

Analysis of the Impact of Equity Structure on the Capital Market Performance of Technology Companies in the Initial Stage of Listing

Yuhan Shao^{1, *}

¹Beijing 21st Century School,
Beijing, China

*Corresponding author:
080212syh@gmail.com

Abstract:

This study takes Xiaomi Group and Gold and Silver Cat Group Limited in the Hong Kong stock market as samples, focusing on the impact of equity structure on the capital market performance of technology companies in the early stage of listing. Among them, Xiaomi adopts a dual shareholding structure, while Golden Cat and Silver Cat are “same shares and equal rights” and the equity is dispersed; Through the calculation of cumulative excess return (CAR) and the analysis of price-earnings ratio and other indicators through the event research method, it is found that the trend of CAR in the early stage of Xiaomi’s listing is stable, and the price-earnings ratio shows a recovery trend in the later stage, showing strong market and valuation resilience. This study finally points out that the equity structure is the core factor that determines the performance of the capital market in the early stage of listing to a certain extent, and the dual equity structure is significantly adaptable to ecological technology enterprises.

Keywords: Dual equity; equity governance; market adjustment model; Xiaomi company.

1. Introduction

In the wave of deepening reform and innovation in the global capital market, the equity structure, as the core cornerstone of corporate governance, is directly related to the strategic determination of the enterprise and the feedback efficiency of the capital market, and profoundly affects the long-term development path of the enterprise. Among them, the dual equity structure breaks the traditional framework of “same share and equal rights” with “differentiated control

allocation” and has become a key choice for technology companies to balance financing needs and control stability - companies such as Google in the US stock market and Xiaomi in the Hong Kong stock market have used this structure to ensure the long-term decision-making power of the core team on technology research and development and ecological layout. But this structure has always been controversial: proponents believe it can help founders resist short-term capital interference in strategy and ensure the coherence of Research and Development (R&D)

investment and ecological construction; Opponents worry that it will exacerbate the agency problem of “separation of control and cash flow rights”, which may lead to management ignoring the interests of minority shareholders and even causing behavior that harms the rights and interests of shareholders [1].

In recent years, the inclusiveness of China’s capital market for innovative enterprises has continued to improve, and the number of enterprises using dual equity structures in the Science and Technology Innovation Board and the Hong Kong New Economy Sector has gradually increased. The differentiated samples of Xiaomi Group and Golden Cat and Silver Cat provide an ideal object for this study: Xiaomi, adopts a dual equity structure after listing; Focusing on the new retail of “jewelry + Internet”, Golden Cat and Silver Cat follows the traditional “same shares and equal rights” model and the equity is relatively dispersed, and the significant differences in equity structure, industry attributes and strategic positioning between the two can accurately highlight the impact of the dual equity structure [2].

Existing studies have discussed the “double-edged sword” effect of dual equity structure: at the governance level, some studies have pointed out that it can enhance the stability of founder’s control, and provide a guarantee for the company’s high-risk, long-term strategic layout (such as core technology research and development) by improving the control of enterprise founders over the company [3]. However, some studies have warned that this structure may weaken the shareholder check and balance mechanism, trigger a “tunnel effect” and breed the self-interest of management [4]. In terms of capital market response, some studies have found that the excess returns of dual-equity companies on the first day of listing are more significant, due to the market’s premium recognition of the founder’s “strategic leadership”, while other studies show that investors are cautious about the long-term valuation of such companies due to concerns about the agency risk of concentration of control. However, there are still obvious gaps in the existing literature - there is a lack of in-depth comparison of subdivided industries and differentiated samples, especially for the research on the equity structure of enterprises in different tracks of “technology ecology” and “jewelry retail” in the Hong Kong stock market, which cannot fully reveal the impact of equity structure on market response under the difference in tracks, which provides room for expansion of this study.

Based on the market adjustment model, this study analyzes the impact of dual equity structure on the capital market response in the early stage of listing. The study will first sort out the core differences between the business overview and equity structure of the two companies; Focusing on the initial stage of listing, with the first day of listing as the event date and the five days after listing as

the window period, the abnormal rate of return (AR) and the cumulative excess rate of return (CAR) are calculated through the market adjustment model, and indicators such as trading volume, liquidity, and price-earnings ratio are compared. Finally, the influence mechanism of the dual shareholding structure is summarized, and the practical enlightenment for corporate governance optimization and investor decision-making is refined, so as to provide empirical reference for relevant entities.

2. Introduction to the Shareholding Structure of Xiaomi Group and Golden Cat and Silver Cat

2.1 Introduction to the Company’s Basic Information

Xiaomi Group was established in 2010 with “mobile ×AIoT” as its core strategy to build a technology ecosystem covering smart hardware, Internet services, and new retail. Listed on the Hong Kong Stock Exchange in July 2018, its business covers more than 100 countries and regions around the world, and has become a world-renowned technology brand with cost-effective products and ecological synergy.

Listed on the Hong Kong Stock Exchange in July 2017, Gold & Silver Cat Group Limited focuses on the new retail model of “jewelry + Internet”, integrates online and offline channels, and tries to reshape the jewelry consumption experience. The business revolves around jewelry design, sales and supply chain services, and the target customer group is consumers who pursue fashion and quality.

2.2 Differences in Shareholding Structure after Listing

Xiaomi Group adopts a dual shareholding structure, with 1 share and 1 vote for Class A shares (for the public) and 10 votes for Class B shares (held by founders such as Lei Jun), ensuring absolute control over the company’s major decisions by the founder team. After listing, Lei Jun and his affiliates held more than 30% of the voting rights through Class B shares, ensuring the stability of the strategic direction [5].

Golden Cat and Silver Cat follow the traditional structure of “same shares and equal rights”, and the equity is relatively dispersed. After listing, the founder and major shareholders hold about 25% of the shares, and there is no special voting rights design [6].

3. Comparative Study of the Capital Market Reaction of Xiaomi Group and

Golden Cat and Golden Cat in the early stage of listing

3.1 Methods and Data

First, this paper takes the first day of the company's listing ($t=0$) as the event date, and the window period is set as five days after listing ($t=1$ to $t=5$). Secondly, this paper calculates the abnormal rate of return ($AR_{it} = R_{it} - R_{mt}$) and the cumulative excess rate of return (CAR) (i represents the company, t represents the number of days of the window period, R_{it} is the company's i return on t day, and R_{mt} is the market rate of return). The data required for this study is mainly derived from the official website of Ingwei Financial Intelligence (Investing.com), including the relevant data of the Hong Kong Hang Seng Index from 13 March 2018 to 26 March 2018 and from 9 July 2018 to 20 July 2018. Xiaomi Group's stock trading data from July 9, 2018 (Xiaomi's listing date) to July 20, 2018, such as daily changes and changes, is used to calculate the company's AR_{it} and CAR. From March 13, 2018 (the listing date of Golden Cat and Silver Cat Company) to March 26, 2018, the stock trading data, rise and fall, etc., are used to compare with Xiaomi Group and calculate the company's AR_{it} and CAR, and explore the differences in the response of companies with different equity structures in the capital market [7].

Fig. 1 Comparison of excess returns in ten days after listing (Picture credit: Original).

3.3 Comparative Analysis of Price-earnings Ratio

This study collected data on the Hong Kong Hang Seng Index from 13 March 2018 to 9 July 2020 from the official website of Ingwei Earnings as a benchmark for calculating market returns. Xiaomi Group's stock trading data from July 9, 2018 (Xiaomi's listing date) to July 9, 2020, such as daily closing price, trading volume, etc., are used

3.2 Results and Analysis

Combined with the trend chart of excess yield in the first ten days after listing, this article analyzes the market reaction of Xiaomi Group and Golden Cat and Silver Cat. As shown in Figure 1, on the first day of listing (Day 1), the cumulative excess return (CAR) of Gold & Silver Cat Group Limited soared to about 350%, showing a significant short-term market speculation characteristic, which can be attributed to the scarcity of new shares and the market's irrational pursuit of its short-term speculative value. However, by Day 2, its CAR quickly fell back to nearly 0% and continued to hover low in subsequent trading days, reflecting the market's rapid correction of fundamental support under the company's single shareholding structure, highlighting the weakness of the market's consensus on its value under the dominance of short-term speculation. On the other hand, Xiaomi Group's CAR trend is relatively stable, with about 50% on the first day of listing, and then fluctuating in a narrow range around 0%. This performance is due to the value anchoring effect built by Xiaomi Group's diversified equity structure and mature business ecology, and the market has formed a more rational value judgment based on the rationality of its equity governance mechanism and the clarity of business logic, showing stronger market resilience and less short-term fluctuations [8].

to calculate the yield, excess yield and other indicators of the company's shares; Stock trading data of Mount Everest Gold Group Co Ltd (Gold & Silver Cat Group Limited Company) from March 13, 2018 (the listing date of Gold & Silver Cat Group Limited Company) to March 13, 2020, including daily closing price, trading volume, etc. Xiaomi Group's (SEHK:1810) price-to-earnings ratio has fluctuated significantly in the two years since its listing. The details are shown in Table 1.

Table 1. Xiaomi's price-earnings ratio data within two years after listing

As of the quarter	Price-to-Earnings Ratio
2018-06-30	N/A
2018-09-30	-18.8x
2018-12-31	-88.8x
2019-03-31	17.2x
2019-06-30	8.9x
2019-09-30	17.5x
2019-12-31	21.0x

The price-to-earnings ratio of Golden Cat (SEHK:1815) in the two years after listing has been on a downward trend.

Table 2 shows specifically.

Table 2. Price-earnings ratio data within two years after the listing of Golden Cat and Silver Cat Company

As of the quarter	pe (price/earning) ratio Price-to-Earnings Price-to-Earnings Ratio
2018-04-01	19.5x
2018-07-01	14.7x
2018-10-01	10.1x
2019-01-01	8.2x
2019-04-01	6.3x
2019-07-01	4.1x
2019-10-01	9.0x

3.4 Analysis and Forecasting

This article analyzes the quarterly price-to-earnings ratio and trend line of Xiaomi Group (SEHK:1810) and Golden Cat (SEHK:1815) within two years after their listing, which can provide insight into the differentiated shaping logic of equity structure on valuation resilience. This study constructs a predictive regression curve to explore the potential relationship between the time dimension and the projected price-earnings ratio. Among them, the explanatory variable x is set as a time-labeled variable, with the first year of the study period as the base period (assigned as 1), and the subsequent years are increased sequentially over time (i.e., 2 in the second year, 3 in the third year, and so on). The explained variable y is the expected price-earnings ratio index obtained by the prediction model, so as to realize the quantitative analysis of the dynamic relationship between the two. After calculating that the slope of Xiaomi Group's price-earnings ratio trend line ($y=0.0398x-3961$) is positive, in the early stage of listing (2018Q3-2018Q4), strategic investment (such as AIoT ecological construction) and listing costs superimposed on short-term losses, and the diversified equity structure allows the market to retain the pricing of "long-term growth options" by ensuring strategic determination. In 2019, the "hardware + Internet service" ecological collaboration drove profit repair, and the price-earnings ratio rose from -88.8x to 21.0x, verifying the market recognition of the ecological closed-loop profit logic. According to regression analysis, it is expected that the price-earnings ratio will break through the average (25x) of the consumer electronics industry along the trend line in the next quarter, and the market's pricing resilience to "growth options" under diversified equity will also limit the decline in valuation [9].

The slope of the Gold & Silver Cat Group Limited Price-to-Earnings Ratio trend line ($y=-0.0221x+971.21$) is negative, and after the brief hype of the concept of "new jewelry retail" in the early stage of listing (2018Q2), the inefficiency of strategic decision-making caused by a single shareholding structure drove the price-earnings ratio to

continue to fall from 19.5x; 2019Q3 brief rebound (9.0x). If net profit growth cannot be achieved through equity restructuring or business transformation, the price-earnings ratio will fall below the lower limit of traditional retail valuation (5x) along the trend line [10].

In summary, this paper analyzes that diversified equity gives valuation loss tolerance and repair flexibility through strategic focus guarantee and ecological value transmission. However, due to strategic inefficiency and business defects, a single equity can easily cause valuation premium dissolution and continuous suppression. It provides an empirical reference for enterprises to reshape valuation resilience through equity structure optimization and business model innovation.

3.5 Discussion and Enlightenment

Through the comparison between Xiaomi Group and Golden Cat and Silver Cat, it can be seen that the equity structure affects the capital market performance of technology companies in the early stage of listing from the dimensions of signal transmission, governance efficiency, and strategic resilience. For technology enterprises, the ecological strategy adapts to dual equity and binds value output, and single equity requires transparent governance and business breakthroughs; At the same time, this study does not cover the long-term impact of equity structure, and the possibility of strategic resilience and dynamic adjustment of single equity during the period of technological change can be explored in the future, to deepen the understanding of the interaction logic between equity structure and capital market, and help enterprise equity design and investor value judgment.

4. Conclusion

By comparing the capital market performance of Xiaomi Group and Gold & Silver Cat Group Limited in the early stage of listing, this study reveals the key impact of equity structure on the market response of enterprises: the dual equity structure relies on "long-term strategic signal transmission", "governance efficiency guarantee" and

“strategic resilience support”, so that Xiaomi presents the characteristics of stable excess return, strong resilience of price-earnings ratio repair, and rational transaction ecology after listing, which is in line with the long-term value expectations of the capital market for ecological technology enterprises. The golden cat and silver cat with the same share and the same rights have led to strategic swing due to the dispersion of equity, and there has been a sharp decline in excess yield after short-term speculation, a continuous decline in price-earnings ratio, and strong speculation in the trading ecology, reflecting the market’s cautious pricing of enterprises that lack strategic determination and business differences. The comparison between the two shows that the matching degree between the equity structure and the corporate strategy and business attributes is the core factor that determines the performance of the capital market in the early stage of listing, and the dual equity structure has significant adaptability to ecological technology enterprises.

There are two limitations in this study: first, the sample selection is single, only two Hong Kong stock companies are used as the comparison object, and the industry universality of the conclusion (such as enterprises in different markets and different tracks) needs to be verified; Second, the research cycle is relatively short, focusing on the short-term performance within two years after listing, and the impact mechanism of the equity structure on the long-term market value of enterprises (such as industry fluctuations and technological changes) is not deeply analyzed.

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