European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.5, No.31, 2013

Stock Market Reactions to the Release of Annual Financial Statements
Case of the Banking Industry in Sri Lanka

Menike M.G.P.D[1*] Wang Man[2]

1. PhD scholar, School of Accounting, Dongbei University of Finance and Economics, 217, Jianshan Street, Shahekou District, Dalian, P.R. of China
2. Professor, School of Accounting, Dongbei University of Finance and Economics, 217, Jianshan Street, Shahekou District, Dalian, P.R. of China

* E-mail of the corresponding author: menikem@yahoo.com

Abstract

The stock market reactions on the release of financial statements have been subjected to many empirical discussions in finance literature. However, in Sri Lanka only a few studies have been documented in this area of market reaction to information. By employing five year data using event study methodology, the study investigates stock market reaction to the release of annual financial statements of banks registered in the Colombo Stock Exchange (CSE). The study results show that abnormal return and cumulative abnormal return around the release of annual financial statements are positive but insignificant at 5% level. Further, the share price behavior on the announcement of annual reports was different from that outside the test period. The positive reactions of investors could be attributed to the favorable information in annual financial reports. Therefore this response has the potential of generating abnormal returns based on publicly available information in the market.

Keywords: Abnormal return, Event study, Market reaction

1. Introduction

The main objective of financial statements is to provide useful information to both internal and external users. Owners and managers, employees, prospect and potential investors, financial institutions, suppliers and other creditors, customers, governments and their agencies and other stakeholders use the information to make rational decisions on investment and credit issues. Listed companies generally use financial statements as one of the major mediums of communication with stakeholders. Stock market regulators and accounting standards setters try to improve the quality of financial statements in order to increase the transparency level in financial reporting (Vishnani & Shah, 2008).

Financial statements consist of different types of information. It can mainly be categorized into two parts; i.e. accounting information and non- accounting information. Accounting information is the information which describes an account for a utility. It processes financial transactions to provide external reporting to outside parties such as to stockholders, investors, creditors, and government agencies etc. Non- accounting information is information which cannot be measured in monetary terms in making investment decisions by the investors.

Several studies have empirically tested the reaction of the stock price to the release of different information. The first major work in this area was done by Fama (1965), on the U.S. stock market. Thereafter a number of studies were undertaken focusing both on developed markets and developing/ emerging markets in an effort to find whether the stock market is efficient in setting up the prices of shares that are traded in the market. Studies focusing on the developed market include Fama and Blume (1966); Ball & Brown (1968); Praetz (1969); Kemp and Reid (1971) and Solnik (1973). Further Jennergen and Korsvold (1975) Pohlmen (1978) and Urrutia (1995) studied the emerging markets. Through these studies an effort has been made to find whether the stock market is efficient in setting up prices of shares correctly traded on the market.

The empirical literature on stock market reaction to information disclosure is a vast. It covers a wide range of

information disclosures such as dividend announcements, stock splits, macroeconomics policy changes and merger announcements. Most of the previous studies focused on the impact of earnings information disclosure on the price of stocks. The evidence reported in these studies is largely consistent with the information content hypothesis and the EMH (Efficient Market Hypothesis), which is that earnings announcements do contain value-relevant information and that stock market reacts quickly and efficiently to this information. These studies focus on the earnings announcements and less attention is paid to measure the impact of annual financial statements information on stock price. However Opong (1996), Nasar (2002) and Hayati (2010) have made an effort to examine the information contents of the annual report on stock price. However a further study on the impact of annual financial statements in stock price is deeply imperative.

The Colombo Stock Exchange is relatively small in size compared to some developed and developing markets but it is fairly efficient in the weak and semi-strong forms (Dissabandara and Samarakoon 2002). This provides opportunity to address the research issue of interest and to ascertain the importance of the information content of the annual financial statements. Further the financial sector in Sri Lanka is very important due to the critical role it plays in the economy. The banking sector plays a dominant position in the financial sector in Sri Lanka (Financial System Stability Review, 2008) and this sector represents the largest market capitalization out of the 20 sectors which are listed in the Colombo Stock Exchange. Hence the banking sector was selected for this study.

The current study marks a departure from previous studies and contributes to the literature in a number of important ways. First using daily prices the study, investigates whether significant abnormal returns can be generated in the Colombo Stock Market in the period surrounding firms annual financial statements release. Second it assesses the information content of annual financial statements using recent data (2006 to 2010) to capture recent trends in globalization, technological progress and reforms in financial market regulation.

By using the event study methodology with the short window (21 days) the main objective of this study is to examine the share price behavior on the release of annual financial statements. The findings of this study are not only useful for investors, analysts, bankers and creditors in helping them to make more informed decisions but also useful to professional practices as it may reveal major differences in the behavior of developing and developed markets in general.

The rest of the paper is organized as follows: the next section (section two) briefly reviews the extant literature on the information contents of the annual financial statements. In the section three consists of the problem identifications. The data and methodology are discussed in section four and results and findings are reported in section five

2. Literature Review

Ball and Brown's (1968) took the initial steps in investigate the impact on Share Prices of the Release of Annual Earnings Announcement. They found that the earnings figure contain very useful information, which is not entirely incorporated into stock prices instantaneously when disclosed. Furthermore, Beaver (1968), May (1971) and Foster (1977) in the United States and Firth (1981), Brookfield & Morris (1992) and Opong (1995) in the UK have examined either or both the trading volume and price effects of accounting information releases. The major weakness of these early studies was their inability to isolate the effect of earnings changes from other information released.

Naser (2002) examined the Share Price Reaction to the Release of Financial Statements in the Stock Exchange of Saudi Arabia. This study empirically investigates the relationship between the share price reactions to the release of the annual financial statements by employing the market model. By using the five year data (1995 to 1999) with the event study methodology, this study revealed that the released financial statements influenced changing investors' behavior. This sample size of this study only focuses on 36 industries. Therefore the results cannot be used to measure the trends of developing markets.

Dongwei Su (2002), investigated the Stock Price Reactions to Earnings Announcements in Chinese stock markets. Using a sample of 183 earnings announcements between 1997 and 1998 this study found that domestic A-share investors do not correctly anticipate the changes in earnings and failed to adjust to new earnings

information quickly. Further international B-share investors can predict earnings changes better than A-share investors. As a result, abnormal returns (ARs) can be obtained by trading on the earnings information, particularly for A shares. The main drawback of this study is that the study period was limited to one year. Therefore this result cannot be used to measure the trends in developing markets.

Javid and Faraz (2011) examined the Stock Price Reaction to Earnings Announcement at the Emerging Market at Karachi Stock Exchange in Pakistan. The study used 5 year data on the stock prices from January 2004 to August 2008 for 114 non financial firms. The study found that there is no abnormal return during the post earnings announcement period. Moreover this study provides evidence that there is a bigger element of surprise for bad news than for good news as the market reaction to bad news is stronger.

Perera and Thrikawala (2010), conducted an empirical study of the Relevance of Accounting Information on Investor's Decisions based on the Colombo Stock Exchange, Sri Lanka. The findings showed that there is a relationship between Accounting Information and Market Price per Share. However this study used only 06 commercial banks listed at the stock exchange as a sample. Therefore the results do not represent even the bank, finance and insurance sector in stock market listed in the stock exchange.

Hayati (2010) investigated the Financial Statement Report and its Impact on Stock Price (case study on banking sector) in Indonesia. This study found that the financial statements are the main indicator to estimate more precise and rational measuring the company's future prospects .The market will quickly react to the information in the financial statements. Issuers are late in delivering financial statements that gave a bad impression to the investors, which in turn weaken investor's confidence in the company. The reaction will appear in the stock price.

Opong(1996) investigated the Hourly Share Price Response to the Release of Preliminary Annual Financial Reports based on some UK evidence during the period from June 1993 to October 1993. This study found that the investors respond to information signals in the annual report. This study also examined the interaction effects of joint announcement of annual earnings and dividend information. But in the present study, the company which announced the dividend with the annual report was excluded from the sample.

Karimi(2010) conducted the study on Determining of Relationship between Information Disclosures and Price Fluctuations of Accepted Companies at Tehran Stock Exchange, Iran. This study reveals that factors other than information disclosure affect stock price fluctuations in the Capital Market.

Therefore the contradictory research results have led to further research in investigating the stock price behavior around the release of annual financial statement in the Colombo Stock Exchange. Hence this study provides new evidence on the relationship between release of the annual financial statements and abnormal return around the annual financial statement release

3. Problem Identification

The stock market reaction to information disclosure has been tested in many occasions in developed markets such as the USA and UK. The evidence reported in these studies is largely consistent with the information content hypothesis and efficient market hypothesis (EMH), which is that earnings announcements contained value-relevant information and that stock markets react quickly and efficiently to this information.

However, the validity of EMH has been questioned as several recent studies have reported evidence of significant abnormal returns generated by trading on the basis of public information. For example , Kausar and Taffler (2006) found that stocks of UK firms in distress have a publicized going concern audit report which tended to experience significant negative price reactions ranging between -24% and -31% . Sponholtz (2005), using the event study method, examined the information content of annual earnings announcements in the Danish stock market. Utilizing data from 1999 to 2001, Sponholtz found significant abnormal price reactions in the period surrounding the announcement. Contrary to the EMH, the abnormal price reactions persist for several days after the announcement, suggesting that the Danish stock market may not be informational efficient.

It is challenging to test the market reactions to the information in emerging markets because emerging markets are characterized by a relatively large number of poorly informed and unsophisticated investors, low liquidity

levels, weak legal, regulatory and institutional framework and operational bottlenecks (Osei, 2002). Further it is also challenging due to excessive price volatility which is a consequence of the relatively unstable political and macroeconomic conditions. Several studies have tested the market reaction to the information in emerging stock markets.

Sri Lankan equities market dates back to 1896 but it did not attract worldwide attention until the mid 1980's. CSE (Colombo Stock Exchange) is still a small and growing market when compared to the U.S. and other developed markets in the world. There are 287 companies listed at the Colombo Stock Exchange as at 12th September 2012 with a Market Capitalization of Rs. 2,168.5 Bn. In 1990; after Venezuela, CSE was however the second best performer in the world (Samarakoon, 1997). The CSE also records a run in 2009 as the World's second best performing stock market.

Although there are a number of empirical studies to test the stock price reaction to information in the developed markets (see the literature review) those studies are few in number at the emerging markets especially in the South Asian Region. The Colombo Stock Exchange (CSE) was reported as the best performing market in 1990 and 2009 and up to now has made minimal effort to test the market reactions to the information contents in the annual financial statements. Dissa-Bandara and Samarakoon (2002) tested the market response information contents in dividend announcement and found that the market reacted positively to the information but the response took time. Furthermore Dissa Bandara(2001) tested the market response to the dividend announcement and found that the market responded positively to the announcement of dividend increase and negatively to dividend decrease. Other empirical research done by Ramesh and Nimalathasan (2011), Gunasekara(2004) on market reactions on bonus issue and results reveal that the market reacts negatively and positively to the issue of bonus..

Therefore the need for further research on the efficiency and responsiveness of the market in the region to information disclosures has become very imperative. Therefore this study is going to examine the informational efficiency of the banking industry of the Colombo Stock Exchange (CSE) in regard to firms' annual financial statement release

4. Research Question

Are there any changes of the stock price behavior around the release of annual financial statements of the banking industry registered in the Colombo Stock Exchange?

5. Objective of the Study

To examine the behavior of stock price around the release of annual financial statements of the companies (banking industry) listed in the Colombo Stock Exchange

6. Methodology

The methodology employed in this study is the standard event study methodology. The event study starts with the hypothesis on how a particular event affects the value of a firm (Serra, 2002). Abnormal returns are calculated around the event date using the market model and are used to determine the level of the market's efficiency. The concept of abnormal returns coupled with the notion that information is readily impounded into security prices is the central key of event study methods (Serra, 2002). Share price considered as a dependence variable and the information contents of the annual financial statements considered as independence variable. Further the stationary of the variables are measured using the Dickey Fuller test.

The primary sources of data collection were data library CDs of the stock exchange and annual reports of companies. The daily stock price and market indexes were obtained from the data library CDs of the Colombo Stock Exchange. Daily market information published in the news papers and related Central Bank publications and other publications were suitably used for the study.

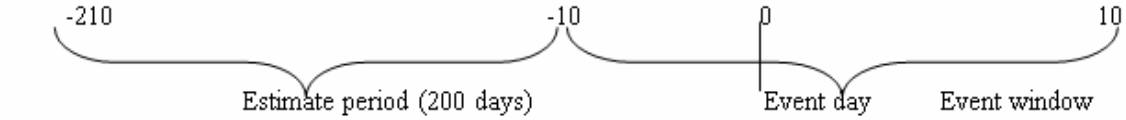
The sample of the study consists with the banks registered in the Colombo Stock Exchange. Respondent companies were eligible for the study when the following selection criteria are satisfied.

1. The company should have been listed in Colombo Stock Exchange throughout the study period
2. The company's shares were actively traded in the stock market ; daily and monthly share prices available and published by the sources

3. Annual financial statement should be published in the website of stock exchange and public newspapers at the end of each financial year of the study

The study period was five years from 2008 to 2012 including both years.. Based on the studies of Firth (1976), daily share price data used to detect the presence or absence of abnormal share performance in an event window 21 days.

The daily share price data for the period starting 2008 to 2012 is used for the analysis of the relationship between the behavior of the share prices and the release of the firms' annual financial statements. The actual day of the release of the financial statements is defined as the t=0. Day t=-1 is the trading day immediately preceding the financial statements release. Day t=+1 is defined as the trading day immediately following the day of the financial statements' release. The period to be examined in detail for the purpose of the study is 21 days in length, consisting of the day of the release (day t=0), the 10 days immediately preceding the event day (day t=0) and 10 days immediately following it. The event window consists of 21 days and estimated period was 200 days.



The short event window (21 days) was chosen for the study due to the following reasons.

- The evidence on semi-strong form efficiency indicates that the impact of any new information of economic value was fully reflected in share price within a few days (Fama et.al,1969)
- To eliminate the effect of dividend announcement of the price of the share

6.1 Market Model

The market model is commonly used in event studies because of its ability to differentiate between two kinds of events affecting share return. The market movement which affect the share price (captured by βs) and the particular event (information content) to share *i* , is reflected in the abnormal return.

Daily share return of each company is calculated according to the following equation.

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \quad \text{.....(1)}$$

where
R_{it} = return on share i on day *t*
P_{it} = price of share i on day *t*
P_{it-1} = price of share i on dat *t-i*

Daily expected return is estimated using the Market Model for each share as follows.

$$E(R_{it}) = a + b(R_{mt}) \quad \text{.....(2)}$$

Where
$E(R_{it})$ = expected return on share *i* on day *t*
R_{mt} = return on the market on day *t*
a, b, = are parameters of the market model

In order to test the market reaction to the announcement of abnormal return was calculated at the time of the announcement and before and after announcement. It was calculated as the difference between the actual return on share i on day t and the expected return on share i on day *t* according to the following equation.

$$AR_{it} = R_{it} - E(R_{it}) \quad \text{..... (3)}$$

Where
AR_{it} = abnormal return on share i on day *t*
R_{it} = return on share i on day *t*
$E(R_{it})$ = expected return on share i on day *t*

To generate the expected return by the market model, the Ordinary Least Square(OLS) technique was employed. A regression was run on the daily share return for each firm in the sample surrounding the release of its financial statements against the daily market return, as proxied by the market index for the corresponding calendar day. The parameters of the market model were estimated over a 200 day estimating period, from day t -210 to day t-10. This 200 day period is in the range recommended by Strong(1992) and other previous studies in this area.

The abnormal return data was analyzed by Statistical Package for Social Sciences (SPSS) version 17.0. Data was analyzed by descriptive and inferential statistics and significance tested by T-test. The level of significance was set at 5%

The Abnormal return is the percentage of change in share price below or above what would normally be expected to occur. To improve the informativeness of the analysis of abnormal returns, we average the ARs across the observations for all events, N, using the following equation.

$$AAR_t = 1/N \Sigma AR_{it} \text{ ……..(4)}$$

where

AAR_t = Average abnormal return at day t

N = Number of events in the sample

AR_{it} = Abnormal return for share i at day t

In order to make generalizations and to draw on overall inference for the market reactions to earnings announcement, the cumulative abnormal returns was also analyzed for the 21-day event window, from the start of the event period t_{-10}(day -10) up to time t_{+10}(day +10)as follows.

$$CAAR_t = \sum_{i}^{k} AAR_t \text{ ……..(5)}$$

Where

$CAAR_t$ = Cumulative abnormal return of day t

$\sum_{i}^{k} AAR_t$ = Sum of Average abnormal return of day t_{-10} to t_{+10}

The CAARs for each stock is obtained by summing average abnormal returns (AARs) over the event window.

7. Data Analysis, Presentation and Discussion

7.1 Analysis of Average Abnormal Returns for Release of Annual Financial Statements

The table 01 shows the statistical evidence on whether or not there is information contents in annual financial statements of the banks registered in the Colombo Stock Exchange. In theory, a stock market is informational efficient with respect to the release of the annual reports that no one can do abnormal return by trading on the basis of the information contents of the annual financial statements. Because the market will quickly and correctly anticipate earning changes before they are made. On the other hand the information is fully impounded into prices; hence no abnormal return is made nearing the day of financial report release.

The table 01 indicates that the average abnormal return tends to be significantly positive 10 days before the announcement date except on day -1,-2,-4,-5 . It also indicates that the average abnormal return also tends to be negative during post announcement days except day 1, 2, 5 and 10. The value of average abnormal return was below one on almost all the days. The significant and positive AAR in the period surrounding the release date of the annual financial statement suggests that the market is not efficient, because the efficient market hypothesis says that no investors can earn any extra return because of the information.

If the annual financial reports have information content the price of shares is likely to be higher or lower, when the time of annual reports is released than at other time of the year. This study shows the AAR was positive on the announcement day; however it is not significant at 5%. The value of AAR during pre announcement ranged from -.0002% to .5693%. The value of AAR during post announcement ranged from -.0516% to.9085%. It is clearly understood from the above analysis that the value of AAR during the post and pre announcement period was less than one (1). The results reveal that the release of financial statement causes a positive reactions before

the release of annual reports and negative reactions after the release of the annual reports. It is may be due to lack of knowledge of the information or information gap. This results also similar to the Dongwei Su(2002), studies of the stock price reactions to earnings announcements in Chinese Stock Markets.

7.2 Analysis of Cumulative Average Abnormal Returns for the Release of Financial Statements

Table 02 shows the Average Abnormal Return and Cumulative Average Abnormal Return of the sample companies. On the day of announcement (day 0), the value of CAAR was at 0.9157%. The highest value of CAAR during the pre announcement period was 1.3427%. The highest CAAR during the post announcement period was recorded at 2.5243%. The CAAR was positive 10 days before the announcement date. The CAAR continued to drift in the same direction up to day 0 with positive excess return of 0.9157%. The CAAR increased from 0.9157% to 1.7574% after ten days of the announcement date. From the above analysis, it is inferred that the financial statements might have had favorable information; hence, investors reacted positively to the annual financial report release. Day 1 to 10 shows increasing CAAR due to information taking time to be reflected upon. Therefore this shows that the positive response has the potential of generating abnormal returns based on publicly available information.

Figure 01 depicts that the $CAAR_s$ over the entire window period are positive. It clearly shows that the CAAR is increased after the event day and decreases after the fifth day of the release of annual financial statements.

Table 03 shows the Cumulative Average Abnormal Return (CAAR) for all the event period is in positive except from day 0 to 10. The CAAR for (-10,-1) is 0.7986% the CAAR for the period of (0, +10) is -0.959%. The CAAR for the period (-2, +2) is 1.3511%, 1.0256% in the period (-1, +1), and for the period (0, +5) is 1.649%. It indicates there is positive reaction during annual financial report release. The positive response was increase toward the post announcement days. However the period of (0, + 10) reported negative value because investors take time to analyze the information contained in the annual report and react negatively

8. Conclusion

This paper investigated the stock price reaction to annual earnings announcement of the Banks listed at the Colombo Stock Exchange. Specifically the study assessed the information content and usefulness of annual financial report released to investors by measuring the speed of investors' reaction to the information content in the annual financial statements. Data for the study collected from the Colombo Stock Exchange and the publications. For each firm and for each announcement, abnormal returns were computed using market model regression. These abnormal returns and cumulative abnormal returns were then aggregated across firms for each date in the event window. However the results of this study show that the Average Abnormal Return (AAR) and CAAR are positive around the announcement day but not significant at 5% level. However the share price behavior upon the announcement of annual report was significantly different from its behavior during the other time of the test period. Hence, announcement of financial statement might have had favorable information and investors reacted positively to the annual financial report release. Therefore this response has the potential of generating abnormal returns based on publicly available information

References

Aziza D. & Inanga E.L.,(2011), Financial Performance of Telecommunications Companies and their Stock Price Movements in the Indonesian Stock Market, *International Journal of Economics and Accounting* 2011 - Vol. 2, No.3 pp. 255 - 281

Ball R. & Brown P.(1968), An Empirical Evaluation of Accounting Income Numbers, *Journal of Accounting Research*, Vol. 6, No. 2

Beaver W.H.(1968), The Information Content of Annual Earnings Announcement, Empirical Research in Accounting: Selected Studies , *Journal of Accounting Research*

Brookfield D. & Morris R. (1992) , The Market Impact of UK Company News Announcements, *Journal of Business Finance and Accounting* , Special volume.

Chan H, Robert, Taff. R. & Ramsay A.(2005) Firm Size and the Information Content of Annual Earnings Announcements: Australian Evidence, *Journal of Business Finance & Accounting*, 32(1) & (2), January/March

Cheung J.K, & Yau J, (1995),Price Effects of Relative Reporting Delay of Same-day Earnings and Dividend Announcements , *Journal of Financial and Strategic Decisions*, Volume 8 Number 1 Spring

Dissa Bandara D.B.P.H & Samarakoon L.P.(2002), Dividend Announcement, Firm size and Dividend Growth in the Sri Lankan Stock Market, *Sri Lanka Journal of Management*, Vol 07

Dissa Bandara D.B.P.H.(2001), Dividend signaling Market Response to Dividend change and Capital Market Efficiency, An Empirical Analysis, *Annual Research Session*, Feb. Faculty of Management and Commerce, University of Sri Jayawardenapura.

Dongwei Su,(2002), Stock Price Reaction to Earning Announcement: Evidence from Chinese Market, *Review of Financial Economics*, North Holland

Fan-fah C, Mohd S & Nasir A (2008), Earnings Announcements: The Impact of Firm Size on Share Prices, *Journal of Money, Investment and Banking*, ISSN 1450-288X issue, 3 ,http://www.eurojournals.com/finance.htm

Fama. E.F. Fisher L. Jenson , M., & Roll R.(1969),The Adjusted of Stock Price to New Information, *International Economics Review*, 10(1) -21

Fama E.G.(1970), Efficient Capital Markets; A Review of Theory and Empirical Work. *The Journal of Finance*, 25(2).

Fama E.F & Blume M.E.(1996), Filter Rules and Stock Market Trading, *Journal of Business*, volume 39

Firth M.A,(1981), The Relative Information Content of the Release of Financial Results data by Firms, *Journal of Accounting Research* , 19(2)

Firth, M. (1976) Share Prices and Mergers, Farnborough: *Saxon House/Lexington Books*

Foster G(1977), Quarterly Accounting data: Time Series Properties and Predictive ability Results, *Accounting Review*, 52

Gunasekara, H.M.D.T.(2004), Share Price Reactions to Bonus Issue Announcements of Sri Lankan Stock Market (1993-2004),*unpublished dissertation*, University of Moratuwa, Sri Lanka ,

Hasan,S. Hasan T. & Samarakoon L.P.(1999), "Stock Price Behavior in a Less Develop Market, Evidence from Sri Lanka, *Journal of Applied Business Research*, Vol. 16, No. 02,

Hassan Raza Sr**.** (2010), The Impact of Financial Performance of the Company on its Share Price; Evidence from Pakistan Stock Exchange, *Social Science Research Network*(SSRN), http://ssrn.com/abstract=1608305

Hayati N R. (2010), Financial Statement Report and its Effect on Stock Price , *Widyatama University*, Volume 09 Spring

Hussein A. ,Tamimia A.L., Alwan A.A & Rahmana A.A.A(2011), Factors Affecting Stock Prices in the UAE Financial Markets, *Journal of Transnational Management*, http://www.tandfonline.com/loi

Javid I. & Faraz A.F.(2011) ,The Stock Price Reaction to Earnings Announcement: The case of an Emerging Market.(on line) Department of Statistics , Karachi University, Pakistan, *http://mpra.ub.uni-muenchen.de/30865*

Jennergen *P* & Korsvold ,The Non- Random Character on Norwegian and Swedish Stock Market Prices, *International Capital Market*, (North Holland)

Kausar A. & Taffler R (2006), Testing Behavior Finance Models of Market Under and Overreaction: Do they really work?, *working paper*(university of Edinburgh)

Kemp A.G & Reid G.C.(1971), The Random Walk Hypothesis and the Recent Behavior of Equity price in Britain, *Economica*, New series, volume 38

Nasar K. (2002), Share Price Reactions to the Release of Financial Statements in Emerging Stock Markets: the case of Saudia Arabia , *International Financial system and Stock Volatility*, Issues and Remedies Volume 13.

Neuneung R.H.(2010) ,Financial Statement Report and its Impact on Stock Price(case study in banking sector),*Widyalama University of Indunesia*, Volume o9, Spring

May R. (1971), The Influence of Quarterly Earnings Announcements on investor Decisions as Reflected in Common Stock Price Changes, Empirical Research in Accounting: Selected studies 1971, *Supplement to Journal of Accounting Research* , 9.

Opong K.K.(1995), Information Content of Interim Financial Reports:UK evidence,*Journal of Business Finance and Accounting* 22(2)

Opong KWAKU K.(1996),Hourly Share Price Response to the Release of Preliminary Annual Financial Reports: some UK evidence, University of Jordanstown, *British Accounting Review* 28, 187–202

Osei K.A, (2002), Asset Pricing and Informational Efficiency of the Ghana Stock Market. *AERC Research paper* 115, Nairobi Kenya

Praetz P.D.(1969), Random Walk and Investment theory, Jss 20(3)

Palmer P.D.(2006), The Impact of Adopting AIFRS in Australia: the Extent and Quality of Disclosures, and their Relationship to Corporate Characteristics, (*http://www.flinders.edu.au/sabs/business-files/research/papers/2006/06-5.pdf*)

Perera, R.A.A.S. & Thrikawala S.S (2010), An Empirical Study of the Relevance of Accounting Information on Investor's Decisions, *ICBI*, University of Kelaniya, Sri Lanka

Pirie S and Smith M. (2005) , The Relationship between Stock Price and Accounting Information, *Working Paper 508*, School of Accounting , Finance and Economics, Edith Cowan University, Australia

Pohlman A.R.(1978), A note on the Price Behavior of Far Eastern Stocks, *Journal of International Business Studies* spring/summer

Ramesh S. & Nimalathasan B(2011), Bonus issue Announcement and its Impact on Share Price of Colombo Stock Exchange in Sri Lanka, *8th International conference of Business Management 2011*, University of Jaffna, Sri Lanka.

Raja M., Sudhahar J.C.,& Selvam M.(2009), Testing the Semi-Strong form Efficiency of Indian Stock Market with Respect to Information Content of Stock Split Announcement – A study in IT Industry, *International Research Journal of Finance and Economics*, Euro journals Publishing , Inc

Karimi,J. & Sadeghzadeh,A. (2010), Determining of Relationship between Information Disclosures and Price Fluctuations of Accepted Companies in Tehran Stock Exchange ,*International Journal of Academic Research* vol. 2. No. 5. September

Samarakoon, L.P, (1997), The Cross Section of Expected Stock Returns in Sri Lanka, *Sri Lanka Journal of Management* , Vol 02 July/September

Serra, A. P. (2002). Event Study Tests: A brief survey. Working papers PEP 117

Sponholtz C (2005),The Information Content of Earnings Announcement in Denmark' EAA Conference, *European Accounting Association Conference.*

Solink B(1973), "Note on the Validity of the Random Walk for European Stock Prices" *Journal of Finance* 28

Strong N.(1992), Modeling Abnormal Returns; A Review Article, *Journal of Business and Accounting* , volume 19.

Sung C. & Bae Hoje Jo (1999), The Impact of Information Release on Stock Price Volatility and Trading Volume: The Rights Offering Case, Review of Quantitative Finance and Accounting, 13 (1999): 153±169# 1999 Kluwer Academic Publishers, Boston. Manufactured in The Netherlands

Theodore E. Christensen, Toni Q. Smith & Pamela S. and Stuerke (2004), Public Pre-disclosure Information, Firm Size, Analyst Following, and Market Reactions to Earnings Announcements, *Journal of Business Finance & Accounting*, 31(7) & (8), September/October

Urrutia J.L.(1995), Test of Random Walk and Market Efficiency for Latin American Emerging Markets, *Journal of Financial Research* 18(3)

Vijayakumar A.(2012), Effect of Financial Performance on Share Prices in the Indian Corporate Sector: An Empirical Study, *SAGE journals*, October

Vishnani S. & ,Shah B.K.,(2008), Value Relevance of Published Financial Statements- With special Emphasis on Impact of Cash Flow Reporting, *International Research Journal of Finance and Economics*, Vol. 17.

William R, & Douglas A.S.(1984), An Empirical Investigation of the Effect of Quarterly Earnings Announcement Timing on Stock Returns, *Journal of Accounting Research* Vol.22.No.1 Spring

William R.S.(2009), *Financial Accounting Theory*, Pearson Education Publishers USA

Table 01: Statistical information for all companies

Day	**AAR %**	SD	Maximum	Minimum	t-value	P value
-10	0.5693	.0286	.1233	-.0668	1.09	.285
-9	0.3051	.0192	.0450	-.0293	.866	.393
-8	0.2592	.0212	.0476	-.0601	.669	.509
-7	0.0626	.0184	.0438	-.047	.185	.854
-6	0.1465	.0238	.0565	-.0441	.336	.739
-5	-0.2015	.0199	.0407	-.0473	-.554	.584
-4	-0.1697	.0193	.0565	-.0311	-.481	.634
-3	0.2017	.0166	.0420	-.0337	.665	.511
-2	-0.3746	.0162	.0274	-.047	-1.26	.217
-1	-0.0002	.0263	.0820	-.0494	.000	1.00
0	**0.1173**	**.0198**	**.0363**	**-.0442**	**.324**	**.748**
1	0.9085	.0304	.1264	-.0497	1.63	.113
2	0.7001	.0227	.1002	-.0343	1.68	.102
3	-0.0516	.0132	.0343	-.0327	-.213	.833
4	-0.1631	.0144	.0429	-.0243	-.618	.541
5	0.1385	.0210	.0585	-.0332	.361	.721
6	-0.5116	.0176	.0345	-.0443	-1.58	.123
7	-0.2210	.0175	.0553	-.0345	-.690	.496
8	-0.2572	.0167	.0207	. 0634	-.840	.408
9	-0.1378	.0185	.0373	-.0373	-.407	.687
10	0.4369	.0168	.0440	-.0282	1.42	.166

Table 02- Average Abnormal Return and Cumulative Average Abnormal Return of Overall Sample Surround the Announcement Day

Day	AAR %	CAAR %
-10	.5693	0.5693
-9	.3051	0.8744
-8	.2592	1.1336
-7	.0626	1.1962
-6	.1465	1.3427
-5	-.2015	1.1412
-4	-.1697	0.9715
-3	.2017	1.1732
-2	-.3746	0.7986
-1	-.0002	0.7984
0	**.1173**	**0.9157**
1	.9085	1.8242
2	.7001	2.5243
3	-.0516	2.4727
4	-.1631	2.3096
5	.1385	2.4481
6	-.5116	1.9365
7	-.2210	1.7155
8	-.2572	1.4583
9	-.1378	1.3205
10	.4369	1.7574

Table 03: Cumulative Average Abnormal Returns (CAAR) of Overall Sample

Window	CAAR%
From day -10 to -1	0.7986
From day 0 to 10	-0.959
From day -2 to +2	1.3511
From day -1 to +1	1.0256
From day 0 to +5	1.6497

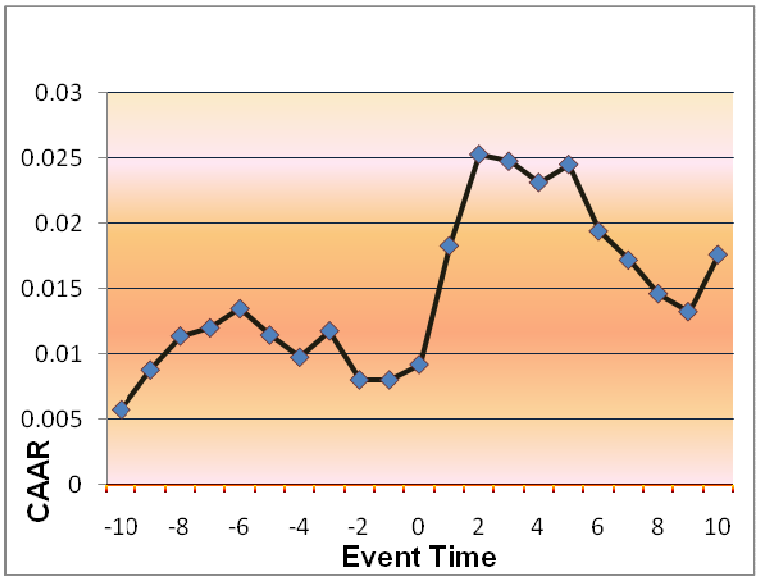


Figure 01: CAARs around earnings announcement days