Fan Milk Limited

annual report & accounts

2005

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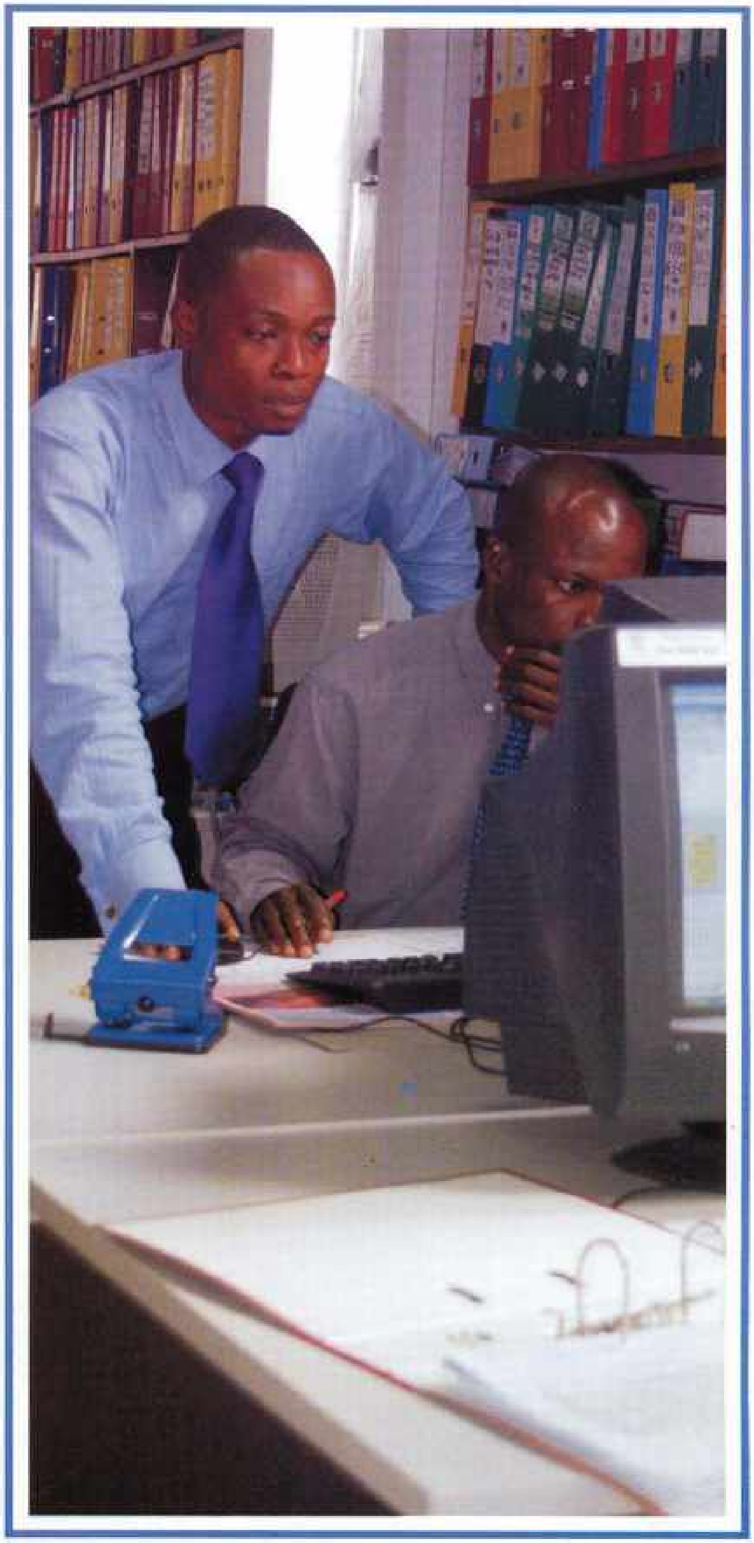

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Financial Highlights

(Amounts in million cedis except per share)

	2005	2004	2003	2002
Profit After Taxation	35,223	27,495	19,270	11,697
Earnings Per Share	1,780	1,390	974	591
Total Shares Issued	19,784,548	19,784,548	19,784,548	19,784,548
Dividend Per Share	¢400.00	¢300.00	¢200.00	¢150.00
Year End:				
Total Assets	157,983	119,028	72,628	53,236
Shareholders' Fund	86,244	58,935	37,375	22,062
Permanent Staff	380	374	331	340
Stock Price Range:				
High	20,000	20,000	3,800	1,785
Low	15,000	3,800	1,785	901

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Financial Highlights

(Continued)

Distribution of Gross Sales

(Amounts in million cedis)

	2005	%	2004	%
Gross Sales	359,389	100.0	289,900	100.0
Net Sales	312,464	86.9	255,369	88.1
Cost of Sales	169,677	47.2	142,413	49.1
Selling, General and Admin. Expenses	95,846	26.7	75,941	26.2
VAT	46,925	13.1	34,532	11.9
National Reconstruction Levy	729	0.2	967	0.3
Income Tax	12,650	3.5	10,220	3.58
Transfer to Income				
Surplus Account	35,223	9.8	27,495	9.5
Other Income	(1,661)	(0.5)	1,669)	(0.6)

Presentation of waste truck.

Corporate Information

Board of Directors
Charles Mensa (Dr.) (Chairman)
Jesper Bjørn Jeppesen (Managing Director)
Kodjo Biamawu Aziagbe
Einar Mark Christensen
Jens Jorgen Kollerup
George Herbert Okai Thompson
Peace Ayisi-Okyere

Secretary
Lennap & Co.
Post Office Box 37, Accra

Auditors
PricewaterhouseCoopers
Chartered Accountants
Gulf House, 4th Floor
Tetteh Quarshie Interchange
Legon Road
PMB CT42
Cantonments, Accra

Solicitors
Quist, Brown, Wontumi & Associates
Post Office Box 7566, Accra

Registered Office
No. 1 Dadeban Road
North Industrial Area
Post Office Box 8460, Accra-North

Registrar & Transfer Office
National Trust Holding Company Ltd.
Martco House
Post Office Box 9563
Airport, Accra

Bankers
Agricultural Development Bank Limited
Barclays Bank of Ghana Limited
Ecobank Ghana Limited
Prudential Bank Limited
SG - SSB Bank Limited

Board Members

Shareholding Distribution

The Company had 4,098 shareholders as at December 31, 2005 with equal voting rights distributed as follows:

Category of Holdings	No. of Shareholders	No. Of Shares	% of Holding
1 to 1,000	2,970	69,022	0.35
1,001 to 5,000	983	2,376,787	12.01
5,001 to 10,000	94	733,550	3.71
Over 10,000	51	16,605,189	83.93
Totals	**4,098**	**19,784,548**	**100.00**

Details of the twenty (20) largest Shareholders as at December 31, 2005

Name of shareholder	No. of Shares	Percentage (%)
1. Fan Milk International A/S, DK	7,365,955	37.23
2. Industrialization Fund For Developing Countries, DK	4,604,420	23.30
3. Enterprise Insurance Company Limited	1,755,872	8.87
4. BBGN RE Epack Investment Fund	661,321	3.34
5. BBGN / Unilever Ghana Managers Pension Fund	261,860	1.32
6. Social Security & National Insurance Trust	247,800	1.25
7. BBG/ Unilever Ghana Provident Fund	136,716	0.69
8 BBGN/GBL Managers Pension Fund	53,300	0.27
9. Estate of Major Brown	50,372	0.25
10.Asare, James Kwadwo	50,000	0.25
11.DBL Trading A/C	46,964	0.24
12.DBL Investment Ltd.	43,220	0.22
13.G. P. H. A. End of Service Benefits	39,250	0.20
14.Nduom Kwesi P. Dr.	36,738	0.19
15.Fan Milk Limited Staff Provident Fund	32,820	0.17
16.State Insurance Company of Ghana Ltd.	30,000	0.15
17.Taylor, Theophilus Bonney	26,527	0.13
18.Ababio, Alex Ransford Dr.	25,200	0.13
19.Nii Kwabla Ayete	24,494	0.12
20.Ecobank Staff Savings Scheme	24,300	0.12
Total	**15,517,129**	**78.44**
Directors' Shareholding		
1. Kodjo Biamawu Aziagbe	6,000	
2. Peace Ayisi-Okyere	18	
Total	**6,018**	

Notice of Meeting

Notice is hereby given that the forty-fifth Annual General Meeting of Fan Milk Limited will be held at the Accra International Conference Centre, Accra on Wednesday, May 10, 2006 at 11:00 am in order to transact the following business:

AGENDA

1. To receive the report of the Directors, the Balance Sheet and Accounts as at December 31, 2005 and the report of the Auditors thereon.
2. To declare a dividend on the Company's Shares in respect of the year ended December 31, 2005.
3. To re-elect as a Director, Dr. Charles Mensa who retires by rotation.
4. To re-elect as a Director, Jens Jorgen Kollerup who retires by rotation.
5. To fix the remuneration of the Directors.
6. To authorise the Directors to fix the remuneration of the Auditors.
7. To pass the following special Resolution:
   That the sum of ¢54 billion being part of the amount now standing to the credit of the Income Surplus Account of the Company be capitalised by transferring the same to Stated Capital of the Company In accordance with section 66(i) (c) of the Companies Code, 1963 (Act 179).

By order of the Board

Lennap & Co., Farrar Avenue

March 2, 2006

Note:

A member entitled to attend and vote at this meeting is entitled to appoint a proxy who need not be a member of the Company to attend the meeting and vote in his stead. The completed proxy form must reach the registered office of the Company not less than 48 hours before the time fixed for holding the meeting.

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Directors' Report 2005

1. Introduction

The Directors have pleasure in presenting to members of Fan Milk Limited, the Annual Report and Audited Accounts of the Company for the year ended December 31, 2005.

2. Statement of Directors' Responsibilities

The Directors are responsible for the preparation of financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and of the profit or loss and cash flow for that period. In preparing those financial statements, the Directors have selected suitable accounting policies and then applied them consistently, made judgements and estimates that are reasonable and prudent and have followed Ghana Accounting Standards.

The Directors are responsible for ensuring that the Company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

3. Principal Activity

The principal activity of the Company is the manufacturing and distribution of dairy products and fruit drinks.

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4. The Macro Economic Environment

During the fiscal year under review, the economy suffered from inflationary pressures arising from the 50% increase in fuel prices announced in February 2005.

In January 2005, there was an initial decrease in the rate of inflation to 11.2%. However , with the announcement of an increase in the price of petroleum products in February, the rate of inflation peaked in March at 16.7%. The year ended with inflation recorded at 15.3%.

The Bank of Ghana prime rate dropped during the year. In May 2005 the prime rate was reduced from 18.5% to 16.5%. It was reduced further to 15.5% in September 2005.

In 2005, the cedi appreciated against the Euro by 11.36%, but depreciated slightly against the dollar by 0.65%.

The Nation also benefited from the debt cancellation announced by the IMF and World Bank as well as from individual donor nations.

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5. Financial Highlights

We experienced a lower than anticipated demand for our products due to reduced consumer spending. However, your Company showed a certain degree of resilience to the macro-economic effects.

Net sales for the year under review increased by approximately 22.4% from ¢255 billion in 2004 to ¢312 billion in 2005. However, cost of sales increased by 19.1%. Selling, General and Administrative Expenses increased by 26.2% from ¢75.9 billion to ¢95.8 billion.

Operating profit for the year increased by 26.8% to ¢46.9 billion from ¢37 billion in 2004 and was achieved without any price adjustments in the core product range.

The operational results are summarised below:

(All amounts are expressed in millions of cedis)	2005	2004	Cedi Change	% Change
Turnover	312,464	255, 369	57,095	22.4%
Cost of Sales	(169,677)	(142,416)	(27,261)	19.1%
Selling, General and Administrative Expenses	(95,846)	(75,940)	(19,905)	26.2%
Operating Profit	46,941	37,013	9,925	26.8%
Other Income	1,661	1,669	(8)	(0.5%)
Profit before Taxation & Nat. Rec. Levy	48,602	38,682	9,918	25.6%
Profit After Taxation	35,223	27,495	7,728	28.1%

6. Dividend

The Board is pleased to recommend a 33% increase in dividends amounting to four hundred Cedis (¢400) per share for the financial year 2005. The total amount payable as dividend will be seven billion, eight hundred and ninety-nine million, four hundred and nineteen thousand and two hundred cedis, ¢7,899,419,200; (2004:¢5,935,364,400).

7. Performance On The Stock Market

The year 2005 turned out to be a bearish market on the Ghana Stock Exchange (GSE). As a result, most shares were hit by the downward trend and Fan Milk Limited shares were no exception. The price of Fan Milk Limited shares fell by 21%, from a high of ¢20,000 per share at the beginning of 2005 to close at ¢15,800 by the end of December 2005. The GSE-index itself fell 30% in value.

8. Directors

In accordance with Section 298 of the Companies Code, 1963 (ACT 179) and the Company's Regulation 61 (2 a&b), Dr. Charles Mensa and Mr. Jens Jorgen Kollerup retire from the Board by rotation, and being eligible, they offer themselves for re-election.

9. Directors' Fees

In accordance with the section 67 (3) of the Company's Regulations, fees payable to the Directors shall not be increased except in pursuant to a resolution passed at a general meeting where notice of the proposed increase has been given in the notice convening the meeting.

In line with this, the Directors wish to recommend the following monthly fees for 2006:

The Chairman	- ¢16,500,000.00
Other Directors	- ¢12,750,000.00

10. Auditors

The Auditors of the Company, PricewaterhouseCoopers, Chartered Accountants, will continue in office in accordance with section 134 (5) of the Companies Code, 1963 (Act 179). Members are requested, as is customary, to authorise the Board to fix the remuneration for the Auditors for the year 2006.

11. Environmental Issues

It is the objective of Fan Milk Limited, as much as possible, to use materials and processes that conserve resources and prevent the pollution of air, water and land.

This is demonstrated by the preparation of a three-year Environmental Management Plan (EMP). In this plan, the Company outlines its commitment to environmental matters, and more importantly, actions that it intends to take on those matters. In July 2005, the current EMP of Fan Milk Limited was submitted to the Environmental Protection Agency (EPA). In turn, Fan Milk Limited received a three-year environmental operation permit, which is valid from November 2004 to October 2007.

Fan Milk Limited recognises the indispensability of water as a world resource and its importance in its operations as a food and beverage producing entity. In order to maintain high quality production, the Company has consequently installed various devices for the conservation of water as well as a treatment facility to purify water.

The new waste water treatment plant project mentioned in the Annual Report for 2004 is yet to take off as Management is reviewing design proposals. The plant will treat waste water from the production process in accordance with Environmental Protection Agency (EPA) standards and the plant is expected to be operational towards the end of 2006.

Solid waste generated by the Company consists of rejected and used packing materials. These are stored in special waste containers which are later collected by waste contractors approved by the Accra Metropolitan Authority. In 2005, Fan Milk Limited purchased specialised solid waste containers for use at our depots.

Fan Milk Limited also pays a recycling company, City Waste Management Company Limited, to collect damaged products from our depots. The packaging materials are shredded and cleansed for recycling by the that company. During 2005, Fan Milk Limited assisted City Waste Management Company Limited to acquire two vehicles one of which is fitted with a compactor to facilitate its waste collection efforts from the various locations of Fan Milk Limited. This gesture is a further manifestation of our social commitment to eliminate plastic and other waste in the Country.

Among your Company's efforts towards social responsibility is the support to the Ghana National Scholarship Beneficiaries Association (GNASBA). Over the years Fan Milk Limited has supported GNASBA financially and in kind in its environmental sanitation education campaigns. These efforts have in particular been addressed towards the youth and have created awareness among school children countrywide on the importance of maintaining high standards of sanitation and protection of our environment.

12. Capital Expenditure

During the financial year under review, Fan Milk Limited invested in a fleet of specialized vehicles to ensure the proper distribution of its refrigerated range of products.

A new outlet called Fan Plaza located at Accra Airport Residential Area was opened in November 2005. Fan Plaza is considered a pilot project which features specialized freezing and chilling equipment to ensure absolute freshness of your Company's products at the point of sale and availability of the entire product range. It is also anticipated that by locating ourselves closer to our customers we shall be able to acquire important feedback related to their changing trends and demands. Opportunities for more Fan Plazas are being explored in other residential areas in the country.

Fan Milk Limited also seized upon the opportunity to acquire a large piece of property, which fits into the Company's expansion plans for the future. It is the intention of the Board and Management to develop and gradually move the Company's core production facilities to that site. The land measures 10.4 acres in size and is located on Harbour Road in the Tema Heavy Industrial Area.

Overall, the Company invested approximately ¢46.4billion in 2005 (2004: ¢58.5 billion) towards the renewal and procurement of the new assets. For 2006, the Company estimates to use ¢56 billion on capital expenditure.

13. Capitalisation by Transfer from Income Surplus to Stated Capital

In order to strengthen the base of your Company and to support the expected growth in production as well as the future expansion plans, the Directors recommend that fifty-four billion cedis (¢54,000,000,000) be transferred from income surplus to Stated Capital to raise the Stated Capital of the Company from six billion cedis (¢6,000,000,000) to sixty billion cedis (¢60,000,000,000). Members will be requested to pass a special resolution to give effect to this recommendation.

This transaction can conveniently be conducted under the recent Tax Amnesty granted by the Government. By advantage of the Tax Amnesty now, the Company will not be liable for the payment of taxes, duties and fees in respect of this transfer. Your Company therefore stands to save 10.5% of the amount capitalized, that is five billion, six hundred seventy million cedis (¢5,670,000,000).

The Tax Amnesty expires on June 30, 2006

14. Outlook for 2006 and Beyond

The macro-economic condition of the Country are expected to continue improving in 2006 and beyond. However, the volatility in the price of crude oil on world markets remains of great concern and could impact negatively on the Country's economy.

Presently we forsee the future prospects of your Company to remain good.

15. Acknowledgement

The Board of Directos wish to express their appreciation to our shareholders, customers, distributors, agents, vendors and employees for their support and invaluable contributions, which ensured the stisfactory performance of your Company during the past year.

On behalf of the Board

Dr. Charles Mensa
Chairman

Jesper Bjorn Jeppesen
Managing Director

Corporate Governance

Introduction

Fan Milk is committed to the principles and implementation of good corporate governance. The company recognises the valuable contribution that it makes to long-term business prosperity and to ensuring accountability to its shareholders. The company is managed in a way that maximises long-term share-holder value and takes into account the interests of all of its stakeholders.

Fan Milk believes that full disclosure and transparency in its operations are in the interests of good governance. As indicated in the statement of responsibilities of directors and notes to the accounts, the business adopts standard accounting practices and ensures sound internal control to facilitate the reliability of the financial statements.

The Board of Directors

The Board is responsible for setting the company's strategic direction, for leading and controlling the company and for monitoring activities of the executive management. The Board presents a balanced and understandable assessment of the Company's progress and prospects.

The Board consists of the Chairman, five non-executive directors and an executive director. The non-executive directors are independent of management and free from any constraints, which could materially interfere with the exercise of their independent judgement. They have experience and knowledge of the industry, markets, financial and/or other business information to make a valuable contribution to the company's progress. The Managing Director is a separate individual from the Chairman and he implements the management strategies and policies adopted by the Board. They meet at least four times a year.

Sponsored Masqueraders Festival.

The Audit Committee

The Audit Committee is made up of the three directors, of whom two are non-executive directors, and they meet twice a year. The main Board determines its terms of reference and they report back to the Board.

Its duties include keeping under review the scope and results of the external audit, as well as the independence and objectivity of the auditors. The Audit Committee also keeps under review internal financial controls, compliance with laws and regulations and the safeguarding of assets. It also reviews the adequacy of the plan of the internal audit and reviews its audit reports.

Systems of Internal Control

Fan Milk Limited has well-established internal control systems for identifying, managing and monitoring risks. These are designed to provide reasonable assurance that the risks facing the business are being controlled.

The corporate internal audit function of the company plays a key role in providing an objective view and continuing assessment of the effectiveness of the internal control systems in the business. The systems of internal controls are implemented and monitored by appropriately trained personnel and their duties and reporting lines are clearly defined.

Code of Business Ethics

Management has communicated the principles in the Company's Code of Conduct to its employees in the discharge of their duties. This code sets the professionalism and integrity required for business operations which covers compliance with the law, conflicts of interest, environmental issues, reliability of financial reporting, bribery and strict adherence to the principles so as to eliminate the potential for illegal practices.

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Auditors' Report

Report of the Auditors to the Members of Fan Milk Limited.

We have audited the financial statements set out on pages 17 - 30.

Respective Responsibilities of Directors and Auditors

As stated on page 9, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an independent opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

Opinion

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Company at December 31, 2005 and of its profit and cash flows for the year then ended in accordance with Ghana Accounting Standards and comply with the Ghana Companies Code, 1963 (Act 179).

PricewaterhouseCoopers

Chartered Accountants

Accra.

March 2, 2006

PRICEWATERHOUSECOOPERS

Profit and Loss Account

for the year ended December 31, 2005

(All amounts are expressed in millions of cedis)	Note	2005	2004
Turnover	1	312,464	255,369
Cost of Sales	2	(169,677)	(142,416)
Gross Profit		142,787	112,953
Selling, General and Administrative Expenses	3	(95,846)	(75,940)
Operating Profit		46,941	37,013
Other income	4	1,661	1,669
Net Profit before National Reconstruction Levy and Tax		48,602	38,682
National Reconstruction Levy	5	(729)	(967)
Net Profit before Tax		47,873	37,715
Tax	6	(12,650)	(10,220)
Net Profit after tax transferred to Income Surplus Account		**35,223**	**27,495**

The New 10.4 acres Land acquired at Tema Heavy Industrial Area.

Income Surplus Account

for the year ended December 31, 2005

(All amounts are expressed in millions of cedis)	Note	2005	2004
Balance at January 1		52,935	31,375
Net Profit for the year		35,223	27,495
		88,158	58,870
Proposed Dividend for the Year	7	(7,914)	(5,935)
Balance at December 31		**80,244**	**52,935**

The accounting policies and notes on pages 22 to 30 form an integral part of these financial statements.

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Balance Sheet

as at December 31, 2005

(All amounts are expressed in millions of cedis)	Note	2005	2004
Non-Current Assets			
Property, Plant and Equipment	8	**96,016**	**71,749**
Current Assets			
Inventories	9	49,030	40,520
Trade and Other Receivables	10	4,152	2,870
Tax	6	574	0
Bank and Cash Balances		8,211	3,889
		61,967	**47,279**
Current Liabilities			
Trade and Other Payables	11	46,632	44,632
Bank Overdraft	12	2,170	8,866
Loan	13	9,141	0
Tax	6	0	173
Dividend	7	8,791	6,422
		66,734	**60,093**
Net Current Liabilities		(4,767)	(12,841)
Long Term Liabilities			
Obligation Under Finance Lease	14	(5,005)	0
Net Assets		**86,244**	**58,935**
Represented by:			
Stated Capital	15	6,000	6,000
Income Surplus Account		80,244	52,935
Shareholders' Fund		**86,244**	**58,935**

The financial statements on pages 17 to 30 were approved by the Board of Directors on March 2, 2006 and signed on its behalf by:

Director

Director

The accounting policies and notes on pages 22 to 30 form an integral part of these financial statements.

Statement of Changes In Equity

(All amounts are expressed in millions of cedis)	Note	Stated Capital	Income surplus account	Total
Year ended December 31, 2005				
Balance at January 1, 2005		6,000	52,935	**58,935**
Net profit		0	35,223	**35,223**
Proposed dividend	7	0	(7,914)	**(7,914)**
Balance at December 2005		6,000	80,224	**86,244**
Year ended December 31, 2004				
Balance at January 1, 2004		6,000	31,375	**37,375**
Net Profit		0	27,495	**27,495**
Proposed dividend		0	(5,935)	**(5,935)**
Balance at December 31, 2004	7	6,000	52,935	**58,935**

The accounting policies and notes on pages 22 to 30 form an integral part of these financial statements.

Shareholders being served at the 2005 AGM.

Cash Flow Statement

as at December 31, 2005

(All amounts are expressed in millions of cedis)	Note	2005	2004
Cash Flow from Operating Activities			
Cash generated from operations	16	60,685	59,994
Interest paid	3	(1,736)	(778)
Interest received	4	14	620
Tax paid	6	(13,397)	(12,606)
Net cash generated from operating activities		45,566	47,230
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	8	(46,454)	(58,502)
Proceeds from sale of plant and equipment	8	1,107	94
Net cash used in investing activities		(45,347)	(58,408)
Cash Flows from Financing Activities			
Dividend Paid	7	(5,545)	(3,799)
Drawn down on Loan	13	9,130	0
Finance Lease Drawn down	14	7,764	0
Finance Lease Repaid	14	(550)	0
Net cash generated from (used in) financing activities		10,799	(3,799)
Increase/ (decrease) in Cash and Cash Equivalents		11,018	(14,977)
Cash and cash equivalents at the beginning of the year	17	(4,977)	10,000
Cash and cash equivalents at the end of the year	17	**6,041**	**(4,977)**

The accounting policies and notes on pages 22 to 30 form an integral part of these financial statements.

Opening of FAN PLAZA at Airport Residential Area.

Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a. **Basis of Accounting**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment and in accordance with Ghana Accounting Standards.

b. **Property, Plant and Equipment**

Buildings, plant and machinery are stated at cost or valuation less depreciation. All other equipments are stated at historical cost less depreciation. Depreciation is calculated on a straight line method to write off the cost of each asset or revalued amounts over their estimated useful lives as follows:

Buildings	5% - 10%
Plant and Machinery	10%
Deep Freezers and Bicycles	33.3%
Motor Vehicles	33.3%
Computer Systems	33.3%
Furniture and Fittings	20%

c. **Inventories**

i. Raw materials and other stocks are stated at the lower of cost and net realisable value and in General include all expenses incurred in bringing the stocks to their present location.

ii. Finished products and Work-in-progress are valued at average cost of raw material consumed.

iii. Spare parts are written off in the year of purchase.

d. **Trade Receivables**

Trade receivables are stated after provisions have been made for specific debts considered to be doubtful.

e. **Revenue**

Sales was recognised upon dispatch of products to the depots up to July 31, 2004. Thereafter Sales was recognised at the depots when the risk and rewards to the products had been substantially transferred to the customer. Sales are shown net of returns and value added tax.

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f. Foreign Currencies

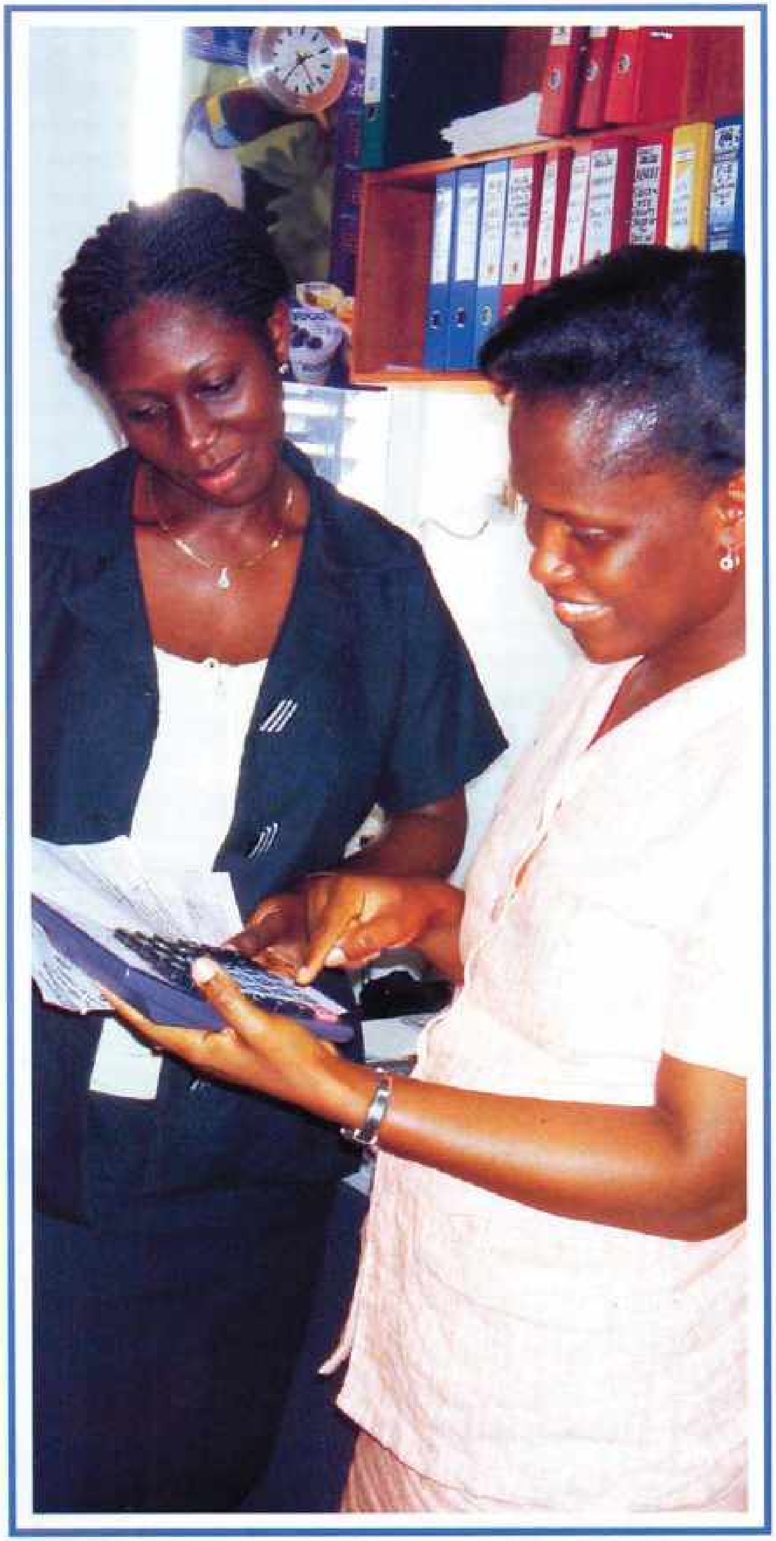
Transactions in foreign currencies during the year are converted into cedis at the prevailing rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into cedis at the rates of exchange ruling at the balance sheet date. The resulting gains and losses are dealt within the profit and loss account.

g. Post Balance Sheet Events

Events subsequent to the balance sheet date are reflected only to the extent that they relate directly to the financial statements and the effect is material.

H. Deferred Income Tax

Deferred Income Tax is provided, using the partial liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.



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i. Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments and bank overdrafts.

j. Finance Lease

Lease of property, plant and equipment where the company has substantially all the risks and rewards incident to ownership are classified as finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property or present value of the minimum lease payments. Lease payments are allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.
The corresponding rental obligations, net of finance charges, are included in either accounts payable (where the obligations are due within one year) or in other non-current liabilities (where the obligations are due after more than one year). The interest element of the finance charge is charged to the profit and loss account over the lease period. Property, plant and equipment aquired under finance lease are depreciated over the shorter of the useful life of such assets or the lease period.

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(All amounts in the notes are shown in millions of cedis unless otherwise stated)

	2005	2004
1. Turnover		
Gross sales	359,389	289,900
Value Added Tax	(46,925)	(34,531)
	312,464	**255,369**
2. Cost of Sales		
Cost of sales includes:		
Depreciation of factory buildings and plant and machinery	7,700	6,776
3. Selling, General and Administrative Expenses		
Selling, general and administrative expenses include:		
Depreciation	13,844	10,846
Directors' remuneration	878	750
Auditors' remuneration	135	108
Donations	74	212
Interest on overdraft and loan	1,393	778
Finance lease charges	343	0
4. Other Income		
Profit on disposal of plant and equipment (Note 8)	464	79
Interest on current accounts	14	620
Sale of empty bags and scraps	193	445
Exchange gain	560	50
Technical service income	0	33
Rent income	423	435
Bad debts recovered	7	7
	1,661	**1,669**

5. National Reconstruction Levy

The National Reconstruction Levy is assessed at 1.5% of accounting profit before tax. The levy is not tax deductible.

6. Tax

(i) **Income tax**	**Balance 1/1/05**	**Charge for the year/adjustment**	**Payments**	**Balance 31/12/05**
2004	173	9	(182)	0
2005	0	12,641	(13,215)	(574)
Total	**173**	**12,650**	**(13,397)**	**(574)**

The amount provided for income tax is calculated at the rate of 28% of adjusted profit.

(ii) **Deferred Income Tax**

As at December 31, 2005, the company had a potential deferred income tax liability of **¢5,436 million** (2004: ¢3,139 million) which has not been provided because it is not expected to crystallise within the foreseeable future based on the company's capital expenditure projections.

(All amounts in the notes are shown in millions of cedis unless otherwise stated)

7. **Dividends payable**

	2005	2004
Balance at 1 January	6,422	4,286
Dividend Paid	(5,545)	(3,799)
	877	487
Dividend Proposed	7,914	5,935
Balance at 31 December	**8,791**	**6,422**

Payment of dividend is subject to the deduction of withholding taxes at the appropriate rate.

8. **Property, Plant and Equipment**

	Buildings and Roads	Leasehold Land	Motor Vehicles	Plant Machinery	Total
a. **Cost / valuation**					
Balance at Jan. 1, 2005	19,475	381	23,568	86,597	130,021
Additions	2,131	14,034	9,826	20,463	46,454
Disposal	0	0	(1,731)	(937)	(2,668)
At December 31, 2005	**21,606**	**14,415**	**31,663**	**106,123**	**173,807**
b. **Accumulated Depreciation**					
Balance at Jan. 1, 2005	6,301	9	16,158	35,804	58,272
Charge for the year	1,394	508	5,963	13,679	21,544
Disposal	0	0	(1,222)	(803)	(2,025)
At December 31, 2005	**7,695**	517	**20,899**	**48,680**	**77,791**
Net book Value At December 31, 2005	**13,911**	**13,898**	**10,764**	**57,443**	**96,016**
Net book Value At December 31, 2004	**13,174**	**372**	**7,410**	**50,793**	**71,749**

Included in the net book value of buildings and roads and leasehold land are buildings with a net book value of **¢2,240 million** (2004: ¢9,637 million) and a land with net book value of **¢13,581 million** (2004: nil) respectively, which the company is in the process of obtaining the title deeds.

c. Building and plant and machinery were professionally revalued in 1983 by Mr. G. M. Mensah, an independent valuer at open market value on existing use basis. Buildings were again revalued in 1988 by Mr. G. M. Mensah, an independent valuer at open market value on existing use basis.

d. Included in motor vehicles, plant and machinery are assets with a cost of **¢8,424 million** (2004: nil) leased under a finance lease.

	2005	2004
Cost - capitalised finance lease	8,424	0
Accumulated depreciation	(702)	0
Net book value	7,722	0

8. **Property, Plant and Equipment** (continued)

e. If the company's property, plant and equipment were stated on the historical cost basis, the amount would be as follows:

	Buildings and Roads	Leasehold Land	Motor Vehicles	Plant Machinery	Total
As at December 31, 2005					
Cost	21,313	14,415	31,663	106,116	173,807
Depreciation	7,402	517	20,899	48,673	77,791
Net book value Dec. 31, 2005	13,911	13,898	10,764	57,443	**96,016**
As at December 31, 2004					
Cost	19,182	381	23,568	86,590	129,721
Depreciation	6,008	9	16,158	35,797	57,972
Net book value Dec. 31, 2004	13,174	372	7,410	50,793	**71,749**

f. **Profit on disposal of property, plant and equipment**

	2005	2004
Cost of asset	2,668	399
Accumulated depreciation	(2,025)	(384)
Net book value	643	15
Sale proceeds	(1,107)	(94)
Profit on disposal of plant and equipment	**(464)**	**(79)**

9. **Inventories**

	2005	2004
Raw materials	14,008	13,247
Finished goods	4,729	3,949
Work in progress	318	42
Goods in transit	29,565	22,941
Other stocks	410	341
	49,030	**40,520**

Dynamic Workforce.

(All amounts in the notes are shown in millions of cedis unless otherwise stated)

	2005	2004
10. Trade and other receivables		
Trade receivables	2,915	1,972
Other receivables	304	78
Amount due from staff	576	433
Prepayments	329	317
National reconstruction levy	28	70
	4,152	**2,870**

The maximum amount of staff indebtedness during the year did Not exceed **¢625 million** (2004: ¢433 million).

	2005	2004
11. Trade and other payables		
Trade payables	27,248	34,550
Other payables	16,065	9,050
Finance lease accrual (Note 14)	2,209	0
Accruals	1,110	1,032
	46,632	**44,632**

12. Bank overdrafts

At the balance sheet date the company had an approved unsecured overdraft facility with local banks not exceeding the cedi equivalent of **¢21 billion** (2004: ¢16 billion).

13. Loan

	Balance 1/1/05	Drawdown	Repayment	Exchange rate adjust.	Balance at 31/12/05
Ecobank Ghana Limited short term loan	0	9,130	0	11	9,141

The Ecobank Ghana Limited short-term loan facility of US$ 1.5 million is to finance the purchase of a 10.4 acre plot of Land at Tema heavy industrial area. The facility is secured on a negative pledge. The loan is not subject to any repayment schedule and will expire 365 days from the date of first drawndown. Interest is payable monthly in arrears at a rate of 3 months LIBOR plus a spread of 2% per annum.

Dynamic Workforce.

14. Finance lease obligation

The company entered into a finance lease agreements during the year for the lease of certain motor vehicles and bicycles. The capital cost of these assets amounted to Euro 685,813.90. The company has an option to to purchase the items after the primary lease period for a consideration of 1% of the capital on the assets. The Lease obligation is as follows:

	2005	2004
Payable within 1 year (note 11)	2,209	0
Payable within 2 years	5,005	0
	7,214	**0**

15. Stated capital

	No. Of shares 2005	Proceeds 2005	No. Of shares 2004	Proceeds 2004
Authorised				
Ordinary shares of no par value	**40,000,000**		**40,000,000**	
Issued				
For Cash	19,784,548	194	19,784,548	194
Capitalisation of surplus	0	5,806	0	5,806
	19,784,548	**6,000**	**19,784,548**	**6,000**

There is no unpaid liability on shares. There are no treasury shares. There are no calls or instalments upaid.

16. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2005	2004
Operating profit	47,873	37,715
Depreciation	21,544	17,622
Interest expense	1,736	778
Interest received	(14)	(620)
Profit on disposal of plant and equipment	(464)	(79)
Increase in inventories	(8,510)	(15,772)
(Increase)/decrease in trade and other receivables	(1,282)	3,320
(Decrease)/increase in trade and other payables	(209)	17,030
Exchange loss on loan	11	0
Cash generated from operation	**60,685**	**59,994**

17. Cash and cash equivalents

For the purchase of the cash flow statements, the year end cash and cash equivalents comprise the following:

	2005	2004
Bank and cash balances	8,211	3,889
Bank overdraft	(2,170)	(8,866)
	6,041	(4,977)

18. Related party transactions

Fan Milk International A/S owns 37.23% shares in Fan Milk Limited. Emidan A/S and Fan Milk Togo are subsidiaries of Fan Milk International A/S and are therefore entities related through common control. In the normal course of business, the company entered into the following transactions with related companies:

	2005	2004
i. Purchase of goods		
Emidan A/S	174,227	139,075
ii. Sale of goods		
Fan Milk Togo	172	123
iii. Year end balances arising from purchase / sale of goods		
Payable to related party		
Emidan A/S	24,337	29,381
Receivable to related party		
Fan Milk Togo	57	44

19. Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised In the financial statements is as follows:

	2005	2004
Fixed assets approved but not contracted	46,282	49,572
Fixed assets contracted	9,178	5,910
	55,460	55,482

20. Contingent liabilities

There were no contingent liabilities at the balance sheet date (2004:¢nil)

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