevant data, preventing a comprehensive evaluation of the event's effects. Thus, an optimal event window must balance capturing the event's full impact while minimizing unrelated disturbances.

4.2 Data Sources and Sample Selection

4.2.1 Data Sources

In this study, the event window is set as 10 trading days before and after the announcement, i.e., (10,10) as the event period. This selection is based on the observation that excess returns beyond this period are not significant, and choosing a longer period would introduce excessive information noise, thereby interfering with the assessment of the event's impact and leading to inaccurate empirical results. This study examines asset divestiture announcements of listed companies as research events for the years 2020, 2021, and 2022, using the announcement date as the event benchmark. The excess returns for the 10 days before and after the announcement (including the event day, with non-trading day announcements deferred to the next trading day, making a total of 21 days) are calculated. In conducting the empirical analysis, the cumulative abnormal return (CAR) of the sample is used as the dependent variable. Based on the results of the event study method, the expected influencing factors are selected as independent and control variables, and multiple linear regression analysis is employed for empirical analysis.

The estimation window is defined as $[-100, -11]$, with the purpose of calculating the normal return. Therefore, the determination of this window should not overlap with the event window; it can be placed either before or after the event window as long as it allows for the computation of normal returns. However, the

common academic practice is to position the estimation window before the event window, as this approach is more intuitive. Consequently, this study defines the estimation window as $[-100, -11]$. As mentioned earlier, if a company's stock is suspended from trading, the affected trading day is excluded, and the selection continues sequentially with the preceding trading days until the required number of trading days for the event window is met.

The excess return of a listed company's stock is calculated as the actual return minus the expected return. The actual return is derived from the actual trading price of the sample stock on each trading day.

4.2.2 Sample Selection

The sample data for this empirical study is sourced from the Bloomberg Terminal, a comprehensive financial data platform. The initial sample is selected based on the "Asset Divestiture" category within the foundational data on mergers, acquisitions, and restructuring activities.

To facilitate the study, this research adopts a quantitative method to determine the qualitative indicator of "stock performance" mentioned in the hypothesis. Specifically, the difference in returns is calculated to classify sample companies.

Using publicly available market data from Wind Information, this study compares the annual return of each company's stock prior to the asset divestiture

announcement with the corresponding return of the Hang Seng Index during the same period. Based on the results:

- Companies with a return difference < 0 are classified as "underperforming" samples.
- Companies with a return difference > 0 are classified as "well-performing" samples.

In cases where stocks were suspended from trading, the data collection period is extended backward until sufficient data is obtained to meet the sample size requirements. This approach ensures that the classification of stock performance is consistent and reflective of the company's actual market behavior prior to the announcement.

Although using the difference in returns between sample companies and the Hang Seng Index one year prior to the divestiture event to classify them as "underperforming" or "well-performing" may seem somewhat rigid, this quantitative approach provides a clear distinction among the asset-divesting listed companies. By meeting the requirements for explanatory variables in the empirical analysis, this method offers more benefits than drawbacks for the overall research. It ensures consistency and objectivity in categorizing the samples, thereby enhancing the robustness of the study's findings.

The sample selection process considered key factors such as transaction scale, company type, and the overall conditions of China's secondary stock market to ensure the reliability of the empirical analysis. To minimize the impact of abnormal market fluctuations, the study excluded samples that involved unsuccessful transactions, financial sector companies, and transactions with deal values below 100 million RMB. Additionally, data from the first half of 2020 was omitted due to significant market volatility during that period. After applying these criteria, the final sample consisted of 47 asset divestiture events occurring between 2020 and 2022. Of these, 21 cases were categorized as "well-performing," and 26 cases were classified as "underperforming," based on the difference in returns compared to the Hang Seng Index in the year prior to the announcement. This comprehensive screening ensured a robust dataset for analyzing the impact of asset divestiture announcements.

In studying the development of China's capital market, the concept of "backdoor listing" (or reverse merger) is inevitably encountered. Due to China's regulatory framework for initial public offerings (IPOs), which follows an approval-based system, the listing status or "shell" of underperforming companies remains a highly valuable resource. According to this study's definition of asset divestiture, backdoor listings fall within the scope of asset divestiture for the

company holding the shell. Consequently, some of the selected samples in this study include companies involved in backdoor listings.

Typically, companies holding a shell have experienced lower returns over the previous year and are classified as "underperforming" in this study. The sale of assets for a backdoor listing often serves as a major positive signal in the secondary stock market, leading to significant upward momentum in the stock price following the announcement. This positive market reaction aligns with the hypotheses proposed in this study. However, given that backdoor listings are a unique feature of China's capital market, it is not feasible to exclude all such cases. To minimize their influence on the overall findings, the study limits the proportion of backdoor listing events to no more than 10% of the total sample. This approach ensures that the distinct characteristics of backdoor listings are accounted for while maintaining the integrity of the broader analysis.

4.3 Model Construction

(1) Calculation of Excess Returns

The actual return (R_{it}) for stock i on day t is calculated as:

$$R_{it} = \log(P_t) - \log(P_{t-1}), \quad t \in [-100, -11]$$

(2) Normal return

It refers to the expected return of the market under the condition that no asset

divestiture event has occurred.

This study adopts the market model method, which is based on the assumption that the Fama-French five-factor model holds. By performing regression analysis on returns within the estimation window, the expected return R_{it} is estimated. In this method, the return of the Hang Seng Composite Index is defined as the explanatory variable, while the normal return of the event company's stock is defined as the dependent variable. Based on this framework, regression analysis is conducted. The estimation model is as follows:

$$R_{it} = \alpha_i + \beta MKTR_{mt} + \beta SMBSMB_t + \beta HMLHML_t + \beta RMWRMW_t + \beta CMACMA_t + \epsilon_{it}, t \in [-100, -11]$$

Based on the regression results of the model, the estimated values of α and β can be obtained. By substituting the closing price of the **Hang Seng Composite Index** on the corresponding dates within the event window, the normal return of the stock during the event window can be derived. The calculation equation is as follows:

$$R_{it} = \alpha + \beta R_{mt} + \epsilon_{it} \in [-10, 10]$$

(3) Excess Return, ER

Excess Return (ER) refers to the **actual return** of a stock minus its **normal return**, which is used to measure the impact of an event on stock prices. The

calculation formula is as follows:

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$

Where:

- $AR_{i,t}$: Excess return of stock i on day t ;
- $R_{i,t}$: Actual return of stock i on day t ;
- $E(R_{i,t})$: Expected normal return of stock i on day t (calculated through the Fama-French five-factor model regression).

Excess return reflects the abnormal performance of a stock during the event period, helping to assess the impact of the asset divestiture event on the company's stock price.

A single excess return is susceptible to the influence of outliers. Therefore, it is necessary to aggregate individual excess returns to make an overall inference about the event. This requires aggregating across securities and calculating the average excess return across multiple stocks, as follows:

$$AAR_t = \frac{1}{N} \sum_i AR_{i,t} \quad (N \text{ refers to the number of samples})$$

The average cumulative abnormal return (CAAR) over the defined time period is calculated as follows:

$$CAAR = \frac{1}{N} \sum_i CAR_i$$

(4) Statistical Significance Tests

If ($CAR > 0$), it indicates that the occurrence of the asset divestiture event has led to an increase in the company's stock price. This suggests that the market has recognized the event as having a positive impact on the company's performance. Conversely, if ($CAR < 0$), it implies the opposite conclusion—that the event has negatively affected the company's stock price and performance.

If there is no significant evidence showing that the cumulative abnormal return (CAR) is significantly different from zero, it suggests that the asset divestiture event has not had a substantial impact on the company's stock price and has not directly influenced its performance.

The hypothesis test is formulated as follows:

- **Null Hypothesis (H0):**

$$CAR=0$$

(The asset divestiture event has no impact on stock returns.)

- **Alternative Hypothesis (H1):**

$$CAR \neq 0$$

(The asset divestiture event has a significant impact on stock returns.)

The null hypothesis states that asset divestiture has no impact on stock returns, meaning that the cumulative abnormal return (CAR) should follow a normal distribution with a mean of zero. The test statistic follows a t-

distribution with $n-1$ degrees of freedom, which is expressed as:

$$t(CAR) = \frac{CAR}{\frac{S(CAR)}{\sqrt{N}}} \sim t(n-1)$$

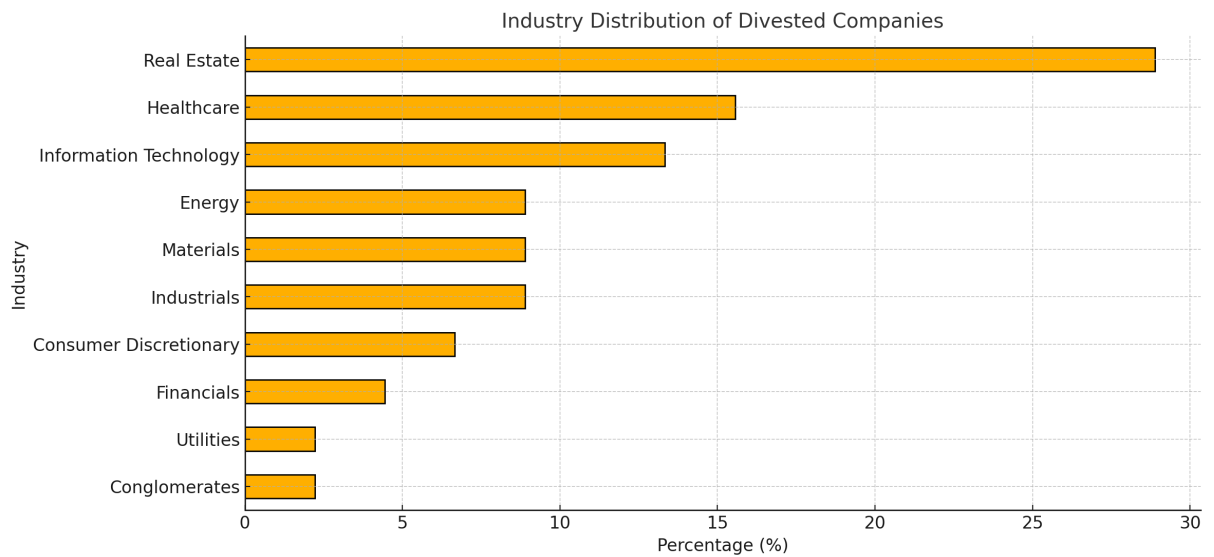
The variance of CAR is calculated as follows:

$$S^2(CAR) = \frac{1}{N-1} \sum_{i=1}^N (CAR_i - \overline{CAR})^2$$

4.4 Data Analysis

4.4.1 Sample Characteristics Analysis

Firstly, the sample industry distribution is shown in the table below.



The selected sample consists of companies that have undergone asset divestitures and subsequent listings, categorized by industry. The industry distribution reveals several key trends.

Dominance of Real Estate and Healthcare: Real estate companies make up the largest proportion of divestitures, indicating a strategic restructuring trend in the sector. This could be due to government regulations, capital constraints, or efforts to focus on core businesses. Healthcare also accounts for a significant share, reflecting the sector's rapid growth, increased market demand, and innovation-driven business models.

Strong Presence of Information Technology: the information technology sector ranks high in divestiture activities. This suggests that many IT firms are spinning off specialized units to enhance operational efficiency, attract investment, and gain independent market recognition, particularly in high-growth areas such as cloud computing and AI.

Industrial and Materials Sector Adjustments. Industrials and materials companies also feature prominently. These divestitures may be linked to supply chain optimizations, environmental regulations, and the push toward sustainable production. Firms in these industries might be restructuring to improve capital allocation and efficiency.

Financial and Consumer Discretionary Sectors. While financial services and consumer discretionary companies form a smaller portion of the sample, their

presence indicates strategic divestitures driven by evolving market demands and profitability concerns.

Overall, the data suggests that asset divestitures are not industry-specific but rather a common strategy among companies seeking financial optimization, regulatory compliance, and innovation-driven growth.

4.4.2 Multiple Regression Analysis

Next, this study applies multiple regression analysis based on the cumulative abnormal return (CAR) obtained from the event study method to test the hypothesis. Specifically, the analysis examines whether ownership concentration has a consistent directional impact on stock returns.

To analyze the factors influencing the market performance of asset divestitures, this study selects key variables based on a review of prior research and relevant motivational theories. The cumulative abnormal return (CAR) is employed as the dependent variable to measure stock market reactions to asset divestiture events. Several control variables are incorporated to account for firm-specific characteristics that may influence CAR. These include relative size, which reflects the scale of the divested asset relative to the firm's total assets; return on assets (ROA), representing the firm's profitability; the Herfindahl Index

(H10), a measure of market concentration indicating the firm's competitive environment; and financial leverage, which captures the firm's capital structure and risk exposure. By including these variables, the study aims to assess the extent and manner in which ownership concentration and other firm-specific factors affect the stock market's response to asset divestiture announcements.

The most important explanatory variable is the market performance indicator of the listed company's stock. To distinguish between "well-performing" and "poorly performing" companies, we compare the company's stock return with the Hang Seng Market Index over the period from 11 days before the divestiture announcement to one year after. Research suggests that poorly performing companies have greater potential for performance improvement, as asset divestitures help reduce excess capacity, clarify the reduction of non-productive investments, and alleviate financial distress. Therefore, we expect that poorly performing companies will achieve higher abnormal returns following asset divestiture announcements.

In this study, relative size is defined as the value of the divested asset or transaction amount divided by the total assets of the listed company one year prior to the asset divestiture announcement. The larger the relative size of the

divestiture, the greater the impact on the company's original resource allocation, which in turn may affect the company's stock price. This variable is expected to have a positive correlation with the dependent variable, indicating that larger divestitures are likely to generate higher stock market reactions.

The operating performance of the divesting party is measured by its return on assets (ROA), which is an important indicator of managerial profitability. Profitability reflects the management's operational performance and capabilities, directly influencing market investors' judgments about the company or its stock price. According to the management efficiency hypothesis, management seeks to improve asset and capital utilization efficiency and enhance management capabilities by divesting excess assets and businesses. Therefore, a company's profitability will inevitably impact the stock price reaction following an asset divestiture announcement. Thus, this study selects ROA as a key control variable for analysis.

Financial leverage is measured by the debt-to-asset ratio, which is the ratio of **total liabilities to total assets. This ratio reflects the financial condition of the sample firms, and companies with higher leverage adjustments are expected to exhibit higher abnormal returns. According to the financing theory hypothesis,

when a company faces financial distress, it may use asset divestitures to obtain the necessary funds for operations, alleviate debt pressure, and reduce financial risk.

Afshar (1992) found that if a firm undergoing asset divestiture is in financial distress, its stockholders experience positive excess returns on the announcement day, and these excess returns are positively correlated with the firm's debt-to-asset ratio. In this study, the debt-to-asset ratio used is that of the year prior to the asset divestiture announcement.

The **Herfindahl Index (H10)** is defined as the sum of the squared shareholding ratios of the **top ten shareholders** of a listed company. By squaring the shareholding proportions, the index captures the **Matthew effect** of ownership concentration, where disparities between major and minor shareholders become more pronounced.

A higher Herfindahl Index (H10) indicates that the ownership distribution among the top shareholders is more balanced, meaning that large and small shareholders hold similar proportions of shares. Conversely, a lower Herfindahl Index (H10) suggests a greater disparity between major and minor shareholders, reflecting a more concentrated ownership structure.

Table 4-3: Explanation of Regression Variables

Variable	Symbol	Definition	Expected Impact
Cumulative Abnormal Return	CAR	The cumulative abnormal return of the company's stock during the event window.	Dependent Variable
Relative Size	RS	The value of divested assets or transaction amount divided by the company's total assets one year before the divestiture announcement.	Positive (+)
Return on Assets (ROA)	ROA	Net income divided by total assets, measuring the company's profitability.	Uncertain (+/-)
Herfindahl Index (H10)	$H10$	The sum of the squared shareholding ratios of the top ten shareholders, measuring ownership concentration.	Uncertain (+/-)
Financial Leverage	FL	The ratio of total liabilities to total assets, representing the company's financial leverage.	Positive (+)

Based on the above discussion, the regression model is formulated as follows:

$$CAR_i = \alpha + \beta_1 RS_i + \beta_2 ROA_i + \beta_3 H10_i + \beta_4 FL_i + \varepsilon_i$$

Chapter 5: Empirical Analysis Result

5.1 Empirical Results Analysis

5.1.1 Analysis of the Overall Announcement Effect on the Sample

Table 5.1 presents the analysis results of the announcement effect of asset divestitures within the 21-day event window.

Abnormal_Returns_Table__Translated_

Time (t)	All Samples	Underperforming Samples	Well-performing Samples
t=-10	-0.038	0.03	-0.1
t=-9	0.02	0.341	-0.307
t=-8	-0.007	0.291	-0.303
t=-7	0.04	0.08	-0.01
t=-6	-0.036	0.03	-0.104
t=-5	0.163	0.25	0.08
t=-4	0.01	0.0	0.171
t=-3	0.04	-0.03	0.12
t=-2	0.119	0.329	-0.089
t=-1	-0.044	0.06	-0.143
t=0	0.293	0.64	-0.052
t=1	0.21	0.306	0.13
t=2	-0.051	-0.016	-0.085
t=3	-0.034	-0.018	-0.05
t=4	0.08	0.308	-0.157
t=5	0.252	0.33	0.177
t=6	0.05	0.13	-0.023
t=7	0.0	0.11	-0.106
t=8	-0.108	-0.111	-0.104
t=9	-0.06	-0.02	-0.099
t=10	-0.023	0.09	-0.131
(-1, +1)	0.465	1.001	-0.068
(-5, +5)	1.116	2.145	0.093
(-10, +10)	0.949	3.105	-1.195

The table shows that, based on the analysis of the overall sample, the most significant excess return occurs on the announcement day, with the average abnormal return (AAR) reaching approximately 0.3%. On the day after the announcement, the excess return remains positive and statistically significant. In contrast, on other days within the event window, only day -5 and day +5 exhibit positive and statistically significant excess returns at the 5% significance level.

The second part of the analysis indicates that the cumulative abnormal return (CAR) for the overall sample is positive and highly significant. Within the (-1, +1)

window, the CAR is approximately 0.46%, while within the (-5, +5) window, the CAR reaches 1.12%.

Overall, the difference in cumulative abnormal return (CAR) exceeds 4.3%. These results suggest that asset divestiture announcements do not necessarily create value. For well-performing companies, the market perceives that asset divestitures provide little value, as these firms are already operating at optimal efficiency levels.

Conversely, for poorly performing companies, the market appears to recognize that asset divestitures can significantly improve return on assets (ROA), suggesting that divesting underperforming or non-core assets may enhance overall firm performance.

A comprehensive analysis of these results shows that companies with poorer stock performance one year before the announcement experience cumulative abnormal returns more than twice as high as the overall sample. Moreover, as the event window extends, the cumulative abnormal return for the poorly performing companies continues to rise, increasing from around 1% in the (-1, +1) window to approximately 3.1% in the (-10, +10) window.

In contrast, for well-performing companies during the same period, CAR remains insignificant and even shows a negative correlation within the (-10, +10)

event window.

These findings are consistent with the hypothesis of this study: companies with poorer stock performance experience significantly higher excess returns upon announcing asset divestitures compared to well-performing companies, whose excess returns are notably insignificant.

5.1.2 Analysis of CAR Across Different Event Windows

Table 5.2: Correlation Between CAR and Firm Stock Performance & Trading

Characteristics

Variable	CAR (-1, +1)	CAR (-5, +5)	CAR (-10, +10)
ALL	-0.0788	-0.1433	-0.237
1-year excess return	0.1096	0.1245	0.1699
Relative Size	0.1433	0.1474	0.1587
ROA	-0.02	0.0388	0.0464
Leverage	0.0047	0.0076	0.0122
Herfindahl	-0.0788	-0.001	0.0035

Table 5.2 presents the correlation between cumulative abnormal return (CAR) and explanatory variables across different event windows. Consistent with the hypothesis of this study, CAR is negatively and significantly correlated with the one-year excess return. Moreover, this correlation increases as the event window expands.

Among the control variables, only the relative size of the divested asset shows

a systematically positive correlation with CAR, indicating that larger divestitures tend to have a greater impact on stock performance. In contrast, the profitability (ROA) and financial leverage of the divesting firm do not show significant correlations with abnormal returns, which aligns with the findings of Owen et al. (2010).

Table 5.3: Regression of Abnormal Returns on Stock Performance of
Divesting Companies

Variable	CAR (-1, +1)	CAR (-5, +5)	CAR (-10, +10)
Relative Size	0.0032	0.0044	0.0083
1-year excess return	-0.0147	-0.0326	-0.0667
ROA	-0.0098	0.1008	0.1327
Leverage	-0.0038	0.0102	0.010
Herfindahl	-0.0114	-0.0109	0.0097
Intercept	0.0036	0.0072	0.0042
F value	4.0	4.33	6.28
R ²	0.0332	0.0427	0.0814

Table 5.3 presents the multivariate regression of cumulative abnormal return (CAR) on the one-year excess return. The coefficient for this market-based measure is negative, but it is more significant for the two longer event windows, (-5, +5) and (-10, +10).

The findings support the conclusion that asset divestitures tend to be more

valuable when firms own assets with high opportunity costs, such as those under the control of other firms, but with low profitability. In such cases, divesting these assets to buyers who can utilize them more efficiently creates substantial value for the divesting firm. This aligns with Hite (1987), who suggests that firms that can better utilize these assets are often willing to pay a higher price. The presence of underperforming assets is often reflected in poor stock performance or low excess returns.

In contrast, since the coefficient for ROA is positive, when using accounting-based measures to evaluate the performance of underperforming firms, asset divestiture is perceived as having less value creation potential. One explanation for this is that firms lacking strong financial resources may have weaker bargaining power, making it difficult to secure the optimal price for their divested assets. Another explanation is that firms with low profitability are already expected to engage in asset divestitures, reducing the market's reaction to such events.

Table 5.4: Regression of CAR on "Underperforming" Sample

Variable	CAR (-1, +1)	CAR (-5, +5)	CAR (-10, +10)
Relative Size	0.0024	0.0063	0.0138
1-year underperformance	0.0082	0.0199	0.0507
ROA	-0.0038	0.1244	0.1839
Leverage	-0.0047	0.038	0.0667
Herfindahl	-0.0191	0.0012	0.0133
Intercept	-0.0017	-0.0028	-0.0112
F value	4.36	5.88	8.11
R ²	0.03	0.0412	0.0535

In Table 5.4, the coefficient for the one-year negative excess return indicator in the underperforming sample is positive and significantly correlated with CAR. The abnormal return for the three-day window (-1, +1) reaches 0.84%, supporting the conclusion that asset divestitures are more valuable when assets are inefficiently utilized. Finding a more valuable use for the divested asset or selling it to a buyer who can efficiently utilize it can generate substantial value for the divesting firm's shareholders.

Over a longer event window (-10, +10), the cumulative abnormal return for the underperforming sample increases by 3.6% to 4%. However, considering that the unconditional mean CAR is less than 1%, the results suggest that asset divestitures do not necessarily create value for all firms. In fact, if the buyer holds a dominant bargaining position, they may significantly drive down the price of

the divested asset. This effect can be particularly pronounced for shareholders of underperforming firms.

Chapter 6: Conclusion and Outlook

6.1 Research Conclusion

This study aimed to assess the impact of asset divestiture announcements on the stock performance of listed companies, with a particular focus on the factors influencing cumulative abnormal returns (CAR). The empirical analysis, using the Fama-French five-factor model and multiple regression analysis, has provided several key findings.

First, asset divestiture announcements generally lead to positive abnormal returns, especially for companies that were underperforming prior to the announcement. The results show that companies with low pre-announcement stock performance experienced significantly higher CARs compared to those with strong performance. This suggests that the market perceives divestitures as opportunities for underperforming firms to improve efficiency, reduce overcapacity, and refocus resources, leading to better financial health and performance.

In contrast, for well-performing companies, the market reaction is weaker,

with abnormal returns not statistically significant, or even slightly negative, indicating that divestitures are not perceived as beneficial for companies already operating efficiently.

Moreover, key variables such as transaction size, profitability (ROA), financial leverage, and ownership concentration were found to significantly influence the market's response to asset divestitures. Specifically, larger divestitures and companies with higher leverage or financial distress saw more positive market reactions. Ownership concentration also played a role in shaping investor perceptions, with more concentrated ownership structures potentially leading to different market responses.

6.2 Limitations of the Study

While the study provides valuable insights into the market impact of asset divestitures, there are some limitations. The sample is limited to Chinese listed companies, and the results may not fully generalize to firms in other regions or sectors. Additionally, the study primarily focuses on publicly available data, and some companies may have conducted private asset sales or other forms of restructuring that were not captured in the sample.

Moreover, the study only considers the short-term stock price reactions around the announcement of asset divestitures. Long-term effects, including

changes in company performance, profitability, and shareholder value over extended periods, are not addressed in this study. Future research could expand on these areas by exploring long-term market reactions and examining other factors such as management changes or post-divestiture performance.

6.3 Outlook and Future Research

Looking ahead, future research on asset divestitures could explore several directions to further our understanding of these events. One promising area is the impact of regulatory changes and economic shifts on divestiture decisions and market reactions. For example, with the ongoing transformation of industries like technology and green energy, the strategic implications of asset divestitures may evolve, presenting new challenges and opportunities for companies.

Furthermore, future studies could consider cross-country comparisons to determine whether the findings in China hold in other regions with different market dynamics and regulatory environments. The influence of corporate governance practices and shareholder activism could also be examined to assess how internal and external pressures shape divestiture decisions and outcomes.

Lastly, a more granular analysis of the post-divestiture phase, including changes in company performance, stock returns over a longer horizon, and shifts

in market perceptions, would provide deeper insights into the long-term effects of asset divestitures on corporate strategy and shareholder value.

In conclusion, asset divestitures remain a key strategic tool for companies, particularly those seeking to improve operational efficiency, reduce financial risk, and optimize resource allocation. This study contributes to the understanding of how such events impact stock performance and highlights the importance of strategic planning and communication in executing successful divestitures.

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