

DRIL

# Annual Report



## HFC EQUITY FUND

HFC Equity Fund  
Annual Report & Financial Statements 2005



HFC Investment Services Limited  
A Subsidiary of HFC Bank (Ghana) Limited

**WellManagedInvestments**  
your secured Future

# *Annual Report*



**HFC EQUITY FUND**

HFC Equity Fund  
Annual Report & Financial Statements 2005



# THE MANAGER

<b>Name:</b>	HFC Investment Services Limited (HFCISL)
<b>Country of Incorporation:</b>	Ghana
<b>Registration Number:</b>	50,533
<b>Nature of Corporate Form:</b>	Limited liability, wholly-owned subsidiary of the HFC Bank (Ghana) Ltd.
<b>Registered Office:</b>	Ebankese No. 35 Sixth Avenue, North Ridge, P. O. Box CT. 4603 Cantonments, Accra
<b>Principal Place of Business:</b>	HFC Bank (Ghana) Ltd., Ridge Branch 6 Sixth Avenue, West Ridge Ridge Ambassadorial Enclave, Ridge, Accra.
<b>Date of Incorporation:</b>	7TH JULY 1993 (Name changed from Home Finance Investment Fund Limited to HFC Investment Services Limited on 1ST OCTOBER 2001).
<b>Capitalisation (as at December 31 2005)</b>	
<b>Authorized:</b>	1,000,000 (One million) Ordinary shares of no par value
<b>Issued:</b>	100,000 shares
<b>Auditors:</b>	Pannell Kerr Forster Chartered Accountants Farrar Avenue, Accra



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# Notice

## HFC EQUITY FUND

### NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the First Annual General Meeting of Unitholders will be held at the Ebenezer Presbyterian Church Hall, Osu, Accra at 11.00am on 12<sup>th</sup> July, 2006 to transact the following businesses:

#### AGENDA

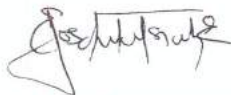
1. To receive the report of the Manager for the Year 2005.
2. To receive the Audited Statement of Income and Expenditure and Distribution Statement of HFC Equity Fund for the financial year ended December 31, 2005 together with the Trustees and Auditors reports thereon.
3. To authorize the Manager to fix the remuneration of the Auditors for Year 2006.

A Unitholder has the right to appoint a proxy to attend and vote on his/her behalf at the Meeting. Such a proxy need not be a Unitholder. A copy of the instrument appointing the proxy may be deposited at any time prior to the commencement of the Meeting at the principal place of business of the Manager.

**HFC Investment Services Limited**  
**6 Sixth Avenue, West Ridge**  
**Ridge Ambassadorial Enclave, Ridge**  
**Accra**

Dated 6<sup>th</sup> June, 2006

By Order of the Manager.



**JOSEPH NKETSIAH**  
For: HFC Investment Services Limited

# Trustees

## HFC EQUITY FUND

### STATEMENT OF TRUSTEES RESPONSIBILITIES

The Trust Deed requires the Trustees to prepare financial statements for each financial period, which gives a true and fair view of the state of affairs of the Unit Trust. In preparing the financial statements, the Trustees are required to:

- Select suitable accounting policies and apply them consistently,
- Make judgments and estimates that are responsible and prudent,
- State whether applicable accounting standards have been followed, subject to any material departures, disclosed and explained them in the financial statements, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Investment Trust will continue in business.

The Trustees are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Equity Fund, which will ensure that the financial statements comply with the Trust Deed and Securities Industry Law, 1993 (PNDC 333). They are also responsible for safeguarding the assets of the Investment Trust and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The statements should be read in conjunction with the statement of the Auditors' responsibilities as set out on page 12, the respective responsibilities of the Trustees and the Auditors in relation to the financial statements.

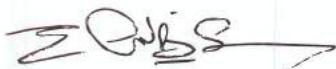


# Report

## REPORT OF THE TRUSTEES TO THE UNITHOLDERS OF THE HFC EQUITY FUND

In our opinion, according to the information made available to us and the explanations provided, we confirm that in all material respects, the manager has managed the scheme during the period covered by these financial statements in accordance with the Trust Deed dated 1<sup>st</sup> December, 2005 and all regulations for the time being in force under the Securities Industry Law, 1993 (PNDCL 333).

Dated this 10th Day of May 2006



For: **MERCHANT BANK (GHANA) LIMITED**





# Report

## HFC EQUITY FUND

MANAGER'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2005

### ECONOMIC OVERVIEW

The prudent economic management, through tight fiscal and monetary regimes initiated by the Government few years back, continued during year 2005. These registered appreciable results that showed overall stability in the economy. Real GDP growth stabilized at 5.8%. Despite a 50% upward adjustment in the prices of petroleum products in the first quarter of the year and marginal price increases in some petroleum products later in the year, average annual inflation was 13.5%, which is only 1.7 percentage points above the 2004 figure.

The Cedi exchange rate against the major world currencies maintained its relative stability. The Cedi depreciated by only 0.4% against the US Dollar, but appreciated by 11.6% against the Euro and 8.2% against the Pound Sterling, the best performance recorded in recent years. The benchmark 91-day Treasury bill ended the year at 11.53% compared to 17.06% in 2004.

The government again continued with its tough economic measures to contain pressure on national revenue. The deregulation of the oil industry further reduced Government's borrowing from the banking system. During the year as well, eight of the world's richest economies cancelled the debts of 18 African countries including Ghana. Ghana therefore enjoyed debt relief to the tune of over \$4 billion. This relief was expected to be channeled into poverty reduction programmes.

Growth in Fund Value - Equity Fund



### Financial Market Environment

The bearish trend that characterized the Ghana Stock Market during the last quarter of 2004 continued into 2005. The market recorded its first decline in four years with the stock exchange posting negative 29.89% return at the end of December 2005 compared to a positive return of 91.32% during the same period in 2004.



# Report

Some of the equities that contributed to the decline were ALW (-50%), BAT (-60%), CPC (-40%), HFC (-40%), UNIL (-30%), and SCB (-24%). Even though some equities, such as CFAO, Camelot and PZ recorded positive growth; these were few and their impact so marginal that they could not compare effectively with the falls.

## FUND PERFORMANCE

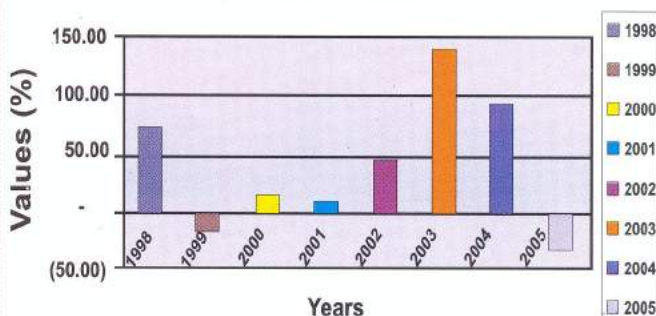
Having started active operations in September 2004 when stock prices had peaked, HFC Equity Fund has experienced appreciable falls in its stock investments over the period under review as a result of these market declines.

In our desire to achieve the Fund's objective of delivering higher long-term returns and in line with our active investment management strategy, your Fund Manager modified its investment strategy by investing in fixed income products. This was done to mitigate the consistent decline in the Fund's unit price. This prudent measure eventually had a positive impact on the Fund.

In spite of the general market declines during the year, the Equity Fund outperformed the GSE All-Share Index through prudent asset allocation strategies adopted by Fund Manager. The Fund's end of year yield of negative 21.25% was much better than the negative 29.89% posted by the stock market for the same period. The Fund's performance was enhanced by the contributions from the fixed income securities within the portfolio.

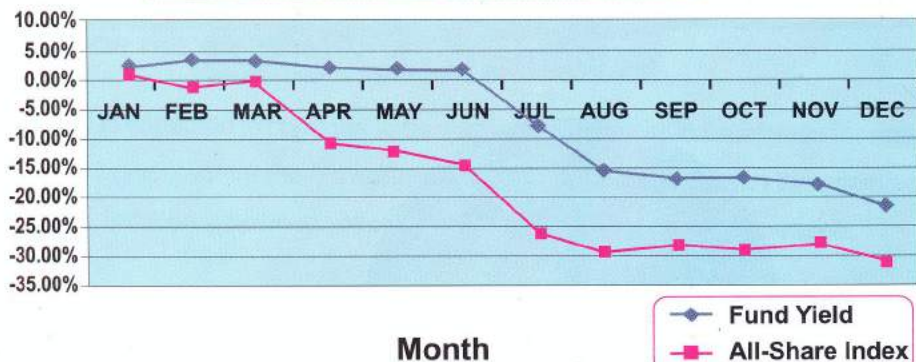
Due to the market declines and a negative net investments, Net Asset Value of the Fund decreased from ₵9.35 billion at the beginning of the year to ₵6.90 billion, a reduction of 26.20% at the close of the year under review. The fund attained a net loss of ₵1.17 billion during the year.

Historic Performance of the Ghana Stock Exchange ( GSE All-Share Index )

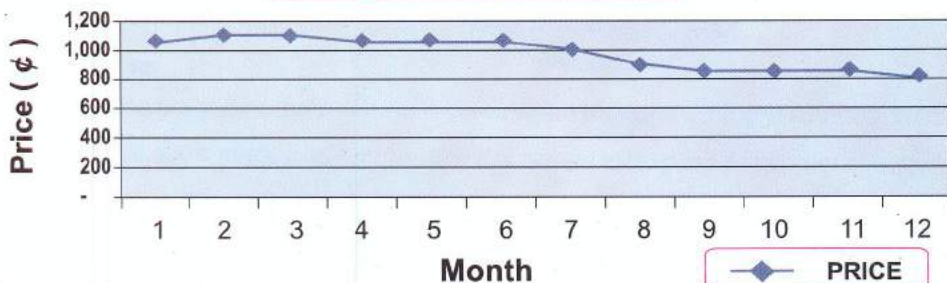


# Report

HFC Equity Fund Vs GSE All-Share Index



Average Monthly Prices (2005)

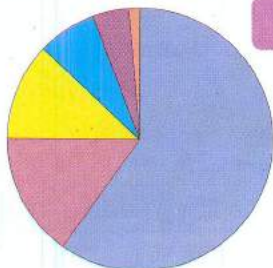


## INVESTMENT PORTFOLIO

The fund's investments were adequately diversified with the view to achieve appreciable returns at minimal risk. As at December 31, 2005 the fund's portfolio comprised the following:

Equities	60.26%	Preference shares	7.28%
Bonds	14.90%	Short term securities	10.66%
HFC-Unit Trust	5.45%	Bank balances	1.45%

Assets Allocation Of The Portfolio

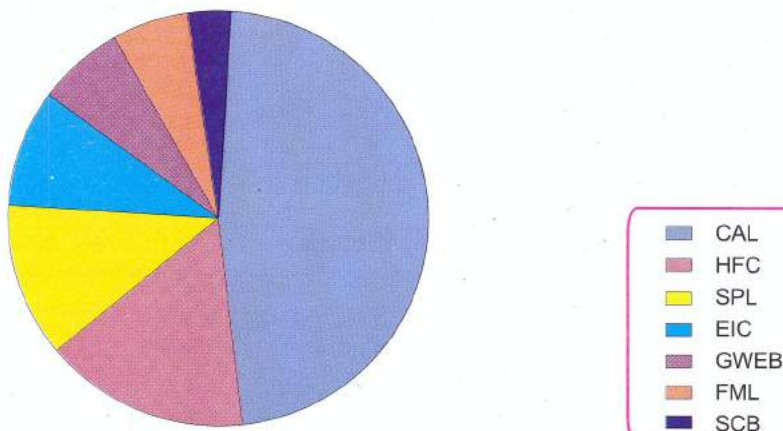


- Equities
- Preference Shares
- Bonds
- Short-term Securities
- HFC Unit Trust
- Bank Balances



# Report

## Top 7 Equity Holdings



### VALUE AND PERFORMANCE OF HFC EQUITY FUND HOLDINGS IN EQUITIES AS AT DECEMBER 31 2005

Equity	No. Of Shares Dec 31 2004	Market Value Dec 31 2004	Purchases	Sales	No. Of Shares Dec 31 2005	Market Price	Market Value Dec 31 2005	Dividends	Returns %
CAL	990,800	3,368,720,000.00	-	-	990,800	2,000	1,981,600,000.00		-41.18%
EIC	50,000	400,000,000.00	106,975,000.00	-	65,000	6,856	445,640,000.00		-12.10%
FML	-	-	159,247,500.00	-	10,000	15,800	158,000,000.00		-0.78%
GGBL	-	-	89,594,750.00	-	11,000	7,740	85,140,000.00	742,500.00	-4.14%
GWEB	-	-	200,200,000.00	-	364,000	550	200,200,000.00		0.00%
HFC	100,000	1,000,000,000.00	-	-	100,000	6,000	600,000,000.00	4,050,000.00	-39.60%
SCB	-	-	136,410,000.00	-	1,000	130,000	130,000,000.00		-4.70%
SG-SSB	-	-	80,176,625.00	-	10,000	7,200	72,000,000.00		-10.20%
SPL	-	-	450,000,000.00	-	900,000	580	522,000,000.00		16.00%
UNIL	-	-	7,654,850.00	-	272	15,400	4,188,800.00		-45.28%
		4,768,720,000.00					4,198,768,800.00	4,792,500.00	-14.20%



# Report

## OUTLOOK FOR THE YEAR 2006

The economy is expected to continue to be stable during the 2006 fiscal year. Increase in fuel prices should bring relief for the Government as it struggles to deal with the effects of record high oil prices. Inflation is however, expected to rise slightly due to the increases.

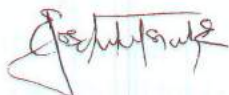
The major declines in stock prices have brought the listed companies more in line with business fundamentals of underlying companies. The attractiveness of the Ghana stocks market has received a major boost as a result of these declines, making it fairly safe for investors to re-enter the market after the general declines of the previous year. We expect stock prices to continue on their upward trend throughout year 2006.

Notwithstanding the major dislocations in investment markets during year 2005, we continue to advocate that stock market investments will continue to be one of the most effective ways of meeting long-term financial needs. We believe that the Ghana stocks market is currently more attractive in the sense that it is advisable to invest when prices are low and disinvest when prices are high.

## CONCLUSION

Your manager will continue to provide Unitholders with excellent customer service and prudent portfolio management to ensure steady and long-term growth of your investment.

We appreciate your support, commitment and confidence in us and look forward to yet another rewarding year for you.



**JOSEPH NKETSI AH**  
**GENERAL MANAGER**



# Report

## REPORT OF THE AUDITORS TO THE UNIT HOLDERS OF HFC EQUITY FUND ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

**PKF**  
PANNELL  
KERR  
FORSTER  
CHARTERED ACCOUNTANTS

We have audited the accompanying Balance Sheet of HFC Equity Fund as at 31 December 2005 and the related statements of Income and Expenditure Account for the year then ended. These financial statements have been prepared under the accounting policies set out therein.

### Respective Responsibilities of Trustees and Auditors

The Trustees of the Equity Fund are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of Opinion

We have conducted our audit in accordance with International Standards on Auditing. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Trustees in the preparation of the financial statements and of whether the accounting policies are appropriate to the Equity Fund circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we required in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

The financial statements are in agreement with the books of account, which in our opinion have been properly kept. We obtained the information and explanations we required. In our opinion the financial statements give a true and fair view of the state of affairs of the Equity Fund as at 31 December 2005 and of the Income and Expenditure Account for the year then ended and have been properly prepared in accordance with the Securities Industry Law, 1993 (PNDCL 333) and Ghana National Accounting Standards.

Farrar Avenue  
Accra.

9th May 2006

*Pannell Kerr Forster*  
PANNELL KERR FORSTER  
CHARTERED ACCOUNTANTS



# Income

## HFC EQUITY FUND

INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>NOTES</u>	<u>2005</u> ¢000	<u>3 Month</u> <u>Period</u> <u>2004</u> ¢000
<b>INCOME</b>		<u>591,873</u>	<u>50,501</u>
<b>LESS: EXPENSES</b>			
Management Fees	2	172,985	43,159
Auditors Remmuneration		27,000	17,250
Other Expenses	3	<u>1,564,955</u>	<u>24,698</u>
		<u>1,764,940</u>	<u>85,107</u>
		(1,173,067)	(34,606)
<b>NET LOSS</b>			
Transfer to Management Fund	4	-	-
Interest paid on Disinvestments		<u>-</u>	<u>(46)</u>
<b>LOSS TRANSFERRED TO DISTRIBUTION ACCOUNT</b>		<u>(1,173,067)</u>	<u>(34,652)</u>
<b><u>DISTRIBUTION STATEMENT</u></b>			
<b><u>FOR THE YEAR ENDED 31 DECEMBER 2005</u></b>			
<b>BALANCE AT 1 JANUARY</b>		(34,652)	-
<b>NET LOSS FOR THE YEAR</b>		<u>(1,173,067)</u>	<u>(34,652)</u>
<b>BALANCE AT 31 DECEMBER</b>		<u>(1,207,719)</u>	<u>(34,652)</u>






# Balance Sheet

## HFC EQUITY FUND

BALANCE SHEET AS AT 31 DECEMBER 2005

			3 Month Period
	NOTES	2005 ¢'000	2004 ¢000
<b>ASSETS</b>			
Investments	5	6,678,508	7,246,589
Deferred Expenditure	6	126,446	160,165
Accounts Receivable	7	43,918	-
Bank Balances	8	110,553	1,429,502
		<u>6,959,425</u>	<u>8,836,256</u>
<b>LIABILITIES</b>			
Accounts Payable	9	283,800	101,065
HFC Unit Trust Current Account		34,049	-
HFC Brokerage Current Account		15,885	-
		<u>333,734</u>	<u>101,065</u>
		<u>6,625,691</u>	<u>8,735,191</u>
Stated Capital	10	7,761,410	8,395,491
Income Surplus		(1,207,719)	(34,652)
Capital Surplus	11	72,000	374,352
		<u>6,625,691</u>	<u>8,735,191</u>

SIGNED FOR HFC INVESTMENT SERVICES LIMITED ON JUNE 9.2006



GENERAL MANAGER

# Notes

## HFC EQUITY FUND

### NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2005

#### 1. ACCOUNTING POLICIES

The principal accounting policies adopted by the Equity Fund and which have been used in preparing these financial statements are set out below and in accordance with Ghana National Accounting Standards.

##### a. Basis of Accounting

The Equity Trust prepares the financial statements under the historical cost convention as modified by the revaluation of listed investments.

##### b. Investments

Stocks listed on the stock exchange are valued at market price at the year end. Income from listed Investments are accounted for on cash basis. Income from Fixed deposits are accounted for on accrual basis.

#### 2. MANAGEMENT FEES

This is based on 2% of the fair market value of the total assets owned by the Fund.

	<u>2005</u> ¢000	<u>2004</u> ¢000
<b>3. OTHER EXPENSES comprise of the following:</b>		<b>3 Month Period</b>
Bank Charges	8,379	7,837
Manager's Reimbursable Expenses	33,719	8,431
Loss on Revaluation of Listed Securities	1,522,857	8,430
	<u>1,564,955</u>	<u>24,698</u>
<b>4. MANAGEMENT FUND</b>		
This is transferred in accordance with the Trust Deed. The Trustees shall be paid out of this fund.		
<b>5. INVESTMENTS</b>		
Shares in Listed Securities	4,198,768	1,982,185
Preference Shares	500,000	-
Bonds	1,000,000	-
HFC Unit Trust	252,738	5,264,404
Treasury Bills	727,002	-
	<u>6,678,508</u>	<u>7,246,589</u>



# Notes

## HFC EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 2005

	<u>2005</u> ¢'000	<u>2004</u> ¢000
<b>6. DEFERRED EXPENDITURE</b>		<b>3 Month Period</b>
Amount Deferred	168,595	168,595
Less Amount Ammortised	(42,149)	(8,430)
	<u>126,446</u>	<u>160,165</u>

This refers to advertising expenditure incurred by the Fund. The expenditure is ammortised over a period of five (5) years.

### 7. ACCOUNT RECEIVABLE

Treasury Bills	12,451	-
Bonds	31,467	-
	<u>43,918</u>	<u>-</u>

### 8. BANK BALANCES

Cash at Bank	17,934	27,502
Call Account	92,619	1,402,000
	<u>110,553</u>	<u>1,429,502</u>

### 9. ACCOUNTS PAYABLE

Amount Due to Managers	216,144	43,159
Accrued Charges	67,656	57,906
	<u>283,800</u>	<u>101,065</u>



# Notes

## HFC EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 2005

### 10. CAPITAL ACCOUNT

	<u>Units</u>	2005 ¢'000	<u>Units</u>	2004 ¢'000
Balance at 1st January	8,071,173	8,395,491	-	-
Value of Units Sold and Converted	2,497,688	1,807,188	8,111,596	8,436,060
	10,568,861	10,202,679	8,111,596	8,436,060
Value of Units Disinvested	(2,504,174)	(2,441,269)	(40,423)	(40,569)
Value of the Fund at 31 December	8,064,687	7,761,410	8,071,173	8,395,491

### 11. CAPITAL SURPLUS

This arose as a result of the revaluation of the listed securities by the Managers of the Equity Fund.



# Admission

## HFC EQUITY FUND | Admission Form

**Annual General Meeting to be held at the Ebenezer Presbyterian Church Hall, Osu, Accra at 11:00 am on 12th July 2006.**

A Unitholder who is unable to attend an Annual General Meeting (AGM) is allowed to vote by proxy. The Proxy form on the next page has been prepared to enable you to exercise your right to vote in case you cannot personally attend the meeting.

Provision has been made on the form for the Chairman of the meeting to act as your proxy, but if you wish, you may insist in the blank space on the form (marked\*\*) the name of any person whether a Unitholder or not, who will attend the meeting and vote on your behalf instead of the Chairman of the Meeting.

Please sign the proxy form on the next page and post it so as to reach the address in the front not later than 30<sup>th</sup> June 2006:

If executed by a Body Corporate, the proxy form should bear its common seal or be signed on behalf by a director.

### **IMPORTANT:**

- a) The name of the Unitholder must be written in BLOCK LETTERS on the Proxy form where marked (\*\*)
- b) This admission form must be produced by the Unitholder or his/her proxy in order to obtain admission to the Annual General Meeting.
- c) Unitholders or their Proxies are requested to sign the admission form before attending the meeting.
- d) In case of joint holders, each joint holder should sign.

# Proxy Form

## HFC EQUITY FUND | Proxy Form

Annual General Meeting to be held at the Ebenezer Presbyterian Church Hall, Osu, Accra at 11:00am on Wednesday, 12th July 2006.

I/We\*\* \_\_\_\_\_ being a Unitholder(s) hereby appoint \_\_\_\_\_ or failing him/her the Chairman of the meeting as my/our proxy to act and vote for me/us and on my/our behalf at the Annual General Meeting of the Fund to be held on 12th July 2006 and at any adjournment thereof.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2006

\_\_\_\_\_  
Unit Holder(s) Signature

Resolution	For	Against
To adopt the 2005 Manager's Report		
To approve the accounts and distribution statement for the financial year ended 31st December, 2005		
To authorise the Manager to fix the Auditor's Remuneration		

Please indicate with an "X" in the appropriate square how you wish your votes to be cast on the resolution set out above.

Unless otherwise instructed the proxy will vote for or abstain from voting at his/her discretion

**(Do not complete this form if you will not attend the meeting)**



# *Mail To:*

**Mail to:**

**The Secretary  
HFC Bank Ghana Limited  
Ebankese  
No. 35 Sixth Avenue  
North Ridge Area, Accra**

**A person attending the meeting should produce this form to obtain admission,**



