UNIVERSITY OF EDUCATION, WINNEBA

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IMPACT OF CAPITAL STRUCTURE ON THE FINANCIAL PERFORMANCE OF SELECTED LIST FIRMS ON THE GHANA STOCK EXCHANGE

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A DISSERTATION PRESENTED TO THE DEPARTMENT OF ACCOUNTING STUDIES OF THE UNIVERSITY OF EDUCATION, WINNEBA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE IN FINANCE

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God bless you all.

DECLARATION

Student's Declaration

I hereby declare that this project work is the result of my own original research and that no part of it has been presented for another degree in this University or elsewhere.

SIGNATURE: ……. **DATE:** ……..

ABIGAIL OPOKU BOATENG

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Supervisor's Declaration

I hereby declare that the preparation and presentation of this project work was supervised in accordance with the guidelines on supervision of project work laid down by the University of Education, Winneba.

DR. CAMILLUS WONGNAA

SIGNATURE: …….. DATE: ……

ABSTRACT

The main objective of the study was to assess the impact of capital structure on the financial performance of listed firms in Ghana Stock Exchange. The researcher conducted a causal survey to collect data from companies listed on the Ghana Stock Exchange market in order to determine the current status of the subject under study with respect to one or more variables. The researcher chose to employ a select of listed Ghana Stock Exchange companies through a purposive sampling strategy. The researcher conducted a ratio analysis on the 2015 financial statements of the selected firms and afterwards carried out a correlation test to assess the relationship between the variables. For the purpose of this study, only profitability and gearing ratios were considered. The researcher found that, financial structure indeed affects the financial performance of firms listed at the GSE. There existed a strong relationship between financial structure (capital gearing and debt to equity) and profitability (ROCE, gross profit, net profit and asset turnover). The researcher hence recommended that, management and owners of corporations needed not focus on maintaining a specific leverage ratio but rather they should let the actual capital structure be dictated by business needs. However, they were urged not to load the business with more debt than it has the capacity to service as this would potentially lead to financial challenges that ultimately could lead to bankruptcy. Also, there was need for the firms listed on the Ghana Stock Exchange to have a strong capital structure which provides them strength to withstand financial crises and offers shareholders a better safety net in times of depressions.

DEDICATION

I dedicate this project to God almighty my creator my source of inspiration, my strong pillar, knowledge and understanding. He has been my strength throughout this program.

I also dedicate this work to my husband Mr. Eric Maxwell Woode who has encouraged and supported me in diverse ways which has helped me to complete this program successfully.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Capital Structure in finance refers the way in which a firm finances its assets across the blend of debt, equity or hybrid securities (Saad, 2010). The concept is generally described as the combination of debt and equity that make the total capital of firms. The proportion of debt to equity is a strategic choice of corporate managers (Saad, 2010). Capital structure decision is the vital one since the financial performance of an enterprise is directly affected by such decision (Saad, 2010). Hence, proper care and attention need to be given while determining capital structure decision (Saad, 2010). In the statement of affairs of a firm, the overall position of the enterprise regarding all kinds of assets, liabilities are shown (Saad, 2010). Capital is a vital part of that statement. The term capital structure of a firm is actually a combination of equity shares, preference shares and long term debts (Pandey, 2009). A cautious attention has to be paid as far as the effect capital structure is concerned with unplanned capital structure, companies may fail to economize the use of their funds. Consequently, it is being increasingly realized that a company should plan its capital structure to maximize the use of funds and to be able to adapt more easily to the changing conditions, (Pandey, 2009).

Capital structure is the composition of equity and the debt of company used as the finance of the company. The decision about the composition of capital structure is very hard for the companies and it is important topic for the scholars of accounting and finance. Overall objective of companies is to reduce the cost of capital when capital structure decision taken into account, so that value maximizations of the companies. Determinants of capital structure are mainly short term debt to capital ratio, long term

debt to capital ratio and total debt to capital ratio (Muhammad, Ammar and Muhammad, 2013).

1.1 Background of the Study

To understand how companies finance their operations, it is necessary to examine the determinants of their financing or capital structure decisions. Company financing decisions involve a wide range of policy issues. At the private, they have implications for capital market development, interest rate and security price determination, and regulation. At the private, such decisions affect capital structure, corporate governance and company development (Green, Murinde and Suppakitjarak, 2002).

Knowledge about capital structures has mostly been derived from data from developed economies that have many institutional similarities (Booth et al., 2001). It is important to note that different countries have different institutional arrangements, mainly with respect to their tax and bankruptcy codes, the existing market for corporate control, and the roles banks and securities markets play.

Capital structure refers to a mixture of a variety of long term sources of funds and equity shares including reserves and surpluses of an enterprise. The historical attempt to building theory of capital structure began with the presentation of a paper by Modigliani & miller (1958). They revealed the situations under what conditions that the CS is relevant or irrelevant to the financial performance of the listed companies. Most of the decision making process related to the CS are deciding factors when determining the CS, a number of issues e.g. cost, various taxes and rate, interest rate have been proposed to explain the variation in Financial Leverage across firms (Van Horne, 1993; Hampton, 1998; Titman and Wessels, 1998). These issues suggested that the depending on

attributes that caused the cost of various sources of capital the firm's select CS and benefits related to debt and equity financing.

The relationship between capital structure and financial performance is one that received considerable attention in the finance literature. How important is the concentration of control for the company performance or the type of investors exerting that control are questions that authors have tried to answer for long time prior studies show that capital structure has relating with corporate governance, which is the key issues of state owned enterprise.

To study the effects of capital structure on financial performance, will help us to know the potential problems in performance and capital structure. The study on capital structure attempts to explain the mix of securities and financing sources used by companies to finance investments (Myers, 2001). Brigham (2004) referred to Capital structure as the way in which a firm finances its operations which can either, be through debt or equity capital or a combination of both. According to Myers (2001), there was no universal theory on the debt to equity choice but noted that there were some theories that attempted to explain the capital structure mix.

Financial performance is a subjective measure of how well a firm can use its' assets from its' primary business to generate revenues. Erasmus (2008) noted that financial performance measures like profitability and liquidity among others provided a valuable tool to stakeholders to evaluate the past financial performance and the current position of a firm.

Financing and investment are two major decision areas in a firm. In the financing decision the manager is concerned with determining the best financing mix or capital structure for his firm. Capital structure decision is the mix of debt and equity that a

company uses to finance its business (Damodaran, 2001). Capital structure has been a major issue in financial economics ever since Modigliani and Miller showed in 1958 that given frictionless markets, homogeneous expectations; capital structure decision of the firm is irrelevant.

Berger & di Patti (2006) concluded that more efficient firms were more likely to earn a higher return from a given capital structure, and that higher returns can act as a cushion against portfolio risk so that more efficient firms are in a better position to substitute equity for debt in their capital structure. In addition, Singh & Hamid (1992) in their research used data on the largest companies in selected developing countries and found that firms in developing countries used more of debt finance in financing their growth than was the case in industrialized countries. Abor (2005) also found a positive relationship between total assets and return on equity and that profitable firms in Ghana depended more on debt as a main financing option due to a Perceived low financial risk.

1.2 Statement of the Problem

An entity's capital structure refers to the mix of its financial liabilities. The financial liabilities of an entity can either be debt or equity. Debt and equity are the two major classes of liabilities, with debt holders and equity holders representing the two types of investors in the firm. Each of these is associated with different levels of risk, benefits, and control. While debt holders exert lower control, they earn a fixed rate of return and are protected by contractual obligations with respect to their investment. Equity holders are the residual claimants, bearing most of the risk and have greater control over decisions.

An appropriate capital structure is a critical decision for any business organization. The decision is important not only because of the need to maximize returns to various

organizational constituencies, but also because of the impact such a decision have on an organization's ability to deal with its competitive environment. Following the work of Modigliani and Miller (1958 and 1963), much research has been carried out in corporate finance to determine the influence of a firm's choice of capital structure on performance. The difficulty facing companies when structuring their finance is to determine its impact on performance, as the performance of the business is crucial to the value of the firm and consequently, its survival.

Managers have numerous opportunities to exercise their discretion with respect to capital structure decisions. The capital structure employed may not be meant for value maximization of the firm but for protection of the manager's interest especially in organizations where corporate decisions are dictated by managers and shares of the company closely held (Dimitris, and Psillaki, 2008). Even where shares are not closely held, owners of equity are generally large in number and an average shareholder controls a minute proportion of the shares of the firm. This gives rise to the tendency for such a shareholder to take less interest in the monitoring of managers who left to themselves pursue interest different from owners of equity. This study therefore sought to investigate the effects of capital structure on financial performance with specific reference to listed firms in Ghana Stock Exchange.

1.3 Objectives of the Study

The main objective of the study was to assess the impact of capital structure on the financial performance of listed firms in Ghana Stock Exchange.

The following were the specific objectives of the study:

1. To find out the capital structure of Ghana Stock Exchange firms.
2. To find out the nature of relationship between debt and equity.

3. To find out the extent to which capital structure affects the financial performance of the firms.

1.4 Research Questions

The research sought to answer the following research question.

1. What is the company's capital structure?
2. What is the nature of the relationship between debt and equity?
3. To what extent does capital structure affect the company's financial performance?

1.5 Significance of the Study

The study will be beneficial to management and boards of the various organizations (as well as the Ghana Stock Exchange industry at large), as the results of the study will assist them in determining the appropriate capital structure composition to enhance financial performance and maximize stakeholder value.

Also, stakeholders of the industry will benefit from enhanced value and will be able to rely on the results of this study to be able to offer the necessary assistance to the boards and management of the firms in the Ghana Stock Exchange industry.

Moreover, other organizations in different industries may use the recommendations of the study to revise their capital structure for improved financial performance and competitiveness.

Other researchers will find the study significant as it will add to the existing pile of literature capital structure and financial performance to serve as a guide for their researches.

1.6 Limitations of the Study

The research study may be affected by the reliability of the information to be obtained from the data collection as the study will dwell on information provided to the researcher by the concerned organizations in their annual reports. Also, the sampling method to be used by researcher will be limited as the respondents will be selected conveniently instead of using a more systematic method.

1.7 Delimitations of the Study

The researcher will decide to use data from primary sources instead of other information that could have been provided by other experts and consultants of the industry. The study could also have been extended to cover other institutions or industries in the region or country at large, but the researcher chose to use the some listed firms in Ghana stock exchange due to its proximity and accessibility to the researcher, this may impede the generalization of the research findings to other institutions.

1.8 Organization of the Study

This study consists of five chapters. The first chapter focuses on the introduction. It talks about the background of the study, statement of the problem, purpose of the study, research questions, and significance of the study and limitations of the study.

The review of related literature is discussed under chapter two. The third chapter covers the methodology for the study, which describes the research design, the population for the study, the sample size and sampling techniques. It further addresses, research instruments, data collection procedure and analysis of data. The fourth chapter discusses the analysis of the data and findings. Chapter five contains a summary of the findings, suggestions, recommendations and conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The main objective of the study was to assess the impact of capital structure on the financial performance of listed firms in Ghana Stock Exchange. This chapter presents a review of literature on the relationship between capital structure and financial performance. It summarizes information from other researchers. The review covers both the theoretical and empirical reviews of the existing literature.

2.1 Capital Structure

Capital structure has become one of the most daunting issues in corporate finance literature (Brounen & Eichholtz, 2001). It fundamentally refers to a firm's financial framework. Simply, it is a mixture of debt and equity capital maintained by a firm. It is also seen as a combination of a variety of long term sources of funds and equity shares including reserves and surpluses of an enterprise (Booth, Aivazian, Demirguc-Kunt, & Maksimovic, 2001). An optimal capital structure is usually defined as one that will minimize a firm's cost of capital, while maximizing shareholder's wealth (Niu, 2008). The capital structure of a firm is very important since it related to the ability of the firm to meet the needs of its stakeholders. The capital structure of a firm explains the ways in which a firm finances its investment and overall operations. It consists mainly of a combination of debt and equity as well as all other sources of finance such as retained earnings available to the firm (Margaritis & Psillaki, 2007). Therefore, proportion of debt to equity is a strategic choice of corporate managers. Financial distress, liquidation and bankruptcy are the ultimate consequences that lie ahead if any major misjudgement

occurred following any financing decision of the firm's activity. Thus, firms with high leverage need to allocate an efficient mixture of capital that will finally reduce its cost.

Capital structure constitutes a substantial part of an organization and therefore is significant in a company's financial operations. More so, financing decisions of firms are very crucial for the financial wellbeing of the firm. Researchers have continued to analyze capital structures and try to determine whether optimal capital structures exist (DeAngelo, 1980, Gupta, Srivastava & Sharma 2010). An optimal capital structure is usually defined as one that will minimize a firm's cost of capital, while maximizing shareholder's wealth. The debate of optimal capital structure has been the focal point of the finance literature for previous several decades. According to finance theory, the capital structure do affects firm's cost of capital and consequently financial performance. Cost of capital serves as the benchmark for firm's capital budgeting decisions therefore the optimal mix of debt and equity is imperative to outperform. Shareholders' wealth maximization concept also dictates that firms choose the optimal mix of debt and equity financing that best serve the ultimate objective of the firm (Uwalomwa & Uadiale, 2012).

2.2 Financial Performance

A firm's financial performance, for a long time, has been perceived only through its ability to make profits. This, however, has changed with time. In modern days, the concept of performance has different meanings depending on the user perspective of financial information. A company can be categorized as a universal performance company if it can satisfy the interests of all of its stakeholders: managers are interested in the welbeing and profitability of the company, because their work is measured accordingly; owners want to maximize their wealth by increasing the company's market value; current and potential shareholders perceive performance as the company's ability

to distribute dividends for capital investment, given the risks they take; commercial partners look for the solvency and stability of the company; credit institutions want to be sure that the company credit worthy (solvency); employees want job security and high compensation; the state seeks a company to be efficient, to pay its taxes, to help creating new jobs, (Valentin, 2013). A firm's management use financial indicators to measure, report and improve its performance. It has been proven that, in order to obtain a global status of an economic entity at a particular time, it is necessary that the evaluation should be based on a balanced multidimensional system which includes both financial ratios and non-financial indicators.

Analysis of the determinants of corporate financial performance is important for all stakeholders, but especially for investors. The Anglo-Saxon corporate governance focuses on maximizing shareholder value. This principle provides a conceptual and operational framework for evaluating business performance. The shareholders worth, defined as market value of an entity, is dependent on factors such as: the current profitability of the company, its risks and its economic growth relevant for future company earnings (Branch & Gale, 1983).

However, Brief & Lawson (1992) argue the opposite, according to them, the financial indicators based on accounting information are enough in order to determine the worth for shareholders. A firm's financial performance is directly influenced by its market position. Profitability can be decomposed into its main components: net sales and net profit margin. Ross et al. (1996) argues that, both can affect the profitability of a company at appoint in time. A high turnover means better use of assets owned by the

company and therefore better efficiency, a higher profit margin also mean that the entity has substantial market share.

Risk and growth are two other pressing factors influencing a firm's financial performance. Since market value is determined by the company's results, the level of risk exposure can cause changes in its market value (Fruhan, 1979). Economic growth is another component that helps to achieve a better position on the financial markets, because market value also takes into consideration expected future profits (Varaiya, Kerin & Weeks, 1987).

2.3 Capital Structure Theories

2.3.1 Modigliani-Miller Theorem

Modigliani and Miller (1958) seminal paper showed conditions under which capital structure is irrelevant. The following assumptions were made in this paper: A world without taxes, no bankruptcy costs, no transaction costs, no growth, all earnings were paid out as dividends and all individuals in the market were homogeneous. This paper formed a basis for examining real world reasons why capital structure is relevant. The other reasons include: bankruptcy costs, taxes, and information asymmetry. By relaxing the assumptions made in Modigliani and Miller (1958) paper, several theories came up attempting to address the imperfections. They include: Trade-off theory, Pecking order theory, Agency costs theory etc.

This theory has been reviewed so as to anchor the dependent variable of financial performance. The theory explains that under classical random walk, and in an efficient market, financial performance of the firm is unaffected by how that firm is financed Instead, it only changes the allocation of cash flows between debt and equity, without changing the total cash flows of the firm (Berk & DeMarzo, 2007).

2.3.2 Trade-off Theory

Second proposition by Modigliani and Miller (1963) introduced the trade-off theory. Trade off theory allowed bankruptcy costs to exist and stated that there was an advantage to financing with debt (namely the tax benefit of debts) and that there was a cost of financing with debt (the bankruptcy cost of debt). The theorists further argued that marginal benefit of further increases in debt declined as debt increased while the marginal cost increased so that a firm that was optimizing its overall value would focus on this trade-off when choosing how much debt and equity to use for financing. This theory explained debt to equity ratios between industries but did not explain differences within the industry.

According to Myres (2001), the trade-off theory says that the firm will borrow up to the point where the marginal value of tax shields on additional debt is just offset by the increase in the present value of possible cost of financial distress. The value of the firm will decrease because of financial distress (Myers, 2001).

This theory has been reviewed so as to anchor the independent variable of debt and Deposits. The trade-off theory suggests that managers simply prefer debt (Myers, 2001). They balance the costs and benefits of debt to reach an optimal leverage level, the interest expense on the debt is tax deductible (thereby reducing the firm's tax liability), thereby reducing the effective price of using debt relative to equity (Myers, 2001). An additional benefit of debt is that an organization's free cash flow is reduced (Myers, 2001). Deposit finance has also played a role in the theory of bank funding it is usually simply treated as another form of debt (Calabrese, 2011).

2.3.3 Pecking -Order Theory

The pecking-order theory argues that, because of information asymmetry, firms choose to use their retained earnings first to finance their investments (Myers and Majluf, 1984). When internal financing does not suffice, firms issue debt first and equity last. The pecking order theory suggests that firms have a particular preference order for capital used to finance their businesses (Myers and Majluf, 1984). The order of preferences reflects the relative costs of the various financing options (Abor, 2005; Berk & DeMarzo, 2007). Owing to the presence of information asymmetries between the firm and potential financiers, the relative costs of finance vary between the financing choices (Berk & DeMarzo, 2007). Where the funds provider is the firm's retained earnings, meaning more information than new equity holders, the new equity holders will expect a higher rate of return on capital invested resulting in the new equity finance being more costly to the firm than using existing internal funds (Myers & Majluf, 1984). A similar argument can be provided between the retained earnings and new debt-holders. In addition, the greater the exposure to the risk associated with the information asymmetries for the various financing choices besides retained earnings, the higher the return of capital demanded by each source (Berk & DeMarzo, 2007). Thus, the firm will prefer retained earnings financing to debt, short-term debt over long-term debt and debt over equity.

Having enough slack would allow firms to minimize the costs of information asymmetry associated with external financing. Studies show that majority of Chief Finance Officers appreciate financial flexibility, more so when the proportion of managerial ownership is higher (Graham and Harvey, 2001). According to Graham and Harvey (2001) most managers confirm that debts are issued when their internal funds are insufficient to fund their activities. Sometimes a firm’s inability to obtain funds using debt affects their decisions to issue common stock (Graham and Harvey, 2001). There is weak support for

either the trade-off or the information asymmetry-based pecking-order theory of capital structure, (Graham and Harvey, 2001).

This theory has been reviewed so as to anchor the independent variable of Retained earnings. It explains why managers simply prefer internal funds to external borrowing (Calabrese, 2011). The pecking order theory is an alternative explanation to predict organizational leverage (Calabrese, 2011). Unlike the trade-off theory, increased profitability is expected to result in a decline in leverage, because a more profitable firm is better able to finance capital needs with internal financial resources (such as retained earnings), (Calabrese, 2011). At the core of the pecking order theory is the notion that leverage decisions are driven by information asymmetry between management and investors: because investors will view equity (stock) issuances negatively, firms will prefer to finance capital from retained earnings, then debt, and, only having exhausted these options, new equity (Calabrese, 2011).

2.3.4 Agency Cost Theory

The agency cost theory is premised on the idea that the interests of the firm's managers and its shareholders are not perfectly aligned (Jensen and Meckling, 1976). In their seminal paper, Jensen and Meckling (1976) emphasized the importance of the agency costs of equity. They argue that agency costs of equity in corporate finance arise from the separation of ownership and control of firms whereby managers tend to maximize their own utility rather than the value of the firm.

According to Jensen and Meckling (1976), there existed three types of agency costs that explained the relevance of capital structure. Firstly, asset substitution effect which emphasized that as debt /equity ratio increased, management developed an increased incentive to undertake risky (even negative NPV) projects because if the project was

successful, shareholders got all the upside, whereas if it was unsuccessful, debt holders get all the downside. If the projects were undertaken therefore, there was a chance of a firm's value decreasing and a wealth being transferred from debt holders to shareholders (Jensen and Meckling, 1976). Secondly, there were underinvestment problems where if debt was risky (e.g. in a growth company) the gain from the project would accrue to debt holders rather than the shareholders hence management had an incentive to reject positive NPV projects even though they had the potential to increase the firm's value (Jensen and Meckling, 1976). Finally, the agency costs arising from the free cash flows which argued that unless free cash flow was given back to investors, management had an incentive to destroy firm value through empire building and perks etc., with cash that should have been paid back to shareholders (Jensen and Meckling, 1976). He further concluded that increasing leverage would impose financial discipline on management in such circumstances.

This theory has been reviewed so as to anchor the independent variable of Equity. According to this theory conflict of interest exert pressure on managers (agents) to seek Equity even when profitable growth opportunities do not exist, so that such cash flow can be used for perquisites (fringe benefits enjoyed in some kind of employment) rather than for enhancing firm value (i.e., at the expense of the owners, the principles). Managers want free cash to invest in unprofitable projects that generate cash so that salaries or perquisites may be enhanced rather than service debt (Calabrese, 2011). This theory however give solution by concluding that increasing leverage would impose financial discipline on management in such circumstances.

Effect of Capital Structure on Financial Performance

In the developing economies, the capital structure decision is crucial as such decisions becomes even more difficult in times when the economic environment in which these

companies operates presents a high degree of instability. Firms can issue dozens of distinct securities in countless combinations, but it attempts to find the particular combination that maximizes its overall market value. The financial structure to be adopted by an organization is a critical decision for the management to make. These decisions are both critical and crucial because of the need to maximize returns to various organizational constituencies and the impact of such a decisions on the organization's ability to deal with its competitive environment. Although there have been a great deal of research on the subject of capital structure over the years, nevertheless there has been no consensus as to the nature of its impact on firms' performance (Barton & Gordon, 1987).

The most desirable capital structure is usually the one that will minimize a firm's cost of capital, while maximizing shareholder's wealth (Niu, 2008). Therefore, decisions concerning how firms choose the amount of debt and equity in their capital structures have great impact on the financial performance of the firm (Myers, 1984). Are firms mostly influenced by the traditional capital structures of their industries or are there other reasons behind their actions (Harris & Raviv, 1991)? The answers to these questions are very important, because the actions of managers will affect the performance of the firm, as well as will influence how investors perceive the firm.

Majority of the theory in corporate sector is rested on the assumption that, the primary objective of every firm should be to maximize the wealth of its stakeholders (Petra et al, 2006). One of the major ways of determining this objectives is by the computation of financial ratios. Financial ratios are commonly used to measure firm's performance. Organizations are therefore obligated to include these in their annual financial reports to stakeholders. Investment analysts provide these to investors who are considering the purchase of a firm's securities (Raheel et al, 2013).

The premier work of Modgiliani and Miller (1958) proposed the irrelevance of capital structure to a firm's performance and argued that, in a perfect market situation there is no link between firm value and its financing mix. The restrictive and unrealistic assumptions of this theory led to subsequent research work suggesting that the firm performance is actually affected by the amount of debt in the capital mix choices available to the firms (Jensen and Meckling, 1976).

2.4 Determinants of Financial Performance

This section presents the financial performance determinants which includes; capital structure, leverage, profitability, risk management, growth options, firm size, financial constraints and their relationship is discussed below;

2.4.1 Capital Structure

Bhaduri (2002) suggests that if a firm can credibly prove its quality to external stakeholders, it can avoid information premium and so may gain access to external sources of funds, mainly the equity market. Also, John and Williams (2005), argue that a firm with a reputation for paying a regular stream of dividends face less asymmetric information when entering the equity market. In addition, firms with a reputation for paying a stream of dividends will be monitored by the capital market (Short et al., 2002). Institutional ownership may act as alternative monitoring device, and so this will reduce the need for capital markets as external oversight system (Zeckhauser and Pound, 1990). Thus, according to Modigliani Miller theory, there is a positive relationship between dividend payments and institutional ownership. However, the existence of institutional ownership diminishes the need for dividends to signal good performance (Short, 2002). Therefore, Trade off theory shows a trade-off between dividends and institutional

ownership, i.e. a negative relationship. According to the pecking order theory in the presence of asymmetric information, a firm would prefer internal finance over other sources of funds, but would issue debt if internal finance was exhausted. The least attractive alternative for the firm would be to issue new equity. Profitable firms are likely to have more retained earnings. Therefore, a negative relationship is hence anticipated between leverage and past profitability (Donaldson, 2005).

Investors of all types prefer to invest in profitable firms. This is so because, the more profitable a firm is, the lower the likelihood having to face financial meltdowns and bankruptcy. Hence, a positive relationship is expected between profitability and institutional ownership. However, Tong and Ning (2004) argue that, there is limited evidence that institutional investors prefer to invest in profitable firms. They find that profitability (measured as the return on equity) is negatively related to average shares held by institutional investors.

Business risk is considered to be one of the key factors that can affect the capital structure of a firm. Bhaduri (2002) states that, since debt involves a commitment of periodic payment, highly leveraged firms are prone to financial distress costs. Therefore, firms with volatile incomes are likely to be less leveraged (Bhaduri, 2002). Thus, according to the Trade-off theory, there is a negative correlation between business risk and capital structure. Institutional investors tend to invest in firms with low business risks because firms with high volatility in their returns are likely to have a low credit worthiness and the tendency become bankrupt. Hence, a negative relationship is expected between a firm's business risk and its institutional ownership.

According to the pecking order theory, the shareholders of a leveraged firm, are motivated to invest sub-optimally (Titman and Wessels, 2008). However, the more

tangible the firm's assets are, the more such assets can be used as collateral and can restrict such opportunistic behaviour. Therefore, a positive correlation existing between tangible assets and debt is expected. This is because tangible assets can act as collateral for higher levels of debt. Therefore, institutional investors prefer to invest in firms with less tangible assets.

Liquidity ratios have both positive and negative impacts on the capital structure decision and so the net effect is unknown (Long and Malitz, 2005). First, firms with high liquidity ratios may have relatively higher debt ratios due to their greater ability to meet short-term obligations.

This argument suggests a positive relationship between a firm's liquidity and its debt ratio. Similarly, firms with more liquid assets may use such assets as sources of finance to fund future investment opportunities. Thus, a firm's liquidity position would have a negative impact on its leverage ratio.

2.4.2 Leverage

Higher financial leverage means lower average cost of capital and hence higher performance (Kiogora, 2000). This is so because firms can command a respectable price if a cash flow lender can be found, or if the Seller is willing to finance the transaction. Business with low financial leverage (generally associated with a low asset base, or an asset base with low borrowing capacity, or a tight lending market) will command a lower price due to lack of low cost borrowing. If there is a tax shield with relation to the payment of interest, or the debt soothes the dispute between shareholders manager and creditor, the impact is positive. If an increase in the leverage presents an increase in the

likelihood of incurring payment of bankruptcy costs, the impact is negative (Omondi, 1995).

According to free cash flow hypothesis, debt decreases the amount of cash available to managers, hence reducing their possibilities for wasting corporate resources (Myers, 1998). In such way leverage serves as a commitment and incentive mechanism it induces managers to pay out cash to firm's investors and basically minimizes agency costs of external equity (consumption of perquisites, shirking from duties and undertaking negative NPV projects). Eventually, issuing debt instead of equity lowers agency costs and therefore increases firm performance (Mahrt, 2005).

2.3.3 Profitability

According to pecking order theory, more profitable companies are likely to have low debt levels because they generate cash internally. Consequently, the relationship between debt and profitability will be negative as concluded by (Tufano, 2005). Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. Profitability results from the excess of income over expenses. A firm that is highly profitable has the ability to reward its owners with a large return on their investment. The firms therefore trade at a premium and are likely to generate a higher valuation (Hovakimian et al., 2004).

Financial leverage has a positive effect on the firm's profitability. Omondi (1995) found a positive relationship between capital structure and profitability of the firm. In addition, Hamilton (2010) found a positive relationship between profitability and total debt. Klammer (2011) describes that the use of leverage is one way to improve the performance of the firm. Kennerley (2002) argue that companies prefer debt financing because they anticipate higher returns.

2.4.4 Risk Management

Risk management encompasses assessing and managing a firm's exposure to various sources of risk through the use of financial derivatives, insurance and other activities. Risks have an impact on the business of a company's, its cash flows as well as its general performance (Tong and Ning, 2004). To increase shareholders value through enhanced business performance and the reduction of the firms' cost of capital, firms should manage their foreign exchange risk properly. The level of risk exposure can cause changes in an entity's market value since market value is conditioned by the company results (Bhaduri, 2002).

2.4.5 Growth Options

Rajan (2008) argued that future investment affect firm performance. A firm will have a higher performance and be favourable to investors who have higher prospects of recovering their investment if the firm possess higher growth options. If a firm has lower growth options it is likely to be overpowered by competitors leading to eventual collapse hence lower performance.

Growth opportunities may be considered assets that add value to a firm, but cannot be used as collateral and are not subject to income tax. The agency problem suggests a negative relationship between capital structure and a firm's growth. Hutchinson (1995) argued that high growth firms might have more options for future investment than low-growth firms. Since investment will effectively transfer wealth from the firm's owners to its debt holders highly leveraged firms are more likely to pass up profitable investment opportunities. As a result, firms with high growth opportunities may not issue debt in the first place, and leverage is expected to be negatively related to growth opportunities.

2.4.6 Firm Size

A firm's size can be measured by the size of its corporate book value or the amount of revenue. It is believed there is a high correlation between firm size and cash flow (Majumdar, 2009). Larger firms can use their size as an advantage to get some financial benefits in business relations since the size of a firm can have a positive effect on financial performance.

Large organizations can obtain cheap funding hence a lower rate of capital. This generates a higher market capitalization rate. Kester (2006) observed that ERM usage is positively related to firm size. The larger the organization, the more complex its operations will probably be and the more its exposure to threatening events.

2.4.7 Financial Constraints

It is difficult for firms facing financial constraints to meet their investment obligations. A firm is likely to go bankrupt if it is paying out more than it is receiving and more (Stewart, 2011). A firm would yield a lower valuation, if in the long run the chances of survival of the company are low. On the contrary firms with adequate cash flow are likely to meet their financial obligations on time and hence improved performance.

Noreen (2013) indicates that small sized firms may prefer to rely on short term debt and more leverage than larger sized firms because bear high costs of new equity and long term debt issuance. Owolabi and Inyang (2013) argue that larger firms tend to disclose more information to outsiders, operate under less asymmetric information and may tend to use more equity than debt.

2.5 Empirical Review

Empirical supports for the relationship between capital structure and firm performance from the agency perspective are many and in support of negative relationship. Majumdar and Chhibber (1999) also confirm negative relationship between financial leverage and performance. Their results further suggest that liquidity, age and capital intensity have significant influences on financial performance. Many determinants of the corporate capital structure were nominated and empirically examined in the US.

Maksimovic (2001) discuss role of managerial self-interest in making capital structure decisions. They find that there exist negative relationship between leverage ratio and management's shareholding. This indicates that in the absence of any outsider principal stockholder the tendency of low debt to equity ratio will continue which will lead to higher non diversifiable risk of debt to management.

Long and Maltiz (2005) observed that the financial leverage of firms is positively related to a firm's profitability. Given that a firm must seek an outside source of funds, its choice between debt and equity will depend in part on the magnitude of potential agency costs of debt.

Titman and Wessels (2008), analyses the explanatory power of some of the recent theories of optimal capital structure and extended empirical work on capital structure theory. It examines a much broader set of capital structure theories, implications in regard to different types of debt instruments, the authors analyse measures of short-term, long-term, and convertible debt rather than an aggregate measure of total debt and uses a factor-analytic technique that mitigates the measurement problems encountered when working with proxy variables. The results also indicate that transaction costs may be an important determinant of capital structure choice. Short-term debt ratios were shown to

be negatively related to firm size, possibly reflecting the relatively high transaction costs small firms face when issuing long-term financial instruments. Since transaction costs are generally assumed to be small relative to other determinants of capital structure, their importance in this study suggests that the various leverage-related costs and benefits may not be particularly significant. In this sense, although the results suggest that capital structures are chosen systematically, they are in line with Miller's argument that the costs and benefits associated with this decision are small. Additional evidence relating to the importance of transaction costs is provided by the negative relation between measures of past profitability and current debt levels scaled by the market value of equity.

Uwalomwa and Uadiale (2012) did a study to basically investigate the relationship between capital structure and the financial performance of listed firms in Nigeria. The study considered a total sample of 31 listed firms on the floor of the Nigerian stock exchange. The annual reports for the period 2005-2009 were analysed using the Ordinary Least Squares (OLS) technique of model estimation to test the research propositions stated in this study. The study observed that two of the explanatory variables in the study (i.e. short-term debt and shareholders' funds) have a significant positive impact on the financial performance of listed firms in Nigeria. In addition, the study observed that long-term debt has a significant negative impact on the financial performance of firms. The study concludes that employing high proportion of long-term debt in firms' capital structure will invariably result in a low financial performance of a firm.

Gachoki (2005) reviewed the capital structure choice in the empirical testing of the pecking order theory among firms quoted on the NSE, The study used shy am-sunder and Myers (1999) POT model, to test whether firms listed on NSE follow the pecking order theory of capital structure in their financing choices. The POT model predicts external

debt financing driven by the internal financing deficit. The study used 31 firms listed on NSE for the period between 1998 and 2003. He concluded that NSE firms do not follow the pecking theory of capital structure in their financing choices. There is therefore, a need to test other theories explaining financing choices in an attempt to determine the one applicable to NSE firms.

Wandeto (2005) carried out an empirical investigation of the relationship between dividend changes and earnings, cash flows and capital structure for the firms listed in the NSE, The study was carried out with the aim of examining the presence and strength of the relationship between dividends changes with variables such as earnings, cash flows and capital structure (leverage) among firms listed in the Nairobi Stock Exchange (NSE). A sample of 43 Firms was used to bring out the relationship between dividends and certain variables namely earnings cash flows and capital structure or leverage. A regression of dividends against the three variables indicates that earnings were the most important variable among the studied variables. The conclusion was that dividend change is most sensitive to Earnings, then cash flows from operating from operating activities and finally to debt in that order. Those firms with high debt to equity ratios pay low amounts of dividends.

Okoth and Gemechu (2013) showed that capital adequacy, asset quality and management efficiency significantly affect the performance of commercial banks in Kenya. However, the effect of liquidity on the performance of commercial banks is not strong. The relationship between bank performance and capital adequacy and management efficiency was found to be positive and for asset quality the relationship was negative. The study used linear multiple regression model and Generalized Least Square on panel data to

estimate the parameters. The findings showed that bank specific factors significantly affect the performance of commercial banks in Kenya, except for liquidity variable. Thus, it can was concluded that the financial performance of commercial banks in Kenya is driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution.

Maniagi et.al, (2013) in the study of the relationship between a firms capital structure and performance among a sample of 30 companies listed on NSE whose data for 5yrs period 2007- 2011: concluded that firms listed on NSE have adopted pecking order hypothesis due to undeveloped debt market and the restrictive covenants associated with long term debt, this makes long term debts expensive hence making firms borrow less. Most firms prefer to finance their activities by using short term debt. From the results the total assets was positively correlated to capital structure proxies which was significant. This indicates that long term debts was utilized by large firms that had large assets which could be used to act as collateral for securing the loans.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter sets out various procedures that were followed in completing the study. It involves a blueprint used for the collection, measurement and analysis of data. The research identified the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections of research methodology were included; research design, population and sampling techniques, data collection instruments and procedures and finally data analysis.

3.1 Research Design

According to Sekaran and Bougie (2010), research design as a systematic arrangement of processes, factors and the techniques adopted in the collection and analysis of data in order to achieve research objectives. The researcher adopted a causal research design. Descriptive studies aims at determining the frequency of occurrence or the extent to which variables are related. This design is suitable because the study requires an accurate examination of the effects capital structure on the performance of listed companies.

3.2 Population and Sampling Techniques

The population of this study refers to companies listed on the Ghana Stock Exchange market.

For the purpose of this study, the researcher chose to employ listed firms in Ghana Stock Exchange. The researcher used purposive sampling strategy to select members to be

included in the sample frame. The researcher selected Fanmilk Ghana Ltd., Unilever Ghana Ltd and Benso Oil Palm Plantation Ltd. (BOPP) for the purpose of the study.

3.3 Data Collection

Secondary data was used in this study. The data was obtained from past financial reports (Statement of Financial Position, Income Statement, and Cash Flow Statement) as published by the respective companies. Calculations were done to find out the changes in a quantifiable manner and show the changes. Data for these calculations was sought from financial records of these firms as published yearly; the period for consideration was between the years 2013 to 2016. This is because the researcher wanted to use the most recent and available financial information possible.

3.4 Data Analysis

This study used Statistical Package for Social Science (SPSS Version 20.0) program. The study being descriptive in nature the quantitative method of data analysis and inferential analysis was used to analysis techniques. The data collected was run through various models so as to clearly bring out the effect of change in capital structure on firms financial performance. The researcher first calculated the ratios for the three firms chosen manually and later compared and established the impact by using SPSS.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.0 Introduction

The research study wanted to establish the impact of capital structure on the financial performance of listed firms in Ghana Stock Exchange. To achieve this objective, profitability and gearing ratios were calculated for of listed Ghana Stock Exchange firms, and further correlation and regression tests were carried out by the researcher.

4.1 Results of the Study

Financial statements on their own are of limited use. When looking at a statement of financial position or statement of comprehensive income, one cannot determine whether the company is doing well or bad or whether the firm is financially strong or vulnerable. One approach to arrive at this judgement is by the help of ratio analysis. Hence, the researcher conducts a ratio analysis on the 2015 financial statements of the selected firms in this section and afterwards carries out a correlation test to assess the relationship between the variables. For the purpose of this study, only profitability and gearing ratios were considered.

4.2 Calculation of Ratios

Table 1: Computation of Ratios

(All amounts are expressed in thousands of Ghana Cedis)

RATIO	FORMULA	FANMILK GH	UNILEVER GH	BOPP
Profitability Ratios				
ROCE	$\frac{profit\ b4\ int.\ \&\ tax}{capital\ employed}\ x\ 100$	$\frac{67,427}{127,185} x\ 100$ **= 53.0%**	$\frac{50,802}{71,224} x\ 100$ **= 71.3%**	$\frac{8,367}{60,486} x100$ **= 13.8%**
Profit b4 int. & tax*	Operating profit + finance inc.	59,779 + 7648 = 67,427	50,729 + 73 = 50,802	**8367**
Capital Employed*	Total Assets – Current Liabs	214,214 – 87029 = 127,185	302,377 – 231,153 = 71,224	65,389 – 4,903 = 60,486
Gross Profit Margin	$\frac{gross\ profit}{sales} x100$	$\frac{159,064}{315,409} x100$ **= 50.4%**	$\frac{147,746}{518,731} x100$ **= 28.5%**	$\frac{13,485}{58,077} x100$ **= 23.2%**
Net Profit Margin	$\frac{profit\ b4\ int.\ \&\ tax}{sales} x100$	$\frac{67,427}{315,409} x100$ **= 21.4%**	$\frac{50,802}{518,731} x100$ **= 9.8%**	$\frac{8367}{58,077} x100$ **= 14.4%**
Assets turnover	$\frac{sales}{capital\ employed}$	$\frac{315,409}{127,185}$ **= 2.5 times**	$\frac{518,731}{71,224}$ **= 7.3 times**	$\frac{58,077}{60,486}$ **= 1.0 times**
Gearing Ratios				
Capital Gearing Ratio	$\frac{debt}{debt + equity} x\ 100$	$\frac{93,936}{214,214} x\ 100$ **= 43.9%**	$\frac{239,288}{302,377} x\ 100$ **= 79.1%**	$\frac{4,903}{65,389} x\ 100$ **= 7.5%**
Debt Equity Ratio	$\frac{debt}{equity} x\ 100$	$\frac{93,936}{120,278} x\ 100$ **= 78.1%**	$\frac{239,288}{63,089} x\ 100$ **= 379.3%**	$\frac{4,903}{60,486} x\ 100$ **= 8.1%**

Profitability Ratios

Profitability ratios determine the ability of an entity to generate returns for investors. The profitability of the selected firms are compared in this section. With respect to ROCE, which measures the profit per cedi of capital employed, Unilever with a 71.3% return on its capital employed seems to be performing better than Fanmilk with 53.0% and BOPP with 13.8% return on their capital employed respectively. However, with respect to Gross Profit Margin which measures the ability of a firm to control production cost or direct cost of sales, Fanmilk seemed to have a higher gross profit margin of 50.4% as compared to 28.5% for Unilever and 23.2% for BOPP. Also, with respect to net profit margin which measures an entity's ability to control operating costs, Fanmilk seemed to have outperformed Unilever and BOPP again with a net profit margin of 21.4% to 9.8% and 14.4% respectively. Asset turnover measures the revenue per cedi of capital employed and Unilever look to be better in this ratio with the ability to raise revenue 7.3 times on its capital employed than 2.3 times and 1.0 times to Fanmilk and BOPP respectively.

Gearing Ratios

Gearing ratios measure the proportion of debt and equity in the capital structure of an entity. Where the proportion of debt is higher than equity (more than 50%), an entity is said to be highly geared and vice versa. The financial risk of BOPP appears than that of Fanmilk and unilever. This can be seen in the capital gearing and debt to equity ratios of BOPP which stood at 7.5% and 8.1% respectively which is better than the ratios of Fanmilk and Unilever which stood at 43.9% and 78.1% as well as 79.1% and 37.9% respectively

4.3 Correlation Results

Table 2: Descriptive Statistics

	Mean	Std. Deviation	N
ROCE	2.00	1.000	3
Gross Profit Margin	2.00	1.000	3
Net Profit Margin	2.33	1.155	3
Asset Turnover	2.33	1.155	3
Capital Gearing ratio	2.00	1.000	3
Debt Equity Ratio	1.67	.577	3

Table 3: Correlations between Profitability Variables and Capital Structure

		ROCE	G P M	N P M	Asset T	C/G Ratio	D/E Ratio
ROCE	Pearson Correlation	1	1.000**	.000	.000	1.000**	.866
	Sig. (2-tailed)		.000	1.000	1.000	.000	.333
	N	3	3	3	3	3	3
G P M	Pearson Correlation	1.000**	1	.000	.000	1.000**	.866
	Sig. (2-tailed)	.000		1.000	1.000	.000	.333
	N	3	3	3	3	3	3
N P M	Pearson Correlation	.000	.000	1	1.000**	.000	-.500
	Sig. (2-tailed)	1.000	1.000		.000	1.000	.667
	N	3	3	3	3	3	3
A T	Pearson Correlation	.000	.000	1.000**	1	.000	-.500
	Sig. (2-tailed)	1.000	1.000	.000		1.000	.667
	N	3	3	3	3	3	3
Capital	Pearson	1.000**	1.000*	.000	.000	1	.866

Gearing	Correlation		*				
	Sig. (2-tailed)	.000	.000	1.000	1.000		.333
	N	3	3	3	3	3	3
D/E Ratio	Pearson Correlation	.866	.866	-.500	-.500	.866	1
	Sig. (2-tailed)	.333	.333	.667	.667	.333	
	N	3	3	3	3	3	3
**. Correlation is significant at the 0.01 level (2-tailed).							

The results in Table 2 indicate that, there is a perfect correlation between capital gearing and ROCE (1.000**), Gross profit margin (1.000**) and debt to equity (0.866). However, the results suggests just a significant correlation between capital gearing and net profit margin (0.000) and asset turn over (0.000). The results further indicate that the association between debt to equity and ROCE (0.866), gross profit margin (0.866) and capital gearing (0.866) is high correlation but insignificantly correlated to net profit margin (-.500) and asset turnover (-.500). This indicates that, capital structure variables (debt to equity and capital gearing) are significantly correlated to profitability variables (ROCE, gross profit margin, net profit margin and asset turnover. This is depicted in the table below.

Table 4: Descriptive Statistics

	Mean	Std. Deviation	N
Capital Structure	3.33	1.155	3
Profitabilty	8.67	3.055	3

Correlation between Capital structure and Profitability

		Capital Structure	Profitabilty
Capital Structure	Pearson Correlation	1	.189
	Sig. (2-tailed)		.879
	N	3	3
Profitabilty	Pearson Correlation	.189	1
	Sig. (2-tailed)	.879	
	N	3	3

The implication of the results is that an increase in capital structure is associated with an increase in profitability of firms. This is consistent with the findings of Long and Maltiz (2005), who observed that, the financial leverage of firms is positively related to a firm's profitability. Given that a firm must seek an outside source of funds, its choice between debt and equity will depend in part on the magnitude of potential agency costs of debt. But contradicts the findings of Majumdar and Chhibber (1999), who also found a negative relationship between financial leverage and performance. Their results further suggest that liquidity, age and capital intensity have significant influences on financial performance. Many determinants of the corporate capital structure were nominated and empirically examined in the US.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.0 Introduction

The research study wanted to establish the impact of capital structure on the financial performance of listed firms in Ghana Stock Exchange. From the analysis and data collected, the following discussions, conclusion and recommendations were made by the researcher.

5.1 Summary

The main objective of the study was to assess the impact of capital structure on the financial performance of listed firms in Ghana Stock Exchange. The researcher conducted a causal survey to collect data from companies listed on the Ghana Stock Exchange market in order to determine the current status of the subject under study with respect to one or more variables. The researcher chose to employ a selected listed Ghana Stock Exchange companies through a purposive sampling strategy.

The researcher conducted a ratio analysis on the 2015 financial statements of the selected firms and afterwards carried out a correlation test to assess the relationship between the variables. For the purpose of this study, only profitability and gearing ratios were considered.

The researcher found that, amongst the firms selected for this study, Fanmilk Ghana was the most profitable firm followed by Unilever Ghana and Benso Oil Palm Plantation (BOPP). However, BOPP was found to be the least geared amongst the three followed by Fanmilk and Unilever. Further correlation tests revealed that, there was a perfect correlation between capital gearing and ROCE, Gross profit margin and debt to equity (0.866). However, the results suggests just a significant correlation between capital

gearing and net profit margin and asset turn over. The results further indicated that debt to equity was highly correlated to ROCE, gross profit margin and capital gearing but insignificantly correlated to net profit margin and asset turnover. This indicates that, capital structure variables (debt to equity and capital gearing) are significantly correlated to profitability variables (ROCE, gross profit margin, net profit margin and asset turnover.

5.2 Conclusion

Based on the findings of the study, the researcher concluded that, financial structure indeed affects the financial performance of firms listed at the GSE. Overall, there exist a strong relationship between financial structure (capital gearing and debt to equity) and profitability (ROCE, gross profit, net profit and asset turnover). The huge proportion of asset financing through borrowing could imply that short-term debt financing was less costly and therefore available compared to the long term debt which is usually associated with high value collateral and at times unattractive. Generally on debt financing, it is prudent to conclude that firms that borrow to finance their growth without fear, experience no adverse effect on profitability since it is insignificant.

5.3 Recommendations

Based on the conclusion drawn by the researcher, the following recommendation were made to management and owners of corporations is that they need not focus on maintaining a specific leverage ratio but rather they should let the actual capital structure be dictated by business needs. However, they should not load the business with more debt than it has the capacity to service as this would potentially lead to financial challenges that ultimately could lead to bankruptcy.

Also, there is need for the firms listed on the GSE to have a strong capital structure which provides them strength to withstand financial crises and offers shareholders a better safety net in times of depressions.

The researcher further recommends that there is the need for firms in Ghana to increase their size and revenue as it positively impacts on the financial of the firms.

Last but not least, the researcher recommends that, firms listed in the GSE to adopt strategies that would increase their revenue base and utilize the profits generated from the operations to acquire more assets and improve their financial performance.

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APPENDIX

Independent Auditor's Report

Report of the Independent Auditor to the Members of Fan Milk Limited.

Report on the financial statements

We have audited the accompanying financial statements of Fan Milk Limited set out on pages 14 to 38. These financial statements comprise the statement of financial position as at December 31, 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Companies Act, 1963 (Act 179) and for such internal control, as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Fan Milk Limited as at December 31, 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1963 (Act 179).

Report on other legal requirements

The Companies Act, 1963 (Act 179) requires that in carrying out our audit we consider and report on the following matters. We confirm that:

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii) The Company's balance sheet (statement of financial position) and profit and loss account (part of statement of profit or loss and other comprehensive income) are in agreement with the books of account.

PricewaterhouseCoopers (ICAG/F/2016/028)
Chartered Accountants
Signed by: Michael Asiedu-Antwi (ICAG/P/1138)
Accra, Ghana
February 24, 2016

pwc

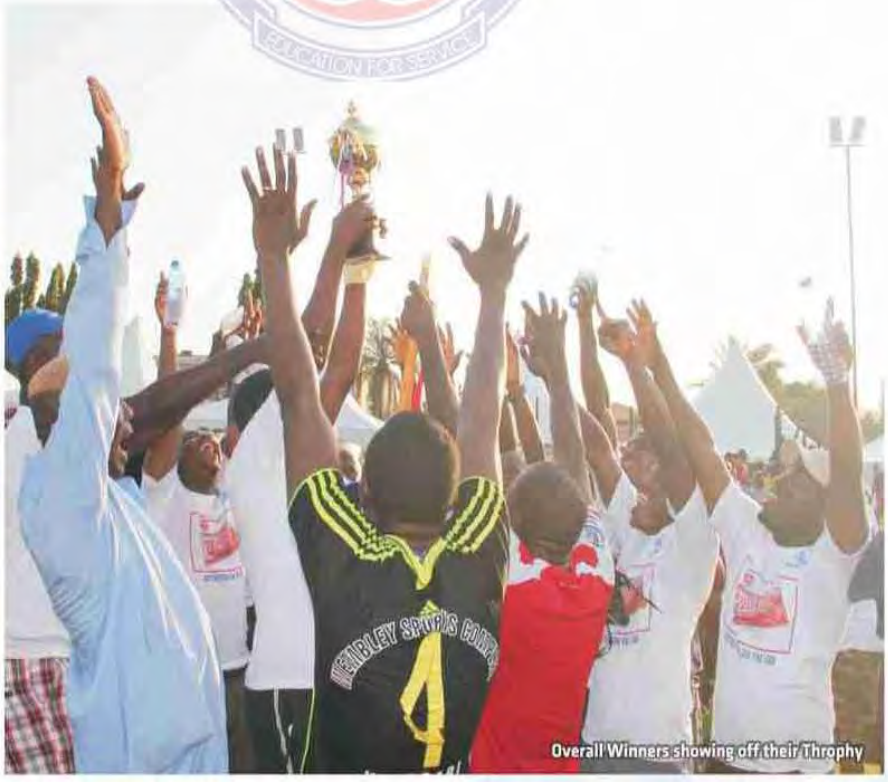
Drummers and their Supporters

Statement of Profit or Loss & other Comprehensive Income

Year ended December 31, 2015.

(All amounts are expressed in thousands of Ghana Cedis)	Note	2015	2014
Revenue	4	**315,409**	177,492
Cost of sales	5	**(156,345)**	(95,131)
Gross Profit		**159,064**	82,361
Distribution costs	5	**(73,555)**	(47,556)
Administrative expenses	5	**(29,530)**	(19,384)
Other income	6	**3,800**	4,348
Operating Profit		**59,779**	19,769
Finance income	7	**7,648**	2,523
Finance costs	8	**(1,059)**	(564)
Profit before Income Tax		**66,368**	21,728
Income tax expense	9	**(16,652)**	(6,679)
Profit for the year		**49,716**	15,049
Other comprehensive income		**-**	-
Total Comprehensive Income		**49,716**	15,049
Earnings per share			
Basic and diluted (GHC)	10	**0.43**	0.13

The notes on pages 19 to 38 are an integral part of these financial statements.



Overall Winners showing off their Throphy

Statement of Financial Position

Year ended December 31, 2015.

(All amounts are expressed in thousands of Ghana Cedis)	Note	2015	2014
Assets			
Non-Current Assets			
Property, plant and equipment	11	**61,865**	60,801
Intangible assets	12	**120**	271
		61,985	61,072
Current Assets			
Inventories	13	**47,383**	19,788
Trade and other receivables	14	**7,175**	5,823
Cash and cash equivalents	15	**97,671**	37,230
		152,229	62,841
Total Assets		**214,214**	123,913
Equity and Liability			
Equity attributable to owners			
Stated capital	16	**10,000**	10,000
Income surplus account	17	**110,278**	71,021
		120,278	81,021
Liabilities			
Non-Current Liabilities			
Deferred income tax	18	**6,907**	6,050
Current Liabilities			
Trade and other payables	19	**84,097**	34,390
Current income tax	20	**207**	-
Dividend payable	21	**2,725**	2,452
		87,029	36,842
Total Liabilities		**93,936**	42,892
Total Equity and Liabilities		**214,214**	123,913

The financial statements on pages 14 to 38 were approved by the Board of Directors on February 18, 2016 and signed on its behalf by:

Director

Director

The notes on pages 19 to 38 are an integral part of these financial statements.

Statement of Changes in Equity

Year ended December 31, 2015.

(All amounts are expressed in thousands of Ghana Cedis)	Stated Capital	Income Surplus Account	Total
Year ended December 31, 2015			
At the beginning of the year	10,000	71,021	**81,021**
Total comprehensive income	-	49,716	**49,716**
Transactions with owners			
Dividend declared	-	(10,459)	**(10,459)**
Total transactions with owners	-	(10,459)	**(10,459)**
At the end of the year	**10,000**	**110,278**	**120,278**
Year ended December 31, 2014			
At the beginning of the year	10,000	66,431	**76,431**
Total comprehensive income	-	15,049	**15,049**
Transactions with owners			
Dividend declared	-	(10,459)	**(10,459)**
Total transactions with owners	-	(10,459)	**(10,459)**
At the end of the year	**10,000**	**71,021**	**81,021**

The notes on pages 19 to 38 are an integral part of these financial statements.

Fan Milk Sponsored Clean-Up Exercise

Statement of Cash Flows

Year ended December 31, 2015.

(All amounts are expressed in thousands of Ghana Cedis)	Note	2015	2014
Cash Flows from Operating Activities			
Cash generated from operations	22	**92,995**	43,041
Interest paid	8	**(1,040)**	(565)
Interest received	7	**7,610**	2,130
Tax paid	20	**(15,588)**	(5,633)
Net cash generated from operating activities		**83,977**	38,973
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	11	**(13,613)**	(10,262)
Purchase of intangible assets	12	**(93)**	-
Proceeds from sale of property, plant and equipment	11	**356**	413
Net cash used in investing activities		**(13,350)**	(9,849)
Cash Flows from Financing Activities			
Dividend paid	21	**(10,186)**	(9,989)
Net cash used in financing activities		**(10,186)**	(9,989)
Increase in cash and cash equivalents		**60,441**	19,135
Cash and cash equivalents at the beginning of the year		**37,230**	18,095
Cash and cash equivalents at the end of the year	15	**97,671**	37,230

The notes on pages 19 to 38 are an integral part of these financial statements.

Ladies Warming up before the Football Game

Unilever
Unilever Ghana Limited

UNAUDITED FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2015

FINANCIAL HIGHLIGHTS

(All amounts are expressed in thousands of Cedis)

	2015	2014
Revenue	518,731	410,450
Operating profit/(loss)	50,729	4,124
Profit/(loss) before tax	47,602	(634)
Profit/(loss) after tax	35,743	(710)
Operating profit/(loss) margin	9.8%	1.0%
Earnings per share (Annualised) GH¢	0.5719	(0.0114)

FINANCIAL PERFORMANCE

Revenue for the year grew by 26.4%, from GH¢410.5million to GH¢518.7million. The growth was achieved due to focus on operational excellence despite the difficult operating environment and intensive competitive pressure.

Operating profit for the year was GH¢50.7million as against a profit of GH¢4.1million in 2014. The Company also recorded Profit after tax of GH¢35.7million as compared to a loss of GH¢0.71million in 2014. The improved profitability was due to the strategies employed by management.

2016 OUTLOOK

We believe that this year will be difficult but the company have prepared enough to meet the expected tougher market conditions and high volatility in 2016.

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER, 2015

	2015	2014
Revenue	518,731	410,450
Cost of sales	(370,985)	(317,610)
Gross profit	147,746	92,840
Distribution expenses	(10,390)	(9,400)
Brand & marketing investment expenses	(27,063)	(26,882)
Administrative expenses	(57,656)	(49,128)
Restructuring costs	(2,447)	(1,803)
Other income	760	497
Operating profit/(loss)	50,729	4,124
Finance income	73	41
Finance costs	(3,200)	(4,799)
Profit/(loss) before taxation	47,602	(634)
Taxation	(11,860)	(76)
Profit/ (loss) after taxation	35,743	(710)
Earnings per share attributable to the equity holders of the company		
Basic Earnings per share	0.5719	(0.0114)

UNAUDITED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER, 2015

Year ended 31 December 2015	Stated capital	Capital surplus account	Retained earnings	Share deals account	Total equity
Balance at 1 January 2015	1,200	204	30,108	81	31,593
Comprehensive income					
Profit for the year	-	-	35,743	-	35,743
Other comprehensive income			(4,247)		(4,247)
Balance as at 31 December 2015	1,200	204	61,604	81	63,089
Year ended 31 December 2014					
Balance at 1 January 2014	1,200	204	31,144	81	32,629
Comprehensive income					
Loss for the year	-	-	(710)	-	(710)
Other comprehensive income			(326)		(326)
Balance as at 31 December 2014	1,200	204	30,108	81	31,593

UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2015

(All amounts are expressed in thousands of Ghana Cedis)

	2015	2014
Non-current assets		
Property, plant and equipment	77,273	63,172
Intangible assets	3,792	6,205
Investment in subsidiaries	10	10
Employee Benefits	6,671	7,410
Total non-current assets	87,746	76,797
Current assets		
Inventories	48,214	45,100
Trade and other receivables	45,874	28,042
Prepayments	2,657	4,123
Related party receivables	88,673	52,922
Income tax	-	1,536
Cash and bank	29,214	13,014
Total currrent assets	214,632	144,737
Total assets	302,377	221,534
Current liabilities		
Trade and other payables	60,356	43,365
Related party payables	164,260	118,728
Provisions	3,421	2,053
Dividend payable	3,053	3,068
Bank overdraft	-	14,655
Income tax	63	-
Total current liabilities	231,153	181,869
Non-current liabilities		
Employee Benefits obligation	3,709	2,284
Deferred tax	4,426	5,788
Total non-cureent liabilities	8,135	8,072
Total liabilities	239,288	189,941
Equity		
Stated capital	1,200	1,200
Capital surplus account	204	204
Retained earnings	61,604	30,108
Share deals account	81	81
Total equity	63,089	31,593
Total equity and total liabilities	302,377	221,534

The financial statements do not contain untrue statements, misleading facts or omit material facts to the best of our knowledge.

Managing Director
(MAIDIE E.ARKUTU)

Finance Director
(MIGUEL A.MARQUEZ)

UNAUDITED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER, 2015

(All amounts are expressed in thousands of Ghana Cedis)

	2015	2014
Cash flows from operating activities		
Cash generated from operations	65,961	25,241
Interest received	73	41
Interest paid	(3,200)	(4,799)
Tax paid	(11,622)	(654)
Net cash generated from operating activities	51,212	19,829
Cash flows from investing activities		
Purchases of property, plant and equipment	(20,341)	(13,513)
Purchases of Intangible assets	-	(2)
Net cash used in investing activities	(20,341)	(13,515)
Cash flows from financing activities		
Dividend paid	(15)	(63)
Net cash used in financing activities	(15)	(63)
Increase in cash and cash equivalents	30,855	6,251
Cash and cash equivalents at beginning of the year	(1,641)	(7,669)
Effect of movement in exchange rate on cash and bank	-	(223)
Cash and cash equivalents at the end of 31 December 2015	29,214	(1,641)

NOTES TO THE FINANCIAL STATEMENTS

1a. BASIS OF ACCOUNTING

The financial statements have been prepared using the same accounting policies as in the published 2014 Annual Report and Financial Statements.

1b. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 1963 (Act 179).

1c. Basis of measurement

The financial statements have been prepared under the historical cost convention

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF BENSO OIL PALM PLANTATION LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Benso Oil Palm Plantation Limited set out on pages 16 to 43. These financial statements comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Companies Act, 1963 (Act 179) and for such internal control, as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Benso Oil Palm Plantation Limited as at 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1963 (Act 179).

REPORT ON OTHER LEGAL REQUIREMENTS

The Companies Act, 1963 (Act 179) requires that in carrying out our audit we consider and report on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii) the Company's balance sheet (statement of financial position) and income statement (part of statement of comprehensive income) are in agreement with the books of account.

PricewaterhouseCoopers (ICAG/F/2016/028)

Chartered Accountants

Signed by: Oseini Amui (ICAG/P/1139)

Accra, Ghana

11 March 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts are in thousands of Ghana cedis)

		Year ended 31 December
	Note	
Revenue	4	

		2015	2014
Cost of sales		**58,077**	52,164
5		**(45,627)**	(35,458)
Net gains from changes in fair value of biological assets		**1,035**	
23		----------	2,126

Gross profit		**13,485**	
			18,832
Administrative expenses		**(6,759)**	(6,617)
6		**793**	
Other income		----------	(313)
8		----	
Operating profit		**7,519**	
			11,902
Finance income		**848**	519
9		----------	

Profit before income tax		**8,367**	
			12,421
Income tax expense		**(212)**	
10		----------	(130)
Profit for the year		----	
Other comprehensive income		**8,155**	
		----------	12,291

Total comprehensive income for the year		**-**	

Basic and diluted earnings per share (GH¢)		**8,155**	
25		======	12,291
		=====	
		0.2343	
			0.3532

The notes on pages 20 to 43 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(All amounts are in thousands of Ghana cedis)

	Note	At 31 December 2015	2014	
Assets		**46,174**	38,956	
Non-current assets		**236**	454	
Intangible Assets		**11,522**	11,020	14b
Property, plant and equipment		**34,416**	27,482	14a
Biological assets	23	**19,215**	18,707	
Current assets		**4,644**	4,886	
Inventories		**4,334**	2,970	
Trade and other receivables		**4,999**	3,458	15
Amounts due from related companies	20	**5,238**	7,393	16
Cash and cash equivalents	19	**65,389**	57,663	
Total assets		**4,903**	2,874	
		3,625	2,137	
Liabilities		**533**	124	
Current liabilities		**212**	130	
Trade and other payables		**533**	483	
Amounts due to related companies	20	**60,486**	54,789	17
Current income tax		**2,000**	2,000	
10 Dividend payable		**7,629**	7,629	
Equity		**50,857**	45,160	
Stated capital		**65,389**	57,663	11
12 Capital surplus account				
13 Income surplus account				
21				
Total liabilities and equity				

The notes on pages 20 to 43 are an integral part of these financial statements.

The financial statements on pages 16 to 43 were approved by the Board of directors on 12

February
2016and were signed on its behalf by:

.....
Nene Ofoe Amegatcher

Director

.....
Santosh Pillai
Managing Director

STATEMENTOFCHANGESINEQUITY

(All amounts are in thousands of Ghana cedis)

	Stated capital	Capital surplus account	Income surplus account	Total
Year ended 31 December 2015				
At 1 January 2015	2,000	7,629	45,160	54,789
Profit for the year	-	-	8,155	8,155
Total comprehensive income	2,000	7,629	53,315	62,944
Transactions with owners	-	-	(2,458)	(2,458)
Dividend declared for 2014	2,000	7,629	50,857	60,486
At 31 December 2015				
Year ended 31 December 2014				
At 1 January 2014	2,000	7,629	34,031	43,660
Profit for the year	-	-	12,291	12,291
Total comprehensive income	2,000	7,629	46,322	55,951
Transactions with owners	-	-	(1,162)	(1,162)
Dividend declared for 2013	2,000	7,629	45,160	54,789
At 31 December 2014				

The notes on pages 20 to 43 are an integral part of these financial statements.

STATEMENTOFCASHFLOWS

(All amounts are in thousands of Ghana cedis)

Year ended 31 December

Cash flows from operating activities	Note	2015	2014
Cash generated from operations	18	**7,217**	9,109
Interest received	9	**848**	519
Tax paid	10	**(130)**	(361)
Net cash generated from operating activities		**7,935**	9,267
Cash flows from investing activities			
Purchase of property, plant and equipment	14a	**(1,802)**	(1,293)
Purchase of intangible assets	14b	-	(654)
Purchase of biological assets	23	**(5,899)**	(6,198)
Proceeds from sale of property, plant and equipment	14	**19**	-
Proceeds from sale of biological assets	23	-	2
Net cash used in investing activities		**(7,682)**	(8,143)
Cash flows from financing activities			
Dividend paid to the shareholders	11	**(2,408)**	(1,122)
Net cash used in financing activities		**(2,408)**	(1,122)
(Decrease) / Increase in cash and cash equivalents		**(2,155)**	2
Cash and cash equivalents at 1 January	19	**7,393**	7,391
Cash and cash equivalents at 31 December	19	**5,238**	7,393

The notes on pages 20 to 43 are an integral part of these financial statements.