

**“THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF
COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE”**

BY: GICHEMA GRACE W.

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS
OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF
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
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DECLARATION

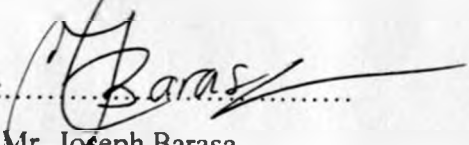
This MBA research project is my original work and has not been submitted for examination in any other university.

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This MBA research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

To my dear parents, Mrs. Miriam Gichema and Mr. Johnstone Gichema, for unwavering commitment to the education of their children and nurturing us to be who we are.

To my dear siblings, Mercy Gichema and Francis Gichema, for their prayers, support, encouragement and goodwill.

QUOTE

INVEST IN EDUCATION, IN REALITY: IT'S THE ONLY REAL ASSET THAT YOU OWN.

ACKNOWLEDGEMENTS

I owe a debt of gratitude to many people who contributed enormously towards making the completion of my MBA programme a success.

First and foremost to the God almighty for always being with me and leading me through my daily endeavors. Commit to the Lord whatever you do and your plans will succeed Proverbs 16:3.

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TABLE OF CONTENTS

	Declaration	ii
	Dedication	iii
	Quote	iv
	Acknowledgements	v
	Table of Contents	vii
	List of Tables	ix
	Abstract	x
	CHAPTER I	
1.0	INTRODUCTION.....	1
1.1	Background.....	1
	1.1.1 Signalling Effect	1
	1.1.2 Need for Stock Markets.....	4
	1.1.3 Brief History of Capital Markets Development in Kenya....	5
1.2	Statement of the Problem.....	7
1.3	Objectives of this Study.....	10
1.4	Justification of this Study	10
	CHAPTER II	
2.0	LITERATURE REVIEW.....	11
2.1	Definition and Forms of Dividend.....	11
	2.1.1 Cash Dividends.....	11
	2.1.2 Stock Dividends.....	11
	2.1.3 Stock Repurchases.....	12
	2.1.4 Stock Splits.....	13
2.2	Advantages of Bonus Shares.....	14
	2.2.1 Benefits to Shareholders.....	14
	2.2.2 Benefits to Issuing Company.....	15
2.3	Dividend Theory.....	16
	2.3.1 Modigliani and Miller Dividend Irrelevance Theory ...	17
	2.3.2 Bird in Hand Theory Litner and Gordon.....	18
	2.3.3 Tax Differential Theory Litzenberg and Ramawamy...	18
	2.3.4 Residual Theory Myers (1984).....	18
2.4	Informational Content of Dividends.....	18
2.5	Effects of Bonus Issue on Share Prices.....	21
2.6	Theories of Valuation of Common Shares.....	26

2.7	Factors that Influence the Price of a share.....	28
2.7.1	Profitability and Dividend Policy of the Company.....	28
2.7.2	Growth Prospects of the Company.....	28
2.7.3	The No-Arbitrage Principle.....	28
2.7.4	The Complementarity's Principle.....	29
2.7.5	Economic Development and Government.....	29
2.7.6	Leverage.....	32
2.7.7	Negotiation between Buyer and Seller.....	32
2.8	Event Study.....	32
2.9	Empirical Studies Done In Kenya on This Area.....	33

CHAPTER III

3.0	RESEARCH METHODOLOGY.....	36
3.1	Research Design.....	36
3.2	Population and Period of Study.....	37
3.3	Sample.....	37
3.4	Data Collection.....	38
3.5	Data Analysis.....	38

CHAPTER IV

4.0	DATA ANALYSIS, PRESENTATION AND INTERPRETATION	41
4.1	Introduction.....	41
4.2	Descriptive Statistics of the Share Returns.....	41
4.3	Determination of Whether There Are Abnormal.....	42
	Returns Surrounding the Bonus Issues Announcement	
4.4	To Establish the Direction and Magnitude of the.....	57
	Stock Price Adjustment on the Announcement of	
	Bonus Issue	

CHAPTER V

5.0	SUMMARY AND CONCLUSIONS, LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH	63
5.1	Summary and Conclusions.....	63
5.2	Limitations of the Study.....	64
5.3	Suggestions for Further Research.....	65

References
Appendices

LIST OF TABLES

Table I	Descriptive Statistics Whole Period (MPS).....	19
Table II	Descriptive Statistics for Period Before and After.....	20
	Announcement date (MPS)	
Table III	Descriptive Statistics for Prior Announcement Date.....	21
	And Event Period (MPS)	
Table IV	Descriptive Statistics for Event Period and Post	22
	Announcement Date (MPS)	
Table V	t-test for Before and After Announcement Date (MPS).....	23
Table VI	t-test for Event Window and After Announcement Date.....	24
	(MPS)	
Table VII	t-test for Event Window and Prior Announcement Date.....	25
	(MPS)	

ABSTRACT

In the recent past companies quoted on the Nairobi Stock Exchange have been using stock dividend as a mode of paying dividends. This emerging trend may be attributed to the pecking order theory, economic growth in the country and the appealing phenomenon amongst the investors.

This study focuses on the effect of bonus share issues on stock prices of companies quoted at the Nairobi Stock Exchange. The objectives of this study were to determine whether there are abnormal returns surrounding the bonus issues announcement and to establish the direction and magnitude of the stock price adjustment on announcement of bonus issue.

The sample consisted of all the companies quoted at NSE which declared bonus issues between the period of interest, 1 January 2004 to 31 July 2007, and were drawn from all the segments of the Nairobi stock exchange.

In order to achieve this objectives secondary data obtained from the NSE Secretariat informational database and the companies' financial statements were used. Further, this study entailed the determination of the precise day of the bonus share issue announcement and this day was made to be day zero; definition of the period to be studied; in this study the study period was 101 days surrounding the announcement date.

The magnitude of bonus issue announcement was expected to vary across the firms because the announcements were made by companies in different industries and at different times. It was hence useful to examine the behavior of each company independently. Data was presented using tables and graphs. Descriptive statistics i.e. mean and standard deviation and t-tests were used to analyze data.

The findings of this study were such that bonus issues typically generate positive stock prices reactions in the short run but produce no lasting gains in the market price for widely held stocks in the Nairobi Stock Exchange. The limitations encountered included heavy reliance on secondary data, reliance on research studies conducted in the developed countries for literature review and due to unavailability of data this study was restricted to companies quoted in the Nairobi Stock Exchange.

CHAPTER I

1.0 INTRODUCTION

1.1 BACKGROUND

1.1.1 SIGNALLING EFFECT

One of the most important considerations that companies' decision makers ought to recognize is the information processing capacity of the market. In an inefficient market managers have information about the current and future earnings unavailable to investors. Investors operating in such a market may sell their investments at prices outside their true values. It is suggested that managers can use dividend payment to convey information about the future earnings to investors. Rise in dividend payment is viewed as a positive signal conveying positive information about a firm future earnings prospect which results in a share price increase. Decline in dividend payments is viewed as a negative signal conveying negative information about a firm's future earnings prospect (Menamin, 1999).

Studies carried out in the effect of bonus issue on the value of a firm indicate more or less that in the long run bonus issues do not have any effect on the value of the firm and hence no long term effect on the share price (Baker, 1958). Objective influences of the professional investors with their longer term view has a healthy influence on the market and tend to reduce the wide range of market prices after the stock dividends are issued. He further observed that stocks that increased their cash dividends above competition made a real price gain over their competitors.

Litner(1962) and Gordon(1963) in bird in hand theory asserts that investors are surer of receiving dividend payments than the income from capital gain, that results from retaining earnings. Hence the investor value expected dividend more highly than the expected capital gains.

Fama et al (1969) found out that when splits are accompanied by dividend announcements, there was an increase in adjusted share prices for the group that announced dividend increases and a decline in share prices for the dividend decrease group. Pettit (1972) used both monthly and daily data to investigate the abnormal performance index of firms that had dividend changes. Most of the price adjustment was found to take place quickly either on the dividend announcement date or on the following date.

However in practice, there may be an increase in share price following the announcement of a bonus issue. Such an increase can occur because the announcement of a bonus issue may have beneficial informational content (Peterson, 1971). For instance if a bonus issue is followed by an increase in total dividend payout, the shareholders will perceive that the management in the company are confident about future earnings. Consequently, the share price may increase in response to this information and affect the shareholders wealth. The informational link between dividends and earnings is supported empirically by Healy and Palepu (1988). They show that firms that initiate dividends have significant increases in earnings for at least one year after the announcement.

Watts (1973) looked at the abnormal performance index averaged across 310 firms. He developed a model to predict dividend changes. He found a positive dividend announcement effect but concluded that the information content is of no economic significance because it would not enable a trader with monopolistic access to the information to earn abnormal returns after transactions costs. The performance of firms with dividend increases was better than that of firms with dividend decreases, but the greater difference between the two samples in the six months around the dividend change was only 0.7% in the month of the dividend.

Black (1974) and Hess (1987) observed that investors pay great attention to dividends. Researchers tend to disagree that a firm's dividend policy will affect the share prices of companies. Modigliani and Miller (1961) dividend irrelevant theory argues that the value of any firm depends on its earnings which result from its

investment policy. They also argue that the division of earnings between dividend and what is retained is not important in determining the value of the firm.

Ross (1977) suggested that given asymmetric information between managers and investors, the former might use financial decisions such as stock dividend distributions to convey favorable information about the company. On the same token, for signalling device to be valid, there should be a cost associated with sending false signals. Asquith (1989), Nichols and Dravid (1990) in their studies on stock dividend found that stock dividends reveal favorable future information. Grinblatt (1994) documented that stock prices rise on average when stock dividend is announced. They hypothesized that this transactions signal information about the firm on future earnings.

Litzenbeger and Ramaswamy (1979) tax differential theory asserts that because capital gains are taxed at lower rates investors are better off when dividend payoff rate is set at lower than at higher levels. According to the current Kenyan tax regulations, shareholders must pay tax for a cash dividend but none for a stock dividend, which makes stock dividend more favorable than a cash dividend.

Kwan (1981) improved on Pettit's design by forming portfolios based on the unexpected dividend changes and he found statistically significant abnormal returns when the firm announced unexpected large dividend changes. Woolridge (1986) studied the effect of dividends announcements on non convertible bonds and non convertible preferred stock in an attempt to separate expropriation effects from announcement effects. If dividend payout to shareholders are viewed as payments of collateralizable assets and if debt covenants are imperfect protection, then debt holders and preferred shareholders would view dividend increases as bad news and the market value of their claims on the firm would fall upon the announcement of dividend increases. On the other hand, if dividend increases they would serve as signals about higher future cash flows and hence the bond holders and preferred stockholders feel more secure and the market value of their claims increase.

Asquith and Mullins (1983) and Richardson, Sefcik and Thompson (1986) studied the effect on shareholders wealth of the initial dividend announcement. Both studies found large statistically significant two day announcement abnormal returns for initial dividend announcements.

Bonus dividends appear to be relatively inexpensive and a clear way of signalling. There are no signalling costs in the form of financing expenses and higher tax expenses involved with the bonus issue. In addition, management may believe that reducing the market price per share to a reasonable level facilitates trade in the company's share and that this in turn may increase the demand: trading range hypothesis. If this holds, the market value of the company's equities and hence shareholders wealth again would increase.

1.1.2 NEED FOR STOCK MARKETS

Stock market is a term that is used to refer both to the physical location for buying and selling stocks and to the overall activity of the market within a certain country. A country may have many different stock exchanges. Usually a particular company's stocks are traded on only one exchange, although large corporations may be listed in several. The economic health of a country will strongly influence its stock market. When the economy is doing well the market is bullish. Bull markets occur during times of high economic production, low unemployment and low inflation. Bear markets, on the other hand downturns the economy. When inflation and unemployment are rising, stock prices are usually falling. The stock exchange is only one of the many opportunities for people to invest. Other popular markets include the foreign exchange market, the futures market and the options market (Editors choice, 2007).

Some of the reasons forwarded for the need of stock markets are first stock markets allow competition between various instruments of a bank based financial system and non bank financial intermediaries. Second by allowing competition between various instruments, stock markets are better able to satisfy each investor's risk, return and horizon preferences. On the other hand borrowers are restricted to the high rates of

interest charged by banks or are constrained by the amount of credit available on the high risk unregulated markets. Finally stock markets allow risk sharing without the need for government. Expected returns are driven by the performance and prospects of the economy and not by government guarantees (Fisher, 1930)

1.1.3 BRIEF HISTORY OF CAPITAL MARKETS DEVELOPMENT IN KENYA

In Kenya, dealing in shares and stocks started in the 1920s when the country was still a British colony. There was however no formal market, no rules and no regulations to govern stock broking activities. Trading took place on gentlemen's agreement in which standard commissions were charged with clients being obligated to honour their contractual commitments of making good delivery and setting relevant costs. At that time, stock broking was a sideline business conducted by accountants, auctioneers, estate agents and lawyers who met to exchange prices over a cup of coffee. Because these firms were engaged in other areas of specialization, the need for association did not arise.

In 1951, an estate agent, Francis Drummond established the first professional stock broking firm. He also approached the then finance minister of Kenya Sir Ernest Vasey and impressed upon him the idea of setting up a stock exchange as an overseas stock exchange. In 1953, the two approached London Stock Exchange officials in July of 1953 and the London officials accepted to recognize the setting up of the Nairobi Stock Exchange as an overseas stock exchange.

In the first three years of independence marked by steady economic growth, confidence in the market was once again rekindled and the exchange handles a number of highly oversubscribed public issues. In 1980, the Kenyan Government realized the need to design and implement policy reforms to foster sustainable economic development with an efficient and stable financial system. In particular, it set out to enhance the role of the private sector in the economy, reduce the demands of public enterprises on the exchequer, rationalize the operations of the public

enterprise sector to broaden the base of ownership and enhance capital market development.

In 1984, IFC/CBK study "development of money and capital markets in Kenya" became a blue print for structural reforms in the financial markets which culminated in the formation of a regulatory body, "the capital market authority" in 1989, to assist in the creation of a conducive environment for growth and development of the country's capital markets. In 1991, NSE was registered under the Companies Act and phased out the "call over" trading system in favor of the floor based open outcry system. In 1998, the government expanded the scope for foreign investment by introducing incentives for capital markets growth including the setting up of tax free venture capital funds, removal of capital gains tax on insurance companies' investments, allowance of beneficial ownership by foreigners in local stockbrokers and fund managers and the envisaged licensing of Dealing Firms to improve market liquidity. The enactment of the CDS Act was also expected to clear the way for setting up of the Central Depository System. In July 2000, the Central Depository System Act was passed by parliament and assented to by the President in August 2000 (History of Nairobi Stock Exchange, 2007).

NSE ensures that the companies quoted adhere to the set rules and regulations otherwise they are struck off from the trading floor. The CMA on the other hand ensures that companies are not listed if they do not meet the minimum listing requirements.

Inyangete(1995) highlighted the reasons of financial regulation as: First, to prevent market failures (financial collapse) due to externalities. Second, to promote competitive markets or constraint on competition for the benefits of some suppliers. Third, to enhance consumer welfare including protection from fraud and monetary policy considerations, when information is available the investors make rational decisions Fourth, to enhance market power and address problems relating to information this is achieved through the disclosure requirements which must be

adhered to by organizations that are quoted in the stock exchange and lastly to instill confidence in the market by ensuring that there is order in the market. fourth market (Fabbozzi and Modigliani, 2003).

1.2 STATEMENT OF THE PROBLEM

In the recent past companies quoted on the Nairobi Stock Exchange have been using stock dividend as a mode of paying dividends. In the period between January 2007 and July 2007 six companies namely, Sasini Ltd., Standard Group Ltd., TPS Eastern Africa (Serena) Ltd., Barclays Bank of Kenya Ltd., Equity Bank Ltd. and Jubilee Holdings Ltd. posted bonus shares to their shareholders, this is an increase over prior years. In 2006 only one company i.e. Express Kenya posted bonus shares to the shareholders accounts and two companies' i.e. Nation Media Group and Diamond Trust Ltd in 2005 (NSE secretariat information database, July 2007).

This emerging trend may be attributed to the pecking order theory, economic growth in the country and the appealing phenomenon amongst the investors. According to the pecking order theory (Myer, 1984), internal sources of funds are cheaper than external sources of funds. Hence managers would resort in using retained earnings for financing investments rather than debt or equity after which they would prefer debt rather than equity as external financing. Bonus issues fall within the definition of the cheaper source of funds for investment.

On the other hand announcement of bonus issue increases the volume of shares trading in the respective counters. This can be attributed to its appealing nature. The investors purchase these shares with the expectation that they will receive some returns in form of capital gains or dividends.

The relationship between dividend and the value of the share is still not clear cut. Dividends announcement are associated with the movements in share price but these changes may be due to the informational content of dividends. This is a matter of considerable controversy which centers on whether or not the positive association between share price movements and dividend can be attributed directly to the change

in dividend or to the informational content of dividends. This remains a puzzle which has not been yet resolved. According to Black (1974) "The harder we look at the dividend picture, the more it seems like a puzzle with pieces that just don't fit together".

Studies have shown that share prices adjust to new information depending on the expectations of the market. Barker (1958) observed that most companies that had issued bonus shares achieved real price gains for the years in which their stock dividends were accompanied by cash dividend increases and that companies suffered price declines relative to the market when they issued stock dividends without also increasing cash dividends. He concluded that, stock issues with no increase in cash dividends had the prices of the stocks held even with the general market through the ex-dividend date and then dropped with about a percentage of twelve below the general market in the following six months. Second that stock issues with an increase in cash dividends had price gains averaging to nine percent over the six months preceding the ex-dividend date and of eight percent for six months after the ex dividend date. One incidental phenomenon is that there is often a strong but short lived price run up during the first few days after news of a stock dividend reaches the public particularly when the dividend is a special, non periodic one, unexpected by the average investor (Barker, 1958). Finally that stock issues without an increase in cash dividends experienced a reduction in prices in the years that their bonus issues.

Friend and Puckett (1964) tested the relationship between share prices and dividend policy. They found no close correlation between dividends and share prices. Pettit (1972), found clear support for the proposition that the capital market takes account of dividend announcement as information for assessing share prices. This finding has fairly consistently been supported by subsequent studies, for example, Aharoney and Swary (1980). Nissim and Ziv (2001) found that dividend changes provide information about the level of profitability in the years following the change. Increases in dividends tend to indicate increases in accounting profits. The evidence on the informational effect on dividends seems fairly conclusive.

Black and Scholes (1974) found no evidence that higher or lower dividend levels lead to higher or lower returns either before or after taxes. When a corporation increases its dividend the price may change temporarily in response to the change in the dividend. This change arises due to the market's believe that the change is an indication of probable future course of earnings. However, when it becomes clear that the change is not made because of any change in dividend estimated future earnings, this temporary increase disappears.

Ross (1977), argued that dividends are relevant and that in an efficient market, management can use dividend policy to signal important information to the market which is only known to them. Increase in dividends is often accompanied by increase in prices of the stock while a dividend reduction generally leads to stock price decline. This according to Ross suggests that investors generally prefer dividends to capital gains.

Kaen (1995) observed that in an efficient market the announcement of a dividend should not have an effect on share prices. Upon payment of cash dividends the market price share should reduce by the amount of the dividend price per share. However, Fama and French (1998) showed that there exists a relationship between cash dividend and share prices. These researchers inferred that increases in dividends are treated, by the market, as a signal of higher expectations of managers. This tends to lead to enhanced share prices as investors reassess the value of the business.

Dewenter and Warther(1998) compared signalling effects in the USA and in Japan. They concluded that dividends seem to have a greater informational content in the USA than in Japan. They inferred that this arose from a closer relation between investors and managers in Japan, which leads to better information flows from the latter to the former. This might indicate less of an agency problem in Japan. Lack of information by shareholders tends to be a major cause of agency costs.

This study attempts to establish the way stock prices respond to bonus issue as a form of dividend in the Nairobi Stock Exchange. The guiding questions are:

1. Do prices respond to bonus issue on the Nairobi Stock Exchange?

2. Are there abnormal returns surrounding the bonus issue announcement?

1.3 OBJECTIVES OF THIS STUDY

This research has two principal objectives:

1. To determine whether there are abnormal returns surrounding the bonus issues announcement.
2. To establish the direction and magnitude of the stock price adjustment on announcement of bonus issue.

1.4 JUSTIFICATION OF THIS STUDY

The findings of the research will be of benefit to the following stakeholders:

1. Management of companies when formulating policy on issuance of bonus issues. This research will highlight factors that should be taken into consideration by companies when issuing bonus issues. Management of companies can hence be able to compare their companies with those firms that have already issued bonus issues.
2. Investors can incorporate this findings or information in making their investments decisions.
3. Scholars can use the findings of this research as a basis of carrying out further research on this subject area.
4. The government which will be in a position to ascertain how its tax policy influences a firm's dividend decision and thus be able to formulate a tax policy that encourages stock market activity.

CHAPTER II

2.0 LITERATURE REVIEW

2.1 DEFINATION AND FORMS OF DIVIDEND

Dividends are payments or distributions made to shareholders from the firm's earnings. These earnings are either generated in the current or previous periods. For preferred shares it is generally a fixed amount and for common shares the dividend varies with the fortunes of the company and the amount of cash in hand. It is hence the rate of return that investors earn for investing in the stocks of the issuing company.

There are various forms of dividends as given below

2.1.1 Cash dividends

This is the usual form of dividend payment. For a firm to adopt this type, it must have sufficient liquidity to pay-off the dividends once declared. The dividend dates remain similar over the years and investors expect dividend announcements at these times (Kaen, 1995). Many companies pay cash dividends in two stages: interim that is paid semi annually and final dividend paid annually. In efficient market the announcement of a dividend should not have an effect on share prices. Upon payment of dividends, the market price per share should reduce by the amount of the dividend per share.

2.1.2 Stock Dividends

This is dividend paid in form of additional shares of stock instead of cash. It simply involves capitalization of retained earnings. In this case, the shareholders proportional ownership remains unchanged. Stock dividend is stated as a percentage increase in number of shares outstanding. Additional shares are allocated based on a fixed proportion of shares owned by each investor prior to the declaration of the stock dividend (Kaen, 1995). They divide the pie into smaller slices without affecting the fundamental position of the current stockholders. Therefore stock dividends requires

the transfer of a portion of earned surplus to the capital account leaving unchanged the par or stated value of each share(Baker, 1958).

2.1.3 Stock repurchases

According to Fried (2005) managers have two options for paying out cash to shareholders: dividends and share repurchases. He further observed that public companies in the United States and elsewhere are increasingly using open market repurchases rather than paying out dividends to distribute cash to shareholders. Copeland and Weston (1992) noted that share repurchases allows shareholders to receive the cash payment as a capital gain rather than as dividend income. Therefore any shareholder that pays a higher tax rate on income than on capital gains prefers share repurchase to dividend payment.

Share repurchase occurs when a company buys back some of its outstanding shares instead of paying out cash dividends. In this case the shares that have been bought back are referred to as treasury stocks. The stocks that have been bought back are usually not deregistered and cancelled, but kept in the country's treasury and resold when the company needs the money. Shareholders are not required to authorize the resale of these treasury stock and they do not enjoy preemptive rights on such stock.

Stock repurchases can be accomplished through a tender offer for then shares. In open market purchase, corporations buy its own stock in the secondary market just like any other investor except that firms must publicly announce their intention to repurchase shares. A tender offer is a formal offer to buy all shares tendered up to a given level and repurchase price is stated in the tender offer announcement and is usually above the current market price. Firms usually use the tender offer method when they are repurchasing a large number of shares.

Companies repurchase a portion of their common stock for various reasons. Firstly in order to have at its disposal available stock options. Secondly in order to retain dividends. Thirdly, in order to have shares available for the acquisition of other

companies and finally in order to enable a company go private by purchasing the shares held externally.

Stock repurchases involves distribution of information, the effect on share price is especially dramatic when shares are acquired through tender offer (Kaen1995). A stock repurchase arrangement provides a strong statement from the management to the investors communicating that the management wants to increase their stake in the company by buying (normally at a premium) from the sellers who are willing to sell.

2.1.4 Stock splits

When a firm declares a stock split, it increases the number of shares outstanding. Because each share is now entitled to a smaller percentage of the firm's cash flow, the stock price should fall (Ross, Westerfield & Jaffe 1988). Stock splits are issued when the firm intends to attract more buyers through reduction of the shares market price. A split involves no change in the total capital account or surplus account: the common stock account is merely apportioned among the increased shares outstanding after the share split (Barker, 1958). The signalling hypothesis (Fama, Fisher, Jensen and Roll, 1969) argues that the market realizes split information as a signal to re-evaluate expected income from substantial dividend increases. They concluded that company's tend to split their shares during "abnormally" good times –that is during periods of times when the prices of their shares have increased much more than would be implied by the normal relationships between their share prices and general market price behavior. The evidence obtained further suggested that in reacting to a split the market reacts only to its dividend implications. That is, the split causes price adjustments only to the extent that it is associated with changes in the anticipated level of future dividends. Recent papers also provide evidence for this hypothesis by reporting subsequent unanticipated increases in earnings per share and the positive correlation between price changes and the split factor (Mc Nichols and Dravid, 1990). The substitution hypothesis (Scholes, 1972) assumes that the demands for a particular company's shares are perfectly elastic, so any increase due to stock splits will lead to a fall in share price. This high demand elasticity is alleged to the existence of alternative risky assets as close substitutes. Tests of the competing price pressure hypothesis assume market inefficiency in the sense that stock splits rights issue will

have a depressing effect on the share prices in the case of downward sloping demand curves. In mature markets, however, this hypothesis is rejected and markets appear to be highly liquid (Marsh, 1979; Smith 1977).

2.2 ADVANTAGES OF BONUS ISSUE

Generally bonus issues attract many benefits to both the issuing company and shareholders.

2.2.1 Benefits to shareholders

First benefit is the tax benefit that accrues to shareholders in the receipt of bonus shares. When a shareholder receives cash dividend from a company, this is included in his ordinary income and taxed at ordinary income tax rate. But the receipt of bonus shares by the shareholders is not taxable as income (Pandey, 1991). However in countries where the tax systems tax both the dividend and capital gains this benefit is a fallacy as concluded by Eisemann and Moses (1978) since the investor would pay capital gains tax on selling bonus shares just as he would on selling his original holdings similarly he would pay tax on cash dividend received from his bonus shares as he would on cash dividend from his original holding.

Second, the issue of bonus shares is normally interpreted by shareholders as an indication of higher profitability. Bonus shares, thus, may convey some information which may have a favorable impact on value of the shares (Pandey, 1991).

Third, it serves as an indication that future dividends may increase. If a company has been following a policy of paying a fixed amount of dividend the shareholders will increase in future. The increase in the shareholders cash dividends may have a favorable effect on the price of the share (Pandey, 1991).

Fourth, the declaration of the bonus issue may have a favorable psychological effect on shareholders. The receipt of bonus shares gives them a chance to sell the shares to make capital gains without impairing their principal investment. They also associate it with the prosperity of the company. Because of these positive aspects of the bonus issue, it is usually received positively by the market. The sale of the shares received

by way of the bonus shares, by some shareholders widens the distribution of the company's shares. This trends to increase the market interest in the company's shares: thus supporting or raising its market price (Pandey, 1991).

2.2.2 Benefits to issuing company

Pandey (1991) summarizes the benefits that accrue to issuing companies as: conservation of cash, means of paying dividend under financial difficulty and contractual restrictions and means of making the share prices more attractive.

Under conservation of cash, the declaration of a bonus issue allows the company to declare a dividend without using up cash that may be needed to finance the profitable investment opportunities within the company. The company is, thus, able to retain earnings and at the same time satisfy the desires of shareholders to receive dividends. The use of bonus issue represents a compromise which enables directors to consider both the financial needs of the company and the desires of shareholders while making the dividend decision. The company could retain earnings without declaring bonus shares issue. But the receipt of bonus shares satisfies shareholders psychologically. Also, their total cash dividend can increase in future, when cash dividend per share remains the same. Barker (1958) investigated the effect of bonus issues on cash conservation. Out of the 224 bonus issues he studied only 34 met cash criterion. This translates to 15% of the total number studied, which is not large enough to draw a conclusion that conservation of cash is a major objective of bonus issue. Another investigation carried out by Eiseman and Moses (1978) also concluded that in majority of firms sampled bonus issue did not translate into cash conservation.

Under the benefit that bonus issues serves as a means of paying dividend under financial difficulty and contractual restrictions, it is noted that in some situations, even if the company's intention is not to retain earnings, the bonus issue is the only means to pay dividends and satisfy the desire of shareholders. When a company is facing a stringent cash situation, the only way to replace the cash dividend is the issue of bonus shares. The declaration of the bonus issue is also necessitated when the restrictions to pay the cash dividend are put under loan agreements. Thus, under the

situations of financial stringency or contractual constrain in paying cash dividend. the bonus issue is meant to maintain the confidence of shareholders in the company.

Bonus issues also make the share prices more attractive by reducing the share price. Sometimes the intention of a company in issuing bonus shares is to reduce the market price of the share and make it more attractive to investors (Pandey, 1991). The trading range hypothesis argues that issue of stock dividends can bring share prices into a price range that makes a stock more affordable for investors. Nichols and David (1990) provide strong support for the trading range hypothesis. The assumption made is that shares with a low unit price appeal to a wider investing community unlike shares with relatively high unit price. Lakonishok and Lev (1978) carried out an investigation to ascertain the effect of bonus issue on the volume of trade. They analyzed that the monthly number of shares traded relative to shares outstanding at the same date for a given stock. Their study covered five years and the finding of the investigation was that there was a significant increase in trading volume in the announcement month.

Cash dividends and stock dividends have been argued to be substitutes for one another. As discontinuing a dividend payment would likely produce a negative market reaction, firms usually issue stock dividends rather than paying out cash dividends that might lead to a cash shortage for internal use. Ghosh and Woolridge(1988) found that the issue of stock dividends can mitigate the negative market reaction due to reduction or omission of cash dividends, which provides evidence for the cash substitution hypothesis.

2.3 DIVIDEND THEORY

Dividend policy is the trade off between retaining earnings on one hand and paying out cash or issuing shares to existing shareholders on the other from the after tax profits. The policy is normally set by the directors of companies and answers questions on the effects of cash dividend paid. given the firms capital budgeting and borrowing decisions. Dividend policy has three schools of thoughts the first group is the conservative group which believes that an increase in dividend pay out increases

the value of the firm. The second group is the radical group which believes that an increase in pay out reduces the value of the firm while the last group believes that dividend policy makes no difference.

Several dividend theories have been developed to try and explain the relationships if any between the dividend policy and the value of the firm. Given below are the some of the theories.

2.3.1 Modigliani and Miller dividend irrelevance theory (1961)

Modigliani and Miller (1961) demonstrated theoretically that bonus issues along with the types of dividends do not alter shareholders wealth. The company does not receive any cash and its financial position remains the same. The modification triggered by the bonus issue is that the number of outstanding shares is adjusted by the bonus issue ratio, therefore, the price of the shares declines according to the same bonus issue ratio. They argued that in ideal circumstances, the level of a firm's dividends will not affect the value of the firm with shareholders being indifferent to an announcement of high or low levels of dividends. Modigliani and Miller (MM) further argued that the value of a company depends solely upon the investment opportunities available to it.

Modigliani and Miller (MM), made the following assumptions, absence of person/corporate taxes, existence of no floatation costs, dividend policy has no effect on a firm's cost of equity, the firm's capital investment policy is independent of its dividend policy and finally that investors and managers have the same set of information regarding future investment opportunities.

Based on the above assumptions, if a firm pays higher dividends then it must sell more shares to new investors. The portion of the value of the firm given up to new investors is exactly equal to the dividends paid out. This leaves the value of the firm unchanged. Thus the value of the firm is determined by the basic earning power and its risk class, in other hands, it's the asset investment policy rather than the way earnings are split between dividends and retained profits that determine the value of a firm.

2.3.2 Bird in the hand theory Litner (1962) and Gordon (1963)

Bird in the hand theory was advanced by Litner (1962) and furthered by Gordon (1963). It argues that shareholders are risk averse and prefer certainty. Therefore, certain dividends are better than uncertain capital gains. The stock price increases as shareholders get more dividends in cash as they view the stock as attractive this lowers the cost of capital while increasing the value of common stock.

2.3.3 Tax differential theory (Litzenberger and Ramaswamy, 1979)

Tax differential theory (Litzenberger and Ramaswamy 1979) proposes that dividends are relevant in firm valuation. They argued that tax rate on dividends are higher than tax rate on capital gains therefore a firm that pays dividends has lower value since shareholders pay more on dividends. Thus the stock price per share of the firm would be higher if dividends are not paid than if they were paid out. In this theory it's assumed that taxes on cash dividends are higher than those on capital gains as the case is in Kenya. The stock price will be more attractive if less cash dividends are paid and vice versa.

2.3.4 Residual theory (Myers, 1984)

Myers (1984) argued that the firms will only pay dividends from residual earnings, that is, from earnings left over after all suitable investment opportunities have been financed. This theory gives no recognition to how investors feel about dividends. The issue is not only whether a reinvestment of retained earnings or dividends provides the highest return but also how investors react to the two alternatives.

2.4 INFORMATIONAL CONTENT OF DIVIDENDS

It is contended that dividends are relevant because they have informational value. A company can make statements about its expected earnings growth to inform shareholders in order to create a favorable impression on them. However, these statements would be paid better attention if they follow with a dividend action. The payment of dividends conveys to shareholders that the company is profitable and financially strong. When a firm changes its dividend policy, investors assume that it is in response to an expected change in the firm's profitability which will last long. An

increase in pay out ratio signals to shareholders a permanent or long term increase in firm's expected earnings. Accordingly the price of share may be affected by changes in dividend policy (Pandey, 1991).

Miller and Modigliani (1961) attached this proposition that the change in share value following the change in dividend amount is due to informational content of dividend policy rather than the dividend policy itself. Therefore, dividends are irrelevant if information can be given by the market to all players. Dividend decisions are relevant in an inefficient market and the higher the dividends the higher the value of the firm. Miller and Modigliani accept the informational content of dividends, but contend that the price of the share is determined by the expected future earnings and the firm's investment policy and not by the dividends. They argue that the informational value of dividends indicates that they are merely a reflection of the firm's investment policy and the expected earnings and do not have any impact on the value in their own accord.

The reaction of market to the information conveyed by the dividend action depends upon the established dividend policy of the company. It is argued that the announcement of changes in dividend policy influences shares prices and that managers use the dividend changes to convey information about the future earnings of their companies. They may also influence the perceptions of the investors about the riskiness of the company by following a stable dividend policy where the actual riskiness of the company remains unchanged. This sort of argument is also known as the dividend signalling hypothesis. If the long established policy of the firm is to pay e.g. 50% of earnings to shareholders and has increased dividends in the past only when earnings increased to new levels on permanent basis, an increase in dividends will communicate a very convincing information that the earning of the firm have grown. As a result, the market price may be affected little because shareholders knew the information (Pandey, 1991). Bhattacharya(1979; 1980), John and Williams (1985), and Miller and Rock (1985) posit a dividend information hypothesis that the market reacts to the information content in cash dividends, interpreting dividend as a credible signal for the prediction of future earnings and permanent increase in the

future cash flows of a firm. Other studies providing support for the signalling hypothesis include Eisemann and Moses(1978), Elgers and Murray(1985), and Das and Datar(1993). With reference to stock dividends all these authors report significant abnormal returns around the announcement of stock dividends, suggesting that stock dividend issue is a signal for the future cash dividends, cash flows and earnings.

The payout ratio of the companies may depend on the fact whether they are mature or growth companies. Mature companies may characterize high payout ratios as they may have few profitable investments opportunities. Shareholders of such companies are more concerned with the dividend income. Therefore any change in the amount of dividend is immediately reflected in the market price of the share. Growth companies have a low payout ratio as they have enough internal investment opportunities to employ the retained earnings. The shareholders of growth companies are more interested with the capital gains over the dividends. A steady increase in both earnings and dividends coupled with continuing low payout ratio gives the message that the firm expects to keep on growing. A greater increase in the dividends than the earnings may convey to the shareholders that profitable investments opportunities of the firm are diminishing. This understanding of shareholders may depress the market price of the share in spite of an increase in the dividends (Pandey, 1991).

Ezra (1963) contends that dividends may offer tangible evidence of the firm's ability to generate cash and as a result the dividend policy of the firm affects their share price. The market value of the share is affected not because of the change in dividends but payment of higher dividends. Dividends per share do not affect the share value.

According to Black (1974) investors pay attention to dividends because: First, only through dividends or prospect of dividends do they receive a return on their investments or the chance to sell their shares at a higher price in future. second dividends represent the return to the investor who puts his money at risk in the corporation. third corporations pay dividend to reward existing shareholders and to encourage others to buy new issues of common stock at high prices and finally a

corporation that pays no dividend demonstrates confidence of attractive investment opportunities that might be missed if it paid dividend.

Information signalling effect theory was advanced by Ross (1977). He argued that dividends are relevant and that in an efficient market, management can use dividend policy to signal important information to the market which is only known to them. Increase in dividends is often accompanied by increase in prices of the stock while a dividend reduction generally leads to stock price decline. This according to Ross suggests that investors generally prefer dividends to capital gains.

Market imperfections indicate that shareholders may not be indifferent as to know how the earnings of the firms are divided between dividends and retained earnings. The tax differential effect and the presence of floatation costs favor the capital gains resulting from the retention earnings, while the existence of transactions costs, agency costs, information asymmetry and desire for current income and diversification favor the payment of dividends.

2.5 EFFECTS OF BONUS ISSUES ON SHARE PRICES

It is well documented in accounting and finance that dividends policies convey information. Under a rather arbitrary "rule of thumb" regulation the New York Stock Exchange (NYSE) considers any distribution of stock totaling 24% or less to be a stock split dividend and any payment in stock of 25% or more to be a stock split up (Baker, 1958). One of the most persistent arguments for stock dividends is that a wider market exists for stock after stock dividends are issued, with a resultant greater demand that presumably enhances market price. Thou more objectively although stock do indeed increase in number, stocks price will depend on the present value of estimated future earnings and more fundamentally on the estimated future cash dividends in relation to inherent risk. Thus, both the broadening of ownership and the enhancement of market value in the long run are primarily dependent on fundamental investment quality (Baker 1958).

Normally, the issue of bonus shares does not affect the wealth of shareholders. The earnings per share and market price per share will fall proportionately to the bonus issue. Academics such as Baker (1958), assert that there are no benefits that accrue to shareholders as a result of issuing bonus shares. He explains that such distributions just cut the same loaf of bread into thinner slices. Hence, bonus issues do not have any effect on the firm and by extension the wealth of its investors.

Barker (1958) carried out a study on New York Stock Exchange during the years 1951 to 1954 to enable him model the relationship between declaration of bonus issues and movement in share prices. He made the three categories namely stock issues with no increase or with decline in cash dividends, stock issues with an increase in cash dividends and finally stock issues with no accompanying cash dividends.

The findings in this investigation showed that: First, stock issues with no increase in cash dividends had the prices of the stocks held even with the general market through the ex-dividend date and then dropped with about a percentage of twelve below the general market in the following six months. Second that stock issues with an increase in cash dividends had price gains averaging to nine percent over the six months preceding the ex-dividend date and of eight percent for six months after the ex dividend date. One incidental phenomenon is that there is often a strong but short lived price run up during the first few days after news of a stock dividend reaches the public particularly when the dividend is a special, non periodic one, unexpected by the average investor (Barker, 1958). Third stock issues without an increase in cash dividends experienced a reduction in prices in the years that their bonus issues were offered. The conclusion drawn from this investigation was that bonus issues per share have no measurable market value i.e. issuing of bonus shares does not have long term effect on the value of a firm.

For companies paying stock dividends but no cash dividends the most difficult problem is obtaining or maintaining an established market for the stock, so that holders who do try to sell their stock dividend shares will not force the market price

down below the dilution value or below a normal price earnings ratio. If management wants to maintain good relations with smaller and institutional stockholders, it may go to some lengths to solve this problem (Baker, 1958).

Foster and Vickrey (1978) research was based on 82 bonus dividend announcements made during 1972 to 1974. They analysed daily market model residuals around the declaration date working on the hypothesis that mean of the declaration day residual was greater than zero. Foster and Vickreys results showed that the mean day residual of 0.02 was significantly greater than zero at 0.025 level of confidence i.e. have information content. This study concluded that stock dividend has informational content in that prices tended to rise with announcement of stock dividend, they further found that market efficiently react to stock dividend at the ex-dividend date. Foster and Vickrey's sample however included firms which paid cash dividends. They did not attempt to separate the effect of bonus issue from cash dividend announcements and other intervening factors.

Woolridge (1983) made refinement to Foster and Vickrey study. Their sample excluded firms which had concurrently paid cash dividend or which paid within the past three years. They also excluded firms that made what they consider significant announcements. Woolridge(1983) then employed the comparison period return approach to determine if the mean daily returns of the 60 days before and after the bonus issue announcements were statistically different. The empirical results indicate that there was a significant difference between the mean observation period (0.558 per cent) and the mean comparison period (0.068 per cent) at the 0.01 level. These findings support the notion that bonus issues are interpreted by investors as management signalling device.

Grinblatt, Masulis and Titman(1984) looked into the effect of announcements of bonus shares on the share prices. These returns were compared with the average daily return of subsequent benchmark period of forty trading days. To get the returns they used the Daily Returns File of the American or New York Stock Exchange.

The investigation revealed that for the total sample of 1792 firms the mean two day returns around announcement date was 3.41 per cent. For the benchmark period of forty trading days subsequent to the announcement the mean was 0.10 per cent. The three researchers took into consideration the concern that the increase in returns around the announcement period could have caused by the other announcements, other than bonus issue. The prices could have reacted to news of, say, mergers, cash dividends or reported earnings.

To rule out the effect of this a sample of 84 pure bonus issue announcement and 244 pure split announcements, where no contaminating announcements occurred were analysed. The mean two day return around the announcement was 5.87 per cent for bonus issues and 3.29 per cent for share splits, while that for forty days subsequent to the announcement was 0.14 for the bonus issues and 0.16 for the splits. Using the t-statistic, day 0 and day 1 returns were found to be significantly higher than for the benchmark period.

The positive returns could not be attributed to simultaneous or subsequent dividend increases as analysis of the sample with no cash dividend announcement indicate that the announcement effect is not as a direct result of cash dividend increases. One potential hypothesis they provide for this evidence is the so called "retained earnings hypothesis". With stock dividends, the value of the newly issued shares is subtracted from the retained earnings and added to the firm's capital account (Barnes and Shiguang, 2002).

The retained earnings hypothesis relies on the difference in accounting treatments for stock dividend issues of less than 20%- 25% and greater than 20%- 25%. According to the accounting policy of the American Institute of Certified Public Accountants issues of stock of less than 25% of authorized equity should be treated as stock dividends to reduce the retained account. Therefore, the retained earnings hypothesis argues that stock distributions of less than 25% are a signal of future earnings as the stock dividend paying firms are expected to replenish the retained earnings account with future earnings.

Their conclusion was that share prices react positively to bonus issues announcements. The inconsistency of this conclusion from those of Barkers can be explained by the information content of bonus issues. In the short run share prices will respond positively to bonus issues announcements though if the investors' expectations are not realized prices fall back to the correct levels.

Kalay and Loewenstein (1985) and Nissim and Ziv(2001) find a strong positive relation between dividend changes and a firm's ability to generate future earnings and cash. In markets like Kenya where managers have information about the current and future earnings, which is unavailable to investors, stock dividends may provide a low cost signalling device through which a manager can convey his or her assessment of firms prospects to investors. It is presumed that managers convey their expectations to the market through financial signals such as dividend changes such as stock split, stock dividend and stock repurchases.

Lakonishok and Lev (1987) carried out a study which comprised of a sample of 1015 share split and 1257 bonus dividend events covering the period between 1963 and 1982. They further constructed a control sample by matching every company in the test sample with a company which had more or less same asset size. They analyzed the performance of companies which issued bonus issues in terms of growth in earnings and in dividends. The examination was carried out for five years prior to and five years after the month in which bonus issue was announced. After measuring growth in earnings and dividends for the entire sample, a summary was made using simple average and median. The findings of this investigation did not provide support for the signalling motive of bonus issues. There was a very modest above average earnings performance of bonus issuing firms in the pre announcement period. There were hardly any differences in dividend growth between the test and the control sample.

Grinblatt (1994) document that stock prices raise on the average when stock dividend/ stock split is announced. They hypothesed that this transactions signal information about the firm on future earnings or equity values. Asquith (1989) Nichols and

Dravid(1990) in their studies on stock splits/stock dividend found that stock dividends/splits reveal favorable future information. They found that stock splits are followed by abnormal increases in dividends or earnings or both. A stock split returns in an increase in stock price of the splitting firm but it might also reveal information about the industry in general.

Contrary studies provide evidence of an insignificant relation between dividends and future earnings (De Angelo et al (1992); Benartzi et al (1997). Other authors show that a dividend loses its information content in explaining firm's future performance when earnings and earnings related variables(such as earnings forecasts) are released simultaneously[Conroy et al(2000); Mikhail et al (2003).] A new view is the tunneling perspective, which argues that cash dividends may be used as a tool to redirect firm resources to benefit large shareholders and to management at the expense of minority shareholders. [Faccio, et al (2001)]

The total market value of the shareholders holdings after the bonus shares is the same as the total value before the bonus shares. Thus, the bonus shares have no impact on the wealth of shareholders. In practice, it is observed that immediately after the announcement of bonus issue, the market price of a company's share changes depending on the investors' expectations. Sometimes a sharp decline in the share price may be observed if the bonus issue falls short of the investors' expectation.

It may be emphasized that the market value of the share may improve as a result of the bonus issue if it is followed by increased dividends in the immediate future. If the dividends do not increase it is likely that the market price may fall.

2.6 THEORIES OF VALUATION OF COMMON SHARES

There are three theories of valuation of common shares (Yee, 2001) namely, the fundamental theory, technical and random walk theory.

Fundamental theory states that every security has an implicit value, which is equal to the present value of all cash flows expected from a company. The value of the

security should therefore be equal to the present value of dividends expected from the company. The assumption is that the company follows a constant dividend policy.

Technical theory holds that the historic price patterns are expected in the future. This price patterns can be sub-divided into primary, secondary and tertiary movements. Primary movements are long term in nature and the trend represents a period greater than one year. Secondary movements are seasonal variations in the share prices capturing periods covering several weeks. Tertiary movements refer to the daily changes in stock prices. This theory ignores the tertiary movements and uses the secondary movements to determine changes in primary movements.

Random walk theory holds that prices of securities depend on factors that affect expected return and expected risk. Information on these factors is released to the markets at different intervals and investors react differently to the information. security prices therefore follow a random walk trend and cannot therefore be predicted. It has the support of the efficient market hypotheses. The efficient market hypothesis was formulated by Fama (1970) which states that prices fully reflect all available information on a particular stock and or market. Thus, according to the efficient market hypothesis, no investor has an advantage in predicting a return on a stock price since no one has access to information not already available to everyone else.

Kendall (1953) examined 22 UK stock and commodity prices and concluded that "in series of prices which are observed at fairly close intervals the random changes from one term to the next are so large as to swamp any systematic effect which may be present. The data behave almost like wandering series". The near zero serial correlation of price changes was an observation that appeared inconsistent with the views of economists. Nevertheless these empirical observations came to be labeled the "random walk theory".

Generally the value of a share today is a function of cash inflows expected by investors and the risk associated with those cash flows. Cash flows from an equity share consist of dividends and capital gain expected on sale of the share.

2.7 FACTORS THAT INFLUENCE THE PRICE OF A SHARE

2.7.1 Profitability and dividend policy of the company

It is assumed that profitable companies pay good amount and stable dividends.

Usually companies with stable and good amount of dividends will command higher market share prices than companies with small and unstable dividends i.e. less in amount and erratic dividends. Miller and Ruck(1985) suggested that dividend announcement provide the missing piece of information about the firm and allows the market to estimate the firms current earnings. investors may have greater confidence that reported earnings reflect economic profits when announcements are accompanied by ample dividends.

2.7.2 Growth prospects of the company

Companies with ambitious expansion or growth programmes will retain of their earnings to facilitate such growth. This means that in the short run they may not pay good dividends and this will tend to lower the demand of such shares but in the long run such companies may be able to pay good dividends once the investments made start to generate sufficient return which will then be paid to shareholders in form of high dividends. According to Donaldson (1961) firms with low payout and low dividend yield may tend to be valued more in terms of future investment opportunities. Consequently its stock price may be more sensitive to changing estimate of rate of return over distant time period.

Price earnings ratio of a company will influence the company's share prices in that if a company has been having reasonable price-earning ratios for some time this will appeal to potential shareholders whose demand for such shares will rise and this will increase the price of such company's share.

2.7.3The no-arbitrage principle

Yee(2001) in his paper on information and stock prices noted that as a casual follower of financial news, stock prices rise and fall in response to earnings and revenues announcements. Almost all companies' reports on financial announcements focuses on two questions: whether a firm is meeting or beating earnings per share

expectations. There is little discussion of cash flows or changes in the value of important balance sheet items. On its face, his observation appears to be at odds with the no-arbitrage principle-the basis of the traditional approach to asset pricing in finance- which states that the cash flows determine the equilibrium prices. According to this principle, shareholders should pay only for the expected real cash flows, not bookkeeping constructs like earnings.

2.7.4 The complementarity's principle

The basic idea behind the complementarity's principle is that future cash flows are predicated by a weighted average of three main components of financial reports: balance sheet information, current cash flows and forward EPS. The complementarity's principle links all three forecasting attributes to a company's stock price. Findings were in agreement with principle and this framework helps to explain why investors and analysts sometimes rely more on cash flows and less on EPS and vice versa. The price of a mature "cash cow" firm is essentially determined by capitalized cash flows: earnings and balance sheet information provide little additional information that would improve the valuation estimate of such a firm. A young growth firm, on the other hand, has cash flows that are negative importance of earnings versus balance sheet information depending on the expected earnings growth rate, earnings quality, the probability of bankruptcy, on and off balance sheet financial and operating leverage and the market discount rate. A firm with aggressive revenue deferrals, for instance, will have an inaccurately depressed value estimate based on capitalized earnings alone. In such a situation, balance sheet and cash flow information correct any potential biases caused by capitalized earnings (Yee,2001).

2.7.5 Economic development and government

Miller (1999) in his study on level of economic development of a firm's country of domicile and the patterns in stock market reaction surrounding U.S earnings announcements documented that stock market's reaction to the cross-listing announcement of an emerging economy firm is generally larger than its reaction to the equivalent announcement made by a developed economy firm. Limitation of the study was the potential for sample selection bias and the interpretation of the results

presented were subject to assumptions about the fundamental asset pricing model, inefficiency in the market and rejection of market integration.

Business cycles, irregular increases and decreases in economic activity, also have an influence on stock prices. There are many theories about what causes business cycles. Some say technological innovations or political events create expansions and contractions in business activity. Other argues that imbalances between production and consumption create the cycles: growth is caused by consumer demand which causes manufacturers to expand their production. Eventually, production exceeds demand, businesses cut back, unemployment increases, and demand falls until consumers can no longer postpone new purchases, at which point growth begins again. Broad changes in common stock prices generally coincide with business cycles, but it is very difficult to predict when cycles will begin and end, and which stocks will be affected as quoted in Fiscal Agents Money Management Newsletter (2007). Kaplan (2002) also concluded that financial markets follow leading economic indicators that indicate where the economy is going. They recognized that there were various economic indicators but they focused on the current unemployment rate in relation to full employment, the capacity utilization index, the cost of production, commodity prices and changes in inventories as the main indicators in their study.

Hatch and White in their research titled "Canadian Stocks, Bonds, Bills and Inflation 1950-1987 as quoted in Fiscal Agents Money Management Newsletter (2007) advocated that fundamental factors that influence the share prices include expectations, external events, fiscal and tax policies, government spending, monetary policy, inflation, and business cycles while the technical factors include condition of securities markets, price movements, trading volume and supply and demand.

Fundamental factors include everything outside the security markets themselves which might influence price. Because market security prices are negotiated between buyer and seller, future expectations help determine price. Present information helps determine future expectations but, because people have different access to information and interpret information differently, buyers and sellers are usually able

to strike a deal. External events such as wars, earthquakes, and crop failures can have major impacts on equity prices because most equities, unlike bonds, have no fixed terms or returns.

Government fiscal policies may influence stock prices. At its simplest, government spending is usually stimulative, and will support the stock prices of certain industrial or social sectors, as long as they are not too inflationary. Tax increases tend to dampen consumer spending and business profitability while tax cuts may spur the economy and boost profits & common shares.

As well, the levels and targets of government spending can affect business profitability and share prices. Governments can direct spending to assist specific economic sectors. Import policies may help or hurt particular industries, and policies such as the dividend tax credit may encourage share ownership. Monetary policy may be directed toward restraining the growth of money and credit during excessive economic expansions and vice versa during contractions. This has an effect on the activities and expectations of businesses, and their share prices. Market participants may change their interpretations of government policy, thus altering their expectations and the price they are willing to pay for common shares.

Inflation tends to create uncertainty, increase inventories, and drive up labor costs, all of which usually depresses common stock prices. Also, since depreciation allowances are pegged to the original cost, not replacement cost, true costs of doing business in inflationary times are usually understated. The tax burden of corporations increases because pre-tax profits become overstated. This will serve to reduce share prices. Inflation also drives up interest rates, either as a matter of government policy or as an "inflation premium" demanded by lenders to compensate them for a future decrease in purchasing power. This increases the cost of loans, decreases business profitability, and decreases share prices.

2.7.6 Leverage

Black (1976) suggested the leverage effect that price movements are negatively correlated with volatility. However, he argued that the measured effect of stock price changes on volatility was too large to be explained solely by leverage effects. Given the operating risk, there should be a direct link between share price volatility and leverage under conditions of asymmetric information there is also likely to be a link between borrowing and dividend policy.

2.7.7 Negotiation between buyer and seller

Because market security prices are negotiated between buyer and seller, future expectations help determine price. Present information helps determine future expectations but because people have different access to information and interpret information differently buyers and sellers are usually able to strike a deal. External events such as wars, earthquake and crop failures can have major impacts on equity prices because most equities unlike bonds have no fixed terms or returns. Investors may speculate on a number of things regarding the company's performance. Kaplan (2002) noted that the market forces represent a critical item in determining a stock's price. If the market as a whole is falling due to a poor economic outlook or because institutional investors are engaged in another one of their frequent irrational panics, even the best stocks may not be able to withstand the force of the overall market. Or, a strong bull market may lift the prices of the majority of stocks despite constant fundamentals for individual companies.

Market forces may also represent a segment of the market. Certain stock groups may become very popular and show tremendous price appreciation simply because investors are trading on momentum. In this case, economic and company fundamental are basically ignored in favor of making a rapid capital gain.

2.8 EVENT STUDY

Event study was employed as early as 1933 by the Dolley. Over the past half century, event studies have been employed in much research and their sophistication has been greatly improved by authors such as Fama et al(1969) and Brown and Warner (1980).

1985 (Barnes and Shiguang,2002).Event study is one of the methods that can be used to test the efficiency of a market and is generally used to evaluate the reaction of share prices to public announcements. An event study averages the cumulative performance of stocks over time, from a specified number of times of time periods before an event to a specified number of periods after. Performance for each stock is measured after adjusting for market wide movement in security prices. The researcher by using event studies can determine whether there is an abnormal stock price effect associated with an unanticipated event so as to infer the significance of the event. therefore an event study measures the effects of an economic event on the value of the firm. The impact can be measured by examining security prices surrounding the event (Mackinlay, 1977).

Using the market model or capital asset pricing model as the benchmark these event studies provide evidence on the reaction of shares prices to release of the information. In both cases the market appears to anticipate the information and most of the price adjustment is complete before the event is revealed to the market. When news is released the remaining price adjustments take place rapidly and accurately. Event studies have been made about reaction of security prices, particularly stock prices, to the release of information such as news on earnings and dividends, share repurchase programs, stock splits, stock dividend, stock and bond sales, stock listings, bond rating changes, mergers and acquisitions and divestiture. To construct an event study, the event, event window, estimation window, estimation model and investigation window should be determined (Barnes and Shiguang, 2002).

2.9 EMPIRICAL STUDIES DONE IN KENYA ON THIS AREA

Iminza (1997) investigated whether dividend payout does affect stock prices. The researcher collected data through secondary data obtained from the Nairobi Stock Exchange. She used the chi square and f distribution methodology to measure the goodness of fit of stock prices five (5) days prior and five (5) days following the dividend announcement date. She concluded that dividend has significant impact on share prices. further it can be deduced from the analysis that the impact is much greater when there is a reduction in dividend paid than in an increase. From the chi

square tests, it was also evident that some companies that continuously paid dividend had significant increase in their share prices. Iminza study agree with this study in that both researchers investigate on whether or not dividend payout/bonus share has an effect on the share price of companies quoted at the Nairobi Stock Exchange. However, the methodologies used by the two researchers are different. Iminza used the chi square and f distribution while this study will use the comparison period return approach.

Onyango (1999) carried out a study to establish the factors managers consider before declaring bonus issues and the estimation of benefits to shareholders at NSE. She carried out her study using a questionnaire to establish the factors managers consider before declaring bonus issues and using secondary data obtained from the NSE to estimate benefits to shareholders. She found out that managers believed that stock dividends (bonus issues) benefit the firm through conserving cash, signalling that the paying firm has invested in new projects and broadening the shareholders base. She observed that shareholders tend to receive higher cash dividend after bonus issue. There was an increase in cash dividend of 10.23% in the year following the issue of bonus issues, which was statistically significant. The researcher left a gap on the effects of issuing bonus issue on the share price which I shall attempt to address in this research since increase in the share price is one of the concerns of an investor hence this study will enable the investor to make rational decisions when purchasing shares trading cum bonus.

Achieng(2000) carried out an empirical study on the characteristics of bonus issuing firms in Kenya. She carried her study using financial statements from individual firms under study and the NSE. She concluded that on average those firms that had never issued stock dividends had higher dividend payout ratios, dividend yield, return on the investments and a higher percentage of capital reserves in the total reserves. Those firms that had made the issues more than twice had the highest changes in cash from the operations, earnings, growth in earnings, shareholders funds and total reserves but also had the lowest return in investments. The study proved that only two variables (total reserves and dividend reserve) are significant in predication purposes. That

meant that managers may be using non quantitative considerations in deciding whether or not to issue bonus shares and thus indicating that there exists a gap between finance theory and practice in the issue of stock dividends in Kenya. Whereas Achieng investigated on the characteristics of the bonus issuing firms in Kenya, this study will look at the share movements after issuance of the bonus shares. Hence this study will be of use to investors, management, scholars and government because it will enlighten them on the likely scenerios that can occur after issuance of bonus shares.

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CHAPTER III

3.0 RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

This research was premised on the event study methodology [(Dolley(1933) and Fama (1969)] to examine whether prices respond to bonus issues on the NSE and whether there were abnormal returns surrounding the bonus issues announcement.

In carrying out an event study one needs to define the following terms:

An event

This is what the investigators would like to study and it conveys information that potentially influences the stock prices. The events defined for this study are the announcements of bonus proposals or bonus approvals (Barnes and Shiguang 2002).

An event window

This is the period when the occurrence of the event is publicly announced. In the case that the event is announced after trading hours and then impacts on the next day's prices or that there is a time difference in the announcements in different news media, the event window is expanded to three days. Thus the event window in this study is combined with the day of the announcement and the days preceding and succeeding the announcement day (Barnes and Shiguang 2002).

An estimation window

These are the periods over which parameters are estimated. Measurements of abnormal return-first estimate the normal returns (Barnes and Shiguang 2002). Abnormal return is given by return during the event window minus normal returns. The abnormal returns occurring in the periods around the event window reveal whether the market has anticipated the information contained in the event (or there has been trading on inside information). The abnormal returns in an interval after the

event window can tell us whether the market overreacts or under react to the announcement of the event (Barnes and Shiguang 2002).

3.2 POPULATION AND PERIOD OF STUDY

The population of this study comprised of companies quoted on the Nairobi Stock Exchange as at 31 July 2007. The study was restricted to quoted companies because of the difficulties that would be experienced in obtaining data from private companies. These companies were fifty three (53) in number as indicated in appendix 1. The years of study commenced 1 January 2004 to 31 July 2007. However, year 2003 was included for the reason that events leading to the issue of a bonus may commence way before the issue. This period was considered suitable for this study because of three reasons. First reason being, the availability and bulk of data involved in this investigation. Second, this period was associated with the economic growth being experienced by the country and lastly because the sample had at least one company in each of the segments of the Nairobi Stock Exchange.

3.3 SAMPLE

The sample consisted of all the listed companies that declared bonus issues between the period of interest and was drawn from all the segments of the stock exchange. The sample size was made up of fourteen (14) companies as indicated in appendix II. Thompson (1988) examined the effect of confounding events and concluded that they do not materially impair the results of studies. This study performed the tests on all sampled companies regardless of whether or not a cash dividend/ stock split accompanied the bonus issue.

The sample used the daily pricing and not weekly or monthly returns. Hence the choice of sample also took into consideration the availability of financial statements and daily pricing of the companies. Prior studies carried out exhibit the use of both monthly and daily stock return data in event studies. Fama et al (1969), and Browner

and Warner (1980) used monthly stock return data, whereas Scholes (1972), Corrado (1989) and Frankfurter and Schneider (1995) used daily stock return data.

Daily pricings were deemed more appropriate than monthly returns because: Firstly, daily returns depart more from normality than monthly returns (Fama, 1976). Secondly, daily returns have a smaller standard deviation than monthly returns (Brown and Warner 1985). Thirdly, daily returns are more effective as they permit a researcher to take advantage of precise information about specific day of the month on which an event takes place (Brown and Warner, 1985). Fourthly, the response of stock prices to new information is rapid which is best analyzed using the daily returns.

3.4 DATA COLLECTION

In order to achieve the set objectives of this study secondary data was used. The secondary data was obtained from the Nairobi Stock Exchange Secretariat informational database and the companies' financial statements. The items that were extracted from the NSE Secretariat informational database were the name of the company making the bonus issue, rate of the bonus share, date of bonus issue announcement, any cash dividend or stock split accompanying the bonus issue and daily stock prices for the company.

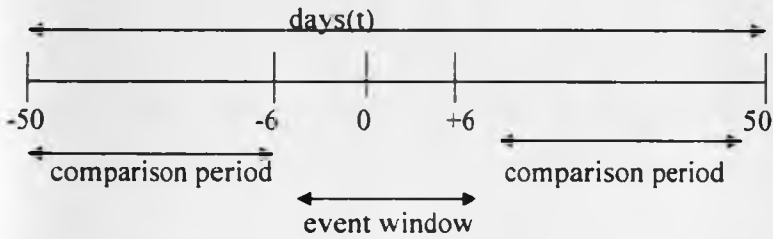
3.5 DATA ANALYSIS

This research used the date that the NSE was notified by the company of the impending issue as a guide in coming up with the event window. The event window was the date of announcement and five (5) days prior to and after the announcement date. Thus the length of the event window was eleven (11) days. Mc Williams (1997) observed that surrounding days prior to the announcement date were needed for the purpose of capturing any insider trading while surrounding days after the announcement date were to evaluate the markets reaction to the new information.

Data analysis was carried out using the Comparison Period Return Approach (CPRA) initially modeled by Foster and Vickrey (1978) and subsequently refined by Woolridge(1983).The study determined price effects of bonus issue announcement by

testing the statistical difference of the mean daily return of the event period (observation period) with the mean daily return of the comparison period. The comparison period for this study comprised of 45 surrounding days before the event study and 45 surrounding days after the event window.

The study intended to determine 101 daily returns surrounding each stock dividend announcement date i.e. 45 days' abnormal returns for the pre announcement period and the event day and 45 days' abnormal returns for the post announcement period. Data from secondary source was analyzed using the chart as shown below:



The portfolio daily returns on the stock were computed on each day surrounding the issue by using the following formula:

$$R_x = \frac{P_x - P_{x-1}}{P_{x-1}}$$

- R_x stands for the rate of return for each share on day t
- P_x stands for the closing price on share on day t
- P_{x-1} stands for the closing price on the share on day t-1(previous day)

The mean portfolio daily return was also calculated for the event window and the comparison periods. For each day, t-statistic and tests of significant difference between the two periods was computed to establish whether excess returns around the announcement date are different from 0. If the t statistics are statistically significant

CHAPTER IV

4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 INTRODUCTION

The aim of this study was to explore the effect of bonus share issues on stock prices of companies quoted at the Nairobi Stock Exchange. Data was collected from NSE to determine whether there are abnormal returns surrounding the bonus issues announcement and to establish the direction and magnitude of the stock price adjustment on the announcement of bonus issue. The data collected were analyzed using descriptive statistics and event study methodology.

The sample size comprised of fourteen (14) companies. Out of the 14 companies in the sample, three (3) firms namely, CFC Bank, Express Kenya and Standard Group posted bonus with no accompanying cash dividends and no share split. Eight (8) firms namely, Jubilee Holdings, TPS Serena, Equity Bank, CMC Holding, Standard Chartered Bank, Crown Berger, Diamond Trust and Nation Media posted bonus issues with accompanying cash dividends. One (1) firm namely East Africa Breweries issued bonus issue with accompanying cash dividends and share split. Two (2) firms namely Barclays Bank of Kenya and Sasini posted bonus issue with accompanying share split.

4.2 DESCRIPTIVE STATISTICS OF THE SHARE RETURNS

Based on the event study methodology [(Dolley (1933) and Fama et al. (1969))] the results were divided into; Estimation window, Event window and Post event window. To facilitate in analyzing data Ms Excel and SPSS software were used. For each company in the sample mean and standard deviation were calculated to describe and estimate the

variance in share returns and a t-test performed to test whether the variations are statistically significant.

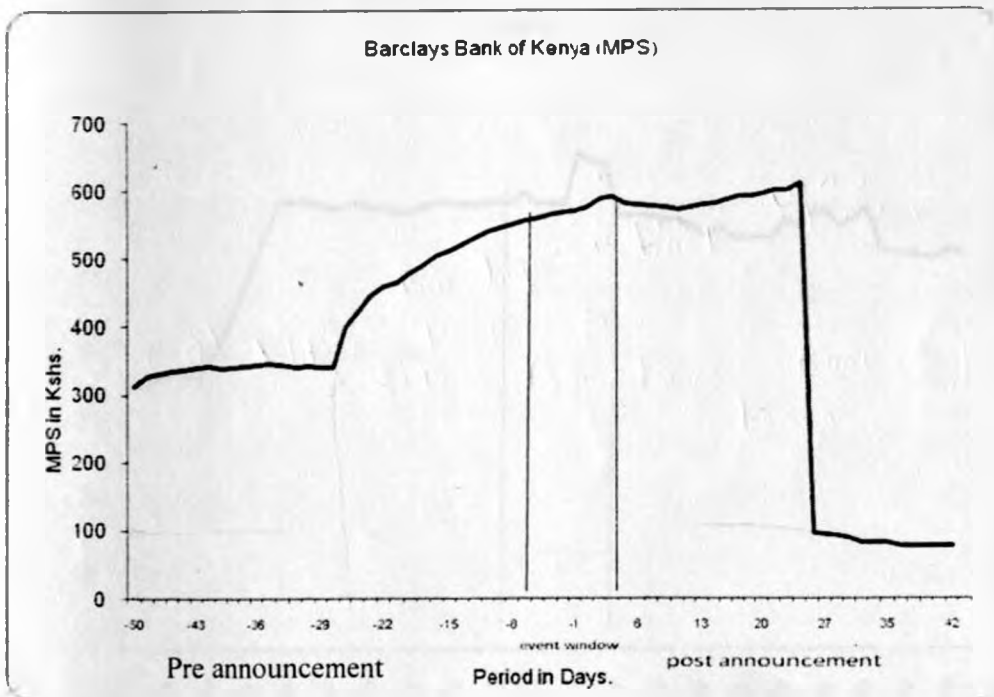
4.3 DETERMINATION OF WHETHER THERE ARE ABNORMAL RETURNS SURROUNDING THE BONUS ISSUES ANNOUNCEMENT

To achieve the first objective of this study, annual cash dividends paid to shareholders of the sample companies for the period prior to and after the bonus issue were compared. In order to make meaningful comparison the cash dividend before capitalization was adjusted to the equivalent dilution value after the stock dividend (See Appendix iii). The difference between adjusted dividend and the actual dividend paid after capitalization was calculated. Out of the eight companies that the pre and post cash dividend analysis was carried out on, six companies were followed by increases and two by decreases in cash dividends paid to shareholders. Six out of the fourteen companies were excluded from the analysis because they are still carrying on there operations within the years which the companies declared there bonus issue.

Further, the daily share prices of the fourteen (14) sample companies were collected for the pre announcement period, event window and the post announcement period (Appendix iv-xvii). The pre announcement period commences from day -50 to -5, event window from -5 and +5 and post announcement period from +6 to +50. The behavior of the share prices are depicted using graphs as shown below:

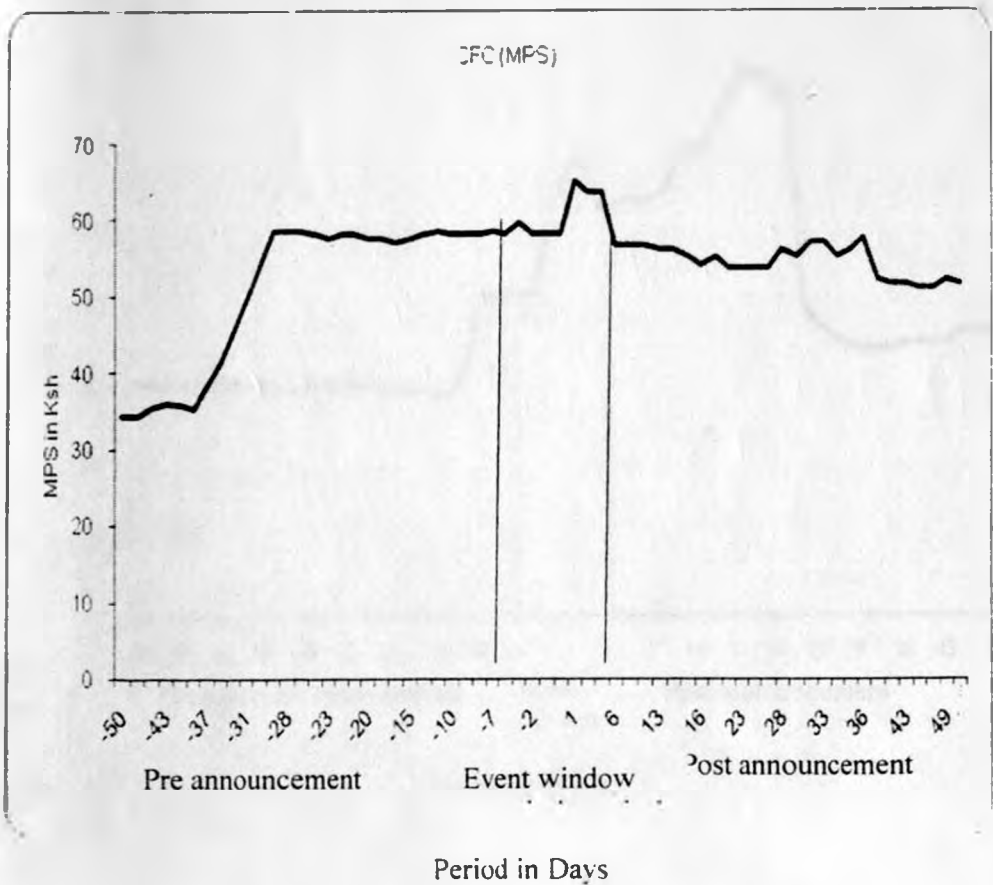
GRAPH I- BARCLAYS BANK OF KENYA

Barclays Bank bonus issue was characterized by a gradual increase of market prices during the pre announcement period with share prices ranging between Kshs.312 and Kshs.339 followed by a sharp increase in the share price approaching the event period. during the event period and after the event period until the date of closure of books. Shares traded at highs of Kshs.610 (See Appendix xvii). However the share prices decreased after the shares were credited into the customers account. The increase of share prices before the announcement date could be interpreted as existence of insider trading. Returns were highest during the pre announcement period (between day -28 and 20) and lowest in the post announcement period (between day 25 and 40).



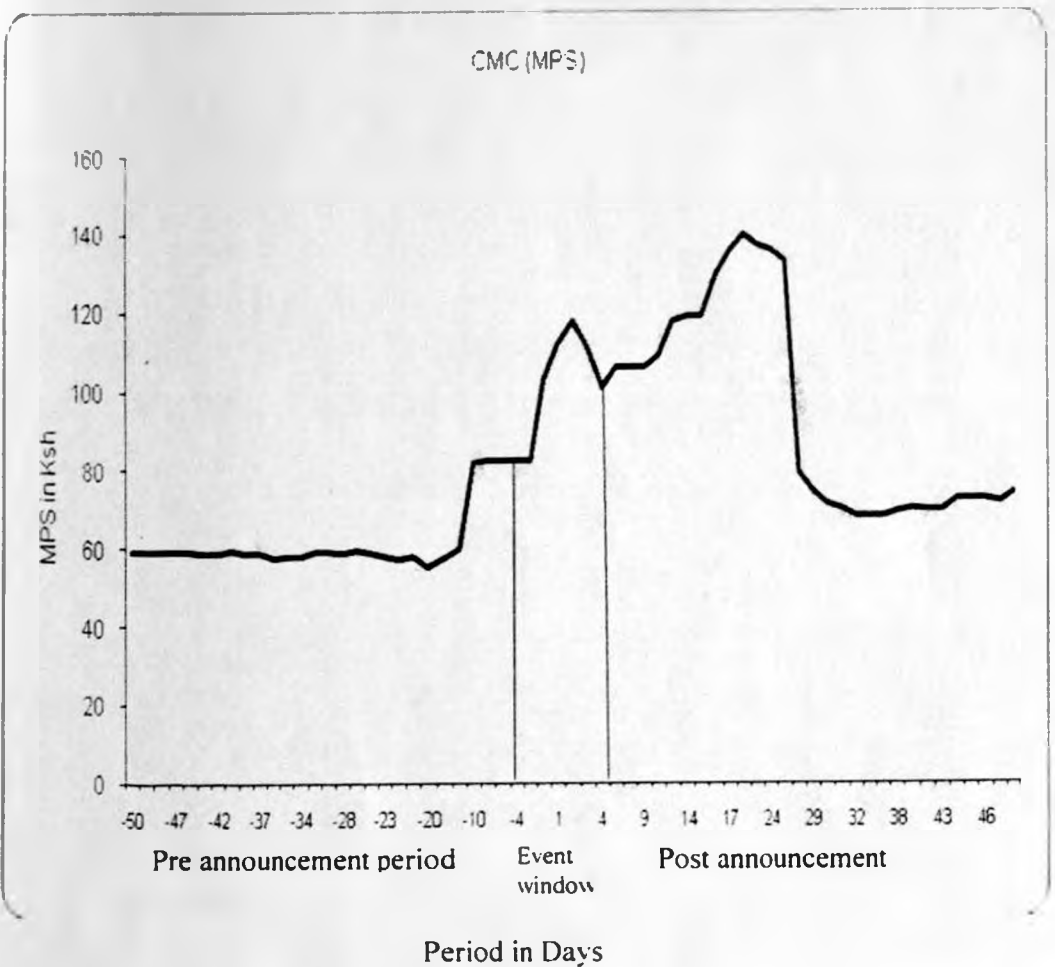
GRAPH II-CFC BANK

The market price of these shares increased gradually then sharply during the period prior to the announcement date. The event window period experienced the highest increases in the shares prices while the period after the announcement date had decline in the share prices. Therefore the returns were highest during the event period and lowest during the post announcement period. The improvement of the returns of the event window over the pre announcement period was by 18% while the decline from the event window to post announcement period was by 11%. The investors who bought or had shares before the announcement date and sold during the event period reaped the highest returns because after the event window there was a decline in the returns on the shares.



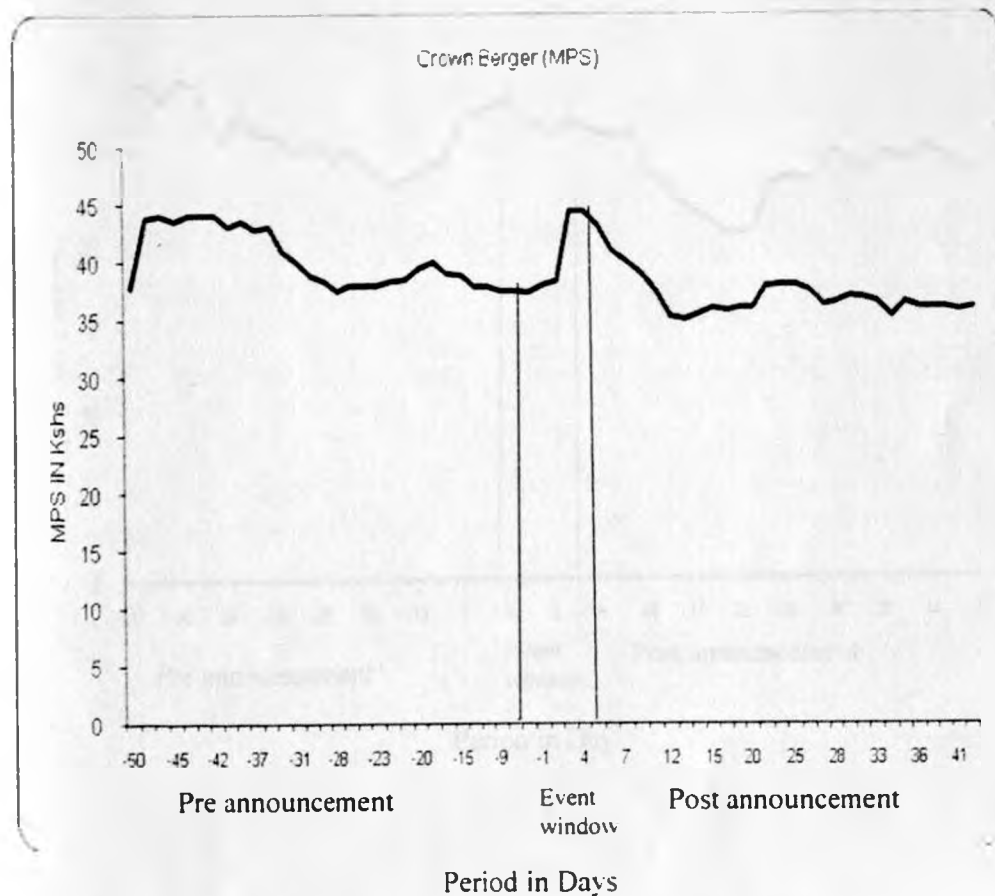
GRAPH III-CMC HOLDINGS

Market prices of the shares fluctuated between Kshs 58.50/- and Kshs 60 for forty out of the forty five days prior to the announcement date. hence having a thin range of fluctuation. However, from the last five days before the event window into the event period and to the thirteenth day after the post announcement date the market shares prices continued to move at an upward trend reaching a high of Kshs.140 (See Appendix iv). It can also be noted that the shares prices began to decline on the fifteenth date after the announcement which coincided with the date when the dividends register was closed.



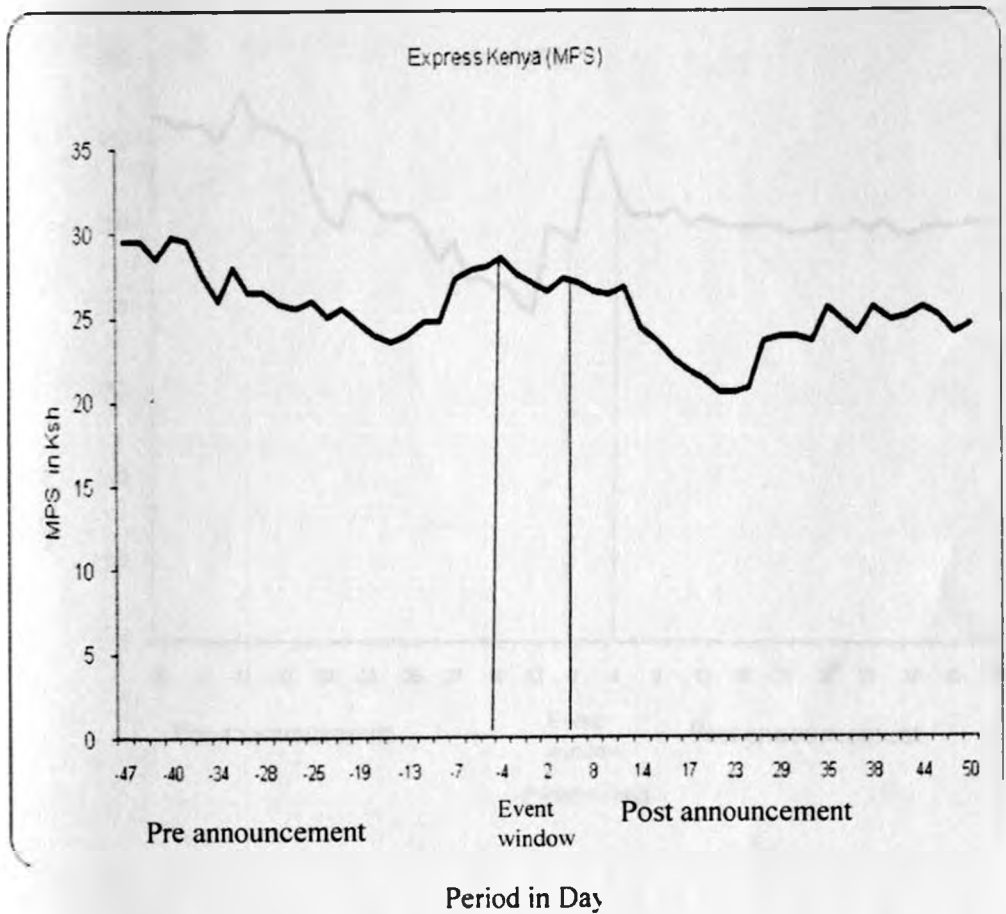
GRAPH IV- CROWN BERGER

The share market prices on this counter increased marginally on the bonus shares issue. The returns were highest during the event period with shares trading at average prices of Kshs.41.60 which was an improvement over the average price of Kshs.40.20 traded during the pre announcement period and Kshs. 36.80 traded during the post announcement period.(See Table ii and iii). The average price difference of Kshs. 3.40 between pre and post announcement dates presented an investor with an opportunity of making short term profits. It can be noted that the prices declined further with the closure of the dividends register on 9th June 2004.



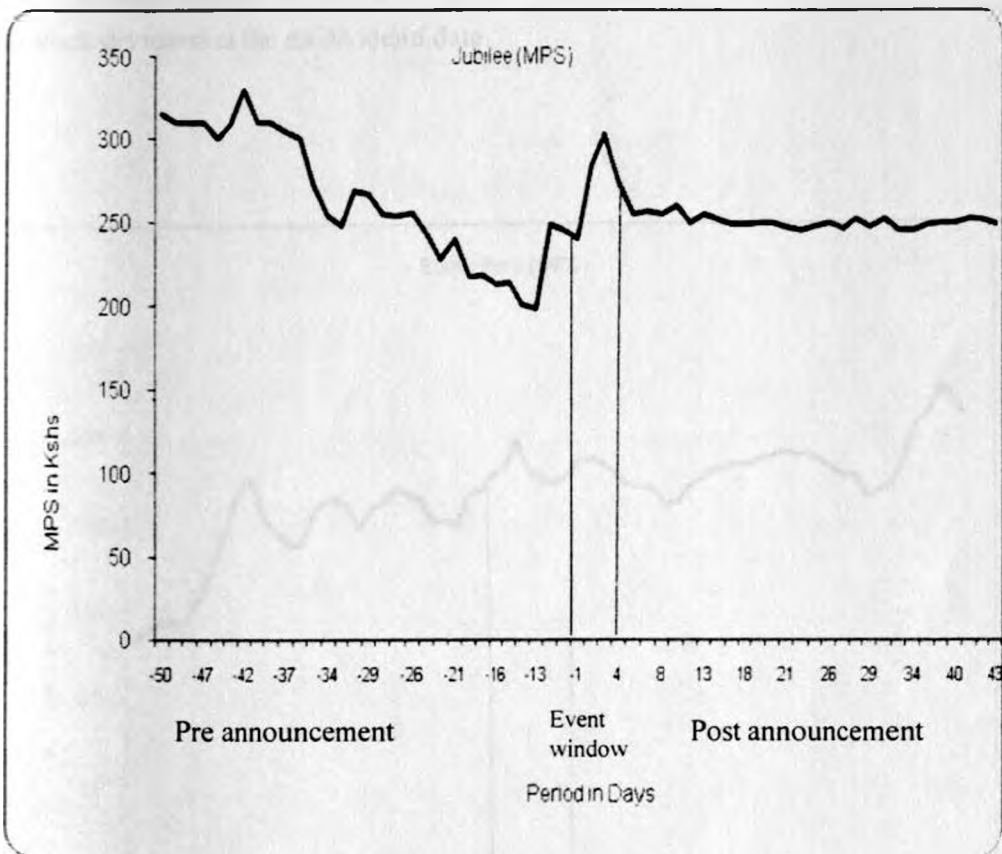
GRAPH V- EXPRESS KENYA

It is like there was a long term negative drift in the share prices of this company. The share prices performance during the period prior to the announcement date i.e. of Kshs.28.50 were far much better than the post announcement period i.e. 24.50(See Appendix xi). This can be explained using Baker (1958) observation, that companies suffered price declines when they issued stock dividends without also increasing cash dividends.



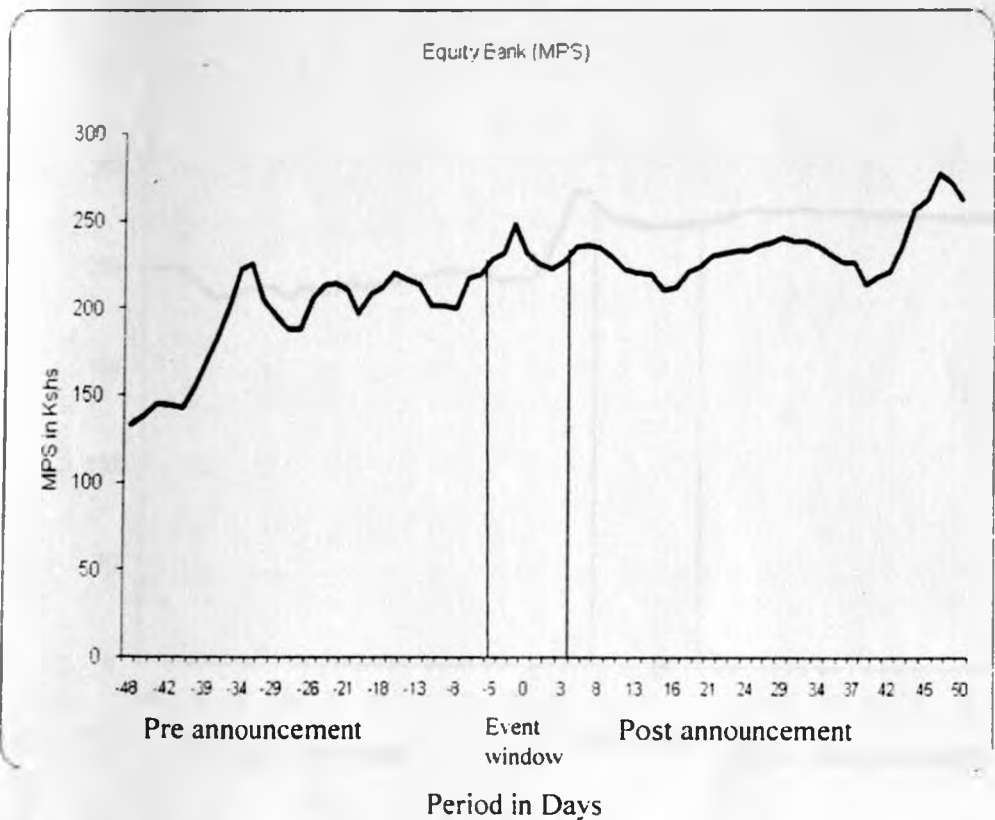
GRAPH VI-JUBILEE HOLDINGS

The share prices of this company were moving on a downward trend in the period before the announcement i.e. they declined from Kshs. 315 to Kshs. 232 and recovered from Kshs. 232 to Kshs.274 on the announcement of the bonus issue (See Appendix xv). The market prices of the shares were flattened immediately when the bonus and dividend shares registers were closed on 28th June 2007.



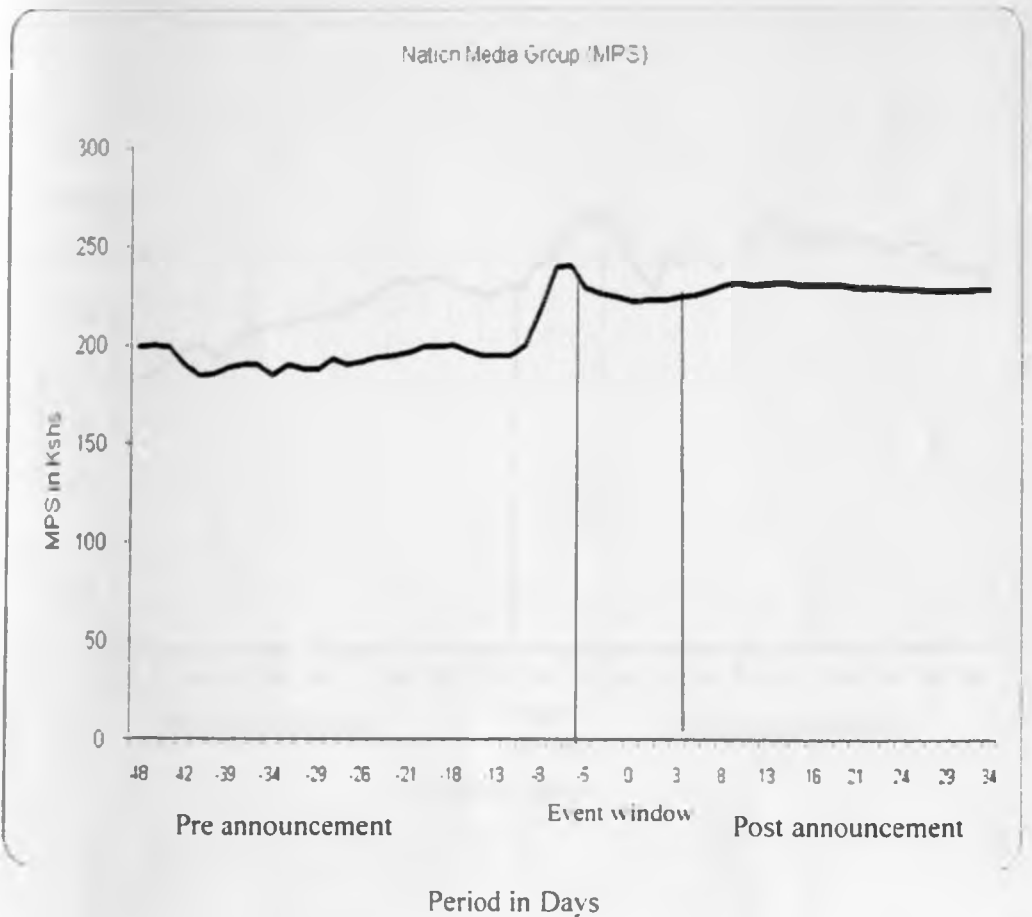
GRAPH VII-EQUITY BANK

The graph below depicts a long term positive drift in the share prices of this company. The share price performance before the announcement was lower than the performance of the share prices after the announcement. Before announcement date shares traded between Kshs.133 and Kshs.225 but after announcement no share traded below Kshs.210 and the shares price went as high as Kshs.277. The prices increased even after the ex dividend date which was in agreement with Foster and Vickrey (1978) conclusion that stock dividend has informational content in that prices tend to rise with announcement of stock dividend and in addition that market efficiency react to stock dividend at the ex dividend date.



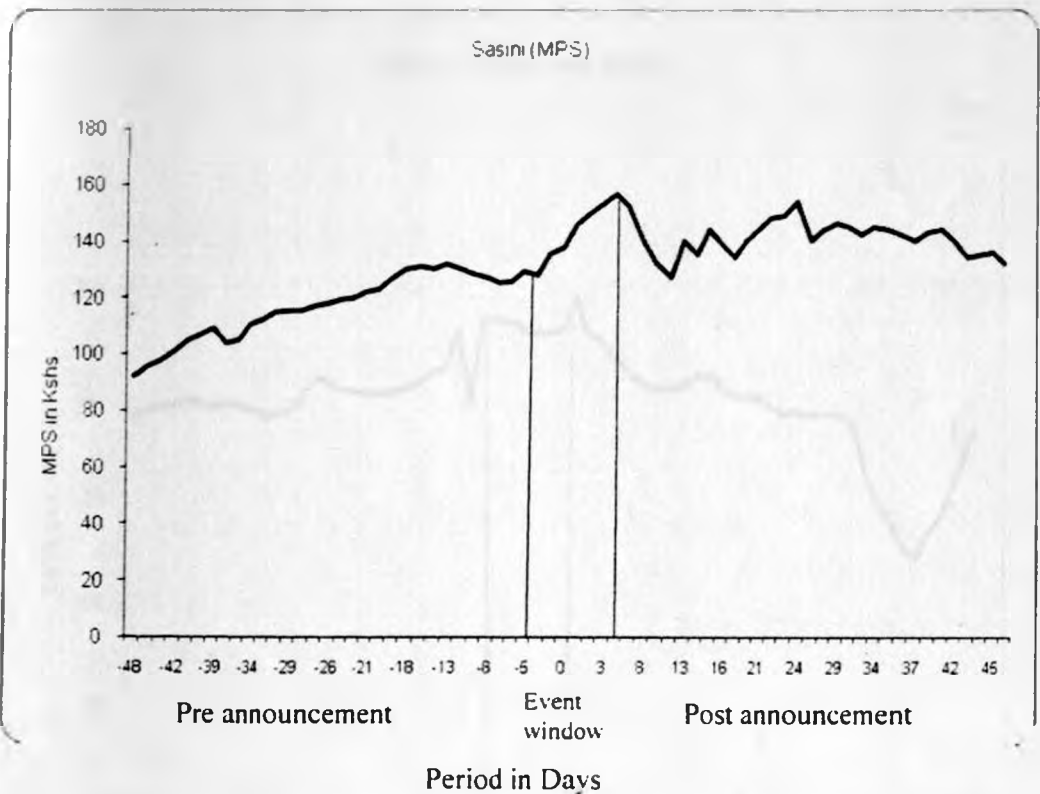
GRAPH VIII-NATION MEDIA GROUP

The shares price of this company increased significantly during the post announcement period with the average shares price improving from Kshs.191.90 during the pre announcement period to Kshs.228.30 during the post announcement period (See Table ii). Further it can be noted from the graph that the market price for the company was flattened immediately the market digested the news of the announcement. It can also be interpreted that there was no insider trading in this issue since there was no abnormal increase of share prices around the pre announcement period. This is supported by the t-test performed between pre announcement date and event window which led to the conclusion that there was no significant difference between this two periods (See Table vii).



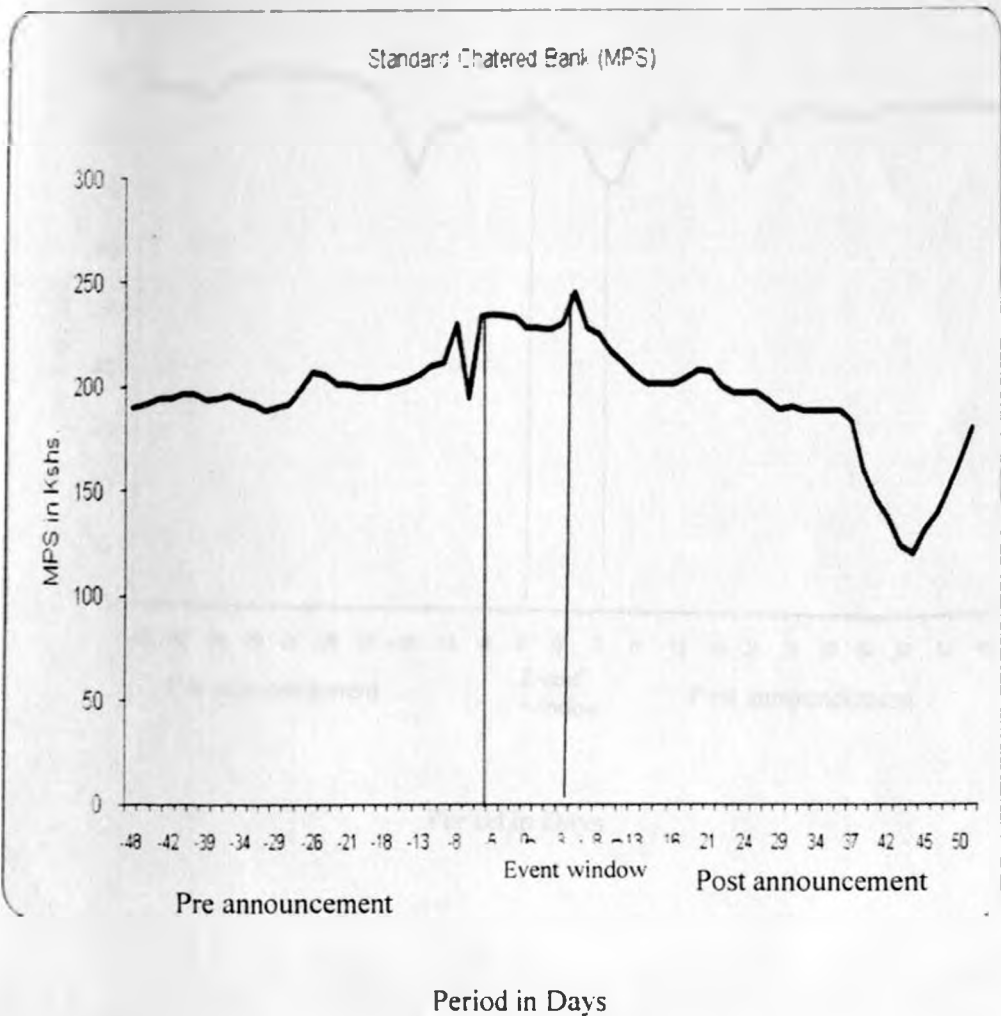
GRAPH IX-SASINI COMPANY

The market share prices of this company had an upward trend during the pre announcement period with share prices increasing from Kshs.92 to Kshs.131.75 (See Appendix xii). The highest returns were earned during the event period with shares trading at an average price of Kshs.128.70 (See Table iii) which gave the investors an opportunity of making short term profits on shares bought before the announcement date and sold during the event window. The post announcement date was characterized by a decrease in the share prices of the company. This company issued a bonus and split dividend. The behavior of this company's concurs with the findings of Pettit (1972) that most prices adjustment takes place either on the dividends announcement date or soon after the announcement.



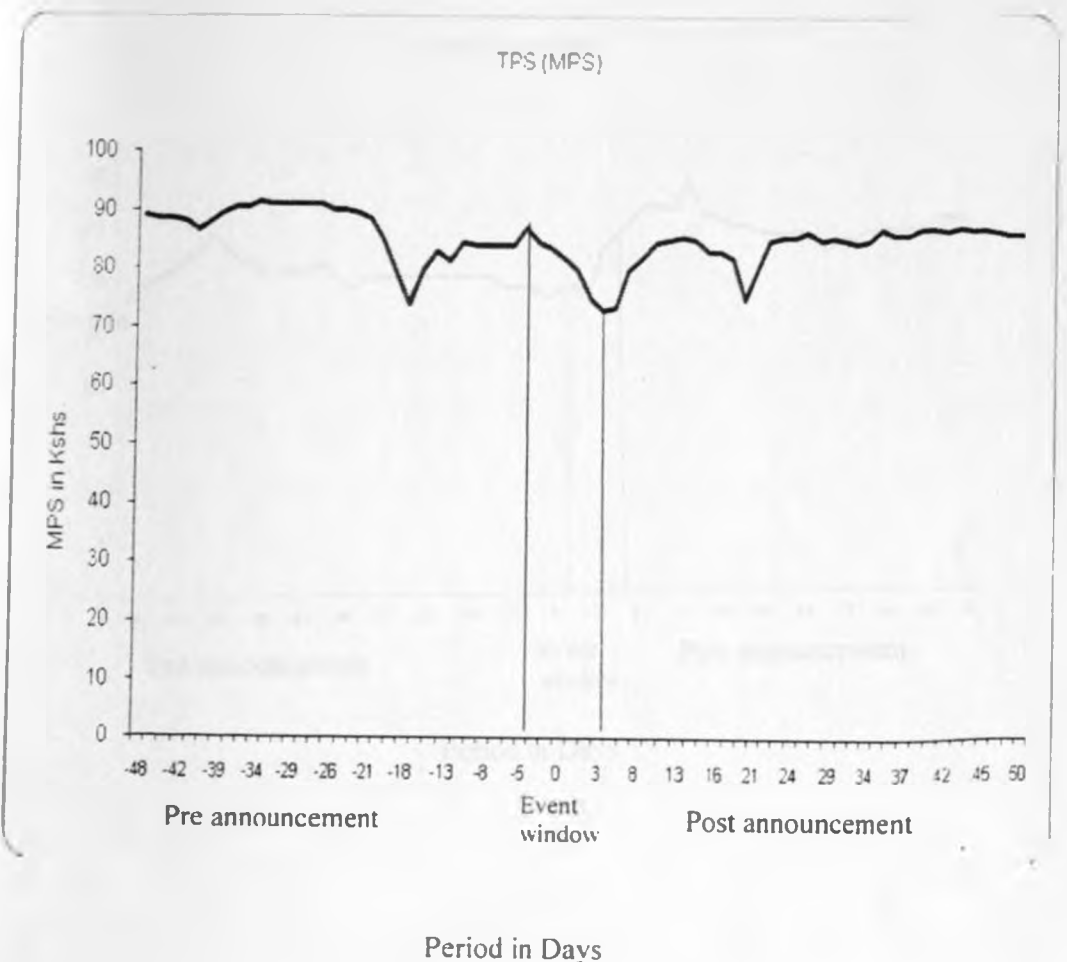
GRAPH X- STANDARD CHARTERED BANK

Share prices of this company were erratic: firstly during the pre announcement period the prices generally increased from low prices of Kshs.189 to high prices of Kshs.235 secondly during the event period the share prices decreased to trade at between Kshs.227 and Kshs.228 then increased to trade at a range of Kshs.230 to Kshs.245 and then decreased again to as low as Kshs.225 and finally during the post announcement period the prices generally decreased (See Appendix vi). This behavior concurred with Grinblatt, Masulis and Titman (1984) findings that positive returns could not be attributed to simultaneous or subsequent dividend increases since not only did standard chartered bank declare a bonus issue but it also declared cash dividends of Kshs. 5.00 per share and yet the share prices declined in the post announcement period.



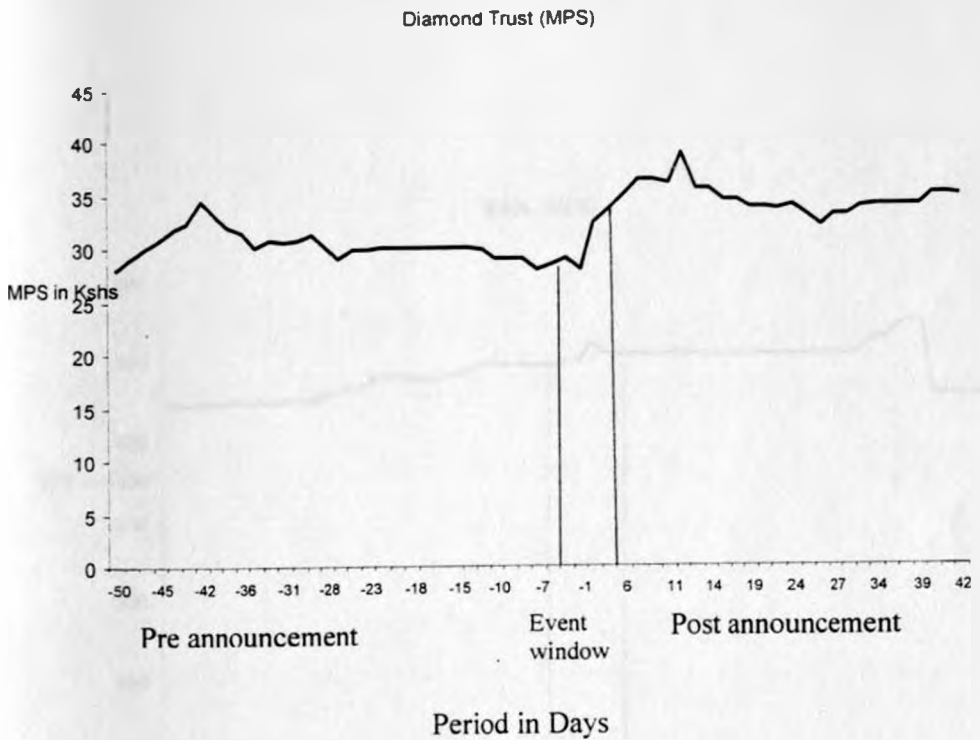
GRAPH XI- TPS SERENA

The share prices of this company were erratic, that is the prices declined a week before announcement from Kshs.91 to Kshs. 83.50 then recovered marginally from the announcement date with the highest share price being of Kshs. 85.50. The prices further declined on the closure of the bonus and cash dividend registers on 8th June 2007(See Appendix xiv). This behaviour of shares is in line with Pettit(1972) whose study found out that most of the prices adjustment were found to take place quickly either on the dividend announcement date or on the following day.



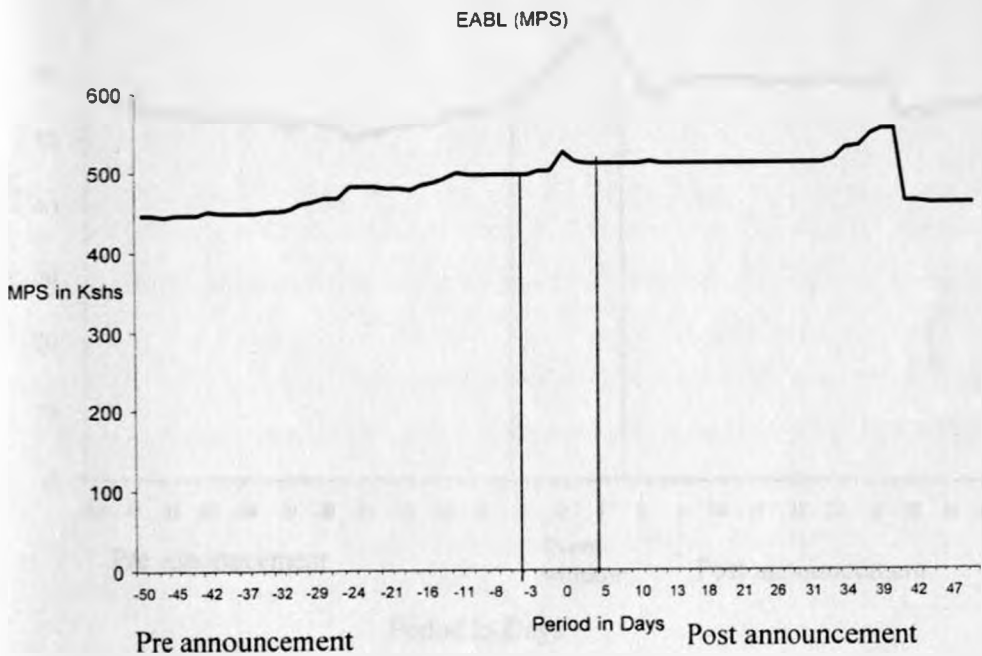
GRAPH XII-DIAMOND TRUST

The share prices of Diamond Trust fluctuated between Kshs.28 and Kshs.34.50 in the period prior to the announcement date. Approaching the announcement date there was a decline in the share prices hence indicating that there was no insider trading. The share prices increased gradually after announcement date into the post announcement period with share prices ranging from Kshs.32.25 to 38.25. However when the shares started trading ex dividend on 24th May 2005 the share prices surged.



GRAPH XIII-EABL

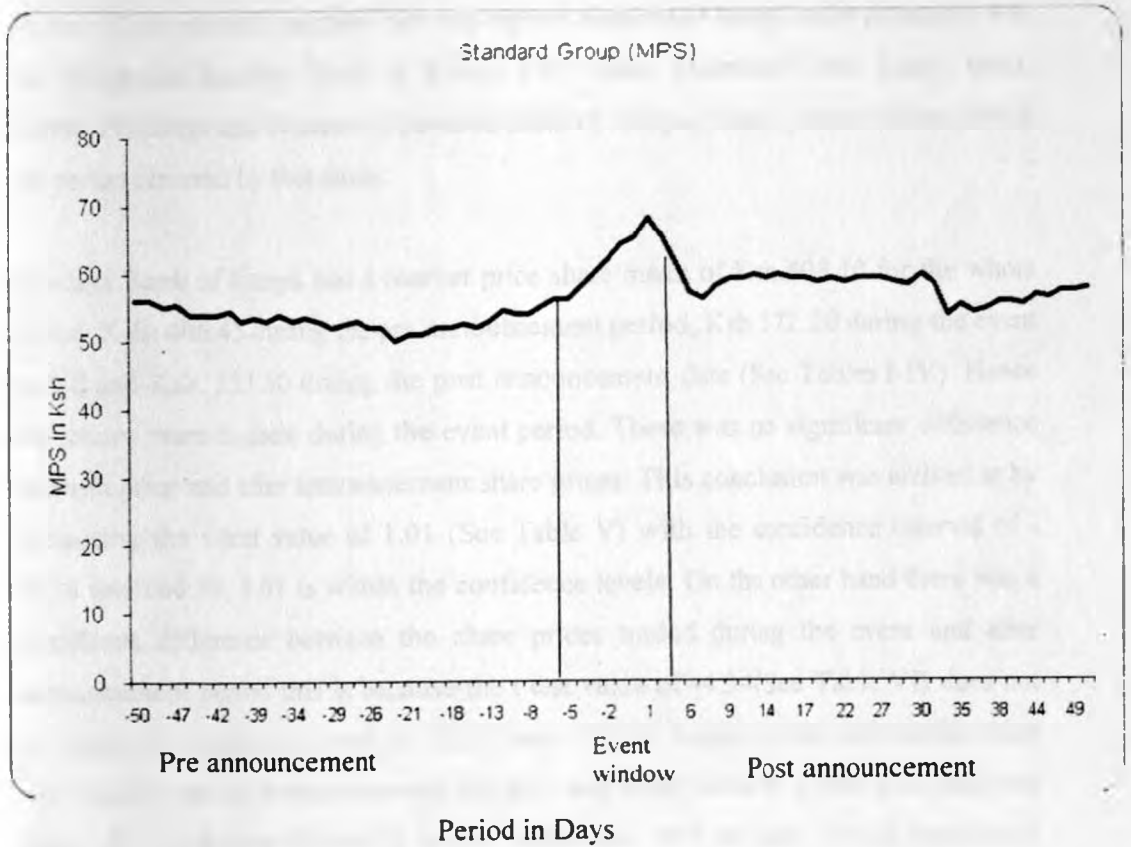
Generally for the three periods the share prices of this company were on an upward trend with the share prices ranging from Kshs.445 to Kshs.552 (See Appendix viii). However in the period of interest there was unusual decline in the shares prices on two days i.e. the day when the bonus and cash dividend registers were closed i.e. 6th October 2004 and the day when the share split register i.e.26th November 2004 was closed. This behavior was in consensus with Grinblatt(1994) who documented that stock prices raise on the average when the stock dividend/ split is announced. They hypothesed that this transactions signal information about the firm's future earnings or equity values.



Period of days

GRAPH XIV-STANDARD GROUP

The share performance in this company reflects the long period this company took to finalize its bonus issue. The announcements were made on 31 October 2006 but the issue came to close on 30 March 2007. During the pre announcement period the share prices fluctuated between Kshs.51 and Kshs.59 which can be noted to be very slight. There was a slight increase to up to Kshs.68 during the event period and decrease in the shares prices ranging from Kshs.56 to Kshs.59.50 during the post announcement period. The average price difference between pre announcement and post announcement dated presented an opportunity for making short term profits.



4.4 TO ESTABLISH THE DIRECTION AND MAGNITUDE OF THE STOCK PRICE ADJUSTMENT ON THE ANNOUNCEMENT OF BONUS ISSUE

To achieve the second objective, tables' I-VI was drawn. They give the descriptive statistics of the variations in share returns of the sample companies and a test of whether the variations are statistically significant using a 0.05 level. Companies quoted on the Nairobi Stock Exchange are classified into five segments namely Agricultural, Commercial & Services, Finance & Investment, Industrial & Allied and Alternative Investment Market segment.

Finance & Investment segment had the highest number of bonus issue payments with six companies, Barclays Bank of Kenya, CFC Bank, Diamond Trust, Equity Bank, Jubilee Holdings and Standard Chartered Bank of Kenya, making bonus issues during the period covered by this study.

Barclays Bank of Kenya had a market price share mean of Ksh.408.10 for the whole period, Ksh. 406.45 during the pre announcement period, Ksh.572.20 during the event period and Ksh. 353.30 during the post announcement date (See Tables I-IV). Hence the returns were highest during the event period. There was no significant difference between prior and after announcement share prices. This conclusion was arrived at by comparing the t test value of 1.01 (See Table V) with the confidence interval of -54.18 and 160.39; 1.01 is within the confidence levels. On the other hand there was a significant difference between the share prices traded during the event and after announcement period this is because the t test value of -4.34(See Table VI) does not lie within the confidence level of -322.72and -115.02. Lastly it was derived that there was a significant difference between the prior and event window prices since the t test value of -115.04(See TableVII) is not within the -197.36 and -134.18 confidence levels.

The average share price of Diamond Trust Bank was Ksh.32.00 for the whole period, Ksh. 30.30 during the period prior to the announcement date, Ksh.30.25 during the

event period and Ksh. 34.50 during the period after the announcement date (See Tables I-IV).The highest returns were thus earned during the period after the announcement date. From Tables V-VII it is observed that there was no significant difference between the share prices of: prior and after announcement periods; event and after announcement periods; prior and event window periods. These conclusions were drawn by comparing the respective t test values and the corresponding confidence intervals.

Standard Chartered Bank's share prices had an average of Ksh.196.30 for the whole period, Ksh. 203.50 during the period prior to the announcement date, Ksh.230.15 during the event period and Ksh. 181.00 during the period after the announcement date (See Tables I-IV).The highest returns were earned during the event period. It is observed that there was a significant difference between the share prices of: prior and after announcement periods; event and after announcement periods: prior and event window periods. These conclusions were drawn by comparing the respective t test values and the corresponding confidence intervals (See Tables V-VII).

Tables' I-IV show that Equity Bank's share prices had an average of Ksh.215.80 for the whole period, Ksh.192.70 during the period prior to the announcement date, Ksh.179.10 during the event period and Ksh.233.70 during the period after the announcement date. The highest returns were earned during the period after the announcement period. From Table V it is observed that there was a significant difference between the share prices of prior and after the bonus issue. This conclusion was made by comparing the t test value of -6.98 with the confidence interval of -52.75 and -29.1. However there was no significant difference between the share prices of the event and prior announcement periods and the event and after announcement periods since the t test values of 0.40 and 1.60 lie within the confidence levels of -64.92 and 92.17 and -23.79 and 132.90 respectively(See Table VII and VI respectively).

Analysis of CFC Bank showed that the company had an average share price of Ksh.53.60 for the whole period, Ksh. 51.10 during the pre announcement period,

Kshs.60.80 during the event period and Kshs. 54.40 during the post announcement date (See Tables I-IV). Hence the returns were highest during the event period. It further showed that there was no significant difference in share prices between prior and after announcement. This conclusion was arrived at by comparing the t test value of -1.74 (See Table V) with the confidence interval of -7.04 and 0.56; -1.74 is within the confidence levels. Similarly there was no significant difference between the share prices traded during the event and after announcement period this is because the t test value of -5.18(See Table VI) lies within the confidence level of -9.31 and -3.53. However there was a significant difference between the prior and event window prices since the t test value of -4.47 (See Table VII) is not within the -14.07 and -5.26 confidence levels.

Jubilee Holdings average share price for the whole period was Ksh.259.20 Ksh. 266.30 during the pre announcement period, Ksh.265.80 during the event period and Kshs. 250.30 during the post announcement date (See Tables I-IV). Hence the returns were highest during the pre announcement period. It can be noted that there was no significant difference between the share prices of: prior and after announcement periods (Table V); event and after announcement period (Table VI); prior and event window periods (Table VII). These conclusions are drawn by comparing the respective t test values and the corresponding upper and lower confidence intervals.

EABL and Crown Berger were the two Industrial & Allied companies that issued bonus issues during the period of interest. The mean share price for the whole period of East African Breweries Ltd. was Ksh.487.40, Ksh.466.50 during the pre announcement period, Kshs.505.40 during the event period and Ksh.503.70 during the post announcement date (See Tables I-IV). Hence the returns were highest during the event period. Tables V and VII. show that there was a significant difference between the share prices of prior & after announcement periods and pre announcement & event periods since the t test value of -6.35 and -7.86 don't lie within the confidence intervals of -48.89 & -25.5 and -49.12 & -28.57 respectively. On the other hand there was no significant difference between the event and after announcement period since the t test value of -0.28 lies within the confidence interval of -13.86 and 10.55(See

Table VI).

Crown Berger had a market price share mean of Ksh.38.80 for the whole period, Ksh. 40.20 during the pre announcement period, Ksh.41.60 during the event period and Ksh. 36.80 during the post announcement date (See Tables I-IV). Hence the returns were highest during the event period. There was a significant difference between prior and after announcement share prices. This deduction was arrived by comparing the t test value of -6.18 (See Table V) with the confidence interval of 2.26 and 4.52; - 6.18 isn't within the confidence levels. However there was no significant difference between the share prices traded during the event and after announcement period this is because the t test value of -3.32 (See Table VI.) lies within the confidence level of - 8.69 and -0.89. Lastly it was derived that there was no significant difference between the prior and event window prices since the t test value of -0.94 (See Table VII) lies within the -5.26 and 2.46 confidence levels.

Commercial & Services segment had four bonus issuing companies; CMC Holdings, Nation Media Group, TPS Serena and Standard Group. The average share price of CMC Holdings was Ksh.80.85 for the whole period, Ksh. 60.30 during the period prior to the announcement date, Ksh.99.00 during the event period and Ksh. 94.30 during the period after the announcement date (See Tables I-IV).The highest returns were thus earned during the event period. From Tables V and VII it is observed that there was a significant difference between the share prices of prior & after announcement periods and between the prior & event window periods. This was deduced by comparing the t test values of -6.46 & -7.25 with the confidence intervals of -44.79 & -23.3 and -51.18 & -26.44 respectively. However there was no significant difference between the event and after announcement periods (See Table VI) since the t test value of -0.65 lies between the intervals of -19.88 and 10.35.

Nation Media Groups average share price for the whole period was Ksh.212, Ksh. 191.90 during the pre announcement period, Ksh.197.30 during the event period and Ksh. 228.30 during the post announcement date (See Tables I-IV). Hence the returns were highest during the post announcement period. It can be noted that there was a

significant difference between the share prices of period's pre and post announcement dates due to the fact that the calculated t test value of -28.29 does not fall between the -38.94 and -33.8 confidence intervals (See Table V). In addition there was a significant difference between the after and event window (See Table VI). On the other hand no significant difference existed between the mean returns of the prior and event periods (See Table VII).

TPS Serena had a market price share mean of Ksh.85.10 for the whole period, Ksh. 86.70 during the pre announcement period, Ksh.78.75 during the event period and Ksh. 84.90 during the post announcement date (See Tables I-IV). Hence the returns were highest during the pre announcement period. Since the t test values do not lie between the upper and lower confidence intervals there was a significant difference between prior & after announcement share prices and between the prior & event periods (See Tables V and VII). From Table VI it can be observed that there was no significant difference between share returns of the event period and that of after announcement period.

The mean share price for the whole period of Standard Group Ltd. was Ksh.56.20, Ksh. 53.30 during the pre announcement period, Kshs.62.10 during the event period and Kshs. 57.50 during the post announcement date (See Tables I-IV). Hence the returns were highest during the event period. Tables VII and VI shows that there was no significant difference between the share prices of prior & event announcement periods and post announcement & event periods since the t test value of -6.79 and -1.84 don't lie within the confidence intervals of -11.70 & -5.83 and -13.41 & 0.64 respectively. On the other hand there was a significant difference between the prior and after announcement period since the t test value of -10.06 does not lie within the confidence interval of -4.94 and -3.3 (See Table V).

Agricultural segment had one bonus issuing company, Sasini, during the period of this study. Sasini's average share price for the whole period was Ksh.130.20, Ksh. 116.70 during the pre announcement period, Kshs.128.70 during the event period and Kshs.

140.60 during the post announcement date (See Tables I-IV). Hence the returns were highest during the post announcement period. It can also be noted that there was a significant difference between the share prices of prior and after announcement periods and no significant difference between event & after announcement date and prior announcement date & event window. These conclusions are drawn by comparing the respective t test values and the corresponding upper and lower confidence intervals (See Tables V-VII).

Alternative Investment Market segment had one bonus issuing company, Express Kenya, during the period of this study. Analysis of Express Kenya showed that the company had an average share price of Ksh.25.60 for the whole period, Ksh 26.70 during the pre announcement period, Kshs.27.55 during the event period and Kshs.24.10 during the post announcement date (See Tables I-IV). Hence the returns were highest during the event period. The analysis further showed that there was a significant difference between prior and after announcement share prices. This conclusion was arrived at by comparing the t test value of 5.44 (See Table V) with the confidence interval of 1.65 and 3.56; 5.44 does not lie within the confidence levels. Similarly there was a significant difference between the share prices traded during the event and after announcement period this is because the t test value of -8.18(See Table VI.) lies within the confidence level of -4.29 and -2.57. However there was no significant difference between the prior and event window prices since the t test value of -0.85 (See Table VII) lies within the -5.53 and 2.26 confidence levels.

CHAPTER V

5.0 SUMMARY AND CONCLUSIONS, LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 SUMMARY AND CONCLUSIONS

The results of this study show that shareholders tend to receive higher cash dividends after bonus issue. This is in line with a study carried out Bhalla (1987) on 50 Indian Companies where the average rate of dividend increased by 6% on capitalization. A possible interpretation is that whenever a firm makes a bonus issue, the retained earnings are invested in projects that increase the future earnings of the firm stocks of these firms.

Companies that issued bonus shares with no accompanying cash dividends (CFC Bank, Express Kenya and Standard Group) had favorable share returns during the event periods but the prices declined after the announcement date. With the exception of Jubilee Holdings and Crown Berger which experienced significant price declines after the announcements dates all the other companies that issued bonus with accompanying cash dividends (TPS Serena, Equity Bank, CMC Holding, Standard Chartered Bank, Diamond Trust and Nation Media) experienced high share returns during the event period with slight decline in share prices after the announcement date.

East African Breweries Limited, the only company that issued bonus shares and stock split, had an increase of share prices in the three periods and an insignificant decline in the prices after the announcement date. Barclays Bank of Kenya and Sasini Ltd posted bonus issue with accompanying share split. While Barclays Bank of Kenya shares returns were highest during the event period and lowest in the post announcement date Sasini Ltd.'s shares prices experienced an upward trend in the three periods with no decline in share prices even after the announcement date.

Companies show significant and positive pre event abnormal returns if there is an increase in unexpected earnings but with an unexpected cash dividend reduction or cash dividend. Companies with unexpected declines in earnings and zero cash dividends display negative and significant abnormal returns but significantly positive returns in the case of stock dividends. Stock dividends typically generate positive stock prices reactions, despite earnings increases and decreases. These results indicate that the market views stock dividends positively.

The distribution of stock dividends is positively related to the number of public shares (a result consistent with the market impetus hypothesis) and higher earnings, a proxy for profitable investment opportunities. Similarly, the distribution of stock dividends is significantly affected by higher returns on assets.

Stock dividends alone whether large or small produce no lasting gains in market price for widely held stocks in the NSE. Where it is desirable to bring the common stock into a more popular price range, management may find it economically preferable to issue infrequent and larger-size stock dividends.

5.2 LIMITATIONS OF THE STUDY

This study relied on secondary data obtained from the Nairobi Stock Exchange Secretariat informational database and the companies' financial statements. With the introduction of selling of data obtained from the NSE, the study became more expensive than planned for.

The review of literature heavily relied on research studies conducted in the developed countries whose economic circumstances are different in nature from those existing in Kenya hence experiencing a short fall in applying the deductions to the local scene.

The market has also been assumed to be efficient and thus this information was immediately reflected in the share prices. It has been assumed further that there were

no other significant intervening variables that might have affected the share prices that went unrecorded.

Due to unavailability of data this study was restricted to companies quoted in the Nairobi Stock Exchange. Better knowledge would have been gained about what happens in the Kenyan Market if the sample had been drawn from both the quoted and unquoted companies.

5.3 SUGGESTIONS FOR FURTHER RESEARCH

A study could be carried out to establish the relationship between the stock dividend size and abnormal returns on the bonus issue. ✓

A study could be conducted to assess the investors' interpretation of the various forms of dividends and dividend policies adopted by the companies.

A study could be carried out to determine whether there are increases in volumes of shares traded as a result of bonus issues. ✗

A research can be conducted to determine whether bonus issuing companies' profits grow as a result of issuing bonus to the shareholders.

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APPENDICES

APPENDICES

APPENDIX I

COMPANIES LISTED ON THE NAIROBI STOCK EXCHANGE COMPANY

Unilever Tea Kenya Ltd
Kakuzi Ltd
Rea Vipingo Plantations Ltd
Sasini Ltd
Access Kenya Group Ltd.
Car & General (K) Ltd.
CMC Holdings Ltd.
Hutchings Biemer Ltd(s)
Kenya Airways Ltd.
Marshalls E.A Ltd.
Nation Media Group
Scangroup Ltd.
Standard Group
TPS Eastern Africa (Serena) Ltd.
Uchumi Supermarkets(s)
Barclays Bank Ltd.
C.F.C. Bank Ltd.
Diamond Trust Bank Kenya Ltd.
Equity Bank Ltd.
Housing Finance Co Ltd.
I.C.D.C. Investments Co Ltd.
Jubilee Holdings Ltd.
Kenya Commercial Bank
National Bank of Kenya Ltd.
NIC Bank Ltd.
Pan Africa Insurance Holdings Ltd.
Standard Chartered Bank Ltd.
Athi River Mining
B.O.C. Kenya Ltd.(s)
Bamburi Cement Ltd.
British American Tobacco Kenya Ltd.
Carbacid Investments Ltd. (s)
Crown Berger Ltd.
E.A. Cables Ltd.
E.A. Portland Cement Ltd.
East African Breweries Ltd.
Eveready East Africa Ltd.
Kenya Oil Co Ltd.

Kenya Power & Lighting Ltd.
Ken Gen Ltd.
Mumias Sugar Co Ltd.
Olympia Capital Holdings Ltd.
Sameer Africa Ltd.
Total Kenya Ltd.
Unga Ltd.
A.Baumann & Co Ltd.
City Trust Ltd.
Eaagads Ltd.
Express Ltd.
Williamson Tea Kenya Ltd.
Kapchorua Tea Co.
Kenya Orchards Ltd.
Limuru Tea Co Ltd.

SOURCE: Nairobi Stock Exchange Secretariat information database (July, 2007)

APPENDIX II

CORPORATE BONUS ACTIONS 2004 - 31			
COMPANY	DECLARED	RATE	ANNOUNCED
Callings	BONUS	1:1	January 12, 2004
Callings	FINAL DIV	1.00	January 12, 2004
	1ST & FINAL	0.84	February 26, 2004
	BONUS	1:5	February 26, 2004
	BONUS	1:10	February 26, 2004
	FINAL	4.10	February 26, 2004
BERGER	BONUS	1:10	April 15, 2004
BERGER	FINAL	1.50	April 15, 2004
	BONUS	1:5	August 27, 2004
	FINAL	14.25	August 27, 2004
	SHARE SPLIT	5:1	August 27, 2004
	1ST & FINAL	0.70	February 25, 2005
ND TRUST	BONUS	1:4	February 25, 2005
S MEDIA GROUP	FINAL	5.00	March 3, 2005
N MEDIA GROUP	BONUS	1:3	March 3, 2005
SS KENYA	BONUS	1:10	July 4, 2006
ARD GROUP	BONUS	1:8	October 31, 2006
AYS	BONUS	1:3	November 8, 2006
	SHARE SPLIT	1:5	November 8, 2006
	BONUS	1:5	December 18, 2006
	SHARE SPLIT	5:1	December 18, 2006
	1ST & FINAL	2.00	February 13, 2007
Y BANK	BONUS	2:1	February 13, 2007
RENA	FINAL	1.25	March 23, 2007
RENA	BONUS	1:5	March 23, 2007
HE HOLDINGS	FINAL	3.25	April 26, 2007
HE HOLDINGS	BONUS	1:4	April 26, 2007

SOURCE: Nairobi Stock Exchange Secretariat information database (July 2007)

APPENDIX III

CHANGES IN CASH DIVIDEND AFTER BONUS ISSUE

COMPANY	YEAR	BR	CDBBI Shs.	ACDBBI Shs.	CDABI Shs.	DECREASE	INCREASE
CMC	2004	1 for 1	1.00	0.50	1.00		0.50
CFE	2004	1 for 5	0.84	0.70	0.84		0.14
SCBK	2004	1 for 10	4.10	3.72	*5.75		2.03
CROWN BERGER	2004	1 for 10	1.50	1.36	1.00	0.36	
EABL	2004	1 for 5	14.25	11.88	*4.50	7.38	
DIAMOND	2005	1 for 4	0.70	0.56	0.70		0.14
NATION MEDIA	2005	1 for 3	5.00	3.75	*6.0		2.25
EXPRESSK	2006	1 for 10	NO DIV	-	0.40		0.40

Standard group, Barclays Bank of Kenya, Sasini, Equity Bank, TPS Serena and Jubilee Holdings have been excluded from analysis because the financial year issuing the bonus issue has not excluded.

Key:

- BR- Bonus Rate
- CDBBI- Cash Dividend before Bonus Issue
- ACDBBI- Adjusted Cash Dividend before Bonus Issue
- CDABI- Cash Dividend After Bonus Issue
- * - Cash Dividend comprise of both interim and final dividend

Summary:

Increase	6
Decrease	2
No Change	0
Excluded from analysis	6
	14

APPENDIX IV

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF CMC HOLDINGS COMPANY

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
23/11/2003	59.00	01/07/2004	82.50	18/01/2004	0.00
24/11/2003	59.00	01/08/2004	82.50	19/01/2004	106.00
25/11/2003	59.00	01/09/2004	82.50	20/01/2004	106.00
26/11/2003	59.00	01/10/2004	0.00	21/01/2004	106.00
27/11/2003	0.00	01/11/2004	0.00	22/01/2004	109.00
28/11/2003	0.00	01/12/2004	103.00	23/01/2004	118.00
29/11/2003	59.00	13/01/2004	112.00	24/01/2004	0.00
30/11/2003	58.50	14/01/2004	118.00	25/01/2004	0.00
12/01/2003	58.50	15/01/2004	111.00	26/01/2004	119.00
12/02/2003	59.50	16/01/2004	101.00	27/01/2004	119.00
12/03/2003	58.50	17/01/2004	0.00	28/01/2004	130.00
12/04/2003	0.00			29/01/2004	136.00
12/05/2003	0.00			30/01/2004	140.00
12/06/2003	58.50			31/01/2004	0.00
12/07/2003	57.50			02/01/2004	0.00
12/08/2003	58.00			02/02/2004	NO TRADE
12/09/2003	58.00			02/03/2004	NO TRADE
12/10/2003	59.00			02/04/2004	137.00
12/11/2003	0.00			02/05/2004	136.00
12/12/2003	0.00			02/06/2004	133.00
13/12/2003	0.00			02/07/2004	0.00
14/12/2003	59.00			02/08/2004	0.00
15/12/2003	58.50			02/09/2004	79.00
16/12/2003	59.50			02/10/2004	74.50
17/12/2003	58.50			02/11/2004	71.00
18/12/2003	0.00			02/12/2004	70.00
19/12/2003	0.00			13/2/2004	68.00
20/12/2003	58.00			14/2/2004	0.00
21/12/2003	57.00			15/2/2004	0.00
22/12/2003	58.00			16/2/2004	NO TRADE
23/12/2003	55.00			17/2/2004	68.00
24/12/2003	NO TRADE			18/2/2004	68.00
25/12/2003	0.00			19/2/2004	69.00
26/12/2003	0.00			20/2/2004	70.00
27/12/2003	0.00			21/2/2004	0.00
28/12/2003	NO TRADE			22/2/2004	0.00
29/12/2003	NO TRADE			23/2/2004	69.50
30/12/2003	57.50			24/2/2004	69.50
31/12/2003	60.00			25/2/2004	72.50
01/01/2004	0.00			26/2/2004	72.50
01/02/2004	82.00			27/2/2004	72.50
01/03/2004	0.00			28/2/2004	0.00
01/04/2004	0.00			29/2/2004	0.00
01/05/2004	82.50			03/01/2004	71.50
01/06/2004	NO TRADE			03/02/2004	74.00

Key:

- AP-pre announcement date
- AP-post announcement date
- Weekends/public holidays

APPENDIX V

EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF CFC BANK

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
1/1/2004	34.25	21/2/2004	0.00	3/3/2004	62.50
1/1/2004	NO TRADE	22/2/2004	0.00	4/3/2004	63.00
1/1/2004	34.25	23/2/2004	59.50	5/3/2004	63.00
1/1/2004	0.00	24/2/2004	58.00	6/3/2004	0.00
1/1/2004	0.00	25/2/2004	58.00	7/3/2004	0.00
1/1/2004	NO TRADE	26/2/2004	58.00	8/3/2004	63.00
1/1/2004	35.50	27/2/2004	65.00	9/3/2004	63.00
1/1/2004	36.00	28/2/2004	0.00	10/3/2004	63.00
1/1/2004	35.75	29/2/2004	0.00	11/3/2004	63.00
1/1/2004	NO TRADE	1/3/2004	63.50	12/3/2004	63.00
1/1/2004	0.00	2/3/2004	63.50	13/3/2004	0.00
1/1/2004	0.00			14/3/2004	0.00
1/1/2004	35.25			15/3/2004	62.50
1/1/2004	38.25			16/3/2004	62.50
1/1/2004	NO TRADE			17/3/2004	61.50
1/1/2004	41.50			18/3/2004	NO TRADE
1/1/2004	45.25			19/3/2004	62.50
1/1/2004	0.00			20/3/2004	0.00
1/1/2004	0.00			21/3/2004	0.00
1/1/2004	49.50			22/3/2004	62.00
1/1/2004	53.50			23/3/2004	60.00
1/1/2004	58.50			24/3/2004	58.00
1/1/2004	58.50			25/3/2004	NO TRADE
1/1/2004	58.50			26/3/2004	58.50
1/1/2004	0.00			27/3/2004	0.00
1/1/2004	0.00			28/3/2004	0.00
1/1/2004	58.00			29/3/2004	NO TRADE
1/1/2004	57.50			30/3/2004	59.00
1/1/2004	58.00			31/3/2004	59.00
1/1/2004	58.00			1/4/2004	56.50
1/1/2004	57.50			2/4/2004	NO TRADE
1/1/2004	0.00			3/4/2004	0.00
1/1/2004	0.00			4/4/2004	0.00
1/1/2004	57.50			5/4/2004	55.50
1/1/2004	57.00			6/4/2004	58.00
1/1/2004	57.50			7/4/2004	58.00
1/1/2004	58.00			8/4/2004	57.50
1/1/2004	58.50			9/4/2004	0.00
1/1/2004	0.00			10/4/2004	0.00
1/1/2004	0.00			11/4/2004	0.00
1/1/2004	58.00			12/4/2004	0.00
1/1/2004	58.00			13/4/2004	57.00
1/1/2004	58.00			14/4/2004	57.50
1/1/2004	58.50			15/4/2004	57.00
1/1/2004	58.00			16/4/2004	57.00

Key:

- PRAP-pre announcement date
- POAP-post announcement date
- Weekends/public holidays

APPENDIX VI

EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF STANDARD CHARTERED BANK OF KENYA

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
1/2/2004	190.00	21/2/2004	0.00	3/3/2004	217.00
2/2/2004	192.00	22/2/2004	0.00	4/3/2004	212.00
3/2/2004	195.00	23/2/2004	228.00	5/3/2004	206.00
4/2/2004	0.00	24/2/2004	228.00	6/3/2004	0.00
5/2/2004	0.00	25/2/2004	227.00	7/3/2004	0.00
6/2/2004	195.00	26/2/2004	230.00	8/3/2004	201.00
7/2/2004	197.00	27/2/2004	245.00	9/3/2004	201.00
8/2/2004	197.00	28/2/2004	0.00	10/3/2004	201.00
9/2/2004	194.00	29/2/2004	0.00	11/3/2004	204.00
10/2/2004	195.00	1/3/2004	228.00	12/3/2004	208.00
11/2/2004	0.00	2/3/2004	225.00	13/3/2004	0.00
12/2/2004	0.00			14/3/2004	0.00
13/2/2004	196.00			15/3/2004	207.00
14/2/2004	193.00			16/3/2004	200.00
15/2/2004	192.00			17/3/2004	197.00
16/2/2004	189.00			18/3/2004	197.00
17/2/2004	190.00			19/3/2004	197.00
18/2/2004	0.00			20/3/2004	0.00
19/2/2004	0.00			21/3/2004	0.00
20/2/2004	192.00			22/3/2004	193.00
21/2/2004	199.00			23/3/2004	189.00
22/2/2004	207.00			24/3/2004	190.00
23/2/2004	206.00			25/3/2004	188.00
24/2/2004	201.00			26/3/2004	188.00
25/2/2004	0.00			27/3/2004	0.00
26/2/2004	0.00			28/3/2004	0.00
27/2/2004	201.00			29/3/2004	188.00
28/2/2004	200.00			30/3/2004	188.00
29/2/2004	200.00			31/3/2004	183.00
30/2/2004	200.00			1/4/2004	160.00
31/2/2004	201.00			2/4/2004	146.00
1/3/2004	0.00			3/4/2004	0.00
2/3/2004	0.00			4/4/2004	0.00
3/3/2004	203.00			5/4/2004	137.00
4/3/2004	206.00			6/4/2004	124.00
5/3/2004	210.00			7/4/2004	120.00
6/3/2004	212.00			8/4/2004	132.00
7/3/2004	230.00			9/4/2004	0.00
8/3/2004	0.00			10/4/2004	0.00
9/3/2004	0.00			11/4/2004	0.00
10/3/2004	195.00			12/4/2004	0.00
11/3/2004	234.00			13/4/2004	139.00
12/3/2004	235.00			14/4/2004	152.00
13/3/2004	234.00			15/4/2004	165.00
14/3/2004	233.00			16/4/2004	180.00

Key:
 *AP-pre announcement date
 *AP-post announcement date
 -Weekends/public holidays

APPENDIX VII

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF CROWN BERGER

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
25/2/2004	37.75	10/4/2004	0.00	21/04/2004	41.00
26/2/2004	43.75	11/4/2004	0.00	22/04/2004	40.00
27/2/2004	44.00	12/4/2004	0.00	23/04/2004	39.00
28/2/2004	0.00	13/4/2004	NO TRADE	24/04/2004	0.00
29/2/2004	0.00	14/4/2004	38.00	25/04/2004	0.00
1/3/2004	43.50	15/4/2004	38.25	26/04/2004	37.25
2/3/2004	44.00	16/4/2004	44.25	27/04/2004	35.25
3/3/2004	44.00	17/04/2004	0.00	28/04/2004	35.00
4/3/2004	44.00	18/04/2004	0.00	29/04/2004	35.50
5/3/2004	43.00	19/04/2004	44.25	30/04/2004	36.00
6/3/2004	0.00	20/04/2004	43.00	1/5/2004	0.00
7/3/2004	0.00			2/5/2004	0.00
8/3/2004	43.50			3/5/2004	35.75
9/3/2004	42.75			4/5/2004	36.00
10/3/2004	43.00			5/5/2004	36.00
11/3/2004	NO TRADE			6/5/2004	37.75
12/3/2004	41.00			7/5/2004	38.00
13/3/2004	0.00			8/5/2004	0.00
14/3/2004	0.00			9/5/2004	0.00
15/3/2004	40.00			10/5/2004	38.00
16/3/2004	38.75			11/5/2004	37.50
17/3/2004	38.25			12/5/2004	36.25
18/3/2004	37.50			13/5/2004	36.50
19/3/2004	38.00			14/5/2004	37.00
20/3/2004	0.00			15/5/2004	0.00
21/3/2004	0.00			16/5/2004	0.00
22/3/2004	38.00			17/5/2004	36.75
23/3/2004	38.00			18/5/2004	36.50
24/3/2004	38.25			19/5/2004	35.25
25/3/2004	38.50			20/5/2004	36.50
26/3/2004	39.50			21/5/2004	36.00
27/3/2004	0.00			22/5/2004	0.00
28/3/2004	0.00			23/5/2004	0.00
29/3/2004	40.00			24/5/2004	36.00
30/3/2004	39.00			25/5/2004	36.00
31/3/2004	38.75			26/5/2004	35.75
1/4/2004	37.75			27/5/2004	36.00
2/4/2004	NO TRADE			28/5/2004	36.00
3/4/2004	0.00			29/5/2004	0.00
4/4/2004	0.00			30/5/2004	0.00
5/4/2004	37.75			31/5/2004	36.00
6/4/2004	37.50			1/6/2004	0.00
7/4/2004	37.50			2/6/2004	36.00
8/4/2004	37.25			3/6/2004	36.00
9/4/2004	0.00			4/6/2004	38.00

Key:

- PRAP-pre announcement date
- POAP-post announcement date
- Weekends/public holidays

APPENDIX VIII

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF EABL

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP	DATE	POAP
07/08/2004	445.00	22/8/2004	-	09/02/2004	510.00	17/10/2004	-
07/09/2004	445.00	23/8/2004	494.00	09/03/2004	510.00	18/10/2004	458.00
07/10/2004	-	24/8/2004	495.00	09/04/2004	-	19/10/2004	460.00
07/11/2004	-	25/8/2004	500.00	09/05/2004	-	20/10/2004	-
07/12/2004	444.00	26/8/2004	499.00	09/06/2004	510.00	21/10/2004	459.00
08/01/2004	445.00	27/8/2004	524.00	09/07/2004	511.00	22/10/2004	460.00
08/02/2004	445.00	28/8/2004	-	09/08/2004	510.00	23/10/2004	-
08/03/2004	445.00	29/8/2004	-	09/09/2004	510.00	24/10/2004	-
08/04/2004	450.00	30/8/2004	511.00	09/10/2004	510.00	25/10/2004	460.00
08/05/2004	-	31/8/2004	510.00	09/11/2004	-	26/10/2004	463.00
08/06/2004	-	09/01/2004	510.00	09/12/2004	-	27/10/2004	460.00
08/07/2004	448.00			13/9/2004	509.00	28/10/2004	473.00
08/08/2004	449.00			14/9/2004	510.00	29/10/2004	491.00
08/09/2004	449.00			15/9/2004	510.00	30/10/2004	-
08/10/2004	449.00			16/9/2004	509.00	31/10/2004	-
08/11/2004	450.00			17/9/2004	510.00	11/01/2004	499.00
08/12/2004	-			18/9/2004	-	11/02/2004	500.00
09/01/2004	-			19/9/2004	-	11/03/2004	495.00
09/02/2004	450.00			20/9/2004	510.00	11/04/2004	495.00
09/03/2004	454.00			21/9/2004	510.00	11/05/2004	492.00
09/04/2004	459.00			22/9/2004	510.00	11/06/2004	-
09/05/2004	462.00			23/9/2004	510.00	11/07/2004	-
09/06/2004	467.00			24/9/2004	510.00	11/08/2004	493.00
09/07/2004	-			25/9/2004	-	11/09/2004	493.00
09/08/2004	-			26/9/2004	-	11/10/2004	492.00
09/09/2004	466.00			27/9/2004	510.00	11/11/2004	489.00
09/10/2004	480.00			28/9/2004	510.00	11/12/2004	485.00
09/11/2004	480.00			29/9/2004	514.00	13/11/04	-
09/12/2004	480.00			30/9/2004	528.00	14/11/04	-
10/01/2004	479.00			10/01/2004	530.00	15/11/04	485.00
10/02/2004	-			10/02/2004	-	16/11/04	486.00
10/03/2004	-			10/03/2004	-	17/11/04	489.00
10/04/2004	479.00			10/04/2004	544.00	18/11/04	491.00
10/05/2004	476.00			10/05/2004	552.00	19/11/04	498.00
10/06/2004	483.00			10/06/2004	552.00	20/11/04	-
10/07/2004	485.00			10/07/2004	461.00	21/11/04	-
10/08/2004	490.00			10/08/2004	459.00	22/11/04	500.00
10/09/2004	-			10/09/2004	458.00	23/11/04	509.00
10/10/2004	-			10/10/2004	-	24/11/04	510.00
10/11/2004	497.00			10/11/2004	-	25/11/04	510.00
10/12/2004	495.00			10/12/2004	458.00	26/11/04	520.00
11/01/2004	494.00			13/10/2004	458.00	27/11/04	114.00
11/02/2004	495.00			14/10/2004	458.00	28/11/04	-
11/03/2004	494.00			15/10/2004	458.00	29/11/04	-
11/04/2004	-			16/10/2004	-	30/11/04	116.00

Key:

- PRAP-pre announcement date
- POAP-post announcement date
- 0-Weekends/public holidays

APPENDIX IX

EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF DIAMOND TRUST

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
6/1/2005	28.00	20/2/2005	-	3/3/2005	34.75
7/1/2005	29.00	21/2/2005	NO TRADE	4/3/2005	36.25
8/1/2005	-	22/2/2005	28.50	5/3/2005	-
9/1/2005	-	23/2/2005	29.00	6/3/2005	-
10/1/2005	30.00	24/2/2005	28.00	7/3/2005	36.25
11/1/2005	30.75	25/2/2005	32.25	8/3/2005	36.00
12/1/2005	31.75	26/2/2005	-	9/3/2005	38.75
13/1/2005	32.25	27/2/2005	-	10/3/2005	35.50
14/1/2005	34.50	28/2/2005	NO TRADE	11/3/2005	35.50
15/1/2005	-	1/3/2005	NO TRADE	12/3/2005	-
16/1/2005	-	2/3/2005	33.50	13/3/2005	-
17/1/2005	33.00			14/3/2005	34.50
18/1/2005	32.00			15/3/2005	34.50
19/1/2005	NO TRADE			16/3/2005	33.75
20/1/2005	31.50			17/3/2005	33.75
21/1/2005	30.00			18/3/2005	33.50
22/1/2005	-			19/3/2005	-
23/1/2005	-			20/3/2005	-
24/1/2005	30.75			21/3/2005	34.00
25/1/2005	30.50			22/3/2005	33.00
26/1/2005	30.75			23/3/2005	32.00
27/1/2005	31.25			24/3/2005	33.00
28/1/2005	30.00			25/3/2005	-
29/1/2005	-			26/3/2005	-
30/1/2005	-			27/3/2005	-
31/1/2005	29.00			28/3/2005	-
1/2/2005	29.75			29/3/2005	33.00
2/2/2005	29.75			30/3/2005	33.75
3/2/2005	30.00			31/3/2005	34.00
4/2/2005	30.00			1/4/2005	34.00
5/2/2005	-			2/4/2005	-
6/2/2005	-			3/4/2005	-
7/2/2005	30.00			4/4/2005	34.00
8/2/2005	30.00			5/4/2005	34.00
9/2/2005	30.00			6/4/2005	35.00
10/2/2005	30.00			7/4/2005	35.00
11/2/2005	30.00			8/4/2005	34.75
12/2/2005	-			9/4/2005	-
13/2/2005	-			10/4/2005	-
14/2/2005	29.75			20/5/2005	38.25
15/2/2005	29.00			21/5/2005	-
16/2/2005	29.00			22/5/2005	-
17/2/2005	29.00			23/5/2005	38.00
18/2/2005	28.00			24/5/2005	37.25
19/2/2005	-			25/5/2005	27.75

Key:

- PRAP-pre announcement date
- POAP-post announcement date
- Weekends/public holidays

APPENDIX X

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF NATION MEDIA GROUP

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
12/1/2005	199.00	26/2/2005	-	9/3/2005	219.00
13/1/2005	200.00	27/2/2005	-	10/3/2005	239.00
14/1/2005	199.00	28/2/2005	199.00	11/3/2005	240.00
15/1/2005	-	1/3/2005	200.00	12/3/2005	-
16/1/2005	-	2/3/2005	197.00	13/3/2005	-
17/1/2005	190.00	3/3/2005	195.00	14/3/2005	229.00
18/1/2005	185.00	4/3/2005	195.00	15/3/2005	226.00
19/1/2005	186.00	5/3/2005	-	16/3/2005	224.00
20/1/2005	189.00	6/3/2005	-	17/3/2005	222.00
21/1/2005	190.00	7/3/2005	195.00	18/3/2005	223.00
22/1/2005	-	8/3/2005	200.00	19/3/2005	-
23/1/2005	-			20/3/2005	-
24/1/2005	190.00			21/3/2005	223.00
25/1/2005	185.00			22/3/2005	224.00
26/1/2005	NO TRADE			23/3/2005	225.00
27/1/2005	NO TRADE			24/3/2005	227.00
28/1/2005	NO TRADE			25/3/2005	-
29/1/2005	-			26/3/2005	-
30/1/2005	-			27/3/2005	-
31/1/2005	NO TRADE			28/3/2005	-
1/2/2005	NO TRADE			29/3/2005	230.00
2/2/2005	NO TRADE			30/3/2005	232.00
3/2/2005	NO TRADE			31/3/2005	230.00
4/2/2005	190.00			1/4/2005	231.00
5/2/2005	-			2/4/2005	-
6/2/2005	-			3/4/2005	-
7/2/2005	188.00			4/4/2005	232.00
8/2/2005	188.00			5/4/2005	230.00
9/2/2005	NO TRADE			6/4/2005	230.00
10/2/2005	NO TRADE			7/4/2005	230.00
11/2/2005	193.00			8/4/2005	230.00
12/2/2005	-			9/4/2005	-
13/2/2005	-			10/4/2005	-
14/2/2005	190.00			11/4/2005	229.00
15/2/2005	NO TRADE			12/4/2005	229.00
16/2/2005	NO TRADE			13/4/2005	229.00
17/2/2005	NO TRADE			14/4/2005	228.00
18/2/2005	192.00			15/4/2005	228.00
19/2/2005	-			16/4/2005	-
20/2/2005	-			17/4/2005	-
21/2/2005	NO TRADE			18/4/2005	227.00
22/2/2005	194.00			19/4/2005	227.00
23/2/2005	195.00			20/4/2005	227.00
24/2/2005	196.00			21/4/2005	228.00
25/2/2005	199.00			22/4/2005	228.00

Key:

PRAP-pre announcement date
 POAP-post announcement date
 0-Weekends/public holidays

APPENDIX XI

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF EXPRESS KENYA

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
5/5/2006	28.50	29/6/2006	28.00	10/7/2006	26.75
6/5/2006	28.50	30/6/2006	28.50	11/7/2006	27.00
7/5/2006	28.75	1/7/2006	-	12/7/2006	26.50
8/5/2006	29.50	2/7/2006	-	13/7/2006	26.25
9/5/2006	29.50	3/7/2006	28.00	14/7/2006	26.75
10/5/2006	-	4/7/2006	27.50	15/7/2006	-
11/5/2006	-	5/7/2006	27.00	16/7/2006	-
12/5/2006	29.50	6/7/2006	26.50	17/7/2006	25.75
13/5/2006	28.50	7/7/2006	27.25	18/7/2006	24.25
14/5/2006	28.50	8/7/2006	-	19/7/2006	23.50
15/5/2006	29.75	9/7/2006	-	20/7/2006	22.50
16/5/2006	29.50			21/7/2006	21.75
17/5/2006	-			22/7/2006	-
18/5/2006	-			23/7/2006	-
19/5/2006	28.00			24/7/2006	21.00
20/5/2006	27.50			25/7/2006	21.25
21/5/2006	26.00			26/7/2006	20.50
21/6/2006	-			27/7/2006	20.50
22/6/2006	26.50			28/7/2006	20.75
23/6/2006	-			29/7/2006	-
24/6/2006	-			30/7/2006	-
25/6/2006	26.00			31/7/2006	22.25
26/6/2006	26.50			1/8/2006	23.50
27/6/2006	25.75			2/8/2006	23.75
28/6/2006	25.50			3/8/2006	23.75
29/6/2006	26.00			4/8/2006	23.50
30/6/2006	-			5/8/2006	-
31/6/2006	-			6/8/2006	-
1/7/2006	25.50			7/8/2006	25.25
2/7/2006	25.00			8/8/2006	25.50
3/7/2006	25.50			9/8/2006	24.75
4/7/2006	24.75			10/8/2006	24.00
5/7/2006	24.00			11/8/2006	25.50
6/7/2006	-			12/8/2006	-
7/7/2006	-			13/8/2006	-
8/7/2006	23.25			14/8/2006	25.50
9/7/2006	23.50			15/8/2006	24.75
10/7/2006	24.00			16/8/2006	25.00
11/7/2006	24.75			17/8/2006	25.50
12/7/2006	24.75			18/8/2006	25.00
13/7/2006	-			19/8/2006	-
14/7/2006	-			20/8/2006	-
15/7/2006	26.50			21/8/2006	24.50
16/7/2006	27.25			22/8/2006	24.00
17/7/2006	27.75			23/8/2006	24.50

Key:

- PRAP-pre announcement date
- POAP-post announcement date
- 0-Weekends/public holidays

APPENDIX XII

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF SASINI

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
29/10/2006	-	13/12/2006	128.00	24/12/2006	-
30/10/2006	92.00	14/12/2006	135.25	25/12/2006	-
31/10/2006	95.50	15/12/2006	137.50	26/12/2006	-
1/11/2006	97.75	16/12/2006	-	27/12/2006	140.00
2/11/2006	101.00	17/12/2006	-	28/12/2006	132.00
3/11/2006	105.00	18/12/2006	145.75	29/12/2006	127.00
4/11/2006	-	19/12/2006	150.00	30/12/2006	-
5/11/2006	-	20/12/2006	153.00	31/12/2006	-
6/11/2006	107.00	21/12/2006	156.50	1/1/2007	-
7/11/2006	109.00	22/12/2006	152.00	2/1/2007	140.00
8/11/2006	103.50	23/12/2006	-	3/1/2007	135.00
9/11/2006	104.75			4/1/2007	144.00
10/11/2006	110.50			5/1/2007	139.00
11/11/2006	-			6/1/2007	-
2/11/2006	-			7/1/2007	-
3/11/2006	112.00			8/1/2007	134.00
4/11/2006	115.00			9/1/2007	140.00
5/11/2006	115.50			10/1/2007	144.00
6/11/2006	115.50			11/1/2007	148.00
7/11/2006	117.00			12/1/2007	149.00
8/11/2006	-			13/1/2007	-
9/11/2006	-			14/1/2007	-
10/11/2006	118.00			15/1/2007	154.00
11/11/2006	119.50			16/1/2007	140.00
12/11/2006	119.75			17/1/2007	144.00
13/11/2006	122.00			18/1/2007	146.00
14/11/2006	122.75			19/1/2007	145.00
15/11/2006	-			20/1/2007	-
16/11/2006	-			21/1/2007	-
17/11/2006	127.00			22/1/2007	142.00
18/11/2006	130.00			23/1/2007	145.00
19/11/2006	131.00			24/1/2007	144.00
20/11/2006	130.00			25/1/2007	142.00
1/12/2006	131.75			26/1/2007	140.00
2/12/2006	-			27/1/2007	-
3/12/2006	-			28/1/2007	-
4/12/2006	130.00			29/1/2007	143.00
5/12/2006	128.50			30/1/2007	144.00
6/12/2006	127.00			31/1/2007	140.00
7/12/2006	125.00			1/2/2007	134.00
8/12/2006	125.50			2/2/2007	135.00
9/12/2006	-			3/2/2007	-
10/12/2006	-			4/2/2007	-
11/12/2006	129.00			5/2/2007	136.00
12/12/2006	-			6/2/2007	132.00

Key:

PRAP-pre announcement date

POAP-post announcement date

0-Weekends/public holidays

APPENDIX XIII

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF EQUITY BANK

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
25/12/2006	-	8/2/2007	228.00	19/2/2007	235.00
26/12/2006	-	9/2/2007	231.00	20/2/2007	236.00
27/12/2006	133.00	10/2/2007	-	21/2/2007	234.00
28/12/2006	138.00	11/2/2007	-	22/2/2007	229.00
29/12/2006	145.00	12/2/2007	248.00	23/2/2007	222.00
30/12/2006	-	13/2/2007	231.00	24/2/2007	-
31/12/2006	-	14/2/2007	225.00	25/2/2007	-
1/1/2007	-	15/2/2007	222.00	26/2/2007	220.00
2/1/2007	144.00	16/2/2007	227.00	27/2/2007	219.00
3/1/2007	143.00	17/2/2007	-	28/2/2007	210.00
4/1/2007	155.00	18/2/2007	-	1/3/2007	212.00
5/1/2007	169.00			2/3/2007	221.00
6/1/2007	-			3/3/2007	-
7/1/2007	-			4/3/2007	-
8/1/2007	184.00			5/3/2007	224.00
9/1/2007	202.00			6/3/2007	230.00
10/1/2007	222.00			7/3/2007	231.00
11/1/2007	225.00			8/3/2007	233.00
12/1/2007	204.00			9/3/2007	233.00
13/1/2007	-			10/3/2007	-
14/1/2007	-			11/3/2007	-
15/1/2007	195.00			12/3/2007	236.00
16/1/2007	188.00			13/3/2007	237.00
17/1/2007	188.00			14/3/2007	240.00
18/1/2007	206.00			15/3/2007	238.00
19/1/2007	213.00			16/3/2007	238.00
20/1/2007	-			17/3/2007	-
21/1/2007	-			18/3/2007	-
22/1/2007	214.00			19/3/2007	235.00
23/1/2007	210.00			20/3/2007	230.00
24/1/2007	197.00			21/3/2007	226.00
25/1/2007	208.00			22/3/2007	226.00
26/1/2007	212.00			23/3/2007	213.00
27/1/2007	-			24/3/2007	-
28/1/2007	-			25/3/2007	-
29/1/2007	220.00			26/3/2007	218.00
30/1/2007	216.00			27/3/2007	221.00
31/1/2007	213.00			28/3/2007	235.00
1/2/2007	201.00			29/3/2007	256.00
2/2/2007	201.00			30/3/2007	262.00
3/2/2007	-			31/3/2007	-
4/2/2007	-			1/4/2007	-
5/2/2007	200.00			2/4/2007	277.00
6/2/2007	217.00			3/4/2007	272.00
7/2/2007	219.00			4/4/2007	262.00

Key:

- PRAP-pre announcement date
- POAP-post announcement date
- 0-Weekends/public holidays

APPENDIX XIV

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF TPS SERENA

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
31/1/2007	89.00	18/3/2007	-	29/3/2007	85.00
1/2/2007	88.50	19/3/2007	82.00	30/3/2007	85.50
2/2/2007	88.50	20/3/2007	80.00	31/3/2007	-
3/2/2007	-	21/3/2007	75.00	1/4/2007	-
4/2/2007	-	22/3/2007	73.00	2/4/2007	85.00
5/2/2007	88.00	23/3/2007	73.50	3/4/2007	83.00
6/2/2007	86.50	24/3/2007	-	4/4/2007	83.00
7/2/2007	88.00	25/3/2007	-	5/4/2007	82.00
8/2/2007	89.50	26/3/2007	80.00	6/4/2007	-
9/2/2007	90.50	27/3/2007	82.00	7/4/2007	-
10/2/2007	-	28/3/2007	84.50	8/4/2007	-
11/2/2007	-			9/4/2007	-
12/2/2007	90.50			10/4/2007	75.00
13/2/2007	91.50			11/4/2007	80.00
14/2/2007	91.00			12/4/2007	85.00
15/2/2007	91.00			13/4/2007	85.50
16/2/2007	91.00			14/4/2007	-
17/2/2007	-			15/4/2007	-
18/2/2007	-			16/4/2007	85.50
19/2/2007	91.00			17/4/2007	86.50
20/2/2007	91.00			18/4/2007	85.00
21/2/2007	90.00			19/4/2007	85.50
22/2/2007	90.00			20/4/2007	85.00
23/2/2007	89.50			21/4/2007	-
24/2/2007	-			22/4/2007	-
25/2/2007	-			23/4/2007	84.50
26/2/2007	88.50			24/4/2007	85.00
27/2/2007	85.00			25/4/2007	87.00
28/2/2007	80.00			26/4/2007	86.00
1/3/2007	74.00			27/4/2007	86.00
2/3/2007	80.00			28/4/2007	-
3/3/2007	-			29/4/2007	-
4/3/2007	-			30/4/2007	87.00
5/3/2007	83.00			1/5/2007	-
6/3/2007	81.50			2/5/2007	87.00
7/3/2007	84.50			3/5/2007	86.50
8/3/2007	84.00			4/5/2007	87.00
9/3/2007	84.00			5/5/2007	-
10/3/2007	-			6/5/2007	-
11/3/2007	-			7/5/2007	86.50
12/3/2007	84.00			8/5/2007	86.50
13/3/2007	84.00			9/5/2007	86.00
14/3/2007	87.00			10/5/2007	85.50
15/3/2007	84.50			11/5/2007	85.50
16/3/2007	83.50			12/5/2007	-
17/3/2007	-			13/5/2007	-

Key:

- PRAP-pre announcement date
- POAP-post announcement date
- 0-Weekends/public holidays

APPENDIX XV

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF JUBILEE HOLDINGS

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
13/2/2007	315.00	21/4/2007	-	2/5/2007	255.00
14/2/2007	310.00	22/4/2007	-	3/5/2007	257.00
15/2/2007	310.00	23/4/2007	249.00	4/5/2007	255.00
16/2/2007	310.00	24/4/2007	245.00	5/5/2007	-
17/2/2007	-	25/4/2007	240.00	6/5/2007	-
18/2/2007	-	26/4/2007	284.00	7/5/2007	260.00
19/2/2007	300.00	27/4/2007	303.00	8/5/2007	250.00
20/2/2007	309.00	28/4/2007	-	9/5/2007	255.00
21/2/2007	330.00	29/4/2007	-	10/5/2007	251.00
22/2/2007	310.00	30/4/2007	274.00	11/5/2007	249.00
23/2/2007	310.00	1/5/2007	-	12/5/2007	-
24/2/2007	-			13/5/2007	-
25/2/2007	-			14/5/2007	249.00
26/2/2007	305.00			15/5/2007	250.00
27/2/2007	300.00			16/5/2007	250.00
28/2/2007	272.00			17/5/2007	247.00
1/3/2007	254.00			18/5/2007	245.00
2/3/2007	248.00			19/5/2007	-
3/3/2007	-			20/5/2007	-
4/3/2007	-			21/5/2007	248.00
5/3/2007	269.00			22/5/2007	250.00
6/3/2007	267.00			23/5/2007	246.00
7/3/2007	255.00			24/5/2007	252.00
8/3/2007	254.00			25/5/2007	247.00
9/3/2007	256.00			26/5/2007	-
10/3/2007	-			27/5/2007	-
11/3/2007	-			28/5/2007	252.00
12/3/2007	243.00			29/5/2007	245.00
13/3/2007	228.00			30/5/2007	245.00
14/3/2007	240.00			31/5/2007	249.00
15/3/2007	217.00			1/6/2007	-
16/3/2007	218.00			2/6/2007	-
17/3/2007	-			3/6/2007	-
18/3/2007	-			4/6/2007	250.00
19/3/2007	213.00			5/6/2007	250.00
20/3/2007	214.00			6/6/2007	252.00
21/3/2007	201.00			7/6/2007	251.00
22/3/2007	198.00			8/6/2007	249.00
23/3/2007	200.00			9/6/2007	-
24/3/2007	-			10/6/2007	-
25/3/2007	-			11/6/2007	250.00
26/3/2007	198.00			12/6/2007	257.00
27/3/2007	210.00			13/6/2007	270.00
28/3/2007	215.00			14/6/2007	275.00
29/3/2007	232.00			15/6/2007	274.00

Key:

PRAP-pre announcement date

POAP-post announcement date

0-Weekends/public holidays

APPENDIX XVI

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF STANDARD GROUP

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
11/9/2006	56.00	26/10/2006	56.00	6/11/2006	57.00
12/9/2006	56.00	27/10/2006	58.00	7/11/2006	56.00
13/9/2006	55.00	28/10/2006	60.00	8/11/2006	58.00
14/9/2006	55.50	29/10/2006	62.00	9/11/2006	59.00
15/9/2006	54.00	30/10/2006	64.00	10/11/2006	59.00
16/9/2006	-	31/10/2006	65.00	11/11/2006	-
17/9/2006	-	1/11/2006	68.00	12/11/2006	-
18/9/2006	54.00	2/11/2006	65.00	13/11/2006	59.50
19/9/2006	54.00	3/11/2006	61.00	14/11/2006	59.00
20/9/2006	54.50	4/11/2006	-	15/11/2006	59.50
21/9/2006	53.00	5/11/2006	-	16/11/2006	59.00
22/9/2006	53.50			17/11/2006	59.00
23/9/2006	-			18/11/2006	-
24/9/2006	-			19/11/2006	-
25/9/2006	53.00			20/11/2006	58.50
26/9/2006	54.00			21/11/2006	59.00
27/9/2006	53.00			22/11/2006	58.50
28/9/2006	53.50			23/11/2006	59.00
29/9/2006	53.00			24/11/2006	59.00
30/09/2006	-			25/11/2006	-
1/10/2006	-			26/11/2006	-
2/10/2006	52.00			27/11/2006	59.00
3/10/2006	52.50			28/11/2006	58.50
4/10/2006	53.00			29/11/2006	58.00
5/10/2006	52.00			30/11/2006	59.50
6/10/2006	52.00			1/12/2006	58.00
7/10/2006	-			2/12/2006	-
8/10/2006	-			3/12/2006	-
9/10/2006	50.00			4/12/2006	53.50
10/10/2006	51.00			5/12/2006	55.00
11/10/2006	51.00			6/12/2006	54.00
12/10/2006	52.00			7/12/2006	54.50
13/10/2006	52.00			8/12/2006	55.50
14/10/2006	-			9/12/2006	-
15/10/2006	-			10/12/2006	-
16/10/2006	52.50			11/12/2006	55.50
17/10/2006	52.00			12/12/2006	-
18/10/2006	53.00			13/12/2006	55.00
19/10/2006	54.50			14/12/2006	56.50
20/10/2006	54.00			15/12/2006	56.00
21/10/2006	-			16/12/2006	-
22/10/2006	-			17/12/2006	-
23/10/2006	54.00			18/12/2006	57.00
24/10/2006	55.00			19/12/2006	57.00
25/10/2006	56.00			20/12/2006	57.50

Key:

- PRAP-pre announcement date
- POAP-post announcement date
- 0-Weekends/public holidays

APPENDIX XVII

THE EFFECT OF BONUS SHARE ISSUES ON STOCK PRICES OF BARCLAYS BANK OF KENYA

DATE	PRAP	DATE	EVENT WINDOW	DATE	POAP
21/9/2006	312.00	3/11/2006	555.00	14/11/2006	578.00
22/9/2006	327.00	4/11/2006	560.00	15/11/2006	576.00
23/9/2006	-	5/11/2006	565.00	16/11/2006	575.00
24/9/2006	-	6/11/2006	568.00	17/11/2006	572.00
25/9/2006	331.00	7/11/2006	570.00	18/11/2006	-
26/9/2006	334.00	8/11/2006	575.00	19/11/2006	-
27/9/2006	337.00	9/11/2006	587.00	20/11/2006	575.00
28/9/2006	340.00	10/11/2006	590.00	21/11/2006	579.00
29/9/2006	342.00	11/11/2006	-	22/11/2006	580.00
30/09/2006	-	12/11/2006	-	23/11/2006	585.00
1/10/2006	-	13/11/2006	580.00	24/11/2006	590.00
2/10/2006	338.00			25/11/2006	-
3/10/2006	339.00			26/11/2006	-
4/10/2006	342.00			27/11/2006	590.00
5/10/2006	343.00			28/11/2006	595.00
6/10/2006	345.00			29/11/2006	599.00
7/10/2006	-			30/11/2006	600.00
8/10/2006	-			1/12/2006	610.00
9/10/2006	344.00			2/12/2006	-
10/10/2006	340.00			3/12/2006	-
11/10/2006	341.00			4/12/2006	95.00
12/10/2006	339.00			5/12/2006	93.00
13/10/2006	339.00			6/12/2006	90.00
14/10/2006	-			7/12/2006	87.00
15/10/2006	-			8/12/2006	81.00
16/10/2006	400.00			9/12/2006	-
17/10/2006	423.00			10/12/2006	-
18/10/2006	445.00			11/12/2006	80.00
19/10/2006	460.00			12/12/2006	-
20/10/2006	465.00			13/12/2006	80.50
21/10/2006	-			14/12/2006	75.50
22/10/2006	-			15/12/2006	75.00
23/10/2006	480.00			16/12/2006	-
24/10/2006	491.00			17/12/2006	-
25/10/2006	505.00			18/12/2006	75.50
26/10/2006	512.00			19/12/2006	75.00
27/10/2006	520.00			20/12/2006	75.50
28/10/2006	-			21/12/2006	75.00
29/10/2006	-			22/12/2006	71.00
30/10/2006	531.00			23/12/2006	-
31/10/2006	540.00			24/12/2006	-
1/11/2006	545.00			25/12/2006	-
2/11/2006	550.00			26/12/2006	-

Key:

- PRAP-pre announcement date
- POAP-post announcement date
- 0-Weekends/public holidays

APPENDIX XVIII

TABLE I-DESCRIPTIVE STATISTICS WHOLE PERIOD (MPS)

Name	N	Mean	Std. Error	Std. Deviation
CMC Holdings	63	80.85	3.31	26.25
DFC Bank	62	53.57	0.95	7.47
Standard Chartered Bank	71	196.27	3.07	25.91
Crown Berger	62	38.79	0.36	2.85
East African Breweries	72	487.38	3.42	29.01
Diamond Trust	61	32.02	0.33	2.55
Equity Media Group	58	211.98	2.39	18.16
Express Kenya	72	25.60	0.27	2.30
Gasini Ltd.	68	130.20	1.88	15.54
Equity Bank	70	215.79	3.52	29.44
PS Serena	70	85.07	0.51	4.27
Jubilee Holdings	61	259.18	3.76	29.37
Standard Group	74	56.20	0.41	3.55
Barclays Bank of Kenya	66	408.14	22.52	182.96

TABLE II- DESCRIPTIVE STATISTICS FOR PERIOD BEFORE AND AFTER ANNOUNCEMENT DATE (MPS)

Company Name	Period	N	Mean	Std. Deviation	Std. Error Mean
KCB Holdings	Prior	26	60.3	6.5	1.3
	After	29	94.3	27.5	5.1
Equity Bank	Prior	29	51.1	9.8	1.8
	After	26	54.4	2.1	0.4
Standard Chartered Bank	Prior	33	203.5	14.0	2.4
	After	31	181.0	28.0	5.0
Citibank	Prior	30	40.2	2.6	0.5
	After	27	36.8	1.4	0.3
East African Breweries	Prior	32	466.5	19.1	3.4
	After	32	503.7	27.1	4.8
Diamond Trust	Prior	31	30.3	1.4	0.2
	After	25	34.5	1.4	0.3
Nation Media Group	Prior	20	191.9	4.8	1.1
	After	31	228.3	4.3	0.8
Express Kenya	Prior	32	26.7	2.0	0.3
	After	33	24.1	1.9	0.3
Masini Ltd	Prior	31	116.7	11.6	2.1
	After	29	140.6	5.8	1.1
Equity Bank	Prior	30	192.7	28.2	5.1
	After	33	233.7	16.2	2.8
PS Serena	Prior	33	86.7	4.1	0.7
	After	29	84.9	2.5	0.5
Nile Holdings	Prior	28	266.3	40.6	7.7
	After	27	250.3	3.7	0.7
Standard Group	Prior	33	53.3	1.5	0.3
	After	32	57.5	1.8	0.3
Barclays Bank of Kenya	Prior	31	406.5	83.7	15.0
	After	26	353.3	256.5	50.3

TABLE III- DESCRIPTIVE STATISTICS FOR PRIOR ANNOUNCEMENT DATE AND EVENT PERIOD (MPS)

	Period	N	Mean	Std. Deviation	Std. Error Mean
Barclays Bank of Kenya	Prior	31	406.452	83.6679	15.0272
	Event	9	572.222	11.8509	3.9503
CFC Bank	Prior	29	51.121	9.7819	1.8165
	Event	7	60.786	3.0938	1.1693
CMC Holdings	Prior	26	60.250	6.5487	1.2843
	Event	8	99.063	14.6907	5.1940
Crown Berger	Prior	30	40.150	2.5911	.4731
	Event	5	41.550	3.1692	1.4173
Diamond Trust	Prior	31	30.298	1.3851	.2488
	Event	5	30.250	2.4622	1.1011
East African Breweries	Prior	32	466.531	19.1024	3.3769
	Event	8	505.375	10.1972	3.6052
Equity Bank	Prior	30	192.733	28.1853	5.1459
	Event	9	179.111	101.8092	33.9364
Express Kenya	Prior	33	25.902	5.0350	.8765
	Event	7	27.536	.6836	.2584
Jubilee Holdings	Prior	28	266.286	40.5754	7.6680
	Event	6	265.833	25.1509	10.2678
Nation Media Group	Prior	20	191.900	4.7892	1.0709
	Event	7	197.286	2.3604	.8921
Sasini Ltd.	Prior	32	113.055	23.5733	4.1672
	Event	9	128.667	49.1619	16.3873
Standard Chartered Bank	Prior	33	203.455	13.9667	2.4313
	Event	7	230.143	6.7188	2.5395
Standard Group	Prior	33	53.348	1.4973	.2606
	Event	9	62.111	3.7896	1.2632
TPS Serena	Prior	33	86.742	4.1233	.7178
	Event	8	78.750	4.3425	1.5353

TABLE IV- DESCRIPTIVE STATISTICS FOR EVENT PERIOD AND POST ANNOUNCEMENT DATE (MPS)

	Period	N	Mean	Std. Deviation	Std. Error Mean
Barclays Bank of Kenya	After	26	353.346	256.4551	50.2950
	Event	9	572.222	11.8509	3.9503
FC Bank	After	26	54.365	2.1098	.4138
	Event	7	60.786	3.0938	1.1693
MC Holdings	After	29	94.293	27.5313	5.1124
	Event	8	99.063	14.6907	5.1940
Citibank	After	27	36.759	1.4436	.2778
	Event	5	41.550	3.1692	1.4173
Diamond Trust	After	25	34.500	1.3844	.2769
	Event	5	30.250	2.4622	1.1011
East African Breweries	After	32	503.719	27.0522	4.7822
	Event	8	505.375	10.1972	3.6052
Equity Bank	After	33	233.667	16.1877	2.8179
	Event	9	179.111	101.8092	33.9364
Express Kenya	After	33	24.106	1.8978	.3304
	Event	7	27.536	.6836	.2584
Jubilee Holdings	After	27	250.333	3.6795	.7081
	Event	6	265.833	25.1509	10.2678
Nation Media Group	After	31	228.258	4.2737	7676
	Event	7	197.286	2.3604	.8921
Safaricom Ltd.	After	32	127.438	42.0099	7.4264
	Event	9	128.667	49.1619	16.3873
Standard Chartered Bank	After	31	180.968	27.9696	5.0235
	Event	7	230.143	6.7188	2.5395
Standard Group	After	33	55.727	10.1590	1.7684
	Event	9	62.111	3.7896	1.2632
UPS Serena	After	30	82.083	15.6927	2.8651
	Event	8	78.750	4.3425	1.5353

LE V-T TEST FOR BEFORE AND AFTER ANNOUNCEMENT DATE (MPS)

		Levene's Test for Equality of Variances		t-test for Equality of Means			Mean Difference	Std. Error Difference	Lower	Upper
		F	Sig.	t	df	Sig. (2-tailed)				
IC Holdings	Equal variances assumed	110.75	0	-6.15	53	0	-34.04	5.54	-45.15	-22.9
	Equal variances not assumed			-6.46	31.51	0	-34.04	5.27	-44.79	-23.3
C Bank	Equal variances assumed	64.84	0	-1.66	53	0.1	-3.24	1.96	-7.18	0.69
	Equal variances not assumed			-1.74	30.89	0.09	-3.24	1.86	-7.04	0.56
Standard Chartered Bank	Equal variances assumed	15.51	0	4.11	62	0	22.49	5.48	11.54	33.43
	Equal variances not assumed			4.03	43.47	0	22.49	5.58	11.24	33.74
Town Berger	Equal variances assumed	21.71	0	6.01	55	0	3.39	0.56	2.26	4.52
	Equal variances not assumed			6.18	46.31	0	3.39	0.55	2.29	4.49
East African Jewellers	Equal variances assumed	0.52	0.48	-6.35	62	0	-37.19	5.85	-48.89	-25.5
	Equal variances not assumed			-6.35	55.76	0	-37.19	5.85	-48.92	-25.5
Diamond Trust	Equal variances assumed	0	0.98	-11.29	54	0	-4.2	0.37	-4.95	-3.46
	Equal variances not assumed			-11.29	51.53	0	-4.2	0.37	-4.95	-3.45
Nation Media Group	Equal variances assumed	1.57	0.22	-28.29	49	0	-36.36	1.29	-38.94	-33.8
	Equal variances not assumed			-27.6	37.3	0	-36.36	1.32	-39.03	-33.7
Express Kenya	Equal variances assumed	0.44	0.51	5.44	63	0	2.6	0.48	1.65	3.56
	Equal variances not assumed			5.44	62.74	0	2.6	0.48	1.65	3.56
Masini Ltd.	Equal variances assumed	15.47	0	-9.99	58	0	-23.92	2.39	-28.71	-19.1
	Equal variances not assumed			-10.19	44.86	0	-23.92	2.35	-28.65	-19.2
Equity Bank	Equal variances assumed	10.46	0	-7.15	61	0	-40.93	5.73	-52.38	-29.5
	Equal variances not assumed			-6.98	45.31	0	-40.93	5.87	-52.75	-29.1
SPS Serena	Equal variances assumed	12	0	2.08	60	0.04	1.83	0.88	0.07	3.59
	Equal variances not assumed			2.15	53.37	0.04	1.83	0.85	0.12	3.54
Indice Holdings	Equal variances assumed	72.38	0	2.03	53	0.05	15.95	7.84	0.22	31.68
	Equal variances not assumed			2.07	27.46	0.05	15.95	7.7	0.16	31.74
Standard Group	Equal variances assumed	2.32	0.13	-10.06	63	0	-4.12	0.41	-4.94	-3.3
	Equal variances not assumed			-10.03	60.33	0	-4.12	0.41	-4.94	-3.3
Barclays Bank of Kenya	Equal variances assumed	569.37	0	1.09	55	0.28	53.11	48.83	-44.75	151
	Equal variances not assumed			1.01	29.47	0.32	53.11	52.49	-54.18	160.4

TABLE VI-T TEST FOR EVENT WINDOW AND AFTER ANNOUNCEMENT DATE (MPS)

		Levene's Test for Equality of Variances		t-test for Equality of Means			Mean Difference	Std. Error Difference	Lower	Upper
		F	Sig.	t	df	Sig. (2-tailed)				
Barclays Bank of Kenya	Equal variances assumed	1036.02	0.00	-2.53	33.00	0.02	-218.88	86.36	-394.57	-43.18
	Equal variances not assumed			-4.34	25.31	0.00	-218.88	50.45	-322.72	-115.04
CFC Bank	Equal variances assumed	5.18	0.03	-6.46	31.00	0.00	-6.42	0.99	-8.45	-4.39
	Equal variances not assumed			-5.18	7.57	0.00	-6.42	1.24	-9.31	-3.53
CMC Holdings	Equal variances assumed	13.82	0.00	-0.47	35.00	0.64	-4.77	10.18	-25.43	15.89
	Equal variances not assumed			-0.65	21.98	0.52	-4.77	7.29	-19.88	10.35
Crown Berger	Equal variances assumed	13.87	0.00	-5.55	30.00	0.00	-4.79	0.86	-6.55	-3.03
	Equal variances not assumed			-3.32	4.31	0.03	-4.79	1.44	-8.69	-0.89
Diamond Trust	Equal variances assumed	6.13	0.02	5.48	28.00	0.00	4.25	0.78	2.66	5.84
	Equal variances not assumed			3.74	4.52	0.02	4.25	1.14	1.24	7.26
East African Breweries	Equal variances assumed	3.04	0.09	-0.17	38.00	0.87	-1.66	9.81	-21.52	18.21
	Equal variances not assumed			-0.28	31.37	0.78	-1.66	5.99	-13.86	10.55
Equity Bank	Equal variances assumed	43.88	0.00	3.04	40.00	0.00	54.56	17.97	18.24	90.87
	Equal variances not assumed			1.60	8.11	0.15	54.56	34.05	-23.79	132.90
Express Kenya	Equal variances assumed	5.31	0.03	-4.68	38.00	0.00	-3.43	0.73	-4.91	-1.94
	Equal variances not assumed			-8.18	27.75	0.00	-3.43	0.42	-4.29	-2.57
Jubilee Holdings	Equal variances assumed	82.56	0.00	-3.23	31.00	0.00	-15.50	4.81	-25.30	-5.70
	Equal variances not assumed			-1.51	5.05	0.19	-15.50	10.29	-41.88	10.88
Nation Media Group	Equal variances assumed	0.65	0.43	18.42	36.00	0.00	30.97	1.68	27.56	34.38
	Equal variances not assumed			26.32	16.38	0.00	30.97	1.18	28.48	33.46
Sasini Ltd.	Equal variances assumed	0.13	0.72	-0.07	39.00	0.94	-1.23	16.44	-34.48	32.02
	Equal variances not assumed			-0.07	11.50	0.95	-1.23	17.99	-40.62	38.16
Standard Chartered Bank	Equal variances assumed	9.67	0.00	-4.58	36.00	0.00	-49.18	10.75	-70.97	-27.38
	Equal variances not assumed			-8.74	35.65	0.00	-49.18	5.63	-60.59	-37.76
Standard Group	Equal variances assumed	0.06	0.80	-1.84	40.00	0.07	-6.38	3.48	-13.41	0.64
	Equal variances not assumed			-2.94	35.75	0.01	-6.38	2.17	-10.79	-1.98
TPS Serena	Equal variances assumed	0.22	0.64	0.59	36.00	0.56	3.33	5.66	-8.14	14.80
	Equal variances not assumed			1.03	35.81	0.31	3.33	3.25	-3.26	9.93

TABLE VII-T TEST FOR EVENT WINDOW AND PRIOR ANNOUNCEMENT DATE (MPS)

		Levene's Test for Equality of Variances		t-test for Equality of Means					Lower	Upper
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference		
Barclays Bank of Kenya	Equal variances assumed	39.78	0.00	-5.87	38.00	0.00	-165.77	28.22	-222.91	-108.63
	Equal variances not assumed			-10.67	33.69	0.00	-165.77	15.54	-197.36	-134.18
CFC Bank	Equal variances assumed	13.31	0.00	-2.56	34.00	0.02	-9.67	3.78	-17.34	-1.99
	Equal variances not assumed			-4.47	31.10	0.00	-9.67	2.16	-14.07	-5.26
CMC Holdings	Equal variances assumed	15.22	0.00	-10.69	32.00	0.00	-38.81	3.63	-46.21	-31.41
	Equal variances not assumed			-7.25	7.87	0.00	-38.81	5.35	-51.18	-26.44
Crown Berger	Equal variances assumed	0.69	0.41	-1.09	33.00	0.29	-1.40	1.29	-4.02	1.22
	Equal variances not assumed			-0.94	4.93	0.39	-1.40	1.49	-5.26	2.46
Diamond Trust	Equal variances assumed	6.19	0.02	0.06	34.00	0.95	0.05	0.75	-1.47	1.57
	Equal variances not assumed			0.04	4.42	0.97	0.05	1.13	-2.97	3.07
East African Breweries	Equal variances assumed	9.80	0.00	-5.52	38.00	0.00	-38.84	7.04	-53.09	-24.60
	Equal variances not assumed			-7.86	21.02	0.00	-38.84	4.94	-49.12	-28.57
Equity Bank	Equal variances assumed	24.78	0.00	0.67	37.00	0.51	13.62	20.34	-27.59	54.83
	Equal variances not assumed			0.40	8.37	0.70	13.62	34.32	-64.92	92.17
Express Kenya	Equal variances assumed	1.31	0.26	-0.85	38.00	0.40	-1.63	1.93	-5.53	2.26
	Equal variances not assumed			-1.79	36.34	0.08	-1.63	0.91	-3.49	0.22
Jubilee Holdings	Equal variances assumed	2.78	0.11	0.03	32.00	0.98	0.45	17.35	-34.89	35.80
	Equal variances not assumed			0.04	11.47	0.97	0.45	12.82	-27.61	28.52
Nation Media Group	Equal variances assumed	4.05	0.06	-2.83	25.00	0.01	-5.39	1.90	-9.30	-1.47
	Equal variances not assumed			-3.86	21.59	0.00	-5.39	1.39	-8.28	-2.49
Sasini Ltd	Equal variances assumed	2.69	0.11	-1.35	39.00	0.18	-15.61	11.55	-38.98	7.76
	Equal variances not assumed			-0.92	9.06	0.38	-15.61	16.91	-53.82	22.60
Standard Chartered Bank	Equal variances assumed	3.04	0.09	-4.90	38.00	0.00	-26.69	5.45	-37.72	-15.66
	Equal variances not assumed			-7.59	19.04	0.00	-26.69	3.52	-34.05	-19.33
Standard Group	Equal variances assumed	16.21	0.00	-10.79	40.00	0.00	-8.76	0.81	-10.40	-7.12
	Equal variances not assumed			-6.79	8.69	0.00	-8.76	1.29	-11.70	-5.83
TPS Serena	Equal variances assumed	0.12	0.73	4.87	39.00	0.00	7.99	1.64	4.67	11.31
	Equal variances not assumed			4.72	10.29	0.00	7.99	1.69	4.23	11.75