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# The behaviour of Stock Prices of Sri Lankan Hotel and Travel Sector Companies: A comparison of Civil War and Easter Attack-2019

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### Abstract

This paper investigates the impact of the Civil War and the Easter Attack 2019 on the Hotel and Travel Sector, employing the Event Study Methodology that is widely used and free from deliberate interferences. The Market Model is applied to calculate the Expected Returns ( $\hat{R}_t$ ) by taking daily data for closing share prices of overall forty-one (41) listed companies under the Hotel and Travel sector in Colombo Stock Exchange by the particular event dates while the daily All Share Price Indices (ASPI) are considered as the market return  $(R_{mt})$ . The event timeline is specified considering 41 days' event window and 80 days before the event window for the estimation window. The market model is mainly based on the Ordinary Least Square (OLS) Method for estimating parameters. For analysing data, graphical analysis and t-test analysis are necessarily applied. This study concludes that terrorism is the event capable of creating an unfavourable impact on the value of the Hotel and Travel Sector companies. Especially, the Hotel and Travel Sector has provided no evidence for the semi-strong form efficiency. Further, the Hotel and Travel Sector of Sri Lanka has been adversely affected by Easter Attack 2019, collapsing the favourable economic condition developed for 10 years after the brutal Civil war. Ultimately, this study recommends getting an idea of how to upgrade the mechanism of an efficient market, which provides a platform for investors who trade securities to keep the Hotel and Travel Sector investment flow healthy and stable.

Keywords: Easter Sunday attack 2019, efficient market hypothesis, event study methodology, civil war, hotel and travel sector, Sri Lanka

# Introduction

Many scholars have labelled terrorism as a highly destructive phenomenon in any country led either by an organisation or by individuals who have not been eradicated from the world. According to the Global Terrorism Index (GTI), from time to time, Sri Lanka is one of the countries that has been severely affected by various terrorist groups by degrading the economy and endangering civilians' lives. The civil war in Sri Lanka has been thoroughly elucidated through the book of "Ranamaga Osse Nandhikadal", which began in the nineteenth century and lasted until the twentieth century, is considered one of the longlasting worst wars ever recorded in the world. The Sri Lankan Civil War, which lasted for nearly 30 years, began in 1983 and lasted for four phases categorised as; Eelam war I (1983-1987), Eelam war II (1990-1995), Eelam war III (1995-2002) & Eelam war IV (2002-2009). However, the Government of Sri Lanka has taken action to rehabilitate the displaced civilians to revive the Sri Lankan economy. Although Sri Lanka was able to move forward as a free and independent country enjoying the joy of getting rid of terrorism, in 2019, the dark shadows of terrorism fell on Sri Lanka again with the Easter Attack. This study focuses on the aftermath of the Eelam War and the Easter Attack on the stock prices with special reference to the Colombo Stock Exchange (CSE) due to the significant impact recorded in terms of economy and globally.

As a matter of fact, this research is rooted in how terrorism has affected quantitatively and significantly the stock market in response to selected terrorist attacks. In other words, this is a study of contradistinguishing the aftermaths of each selected terrorist attack and concluding which attack was highly reflected by the stock price in accordance with the Market Efficiency. Accordingly, Abeysekara (2001), Samarakoon (2004), Pathirawasam and Idirisinghe (2001) have tested the Weak Form Efficiency while Abeyarathne (1999) examined the Semi Strong Form Efficiency of Colombo Stock Exchange as a whole. In contrast, this study mainly fulfils the research gap, which leads to observe whether the economic development of the past ten years after the end of the Civil War was disrupted by the Easter Sunday attack with reference to the Stock Prices of Hotel and Travel Sector companies while observes the single impact of all 14 selected terrorist attacks and it's the aggregate impact on the Stock Prices of Hotel and Travel Sector companies. Therefore, in accordance with the concept behind this study, the Efficient Market Hypothesis (EMH) is analysed with the practical aspects by illustrating how well terrorism-related information has been reflected through the stock prices of the Hotel and Travel Sector.

The main objective of this study is to analyse the impact of selected fourteen (14) events by which targeted the economic locations, civilians, public or political figures on the performance of the Hotel and Travel Sector of Sri Lanka. The terrorism events based on this study mainly include the Civil War and the Easter Attack, which have claimed the worst upshot with thousands of sacrificed lives. Accordingly, thirteen (13) out of the selected terrorism events fall under the civil war events by making the ceasefire a turning point for the analysis. Although the brutal civil war, which lasted around 30 years, was eradicated by 2009, Sri Lanka had to face a tragic fate again after 10 years because of eight (8) heartless bombings of a group of extremists on April 21 2019, depriving of the independence of Sri Lanka. Therefore, this study is not limited to the adverse effects of the Civil War but extends to the devastation caused by the Easter attack.

Many other countries have observed the impact of terrorism on the value of companies that have been quoted under the respective Stock Markets. So, an argument can be aroused, stating that the setups of the Sri Lankan stock market are inadequate for studying this matter because of the intervention of the stock market into the economy. However, this study involves finding the scope of Informational Efficiency of the Hotel and Travel Sector in Sri Lanka as an emerging country. Therefore, the Research problem which is going to be solved by this study is to find out the reactions of values of Hotel and Travel Sector companies to the Civil War terrorist attacks after the ceasefire agreement and Easter attack with a rationale comparison between economic status in terms of stock prices existed after the end of the Civil War and after the Easter attack. Indeed, the Tourism industry of any country contributes much to upgrading the national production and allowing globalisation for a country. Sri Lanka is another developing country recognised by the world through tourism. The Sri Lankan tourism industry is mainly powered by the listed companies belonging to the Hotel and Travel Sector under the categorisation of the Colombo Stock Exchange. The main focus of this study is the interrelationship between Terrorism and Tourism because the worst terrorist attacks in Sri Lanka will be analysed in line with the tourism industry. So, the terrorist attacks as events for this study have been selected according to the generally reviewed term "Terrorism", which refers to the violence against civilians or military forces in a particular country to achieve most probably a political aim.

Many authors have been observed the overall efficiency of the CSE in response to various events with reference to Sri Lanka. And also, it can be found that several studies are based on the relative effects of terrorism on different business sectors. This study examines the exact impact of Sri Lankan terrorism on the Hotel and Travel Sector through the Event Study Methodology. Although the impact of civil war has already been analysed, the impact of the Easter Sunday attack has not been discussed much. But Amarnath Amarasingam (2019), K. Ramakrishna (2019), P. Casaca (2019), and ARM Imtiyaz (2019) have observed the nature and the overall impact of Easter Attack bombings by using primary data. Since the civil war lasted for almost three decades, investors are frazzling such terrorism-related news on the economic and financial phase in Sri Lanka stock prices, which led to the historical pattern decreasing the possibility for strong form efficiency. Nevertheless, the situation created around Easter Attack was somewhat different from Civil War events because it was a sudden incident in a peaceful environment where a war attack can never be expected.

This study mainly focuses on the reactions of the Sri Lankan Hotel and Travel Sector to the released new information from terrorism. With that focus, the main objective of this study is to test whether the Hotel and Travel Sector has reacted to the selected terrorism attacks in semi-strong form efficiently. In addition, this reveals whether the upward achieved by the Colombo Stock Exchange throughout the 10 years just after the end of the Civil War, which comprises with selected 13 series of events (attacks) re-collapse by the Easter Sunday attack as a sub-objective. Accordingly, the following research questions are stated to assist the fulfilling the research objective.

# **Research question 1:**

Have the selected Terrorist events affected the listed companies' stock prices belonging to the Hotel and Travel Sector in Colombo Stock Exchange? If so, to which degree?

# **Research question 2:**

Which event/s has/have significantly affected the stock prices of listed companies belonging to the Hotel and Travel Sector in Colombo Stock Exchange?

# **Research question 3:**

Has the economic status after the Civil War in terms of Hotel and Travel Sector stock prices been impacted by the Easter Attack? If so, to which degree?

# **Literature Review**

# **Efficient Market Hypothesis**

In 1970, Fama introduced the original concept of the Efficient Market Hypothesis by the well-known research study, "Efficient Capital Markets: A Review of Theory and Empirical Work." It has introduced several models to test the market efficiency; the Expected Return Model, The sub Martingale Model, and The Random Walk Model. The adjustment of the security prices is made according to the three major sets of information in an ordered test. First Weak Form Test, second Semi – Strong Form Test, and finally, Strong Form Test should be carried out. Shelina and Abu (2006) has observed the three form of Efficient Market Hypothesis (EMH) practically with the main objective of testing the Weak Form Efficiency of the Dhaka Stock Exchange (DSE). It has been concluded that DSE, as an emerging market like the stock market of Sri Lanka, is Weak Form Efficient. Abeysekara (2001) has done a study based on Efficient Market Hypothesis (EMH) in order to answer

the question, do the market prices of stocks listed in the Colombo Stock Exchange (CSE) consistently reflect all the relevant information available?

In conclusion, they have presented that the stock market is not much informationally efficient because the results of this study indicate that the stock selected behaves inconsistently with the weak form efficiency. The same conclusion has been grabbed by Samarakoon (2004), intending to examine the efficiency of stock prices in CSE through an analysis of both short-term returns and long-term returns autocorrelations. Finally, Balputhiran, Ramesh, and Nimalathasan (2014) have also examined the CSE's efficiency using Event Study Methodology and revealed that the CSE is not a Semi –Strong Form Efficient market investors do not adjust rapidly to the new information.

### Impact of Terrorism on the Stock Market

Not only for Sri Lanka but also many other countries have suffered the most from terrorism. Therefore, the following studies also have observed the impact of terrorism mainly on the stock markets. Eldor and Melnick (2004) have examined the Impact of Terrorism on the Stock Market and Exchange Rates using the daily time-series method. It has been concluded that the Palestinian terror attacks permanently impacted Israel Tel Aviv Stock Exchange (TASE) and financial markets efficiently adjusting to terrorism-related information. Chen and Siems (2004) have also argued that the investors within a financial market flee away from the financial market because of high risk when new information becomes available about a cataclysmic event just like a terrorist attack by analysing the terror and military attacks through an event study while Arin, Ciferri, and Spagnolo (2008) have used VAR GARCH Model for analysing the effects of terrorism on stock market returns as well as the volatility. Goodrich (2002) has presented the impacts on the Travel and Tourism Industry and concluded that the Travel and Tourism sector was mostly affected negatively by the 9/11 terrorist attacks, while David A. Carter and Betty J. Simkins (2002) have also discussed the impact of the 9/11 terrorist attacks by getting the approach of Multivariate Regression Model Methodology.

# **Event Study Methodology**

The event Study methodology is one of the methods of testing the Semi-Strong Form efficiency. A number of studies can be found based on the Event Study Methodology stating its importance than other methodologies. For example, a. Craig Mackinlay (1997) has introduced the practical aspect of the Event Study methodology in order to measure the impact of an economic event on the value of the firms. Further, the usefulness of an event study that depends on how efficiently the security price reflects the impact of the particular event has also been described. Brown and Warner (1980) have tested how to do firm-specific events impact the prices of the affected firm's stocks or security on a daily basis by using different models; Capital Asset Pricing Model (CAPM), Mean Adjusted Return Model, Market Model, and Market and Risk-Adjusted Returns Model.

Furthermore, Jayakody (2017) has observed the Impact of the Sri Lankan Civil War on the Stock Market performance by using the Event Study Methodology based on nineteen (19) industries that have been registered under the Colombo Stock Exchange under the Mean Adjusted Return Model. The study revealed that the Bank, Finance and Insurance Industry (BFI), the Power and Energy Industry (PNE), and Hotel and Travel Industry (HNT) were the most affected industries and the Motors Industry (MTR), Chemicals and Pharmaceuticals Industry (CNP) and Telecommunications Industry (TLE) were the least

affected industries the Civil War. The Tourism Industry has been mainly focused on that study and concluded that the Hotel and Travel Sector, which corresponds with the Tourism Industry, is more sensitive than others. Recently, Tahir (2020) has also observed the impact of terrorist attacks in Pakistan on the Pakistan Stock Exchange by using event Study Methodology. The BMP test has been used to test the significance of CAAR.

Table I summarises the key literature reviews that this study has based.

S/N	Published Year	Author/ Authors	Торіс	Findings	Remarks
1	1969	Eugene f. Fama, Lawrence Fisher, Michael c. Jensen and Richard roll	The adjustment of stock prices to new information	Examined the process of adjusting individual stock prices to the new information. The study analyses the behaviour of the price changes of security in the particular period surrounding the event	Event Study
2	1997	Abagail Mc Williams, Donald Siegel	Event Studies in Management Research: Theoretical and Empirical Issues	Examined the use of event studies in management research and found inadequate attention paid to theoretical and research design issues.	Event Study
3	2004	Rafi Eldor, Rafi Melnick	Financial Markets and Terrorism	Examined the Impact of Terrorism on the stock market and exchange rates using daily time-series data from 1990 to 2003. This paper analyses the effects of Palestinian terror attacks, which intensified after 2000 September	Terrorism and Stock Market Performance
4	2010	Dirk Brounen, Jeroen Derwall	The Impact of Terrorist Attacks on International Stock markets	Impact of the terrorist attack on the stock market using the Event Study methodology. They measured the Financial impact of the 31 most disastrous terrorist attacks experienced by America since 1990.	Terrorism and Stock Market Performance
5	2012	Les Coleman	Testing Equity Market Efficiency around Terrorist Attacks	Uses the nine major bombings since 1998 attributed to Al Qaida to examine market efficiency, including a test of rumours that investors traded with advanced knowledge of attacks	EMH Theory

 Table I: List of key literature reviews

# Methodology

This study analyses the impact of the stock prices of the listed companies under the Hotel and Travel Sector in CSE during two separate periods; (1) 4<sup>th</sup> phase of Sri Lankan Civil war (2) Easter Attack on April 21 2019, by using Event Study Methodology. Figure I shows how the fundamental concepts are involved in overcoming the problem behind this study. For the analysis purpose, each company's daily closing stock prices are quoted under HNT by the particular event date. In appendix A presents all the companies which are considered for the analysis. The daily stock returns are calculated through logarithmic differentiation of daily closing prices.



Figure I: The Conceptual Framework (Source: Developed by Researcher)

# Operationalisation

Table II summarises the key variables, indicators and developed hypotheses to solve the research questions derived.

<b>Research Question</b>	Key Variables	Indicator	Hypothesis (If any)		
Have the selected Terrorist events affected the listed companies' stock prices belonging to the Hotel and Travel Sector in Colombo Stock Exchange? If so, to which degree?	Daily AAR of each event Daily CAAR of each event	<ol> <li>Stock prices of the listed companies belong to the Hotel and Travel Sector</li> <li>ASPI</li> <li>t Statistics</li> </ol>	<ul> <li>H0: Hotel and Travel Sector does not provide evidence for semi- strong form efficiency.</li> <li>H1: Hotel and Travel Sector provides evidence for semi-strong form efficiency.</li> </ul>		
Which event/s has/have significantly affected the stock prices of listed companies belonging to the Hotel and Travel Sector in Colombo Stock Exchange?	Daily AAR of each event Daily CAAR of each event	<ol> <li>Stock prices of the listed companies belong to the Hotel and Travel Sector</li> <li>ASPI</li> <li>t Statistics</li> </ol>	H0: The Hotel and Travel Sector does not react efficiently to announcements containing terrorist attacks in share price adjustments.H2: The Hotel and Travel Sector efficiently reacts to announcements containing terrorist attacks in share price adjustments.		
Has the economic status after the Civil War in terms of Hotel and Travel Sector stock prices been impacted by the Easter Attack? If so, to which degree?	Daily AAR of each event Daily CAAR of each event	<ol> <li>Stock prices of the listed companies belong to the Hotel and Travel Sector</li> <li>ASPI</li> <li>t Statistics</li> </ol>	-		

# Table II: Operationalisation

Source: Developed by Researcher

# Sample: Selection of Events

Accordingly, thirteen (13) attacks have been chosen from the 4th phase of the Sri Lankan Civil War, which started from the event that happened just after breaking the Ceasefire agreement on July 26, 2006, and ended up with the final battle of the Civil war on May 18 2009. The last event is the Easter Attack on April 21 2019, which includes eight (8) bomb explosions. The selected events include commercial targets, economic targets, civil targets,

and targeting political figures mainly. In screening out terrorism attacks, the intensity, significance, and causality of the attack are taken into account. In several cases, the most recent prior day's closing stock prices and ASPIs are considered the closing stock price and ASPI for the event day since CSE has been closed due to curfew or a holiday.

Event No.	Event	Location	Event Date	Impact of the Event			
	1	Civil War I	Events				
1	Air Force attacked LTTE to reopen the sluiced gate of Mavil Aru	MaviAru, Trincomalee Eastern Province	July 26 2006	Sri Lankan militaries have effort more to reopen the sluice gate. However, LTTE had re- launched an artillery and mortar fire at the sluice gate area in great grief to completely destroy the irrigation engineers' anti-cut.			
2	Attack on Pakistani ambassador to Sri Lanka	Colombo-Western Province	August 14 2006	Seven people were killed, and around Fourteen people were injured by the explosion			
3	Pottuvil Massacres	Radella, Pottuvil – Eastern Province	September 18 2006	Ten young Muslim workers were assassinated.			
4	Suicide bomb attack by LTTE on buses	Digampathana, Northcentral province	October 16 2006	At least 129 military soldiers were killed, and around 300 people were injured. This was considered the worst single- day causality after the ceasefire agreement in 2002.			
5	LTTE's first Air Raid by bombing at the military base by the Bandaranayake International Airport	Colombo-Western Province	March 26 2007	3 Sri Lankan air force personnel were killed and 16 wounded. Although the damage was minor, it was capable of damaging the 2 parked military helicopters and Engineering facilities			
6	The assassination of Eastern province Chief secretary	Trincomalee-Eastern Province	July 16 2007	Eastern province Chief secretary was killed by 5 bullet shots			
7	Attack on Anuradhapura Airbase	Anuradhapura- North Central Province	October 22 2007	14 killed, 22 wounded Aircraft destroyed: 1 Mi-24 attack helicopter, 1 Mi-17 helicopter,1 K-8 jet trainer, 3 P.T6 trainers, 1 Bell 212 helicopter,1 Bell 206 helicopter,1 Beechcraft surveillance plane[1]			
8	A roadside bomb in a passenger bus	Buttala, - Uva Province	January 16 2008	At least 24 civilians were killed, and more than 60 people were wounded.			
9	A suicide bomb attack at Marathon race	Weliveriya-Western Province	April 6 2008	A senior cabinet minister, Jeyaraj Fernandopulle, and at least 13 other people, including police and government officials, were killed. At least 83 people were wounded.			

### **Table III: List of Events**

10	A roadside bomb in a passenger bus	Moratuwa, Western Province & Pollgolla, Central Province	June 6 2008	Twenty-two people were killed, and about 100 were injured.
11	A suicide bomb attack targeting a function of UNP	Anuradhapura, North Central Province	October 6 2008	Twenty-six people were killed, and 80 people were injured.
12	A suicide air raid in Colombo	Colombo, Western Province	February 20 2009	Four people, including pilots, were killed, and more than 58 were injured. In addition, the Inland Revenue building was destroyed.
13	End of the Eelam War	Nandikadal–Nothern Province	May 18 2009	250 Tamil tigers hiding in mangroves, including Velupillai Prabhakaran, were killed.
		Easter Sunday At	ttack Events	
14	Easter Sunday Attack	Colombo, Negambo, and Dehiwala– Western Province Batticaloa–Eastern Province,	April 21 2019	269 were killed, including more than 8 bombers, more than 500 people injured. Curfews were imposed, a ban for social media, Ban for Burqua.

Source: Developed by Researcher

### **Event Study**

The Research methodology behind this study is the Event Study Methodology, which is commonly used for analysing the impact of a particular event on security yielding. As advocators of the event study theory, Brown and Warner (1985) have described the impact of daily stock returns and share prices due to firm-specific events. The first and foremost step is to define an event that provides new information to the market. The selected terrorism attacks are considered a separate event to be considered and analysed in accordance with the event study methodology. After identifying events, it is necessary to determine the selection criteria for the firm, which includes in the sample of the study as per the requirement of data availability. Totally forty-one (41) listed companies are selected without any restriction to the study. After that, to investigate the economic or financial response to the new information released to the market, a mathematical or statistical model should be outlined which justifies a financial response to this new information generated by an event. Mackinlay (1997) has described alternative models for measuring the Normal performance or return of a given security. Among them, this study follows the Market model, which does not depend on economic arguments but follows statistical assumptions regarding the behaviour of asset returns.

It is important that derive a timeline for each event specifying the Event date, Event Window, Estimation Window, and Post Event Window, as figure II.



Figure II: The Event Timeline (Source: Developed by Researcher)

In simple, the whole event timeline comprises 121 trading days, which can be mainly categorised into 2 phases; 41 days Event Window (20 days prior and 20 days after the event date) and 80 days Estimation Window.

After that, the Abnormal performance or return of given security should be measured and analysed for each event by subtracting the Expected Return of a Security ( $R_{it}$ ) from the Actual Return of security ( $R_t$ ) as Equation 2. The Market Model as Equation 1 follows the Ordinary Least Square Method (OLS), stating that the Expected Return of security is dependent on the Market Return ( $R_{mt}$ ), which is calculated by logarithmic differentiation of daily All Share Price Indices (ASPI).

As the next step, the Abnormal Return observations should be aggregated to obtain a wide as well as the overall conclusion for a particular event. The aggregation is carried through the time period as well as across the companies. Firstly, it is comfortable to take the average of A.R.<sub>s</sub> by aggregating (AR<sub>it</sub>) across companies, as shown in Equation 3. Secondly, the Cumulative Average Abnormal Return (CAAR<sub>t</sub>) for a given event by aggregating all the AAR<sub>t</sub> values, as shown in Equation 4. Ultimately, t-Statistical analysis is used for testing the significance of calculated daily CAAR to raise a valid conclusion. Equation 5 shows the daily t-Statistics of CAAR<sub>t</sub>.

$$\hat{R}_{T} = \alpha_{i} + \beta_{i} R_{m_{T}} + \varepsilon_{i_{T}}$$
(1)

Where,

 $\hat{R}_{T}$  = Normal Return of Security i for period t  $R_{m_{T}}$  = Return of Market Portfolio for the period of t  $\varepsilon_{i_{T}}$  = Zero Mean Disturbance Term

$$AR_{i_T} = R_{i_T} - \hat{R}_T \tag{2}$$

Where,

 $\hat{R}_{T}$  = Normal Daily Stock Return on T  $R_{i_{T}}$  = Actual Daily Stock Return on T  $AR_{i_{T}}$  = Abnormal Return on T

$$AAR_{i_T} = \frac{1}{N} \sum_{i=1}^{N} AR_{i_T}$$
(3)

Where,

 $AAR_{i_T}$  = Average Abnormal Return on T

N = Number of Shares / Companies  $AR_{ir} =$  Abnormal Return on T

$$CAAR_{i_T} = \sum_{T=T_0}^{T_2} AAR_{i_T}$$
(4)

Where,

 $AAR_{i_T}$  = Average Abnormal Return on T  $CAAR_{i_T}$  = Cumulative Average Abnormal Return on T

$$t - statistic = \frac{CAAR_{i_T}}{\sigma_{AAR_T} \times \sqrt{T}}$$
(5)

Where,

 $CAAR_{i_T}$  = Cumulative Average Abnormal Return on T  $\sigma_{AAR_T}$  = Standard Deviation of Daily Average Abnormal Return on T  $\sqrt{T}$  = Square Root of the total number of days from T<sub>0</sub> to T<sub>2</sub>

Ultimately, t-test statistics is used for validating the significance of CAAR results and testing the following hypotheses.

H<sub>1</sub>: Hotel and Travel Sector provides evidence for semi-strong form efficiency.

 $H_2$ : The Hotel and Travel Sector efficiently reacts to announcements containing terrorist attacks in share price adjustments.

# **Results and Findings**

The empirical results include both the Graphical Analysis and t-Statistic Analysis for each event, emphasising the impact of each terrorist attack on the HNT. In addition, the results are going to be analysed to what extent the HNT has complied with the Efficient Market Hypothesis (EMH).

# **Graphical Analysis**

# *Event 1: Air Force attacked LTTE to reopen the sluiced gate of Mavil Aru - August 26 2006*

On August 26 2006, the attack happened in the area of Mavil Aru in between LTTE and Sri Lankan Military in order to reopen the Sluice Gate, which was closed by LTTE on August 21 2006, assassinating around 150 LTTE cadres and 30 Civilians. Figure III(a) shows that positive AARs are higher than the negative AARs, with 0.034657 of highest positive on the 81 days and -0.018142 of highest negative AAR on the day of 42 in the estimation window. At the same time, the highest positive CAAR is 0.093195 on -73 days, while the highest negative CAAR is -0.040822 on -85 days. Obviously, the CAAR has followed an upward sloping behaviour within the -79, -73, and -51, -43 windows. Figure III(b) shows that CAAR follows a positive flat trend with minor fluctuations until the event day because most of the AARs before the event were positive, stating that the investors could earn more returns than they expected. It is important to observe that both AAR and CAAR had a quick drop within the 0, +2 window, showing investors' quick and efficient reaction. Both AAR and CAAR have moved steadily in the rest of the post-event window. According to the EMH theory, this behaviour may mostly be consistent with the Semi – Strong form Efficiency since a

short period has been taken for stock price adjustment. Nevertheless, the information efficiency will depend on the significance of CAARs before and after the event.



**Figure III(a): Event 1** Air Force attacked LTTE to re - open the sluiced gate of Mavil Aru on 26th August 2006 [80 days Estimation Window (-100,-20), 41 days Event Window (-20,+20)] **Figure III(b): Event 1** Air Force attacked LTTE to re - open the sluiced gate of Mavil Aru on 26th August 2006 [41 days Event Window (-20,+20)]

### Event 2: Attack on Pakistani ambassador to Sri Lanka

LTTE has committed an attack by targeting the Pakistani Ambassador to Sri Lanka on August 14, 2006, as a commercial nature attack. The greatness of the attack was enhanced by the assassination of seven (7) people. Nevertheless, the Pakistani Ambassador to Sri Lanka could be saved by the Sri Lankan Army. Figure IV(a) shows that +0.109977 of CAAR is on -85th day, and it was declining during -85, -63 windows stating that the investor's negative response to a piece of news leaked earlier to the event. Until day -12, the abnormal returns got a constant trend and again got a quick drop. Figure IV(b) shows that CAAR has maintained a steady move after the said quick drop with minor fluctuations. On the date of the event, it has not shown efficient price adjustments has begun from the days prior to the event day. However, the HNT has been negatively affected because the CAARs were negative and declining throughout the whole event window.



Figure IV(a): Event 2 Attack on Pakistani ambassador to Sri Lanka on 14th August 2006 [80 days Estimation Window (-100, -20) 41 days Event Window (-20,+20)]



### Event 3: Pottuvil Massacre

LTTE committed an assassination of Muslim civilians employed in irrigation work in Rattal Kulam, Pottuvil, on September 18 2006. Although it was not a commercial target, it could make disturbance as enforced for the country as a whole. The world condemned this attack since the attack was targeted by Muslims who were spread worldwide as a separate nation. According to figure V(a), CAAR has reached its bottom on the day -87 while its top led on the day -36 within the estimation window. Even though few fluctuations could be noticed until the event window, figure V(b) shows that CAAR has started to rise from day -11 throughout the rest of the event window. And also, the market has responded positively, and any specific price reaction on the event date could not be noticed.







### Event 4: A suicide bomb attack by the LTTE on buses carrying Sri Lankan Navy sailors

As the bloodiest event, a suicide bomb attack was committed on October 16 2006, in Habarana, which led to exploding about 15 buses with 103 Navy Sailors and about 100 civilians. Like life damages, this attack has affected the share prices of HNT negatively, as per figures VI(a) and VI(b). Within the estimation window (-100, -55), CAAR has got a neutral pattern, and from day -53, it was rising slowly. Adversely, it was declining continuously from day -7, indicating that the investors' might expect bad news about the event because the Sri Lankan civilians were expecting any kind of attack since they had already been condemned by the war continuously.



Figure VI(a): Event 4 Suicide bomb attack by LTTE on buses on 6th October 2006 [80 days Estimation Window (-100, -20) 41 days Event Window (-20,+20)]

Figure VI(b): Event 4 Suicide bomb attack by LTTE on buses on 6th October 2006 [41 days Event Window (-20,+20)]

# Event 5: The first air raid bombing at the military base by the Bandaranayake International Airport

The first air raid bombing targeted the Bandaranayake International Airport on March 26 2007. It was capable of hugely affecting the Sri Lankan Air Line industry, the military, and the economy because of the recession faced by HNT, and the Sri Lankan Stock market has fallen by 1.3%, as the news release. Figure VII(a) shows that the CAAR has got its bottom on the day -64 with -0.104728, and a shift could be noticed within the -64, -28 window, stating that the market has anticipated the news to be good. Nevertheless, figure VII(b) presents that stock prices of HNT were gaining negative and increasing abnormal returns. However, a dramatic drop can be seen within the 0, -3 window just after the event. Although the market has taken the event as bad for a short while, regularly, CAARs have shown a continuous climb and become positive in the window after the event day.







### Event 6: Assassination of Eastern Province Chief Secretary, Herath Abeyweera

On July 16 2007, the Chief Secretary, LTTE, assassinated Mr. Herath Abeyweera, who had worked for 15 years as the Ampara District secretary prior to appointment as the eastern Secretariat head with utmost commitment dedication in the Eastern province. According to figure VIII(a), any significant fluctuation in CAAR has not occurred since news leakage may not have happened. But figure VIII(b) shows a climbing pattern in abnormal returns from the beginning of the event window, allowing the investors to earn positive abnormal returns. In the rest of the event window, positive CAARs were continuously increasing. This may be due to another specific event that happened within this period or a factor that can influence the stock prices of the HNT sector.







**Figure VIII(b): Event 6** Assassination of Eastern Province Chief Secretary, Herath Abeyweera on 16th July 2007 [41 days Event Window (-20,+20)]

### Event 7: Attack on Anuradhapura Air force base

On October 22 2007, LTTE committed another aerial bomb attack targeting the air force base in Anuradhapura located in Saliyapura, which was considered the safest and the second-largest operational airbase of the Sri Lankan Army Force. The purpose of this attack may be to collapse the logistic support to northern positions. 13 air force personnel were killed, and huge loss of physical properties by this. Figure IX(a) shows that CAAR has followed a steady trend with a majority of negatives until day -28. After that, a sudden shift could be seen within the -28, -25 window. Figure IX(b) shows the negative and declining behaviour of CAAR until the event date stating that the investors of HNT may have a negative feeling about the event. After the event happened, it climbed until day +4 and moved constantly.



Figure IX(a): Event 7 Attack on Anuradhapura Air force base on 22nd October 2007 [80 days Estimation Window (-100, -20) 41 days Event Window (-20,+20)]

Figure IX(b): Event 7 Attack on Anuradhapura Air force base on 22nd October 2007 [41 days Event Window (-20,+20)]

### Event 8: A roadside bomb in a passenger bus

On January 16 2008, LTTE set up a roadside bomb by aiming at civilians travelling by bus in the town of Buttala. The attack has led to 26 deaths and 67 wounded civilians, including schoolchildren. Although CAAR has got positive in -98, -62 window and negative in -61, -37 window, it becomes neutral to some extent until the event date, as shown in figure X(a). As per figure X(b), a sudden drop has happened on day -11 and continuously decreased instead of the event day impact.



**Figure X(a): Event 8** A roadside bomb in a passenger bus on 16th January 2008 [41 days Event Window (-20,+20)]



### Event 9: A suicide bomb attack in Weliweriya

On April 6 2008, LTTE led to a suicide bomb attack in Weliweriya town targeting a political figure, Jeyaraj Fernandopulle. In addition, Sri Lankan National Athletics coach Lakshman De Alwis and former Olympic runner K.A. Krunaratne were also killed by committing mass damage to Sri Lanka. Further, Army Officer Lt Colonel Udayadeera was killed with 90 others who have been injured by suicide bomb. Figure XI(a) shows that CAAR got almost positive at the beginning of the estimation window, but it has started to decline and became negative when it gets closer to the event window stating that investors have been expecting bad news. Figure XI(b) shows a further decrement in CAAR throughout the entire event window stating that the HNT has been negatively affected by this event.



#### Figure XI(a): Event 9

A suicide bomb attack in Weliweriya on 6th April 2008 [80 days Estimation Window (-100, -20) 41 days Event Window (-20,+20)]



### Event 10: Roadside bus bombs in Moratuwa and Polgolla

On June 6 2008, LTTE targeted two groups of civilians in different locations in Sri Lanka. As a result, 21 passengers were killed on the spot, and about 80 people were wounded by the Moratuwa explosion, while 2 passengers were killed, and the Polgolla explosion injured 20. Figure XII(a) shows that most abnormal returns were negative within the estimation window since the over-estimation of stock returns. Figure XII(b) shows a neutral pattern in CAAR within the -20, -11 window, and after that, it continuously rose even after the event happened.



Figure XII(a): Event 10 Roadside bus bombs in Moratuwa and Polgolla on 6th June 2008 [80 days Estimation Window (-100, -20) 41 days Event Window (-20,+20)]

Figure XII(b): Event 10 Roadside bus bombs blew up passenger buses set up by the LTTE in two locations of the island on 6th June 2008 [41 days Event Window (-20,+20)]

# *Event 11: A Suicide Bomb Attack targeting a function organised by the opposition, United National Party*

On October 6 2008, a suicide bomber was sent to a political function organised by United National Party (UNP). As a result, the Chief Ministerial candidate of the UNP retired major general Janaka Perera, and his wife, Mr. John Pulle, UNP District manager for Anuradhapura and 27 were killed while this attack injured 90 civilians. Figure XIII(a) shows that all CAARs were negative throughout the estimation window while rising within the -60, -14 window. Figure XIII(b) shows the market has reacted negatively to the event because a declining move can be seen within the 0, -15 window.







# Event 12: A suicide air raid by LTTE targeting different locations in Colombo

LTTE cadres tried a new style bombing attack for the first time on February 20 2009, targeting different Colombo locations. However, one of the crashed aircraft had fallen onto the Inland Revenue Department building injuring 58 civilians and killing 2, while the second aircraft had been fallen in Katunayake by creating huge damages physically as well as economically. Figure XIV(a) shows that CAAR had met a deep bottom by the day -48 and kept a continuous shift until the day -13. But in figure XIV(b), a continuous diminishing trend in abnormal returns can be noticed due to the event that has affected HNT negatively.







### Event 13: The final battle of the civil war

As the final battle of the Sri Lankan Civil War, on May 18, 2009, the Sri Lankan Army was capable of successfully assassinating the leader of LTTE, Velupillai Prabhakaran. The Sri Lankan army could complete the end of 30 - years Civil War, and the government had officially declared the victory on this day. Figure XV(a) shows that, although most of the CAAR was positive, it declined during the estimation window since investors may expect another bad news from the market according to their prior war experiences. However, just after releasing the news of ending the Civil war, HNT has reacted favourably since CAAR has got a shift from the  $3^{rd}$  day after the event as per figure XV(b).



Figure XV(a): Event 13 End of the civil war on 18h May 2009 [80 days Estimation Window (-100, -20) 41 days Event Window (-20,+20)]



### Event 14: Easter Sunday Attack

Sri Lanka was incapable of keeping the trustworthiness of civilians as a result of heading up terrorism after 10 years, that was on April 21 2019. An unexpected bomb blast series was committed by a group of extremists targeting Easter Sunday, and it was capable of loosening around 250 civilians' lives. Figure XVI(a) shows that several significant fluctuations within the estimation window have befallen since HNT investors must have had no exact idea of the stock price reactions. Figure XVI(b) shows that a clear decrement in CAAR beginning from the event date has happened due to the HNT being badly affected by the Easter Attack.





Figure XVI(b): Event 14 Easter Sunday Attack on 23rd April 2019 [80 days Estimation Window (-100, -20) 41 days Event Window (-20,+20)]

#### t-test

In addition to the graphical analysis, table II shows the results of the t-test analysis, which is conducted through a statistical process at a 5% significant level. Once the  $t_{CAAR}$  is calculated by equation 5, the significance test for CAAR will be done as shown by the star (\*) marks.

Fvont Time	Event													
Event Thire	1	2	3	4	5	6	7	8	9	10	11	12	13	14
-10	*10.122	*-2.215	-0.042	*5.103	*-8.733	*7.423	*-4.083	*-2.043	*-6.947	1.158	*10.471	*9.072	*-20.310	*11.406
-9	*2.611	*-10.679	1.417	*4.143	*-9.095	*8.220	*-10.287	-1.789	*-2.275	*4.495	*13.629	*8.419	*-15.092	*9.147
-8	1.323	*-7.721	*3.976	*3.728	*-6.524	*10.316	*-16.334	*-11.520	*-8.249	*4.804	*20.171	*4.090	*-16.973	*30.569
-7	0.455	*-13.928	*8.847	*3.936	*-6.221	*8.716	*-13.078	*-9.064	*-10.301	*6.428	*8.904	*6.372	*-20.101	*5.846
-6	1.398	*-19.743	*13.371	*3.182	*-5.341	*33.563	*-12.692	*-12.831	*-3.615	*8.357	*17.545	*11.193	*-16.486	*34.349
-5	*3.867	*-20.231	*9.489	1.708	*-13.525	*17.494	*-14.724	*-5.265	*-4.290	*4.516	*8.118	*9.136	*-5.087	*13.774
-4	*5.250	*-26.073	*13.016	0.484	*-3.949	*16.845	*-14.172	*-11.144	*-10.740	*6.987	*5.457	*8.991	*-36.320	*7.591
-3	*3.804	*-22.069	*6.779	-0.582	*-3.239	*16.130	*-27.654	*-6.863	*-10.790	*5.829	*2.125	*6.101	*-38.261	*8.845
-2	*4.478	*-20.881	*9.134	-0.750	*-3.406	*12.930	*-19.749	*-7.496	*-20.006	*8.676	*4.801	*5.765	*-68.763	*15.955
-1	*5.129	*-22.919	*10.199	-0.060	*-1.188	*8.149	*-30.545	*-12.709	*-25.010	*6.408	*2.967	*5.896	*-30.933	*7.547
0	*4.871	*-16.556	*15.969	*-2.062	*-2.374	*10.762	*-34.614	*-4.535	*-18.408	*10.277	*3.291	*5.734	*-12.581	*3.470

### Table II: t-test results

1	*2.365	*-13.569	*14.905	*-2.493	*-1.183	*14.254	*-33.305	*-16.995	*-20.331	*10.720	1.752	*4.364	*-32.137	*4.989
2	-0.915	*-17.503	*12.550	*-4.715	*-5.093	*18.703	*-14.900	*-17.659	*-13.227	*22.985	-1.356	-0.686	*-23.015	*4.348
2	* 2.066	* 17 000	*11.267	* 2 204	* 5 715	*12.002	* 10 566	* 14.075	* 10 120	*16710	* 2 0 1 5	1 5 6 5	* 24 620	*2 625
3	*-3.900	*-17.696	*11.307	*-2.504	*-3.243	*12.995	*-10.300	*-14.973	*-40.428	*10.746	*-3.915	1.303	*-24.039	*3.023
4	*-3.776	*-17.456	*15.477	*-6.566	-1.853	*18.751	*-15.640	*-4.432	*-8.541	*19.647	*-3.404	1.637	*-19.205	*2.475
5	*-6.975	*-10.899	*14.394	*-11.344	*-3.000	*24.069	*-17.450	*-10.672	*-29.000	*7.305	-0.794	-1.339	*-4.586	*2.398
6	*-9.926	*-9.722	*21.066	*-10.137	-1.667	*15.021	*-41.330	*-16.910	*-22.909	*8.303	-1.695	-1.562	*-11.353	1.138
Ŭ		,=												
7	*-10.401	*-10.358	*17.782	*-18.247	0.252	*26.062	*-16.990	*-13.901	*-35.087	*10.127	*-3.717	*-3.863	*-18.271	1.668
_												10.150		
8	*-14.488	*-11.906	*15.815	*-16.565	*3.153	*35.705	*-40.963	*-20.617	*-30.444	*27.235	*-3.705	*3.658	*-22.312	1.383
9	*-12.119	*-11.904	*19.156	*-18.235	*6.646	*16.681	*-40.200	*-15.803	*-23.577	*14.900	*-5.439	*-2.359	*-27.910	1.154
10	*-11.0238	*-23.734	*16.448	*-10.158	*9.749	*21.555	*-46.820	*-12.418	*-31.409	*20.097	*-7.705	*-2.020	*-30.010	-0.338

Source: Developed by Researcher

In order to overcome the research problem, the following hypotheses are tested accordingly.

H1: Hotel and Travel Sector provides evidence for semi-strong form efficiency.

According to the results, HNT does not provide enough evidence for semi-strong form efficiency since HNT could slowly reflect terrorism-related information through share prices. Regarding all the events, the share price adjustments continue even after the event date, and abnormal returns have been shown both before and after the event instead of yielding on the event date. Therefore, H1 is rejected with reference to overall all 14 events because HNT does not demonstrate quick responses to price adjustments with publicly available war-related information, and there was procrastination of information in absorbing the terrorism-related information contained in released war news. Accordingly, the answer to research question 1 is, overall, stock prices of the listed companies belonging to the Hotel and Travel Sector in Colombo Stock Exchange have not been affected by terrorist attacks significantly because as a whole because of all 14 events, HNT does not demonstrate quick responses to price adjustments.

**H2**: The Hotel and Travel Sector efficiently reacts to announcements containing terrorist attacks in share price adjustments.

As per table I, all the 14 events show significant CAARs on those particular event dates at the 5% level. A clear conclusion can be drawn from this that the terrorist attacks have provided strong value-changing information to HNT. Moreover, CAAR has increased/ decreased by the end of the event window, and those were significant. Therefore, H<sub>2</sub> is also rejected. Accordingly, research question 2 is answered, showing that table III shows that most events (Event 1,2,7,8,9,11,12,13,14) have negatively impacted HNT. In addition, events 1, 12 and 14 have also significantly impacted HNT among 14 events.

### Comparison between the Civil War events and Easter Attack

The majority of the civil war events have been shown to negatively impact HNT share prices. In addition, the Easter Attack also has negatively affected the HNT. However, in

analysing the impact of Civil War events, the nature and scope of the investors' anticipation of the events may be affected by terrorist attacks that previously happened because a series of attacks have happened until the final battle. In contrast, since the Easter Attack was a single-day event, investors may not have an exact idea of anticipating it. In addition to that, the  $t_{CAAR}$  of event 14 is lowest in comparing the Civil War and Easter attack. The behaviour of CAAR throughout separately identified 3 phases has been shown in table III.

Table III depicts how the CAAR of each event has behaved during the pre-event period, post-event period, and the whole event period. Event 3 and event 6 shows positive CAARs in all 3 situations, while event 4, event 8, event 9, and event 13 show negative results in all 3 situations. Furthermore, it can be concluded that event 4 was the event that had the quickest response by the Hotel and Travel Sector, and the slowest response was generated by event 10.

Research question 3 has been clearly explained and solved by demonstration of table III. The pre-event window of event 14 represents that the investors were positive perception about stock prices because it shows a positive status. That may reflect that no one anticipated such a brutal terrorist attack would be committed after 10 years from the Civil war. That provides evidence for a favourable economic condition in Sri Lanka before the Easter Attack. However, just after event 14 happened, a quick drop could be identified in stock prices of HNT, and it was declining continuously throughout the post-event window. Therefore, the economic status of Sri Lanka has quickly as well as negatively affected after the end of the Civil War in terms of stock prices of the Hotel and Travel Sector by the Easter Attack.

	(-20, 0) Pre - Event					(0, +2) Event Window						(0,+20) Post-Event Window				
t	Sta	tus	M	Movement			Status		Movement			Status		Movement		
Even	Positive	Negative	Increase	Decrease	Constant	Increase	Decrease	Constant	Quick	Moderate	Slow	Positive	Negative	Increase	Decrease	Constant
1																
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**Table III: Behaviour of CAAR** 

Source: Developed by Researcher

# Conclusion

The empirical results of this study assist in coming to a clear conclusion that the Hotel and Travel Sector has been adversely affected by terrorism since most events drive the stock price reactions to a negative direction except the events 3,5, and 6. The positive behaviours in CAAR might be due to some other event or factor such as seasonal effects (summer season), discounted prices offered by hotels, behavioural factors of investors, government taxes/ relieves etc., which has aroused during the particular periods. However, in accordance with the efficient market hypothesis, it can be concluded that the HNT does not provide sufficient evidence for the semi-strong form efficiency since both graphical analysis and ttest analysis shows significant further price adjustments even after the event happened regarding events. Furthermore, substantial time is taken in adjusting the stock prices to the publicly available information. Therefore, this study concludes that terrorism is the event that makes an unfavourable impact on the value of the HNT, and HNT has provided no evidence for the semi-strong form efficiency. In comparing Civil War events and Easter Attack, the HNT has been stronger and negatively affected by the Civil War events than the Easter Attack according to the significance test. Table III shows that most attacks have affected the HNT negatively after the event occurred, stating that Sri Lanka became a victim who has been the worst affected country by terrorism. Especially, it is important to express that the favourable economic status of Sri Lanka, which was built up after the brutal civil war, has been adversely affected by the Easter Attack.

Ultimately, this study is recommended to understand how to upgrade the mechanism of an efficient market, which provides a platform for investors who trade securities to keep the HNT Sector investment flow healthy and stable.

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# Appendices

# Appendix A

S/N	Name of the Company	Company ID	S/N	Name of the Company	Company ID
1	Hunas Falls Hotels Plc	HUNA	21	Anilana Hotels and Properties Plc	ALHP
2	Ramboda Falls Plc	RFL	22	Beruwala Resorts Plc	BERU
3	Pegasus Hotels of Ceylon Plc	PEG	23	Waskaduwa Beach Resort Plc	CITW
4	Hotel Developers (Lanka) Plc	HDEV	24	Marawila Resorts Plc	MARA
5	Browns Beach Hotels Plc	BBH	25	Hikkaduwa Beach Resort Plc	CITH
6	Tangerine Beach Hotels Plc	TANG	26	Galadari Hotels (Lanka) Plc	GHLL
7	Jetwing Symphony Plc	JETS	27	Citrus Leisure Plc	REEF
8	Tal Lanka Hotels Plc	TAJ	26	Eden Hotel Lanka Plc	EDEN
9	Aitken Spence Hotel Holdings Plc	AHUN	29	Serendib Hotels Plc	SHOT.X
10	Renuka City Hotel Plc	RENU	30	Ceylon Hotels Corporation Plc	СНОТ
11	Renuka Hotels Plc	RCH	31	Palm Garden Hotels Plc	PALM
12	John Keells Hotels Plc	KHL	32	Trans Asia Hotels Plc	TRAN
13	The Kingsbury Plc	SERV	33	The Lighthouse Hotel Plc	LHL
14	Hotel Sigiriya Plc	HSIG	34	Mahaweli Reach Hotels Plc	MRH
15	The Kandy Hotels Company (1938) Plc	КНС	35	Sigiriya Village Hotels Plc	SIGV
16	Asian Hotels & Properties Plc	AHPL	36	Royal Palms Beach Hotels Plc	RPBH
17	Dolphin Hotels Plc	STAF	37	Bansei Royal Resorts Hikkaduwa Plc	BRR
18	The Nuwara Eliya Hotels Company Plc	NEH	38	The Fortress Resorts Plc	RHTL
19	Amaya Leisure Plc	CONN	39	Lanka Ashok Leyland PLC	ASHO
20	Serendib Hotels Plc	SHOT.N	40	York Arcade Holdings PLC	YORK
			41	Riverina Hotel PLC	BHR

# **Table I: List of Companies**

Source: CSE.lk