ABSTRACT

Over the last three decades, numerous studies have focused on the behavior of stock prices with respect to takeover activity in the United States and the United Kingdom. The findings consistently indicate that stockholders of target firms earn substantial abnormal returns on date and even before a takeover is announced. There is also extensive empirical evidence in support of the theories underlying the rationale of takeovers. In Hong Kong, however, provision of similar studies in recent years seems relatively scarce. This paper is aimed at examining the impact of takeover announcements on target returns in the Hong Kong stock market for the period between 1992 and 1993. The results suggest that the hypothesis that daily abnormal returns of target firms are found around the date of takeover announcement cannot be rejected. Also, pre-announcement price run-ups of target firms indicate potential existence of insider trading but the Hong Kong stock market is generally efficient in terms of posterior price adjustment, given publicly available takeover information.