



HFC REIT
2006
Annual Report
& Financial Statements



HFC INVESTMENT SERVICES

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

PLANNED INVESTMENT - *A Guaranteed Future*



HFC INVESTMENT SERVICES

HFC REIT

2006

Annual Report
& Financial Statements

PLANNED INVESTMENT - *A Guaranteed Future*

The Manager

Name:	HFC Investment Services Limited (HFCISL)
Country of Incorporation:	Ghana
Registration Number:	50,533
Nature of Corporate Form:	Limited liability, wholly-owned subsidiary of the HFC Bank (Ghana) Ltd.
Registered Office:	Ebankese No. 35 Sixth Avenue North Ridge P. O. Box CT. 4603 Cantonments, Accra
Principal Place of Business:	HFC Bank (Ghana) Ltd., Ridge Branch 6 Sixth Avenue, West Ridge Ridge Ambassadorial Enclave Ridge, Accra
Date of Incorporation:	7TH JULY 1993 (Name changed from Home Finance Investment Fund Limited to HFC Investment Services Limited on 1ST OCTOBER 2001).
Capitalization (as at December 31 2006)	
Authorized:	1,000,000 (One million) Ordinary shares of no Par value
Issued:	100,000 shares
Auditors:	Pannell Kerr Forster Chartered Accountants Farrar Avenue, Accra

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirteenth Annual General Meeting of Unitholders will be held at the National Theatre, Accra at 9.00am on 20th June 2007 to transact the following businesses:

AGENDA

1. To receive the report of the Manager for the Year 2006.
2. To receive the Audited Statement of Income and Expenditure and Distribution Statement of HFC REIT for the financial year ended December 31, 2006 together with the Trustees and Auditors reports thereon.
3. To authorize the Manager to fix the remuneration of the Auditors for Year 2007.

SPECIAL RESOLUTION

4. To pass the following special resolution
“That the Manager be and is hereby authorized to amend the nature of the Scheme as contained under Part III of the Scheme Particulars from an open-ended Unit Trust collective investment scheme to a close-ended Unit Trust Collective Investment Scheme.

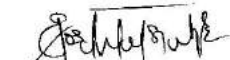
And that the Trustees of the Scheme have been informed of the proposed change in the nature of the Scheme and have no reservations about the change from a open-ended scheme to a close-ended scheme.”

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 3rd May 2007

By Order of the Manager.



JOSEPH NKETSIAH

For: HFC Investment Services Limited

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 HFC REIT. 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 HFC REIT, which will ensure that the financial statements comply with the Trust Deed and Securities Industry Law, 1993 (PNDCL 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 11, the respective responsibilities of the Trustees and the Auditors in relation to the financial statements.

**REPORT OF THE TRUSTEES TO THE UNITHOLDERS
OF THE HFC UNIT TRUST**

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 5th August, 1994 and all regulations for the time being in force under the Securities Industry Law, 1993 (PNDCL 333).

Dated this 23rd Day of April 2007


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

MANAGER'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2006

ECONOMIC OVERVIEW

Government's implementation of the Growth & Poverty Reduction Strategy (GPRS) II started in 2006 and will continue to 2009. The central goal in GPRS II is to accelerate the growth of the economy in its bid to achieve a middle-income status within a measurable planning period.

Indications are that a GDP growth rate approximating 6.2% was achieved, led by strong growth in the agricultural sector and in particular cocoa. The service sector also experienced strong growth driven by telecommunications, construction, transport and tourism. The manufacturing sector however continued to suffer on the back of over liberalized imports and a strong exchange rate, which impaired growth opportunities for exporters. The energy crisis compounded the manufacturing sector's problems as industry resorted to expensive energy sources. High gold prices continued to attract investments in the mining sector.

The Government's target of achieving a single-digit inflation proved elusive again as the year ended with inflation at 10.5%; nevertheless this represents a strong performance.

The end of period inflation rate declined from 14.8% in December 2005 to 9.5% in April 2006 but climbed up to 11.4% in July due to the cumulative effects of the fuel price adjustments in May and July. However, after absorbing the impact of the fuel price increases, inflationary pressures diminished with a gradual but consistent decline in the subsequent months to 10.3% in November, before inching up to 10.5% in December as a result of increased demand associated with the festive season.

Interest rates likewise declined during the year under review. The yield on the 91-day Treasury bill declined from 11.45% p.a at the end of 2005 to 9.64% p.a at the end of 2006.

The 1-year Treasury note shed off 340 basis points during the year from 16.4% p.a to 13.0% p.a over the same period. Similarly, the 2-year fixed note and the 3-year fixed note and the 3-year fixed rate bond also shed off 350 basis points to end the year at 13.5% p.a and 14.05% p.a respectively.

In line with the decline in inflationary expectations during the first and the last quarters of the year, the Monetary Policy Committee reduced the Bank of Ghana Prime Rate from 16.5% p.a to 14.5% p.a in January and further to 12.5% p.a in December 2006.

The foreign exchange market remained stable as the Cedi depreciated by a marginal 1.4% against the US Dollar in nominal terms on the inter-bank market during the year. The Cedi, however, depreciated

MANAGER'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2006

substantially against the Euro and the Pound Sterling over the same period, due to the strengthening of these currencies against the US Dollar on the international markets.

Financial Market Environment

Money Market Performance

Provisional data on the execution of the 2006 budget indicate that there was an overall budget deficit of €4.7 trillion. The financing of this deficit caused a bounce in the public debt/GDP ratio from 10.8% to 13.2% accompanied by a significant lengthening of the maturity structure of the stock of public domestic debt.

With generally declining inflation expectations, there has been a significant shift in portfolio structure on the money market away from the short-end to the long-end. The share of the 91-day and 182-day Treasury Bills declined from 56% at the end of 2005 to 34% in December 2006. The 2-year and 3-year fixed rate notes increased their shares from 14% to 34%. The share of 2-year and 3-year floating notes and bonds also declined significantly.

Other reforms introduced by the Bank of Ghana included the abolition of the secondary reserve requirement, non-resident participation in domestic government securities, the foreign exchange bill, the new payment system and licensing of new banks. These reforms, to a large extent, facilitated the economy's experience of declining interest rates.

The Stock Market

After performing so bearishly in 2005, the Ghana Stock Exchange began a recovery in the first quarter through the end of 2006. This was reinforced by the impressive half-year results posted by most of the listed companies.

The Government of Ghana took advantage of the growing investor confidence in the market to list its 2-year and 3-year fixed rate bonds. This was a significant landmark in the history of the Exchange, as the listings will go a long way to deepen Ghana's bond market. It also signifies Government's commitment to the development of the bonds market.

The GSE All-Share index was 4.97% in 2006 as against -29.85% for 2005. Market Capitalization went up significantly by 22.38% to close 2006 at €112,415.68 billion from a previous value of €91,857.28 billion in 2005. This was largely due to new listings including Ecobank Transnational Incorporated and Ecobank Ghana.

MANAGER'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2006**FUND PERFORMANCE**

The HFC Real Estates Investment Trust (REIT) managed a moderate performance in the year 2006. The twelve-month yield of the Fund improved from last year's negative 3.88% to a positive 2.39% within the year under review.

The Fund value also inched up to ¢13.3 billion as against ¢13.2 billion in 2005. Net Income also improved from negative ¢563.08 million to ¢880.99 million. This moderate performance again was the result of the general slowdown in the property market resulting in low margins on the sale of houses.

INVESTMENT PORTFOLIO

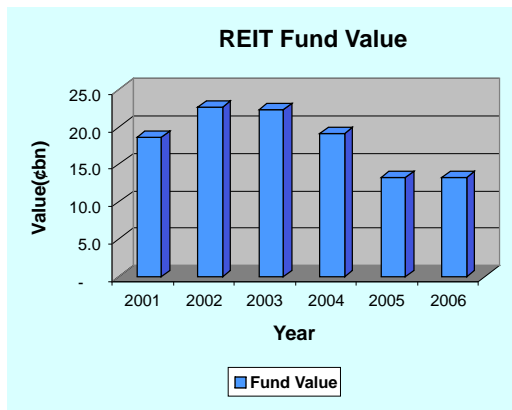
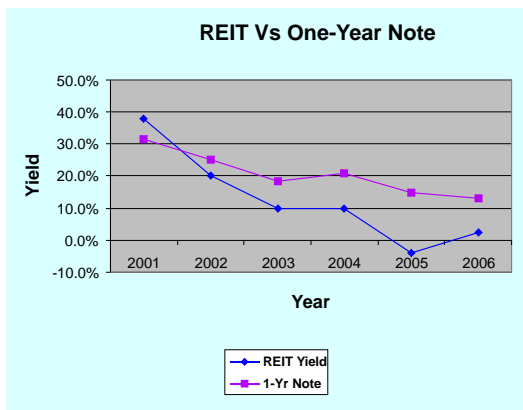
The Fund constructed a perimeter fence wall for the 44 houses completed in 2005. Within the year under review, the Fund started the construction of 8No. semi-detached units at O'Sullivan Estate. Six (6) of the units were completed and the remaining two (2) units were at their finishing stage.

REIT started the development of 4No. 4-bedroom two-storey up-market houses at Cantonments for the Ghana @ 50 Celebrations. These housing units will house some of the Presidents and Head of States that will be attending the African Union (AU) summit to be hosted in July 2007. The houses will be sold afterwards.

The Fund currently holds a unit for rental in Kumasi. The property in Kumasi is located at Ridge, which is a prime location.

The Funds investments in fixed income securities consisted of investments in US Dollar-denominated bonds and Fixed Deposits.

MANAGER'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2006



OUTLOOK

It is expected that the Government will continue to pursue prudent economic policies to stabilize the economy. Inflation is however expected to remain within a single digit throughout year 2007. The upward adjustments in fuel prices and the knock-on effects on general price levels continue to be a threat to the achievement of a single-digit inflation.

We are expecting the Fund to perform better this year, after the outstanding houses at Batsonaa have been sold and the new projects completed.

REIT will complete payment for 30 serviced plots purchased from TDC at Community 25. These plots will be used for our next housing project.

CONCLUSION

The HFC REIT is the first and only real estate-based collective investment instrument in the country, affording investors the opportunity of enriching their portfolios with property investment without getting directly involved in development.

We shall count on your support as we make efforts to make your Fund stronger. We take the opportunity to thank you for your commitment and confidence in us and look forward to improved performance in 2007.

JOSEPH NKETSI AH
GENERAL MANAGER

REPORT OF THE AUDITORS TO THE UNITHOLDERS OF HFC UNIT TRUST ON THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2006



We have audited the accompanying balance sheet of HFC Real Estate Investment Trust as of 31 December 2006 and the related Income and Expenditure Accounts for the year then ended. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibility of Trustees and Auditors

The financial statements are the responsibility of the company's Trustees. Our responsibility is to express an independent opinion on these financial statement based on our audit.

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 Investment Trust's 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 Investment Trust as at 31 December 2006 and of the Income, Capital Account and Cash flows for the year then ended and have been properly prepared in accordance with the Securities Industry Law (PNDC 333).

Farrar Avenue
Accra.

18th April 2007.

Pannell Kerr Forster
PANNELL KERR FORSTER
CHARTERED ACCOUNTANTS

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	<u>2006</u> €'000	<u>2005</u> €'000
INCOME		<u>1,411,038</u>	<u>232,572</u>
<u>Less Expenses</u>			
Management Fees	2	245,097	265,304
Audit Fees		45,000	36,000
Other Expenses	3	239,954	494,343
		<u>530,051</u>	<u>795,647</u>
NET SURPLUS / (DEFICIT)		<u>880,987</u>	<u>(563,075)</u>
Net Surplus / (Deficit) Transferred to Distribution Account		<u>880,987</u>	<u>(563,075)</u>

DISTRIBUTION ACCOUNT YEAR ENDED 31 DECEMBER 2006

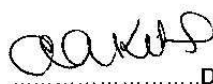
Balance 1 January	1,246,707	1,809,782
Net Surplus / (Deficit) for the year	880,987	(563,075)
Balance 31 December	<u>2,127,694</u>	<u>1,246,707</u>

BALANCE SHEET AS AT 31 DECEMBER 2006

	NOTES	<u>2006</u> €'000	<u>2005</u> €'000
ASSETS			
Investment Properties	4	8,613,622	4,453,317
Investments	5	3,414,826	4,914,752
Accounts Receivable	6	2,217,852	2,727,892
Cash at Bank	7	2,820,574	1,464,934
		<u>17,066,874</u>	<u>13,560,895</u>
LIABILITIES			
Commercial Papers	8	3,000,000	0
Accounts Payable	9	1,126,936	1,800,071
Trustees Account		108,444	138,444
Deposits	10	1,008,732	550,608
		<u>5,244,112</u>	<u>2,489,123</u>
NET ASSETS		<u>11,822,762</u>	<u>11,071,772</u>
AMOUNTS DUE TO UNIT HOLDERS			
Capital Account	11	6,715,845	6,845,842
Deferred Income	12	2,168,958	2,168,958
Capital Surplus	13	810,265	810,265
Distribution Account		2,127,694	1,246,707
		<u>11,822,762</u>	<u>11,071,772</u>

SIGNED FOR HFC INVESTMENT SERVICES LIMITED APRIL 18 2007.


..... GENERAL MANAGER


..... DIRECTOR

CASH FLOW STATEMENT YEAR ENDED 31 DECEMBER 2006

	2006 €'000	2005 €'000
Cashflows from Operating Activities		
Net Surplus / (Deficit) for the year	880,987	(563,075)
Net Surplus / (Deficit) before working capital changes	880,987	(563,075)
Decrease / (Increase) in Accounts Receivable	510,040	(1,545,845)
Increase / (Decrease) in Deposits	458,124	(981,344)
(Decrease) / Increase in Accounts Payable	(673,135)	1440691
Payment to Trustees	(30,000)	(8,058)
Net Cash outflow from Operating Activities	1,148,016	(1,657,639)
Cash Flows from Investing Activities		
Investment Properties Acquired	(4,160,305)	442,704
Net cash used in Investing Activities	(4,160,305)	442,704
Cash Flows from Financing Activities		
Commercial Papers	3,000,000	0
Value of Units sold & Converted	12,137	124,511
Value of Units Disinvested	(142,134)	(188,315)
Net Cash from Financing Activities	2,870,003	(63,804)
Net Increase in Cash & Cash Equivalents	(144,286)	(1,278,739)
Balance at 1 January	6,379,686	7,658,425
	6,235,400	6,379,686
CASH AND CASH EQUIVALENTS		
Bank and Cash Balances	2,820,574	1,464,934
Short Term Investments	3,414,826	4,914,752
	6,235,400	6,379,686

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES

The significant accounting policies adopted by the Trust and which have been used in preparing these financial statements are stated below:

1.1 Basis of Accounting

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

1.2 Investments

Investments in bills and bonds have been stated at cost. Investments in properties have been stated at current market values. Investment income is accounted for on accrual basis.

1.3 Foreign Currency

Assets and liabilities denominated in foreign currencies are translated into cedis at the exchange rates ruling at the balance sheet date.

Gains and losses resulting from foreign currency translation are included in the income and expenditure statement for the year.

2 MANAGEMENT FEES

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

3 OTHER EXPENSES comprise of the following:

	<u>2006</u>	<u>2005</u>
	¢'000	¢'000
Bank Charges	5,646	11,085
Advertising/Marketing Expenses	0	9,920
Bad Debt	0	441,591
Exchange Loss	74,253	0
General Expenses	160,055	31,757
	<u>239,954</u>	<u>494,343</u>

4 INVESTMENT PROPERTIES

Land-Serviced Plots	2,581,025	90,591
Kumasi Ellis Avenue	1,400,000	1,400,000
Community 18, Tema	1,202,370	2,962,726
Work in Progress-Batsonea	697,148	0
Ghana @ 50 Project	2,733,079	0
	<u>8,613,622</u>	<u>4,453,317</u>

5 INVESTMENTS

Joint Venture Osullivan Estates	174,219	1,425,460
Joint Venture Reit Top Housing Estate Ltd.	2,477,029	2,477,029
Bonds	0	1,012,263
Treasury Bills	763,578	0
	<u>3,414,828</u>	<u>4,914,752</u>

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

	2006 €'000	2005 €'000
6 ACCOUNTS RECEIVABLE		
HFC-Current Account	644,611	944,611
UT- Current Account	0	90,765
HFC-ISL Current Account	428,257	0
Property Debtors	1,010,583	1,652,444
Interest Receivable	134,401	40,072
	<u>2,217,852</u>	<u>2,727,892</u>
7 CASH AT BANK AND ON CALL		
Cash at Bank	<u>2,820,574</u>	<u>1,464,934</u>
8 COMMERCIAL PAPER		
HFC-Unit Trust	2,000,000	0
HFC-Investment Services Limited	1,000,000	0
	<u>3,000,000</u>	<u>0</u>
9 ACCOUNTS PAYABLE		
Management Fees	22,122	852,937
HFC-ISL Forex Account	0	112,877
UT- Current Account	11,000	0
Other Creditors	60,696	0
Accruals	1,033,118	834,257
	<u>1,126,936</u>	<u>1,800,071</u>
10 DEPOSITORS		
Amounts paid by customers in respect of subsequent purchase of houses.	<u>1,008,732</u>	<u>550,608</u>

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2006

11 CAPITAL ACCOUNT	2006		2005	
	Units	€'000	Units	€'000
Balance at 1st January	2,873,538	6,845,842	2,877,983	6,909,646
Value of Units sold & Converted	6,400	12,137	34,000	124,511
	<u>2,879,938</u>	<u>6,857,979</u>	<u>2,911,983</u>	<u>7,034,157</u>
Value of Units Disinvested	(24,400)	(142,134)	(38,400)	(188,315)
	<u>2,855,538</u>	<u>6,715,845</u>	<u>2,873,583</u>	<u>6,845,842</u>
Balance at 31 December	<u>2,855,538</u>	<u>6,715,845</u>	<u>2,873,583</u>	<u>6,845,842</u>

12 DEFERRED INCOME

This represents accrued interest on Medium term loans granted to the Joint Venture Projects.

	2006	2005
	€'000	€'000
Balance - 31 December	<u>2,168,958</u>	<u>2,188,958</u>

13 CAPITAL SURPLUS

This represents Surplus on Revaluation of properties at 31 December 2003. The Valuation of the properties was carried out by Ben Dwmich & Co. (Chartered Surveyors), at open market value.

SCHEDULE TO INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

	<u>2006</u> £'000	<u>2005</u> £'000
INCOME		
Profit on Sale of Houses	1,046,190	88,615
Call Interest	46,623	2,055
Bank Interest	61,857	11,939
Investment Income	213,445	102,513
Rent Income	24,950	16,166
Exchange Gain	0	11,284
Others	17,973	0
	<u>1,411,038</u>	<u>232,572</u>
EXPENSES		
Management Fees	245,097	265,304
Audit Fees	45,000	36,000
Other expenses:		
Bank Charges	5,646	11,085
General Expenses	160,055	31,757
Bad Debt	0	441,581
Advertising & Marketing Expenses	0	9,920
Exchange Loss	74,253	0
	<u>530,051</u>	<u>795,647</u>
NET SURPLUS / (DEFICIT) FOR THE YEAR	<u><u>880,987</u></u>	<u><u>(563,075)</u></u>

Annual General Meeting to be held at the National Theatre,
Accra at 11:00 am on 20th June 2007.

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 insert 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 13th June, 2007

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.

HFC REIT

Notes

2006 Annual Report & Financial Statements

Proxy Form

2006 Annual Report & Financial Statements

Annual General Meeting to be held at the National Theatre, Accra at 9:00 am on Wednesday, 20th June 2007.

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 20th June 2007 and at any adjournment thereof

Dated this..... day of2007

.....
Unit Holder(s) Signature

Resolution	For	Against
To adopt the 2006 Manager's Report		
To approve the accounts and distribution statement for the financial year ended 31st December, 2006.		
To authorize the Manager to Fix the Auditor's Remuneration		
To pass the following special resolution "That the Manager be and is hereby authorized to amend the nature of the Scheme as contained under Part III of the Scheme Particulars from an open-ended Unit Trust collective investment scheme to a close-ended Unit Trust Collective Investment Scheme. And that the Trustees of the Scheme have been informed of the proposed change in the nature of the Scheme and have no reservations about the change from a open-ended scheme to a close-ended scheme."		

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 attend the meeting)

HFC REIT

2006 Annual Report & Financial Statements

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*



HFC REIT

2006 Annual Report & Financial Statements



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HFC INVESTMENT SERVICES LIMITED
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