

**National Trust Holding Company Ltd.**

Registrar's Department

Martco House - Accra

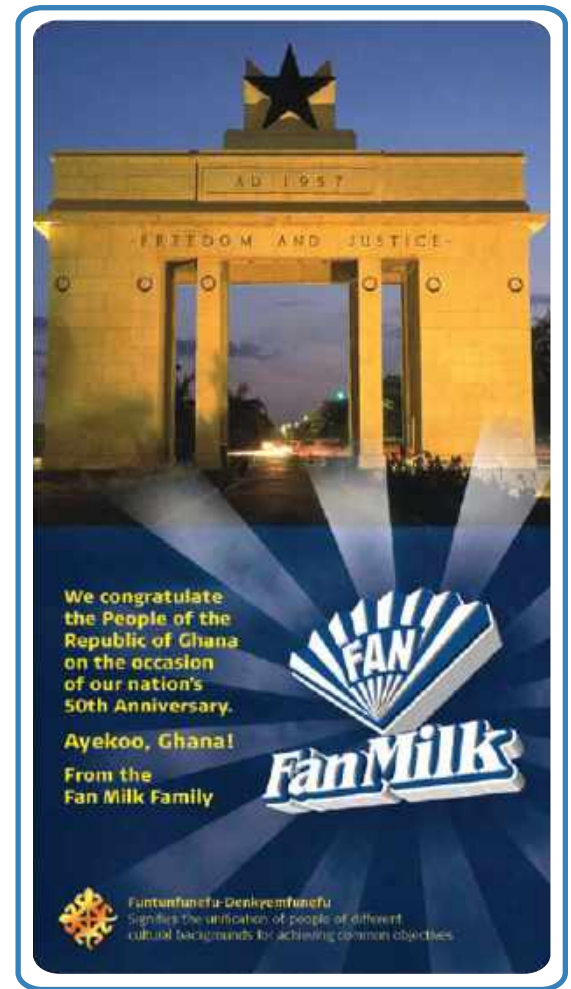
P. O. Box 9563

Airport - Accra



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# Financial Highlights



(Amounts in million cedis except per share)

	2006	2005	2004	2003
Profit After Taxation	32,747	35,223	27,495	19,270
Earnings Per Share	1,655	1,780	1,390	974
Total Shares Issued	19,784,548	19,784,548	19,784,548	19,784,548
Dividend Per Share	¢460.00	¢400.00	¢300.00	¢200.00
<b>Year End:</b>				
Total Assets	182,970	157,983	119,028	72,628
Shareholders' Fund	109,890	86,244	58,935	37,375
Permanent Staff	374	380	374	331
<b>Stock Price Range:</b>				
High	18,002	20,000	20,000	3,800
Low	15,800	15,000	3,800	1,785



At the best vendor award ceremony.



# Proxy Form

If you wish to vote at the Annual General Meeting of Fan Milk Limited but are unable to attend in person, you may appoint a proxy to act on your behalf by completing this form.

I / We hereby appoint the Chairman of the meeting

*If you wish to appoint someone other than the Chairman as your proxy, delete the words "the Chairman of the meeting" and insert the full name of your proxy.*

as my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of Fan Milk Limited to be held at the National Theatre, Accra on Wednesday, May 9, 2007 at 11:00 am and at any adjournment thereof.

Resolution		FOR	AGAINST
Resolution 1.	To receive the Report of the Directors, the Balance Sheet and Accounts as at December 31, 2006 and the report of the Auditors thereon .....	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2.	To declare a dividend on the Company's share in respect of the year ended December 31, 2006 .....	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3.	To re-elect as a Director, Mrs. Peace P. Ayisi - Okyere who retires by rotation.....	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4.	To re-elect as a Director, Mr. George H. O. Thompson who retires by rotation.....	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5.	To fix the remuneration of the Directors .....	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6.	To authorise the Directors to fix the remuneration of the Auditors .....	<input type="checkbox"/>	<input type="checkbox"/>

Shareholder's name:

Shareholder's signature:

Date

2007

Notes:

- To be valid, this proxy must be signed and posted to or deposited at the address overleaf not less than 48 hours before the time appointed for holding the meeting. Failure to do so will result in the proxy not being admitted to the meeting.
- In the case of a corporation, the form must be under seal or under the hand of a duly authorised officer.
- Completion and return of this proxy form does not prevent a shareholder from attending the meeting and voting in person, in which case any votes cast by the proxy will be excluded.

## Shareholder Admission Card

Fan Milk Limited, Annual General Meeting, May 9, 2007

### Important:

- The Admission Form must be produced by the member or his proxy to obtain admission to the Annual General Meeting.
- Shareholders or their proxies are requested to sign the Admission Form before attending the meeting.

.....  
Name of Shareholder

.....  
Signature of Shareholder

.....  
Name of Person Attending

.....  
Signature of Person Attending

## Notes to the financial statements

(Continued)



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

### 16. Cash Generated from Operations

Reconciliation of operating profit to cash generated from operation:

	2006	2005
Operating profit	44,545	47,873
Depreciation	23,834	21,544
Interest paid	3,046	1,736
Interest received	(786)	(14)
Decrease in inventories	8,208	(8,510)
(Increase) in trade in trade and other receivables	(3,990)	(1,282)
Decrease in trade and other payables	461	(209)
Exchange loss on loan	68	11
Profit on disposal of plant and equipment	(609)	(464)
	<u>74,777</u>	<u>60,685</u>

### 17. Cash and Cash Equivalents

For the purpose of the cash flow statement, the year end cash and cash equivalents comprise the following:

	2006	2005
Bank and cash balance	25,848	8,211
Bank overdraft	(219)	(2,170)
	<u>25,629</u>	<u>6,041</u>

### 18. Related Party Transactions

Fan Milk International A/S owns 37.23% shares in Fan Milk Limited, Emidan A/S and Fan Milk S. A. 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:

	2006	2005
(I) <b>Purchase of goods</b>		
Emidan A/S	107,928	174,227
(II) <b>Sale of goods</b>		
Fan Milk S. A. Togo	111	172
(III) <b>Year end balance arising from purchase of goods</b>		
Emidan A/S	22,975	24,337
(IV) <b>Year end balance arising from sale of goods</b>		
Fan Milk S. A. Togo	8	57

### 19. Capital Commitments

Capital expenditure approved for at the balance sheet date but not recognised in the financial statement is as follows:

	2006	2005
Property, plant and equipment approved but not contracted	49,216	46,282
Property, plant and equipment approved and contracted	7,506	9,178
	<u>56,722</u>	<u>55,460</u>

### 20. Contingent liabilities

There are no contingent liabilities at the balance sheet date (2005: Nil)

## Financial Highlights

(Continued)



### Distribution of Gross Sales

(Amounts in million cedis)

	2006	%	2005	%
Gross Sales	372,309	100.0	359,389	100.0
Net Sales	323,747	87.0	312,464	86.9
Cost of Sales	170,178	45.7	169,677	47.2
Selling, General and Admin. Expenses	111,493	29.9	95,846	26.7
VAT	48,562	13.0	46,925	13.1
National Reconstruction Levy	0	0.0	729	0.2
Income Tax	11,798	3.2	12,650	3.5
<b>Transfer to Income</b>				
Surplus Account	32,747	8.8	35,223	9.8
Other Income	(2,469)	(0.7)	(1,661)	(0.5)



Tema new depot.



30



5



Board Members



Dr. Charles Mensa (Chairman)



Jesper Bjørn Jeppesen (Managing Director)



Kodjo Biamawu Aziagbe



Einar Mark Christensen



George Herbert Okai Thompson



Jens Jorgen Kollerup



Peace Ayisi-Okyere

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  
 No. 12 Aviation Road  
 Una Home, 3<sup>rd</sup> floor  
 Airport City  
 PMB CT42  
 Cantonments, Accra

Solicitors

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

Registered Office

Fan Milk Limited  
 No. 1 Dadeban Road  
 North Industrial Area  
 Post Office Box 6460, 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  
 Ghana Commercial Bank Limited  
 Prudential Bank Limited  
 SG-SSB Bank Limited



(Continued)

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

14. Finance Lease Obligation

The company entered into a finance lease agreement during the year for the lease of certain motor vehicles, Push carts, bicycles and freezers. The capital cost of these assets amounted to **€753,070 and US\$525,864.91** (2005: €685,813.90). The company has an option to purchase the items after the primary lease period for Consideration of 0.25% of the capital assets. The lease obligation is as follows:

	Balance 1/1/06	Drawdown	Repayment	Exchange Rate adjustment	Balance 31/12/06
Ecobank Ghana Limited	7,214	14,398	5,039	0	16,573

Payable within one year (Note 11)  
 Payable within 2 to 5 years

2006	2005
7,474	2,209
9,099	5,005
<b>16,573</b>	<b>7,214</b>

15. Stated Capital

**Authorised**  
 Ordinary shares of no par value

**Issued**  
 For Cash  
 Capitalisation of surplus  
 Transfer from income surplus account in accordance with section 66 (1c) of the Ghana Companies Code, 1963 (Act 179) by a special resolution dated May 10, 2006.

No. of shares 2006	Proceeds 2006	No. of shares 2005	Proceeds 2005
<b>40,000,000</b>		<b>40,000,000</b>	
19,784,548	194	19,784,548	194
0	5,806	0	5,806
0	54,000	0	0
<b>19,784,548</b>	<b>60,000</b>	<b>19,784,548</b>	<b>6,000</b>

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

The company by a special resolution resolved to transfer an amount of €54 billion from the income surplus account to stated capital.





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

9. Inventories

	2006	2005
Raw materials	17,553	14,008
Finished goods	4,825	4,729
Work in progress	0	318
Goods in transit	18,034	29,565
Other stocks	410	410
	<u>40,822</u>	<u>49,030</u>

10. Trade and Other Receivables

	2006	2005
Trade receivables	3,500	2,915
Other receivables	3,322	304
Amount due from staff	753	576
Prepayments	567	329
National reconstruction levy	0	28
	<u>8,142</u>	<u>4,152</u>

The maximum amount due from staff of the company did not at any particular time during the year exceed **€908 million** (2005: €625 million).

11. Trade and Other Payables

	2006	2005
Trade creditors	29,359	27,248
Other creditors	14,335	16,065
Finance lease obligation	7,474	2,209
Accruals	1,190	1,110
	<u>52,358</u>	<u>46,632</u>

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** (2005: €21 billion).

13. Loan

	Balance at 1/1/06	Drawdown	Repayment	Exchange Rate adjustment	Balance 31/12/06
Ecobank Ghana Limited Short term loan	9,141	0	9,209	68	0

a). Ecobank Ghana Limited short-term loan facility of USD 1.5 million was used to finance the purchase of 10.4 acre plot of land at Tema heavy industrial area. The facility is secured on a negative pledge over the land. Interest was paid in arrears at a rate of 3 month LIBOR plus a spread of 2% per annum.



The Company had 4,259 shareholders as at December 31, 2006

with equal voting rights distributed as follows:

Category of Holdings	No. of Shareholders	Holders %	No. Of Shares	% of Holding
1 to 1,000	3,132	73.54	715,895	3.62
1,001 to 5,000	974	22.87	2,329,140	11.77
5,001 to 10,000	99	2.32	768,394	3.88
Over 10,000	54	1.27	15,971,119	80.73
<b>Totals</b>	<b>4,259</b>	<b>100.00</b>	<b>19,784,548</b>	<b>100.00</b>

Details of the twenty (20) largest Shareholders as at December 31, 2006

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	3,604,420	18.22
3. Enterprise Insurance Company Limited	1,588,172	8.03
4. BBGN/JP Morgan Chase Onshore	1,000,000	5.05
5. BBGN RE Epack Investment Fund	761,321	3.34
6. BBGN /Unilever Ghana Managers Pension Fund	261,860	1.32
7. Social Security & National Insurance Trust	247,800	1.25
8. BBG/Unilever Ghana Provident Fund	136,716	0.69
9. BBGN/GBL Managers Pension Fund	53,300	0.27
10. Asare, James Kwadwo	50,000	0.25
11. Fieler Sean	47,899	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. SSNIT (SOS) Fund	30,954	0.16
17. BBGN/Elac Policy Holders Fund	30,332	0.15
18. State Insurance Company of Ghana Ltd.	30,000	0.15
19. Taylor, Theophilus Bonney	26,527	0.13
20. Ababio, Alex Ransford Dr.	25,200	0.13
21. Akpebu Peter	24,647	0.12
<b>Total</b>	<b>15,437,131</b>	<b>77.51</b>

Directors' Shareholding	No. of Shares	Percentage (%)
1. Kodjo Biamawu Aziagbe	6,000	
2. Peace Ayisi-Okyere	18	
<b>Total</b>	<b>6,018</b>	

## Notice of Meeting



Notice is hereby given that the forty-sixth Annual General Meeting of Fan Milk Limited will be held at the National Theatre, Accra on Wednesday, May 9, 2007 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, 2006 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, 2006.
3. To re-elect as a Director, Mrs. Peace P. Ayisi - Okyere who retires by rotation.
4. To re-elect as a Director, Mr. George H. O. Thompson who retires by rotation.
5. To fix the remuneration of the Directors.
6. To authorise the Directors to fix the remuneration of the Auditors.

By order of the Board

Lennap & Co., Farrar Avenue

February 22, 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.



New crate washer.

## Notes to the financial statements

(Continued)



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

- e. Building, Plant, Equipment and were professionally revalued in January, 1983 by Mr. G. M. Mensah, a Valuer at open market value on existing use basis. Buildings were again revalued in November, 1988 by Mr. G. M. Mensah, a valuer at open market value on existing use basis.
- f. 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	Capital WIP	Total
<b>As at December 31, 2006</b>						
Cost	21,874	14,415	36,897	119,454	15,494	208,134
Depreciation	(8,833)	(1,020)	(26,615)	(63,508)	0	(99,976)
Net book value Dec. 31, 2006	<u>13,041</u>	<u>13,395</u>	<u>10,282</u>	<u>55,946</u>	<u>15,494</u>	<u>108,158</u>
<b>As at December 31, 2005</b>						
Cost	21,313	14,415	31,663	106,116	0	173,507
Depreciation	(7,402)	(517)	(20,899)	(48,673)	0	(77,491)
Net book value Dec. 31, 2005	<u>13,911</u>	<u>13,898</u>	<u>10,764</u>	<u>57,443</u>	<u>0</u>	<u>96,016</u>

### g. Profit on disposal of property, plant and equipment

Cost of asset	1,563	2,668
Accumulated depreciation	(1,349)	(2,025)
Net book value	214	643
Sale proceeds	(823)	(1,107)
Profit on disposal of plant and equipment and motor vehicles	<u>(609)</u>	<u>(464)</u>

	2006	2005
Cost of asset	1,563	2,668
Accumulated depreciation	(1,349)	(2,025)
Net book value	214	643
Sale proceeds	(823)	(1,107)
Profit on disposal of plant and equipment and motor vehicles	<u>(609)</u>	<u>(464)</u>



Presentation of vendors award.

## Notes to the financial statements

(Continued)

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

### 7. Dividends Payable

Balance at 1 January  
Dividend proposed ₵460 per share (2005: ₵400)

Dividend paid

**Balance at 31 December**

2006	2005
8,791	6,422
9,101	7,914
<u>17,892</u>	<u>14,336</u>
(7,843)	(5,545)
<u>10,049</u>	<u>8,791</u>

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

### 8. Property, Plant and Equipment

#### a. Cost / valuation

	Buildings and Roads	Leasehold Land	Motor Vehicles	Plant and Machinery	Capital W. I. P	Total
At January 1, 2006	21,606	14,415	31,663	106,123	0	173,807
Additions	561	0	6,495	13,640	15,494	36,190
Disposals	0	0	(1,261)	(302)	0	(1,563)
<b>At December 31, 2006</b>	<b>22,167</b>	<b>14,415</b>	<b>36,897</b>	<b>119,461</b>	<b>15,494</b>	<b>208,434</b>

#### b. Accumulated Depreciation

At January 1, 2006	7,695	517	20,899	48,680	0	77,791
Charge for the year	1,431	503	6,815	15,085	0	23,834
Released on disposal	0	0	(1,099)	(250)	0	(1,349)
<b>At December 31, 2006</b>	<b>9,126</b>	<b>1,020</b>	<b>26,615</b>	<b>63,515</b>	<b>0</b>	<b>100,276</b>

#### Netbook Value

<b>At December 31, 2006</b>	<b>13,041</b>	<b>13,395</b>	<b>10,282</b>	<b>55,946</b>	<b>15,494</b>	<b>108,158</b>
Netbook Value						
At December 31, 2005	13,911	13,898	10,764	57,443	0	96,016

c. Included in the netbook value of building and roads of **₵13,041 million** (2005: ₵13,911 million), are buildings with a net value of **₵2,174 million** (2005: ₵2,240 million) which the company acquired but is in the process of obtaining the title deeds. Also include in the netbook value of the leasehold land of **₵13,395 million** (2005: ₵13,898) is a land with netbook value **₵13,158 million** (2005: ₵13,581 million) which the company is in the process of obtaining the title deed.

d. Included in motor vehicles, plant and machinery are assets with a cost of **₵22,951 million** (2005: ₵8,424 million) leased under a finance lease.

Cost-capitalised finance lease  
Accumulated depreciation

Net book value

2006	2005
22,951	8,424
(6,408)	(702)
<u>16,543</u>	<u>7,722</u>



## Directors' Report 2006



### 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, 2006.

### 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.



Vendors refreshing themselves.

## Directors' Report 2006

(Continued)



### 4. The Macro Economic Environment

In the year 2006, the general macro environment faced severe difficulties arising from high world oil prices coupled with the power rationing scheme introduced in August. Especially, the volatility of crude oil prices defeated efforts to achieve an end of year national inflation target of between 7-9%.

Inflation however, did experience an overall downwards trend during the year. The year started with inflation for January 2006 being 14.6% and dropped to a low of 9.5% by April, 2006. The year on year rate was 10.5% by December 31, 2006. (Credit - MPC, BOG)

During the course of the year under review, the Bank of Ghana prime rate was lowered to 12.5%. In response, commercial banks also lowered their base rates.

On the foreign exchange market, the GHC depreciated against the Euro by 13.3% and against the USD by 1.3%. (Credit - SAS Research)

### 5. Supply and Quality of Power

Due to the low inflows of water into the Volta Lake, a power rationing scheme was introduced in the second half of 2006. Under the scheme, the nation was demarcated into operational areas. Each area had its power supply switched off for a scheduled twelve hour period.

This development seriously affected the operations of the Company's agents and distributors and indeed the ability of many customers to stock the frozen products of Fan Milk Limited in their cold stores and freezers.

In addition to planned power rationing scheme, frequent unscheduled power outages together with erratic low/high voltage significantly hindered the maximum operating ability of the plant and led to severe production downtimes, abnormal waste of products as well as costly damages to equipment.



Product storage.

## Notes to the financial statements



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

### 1. Turnover

	2006	2005
Gross sales	372,309	359,389
Value Added Tax	(48,562)	(46,925)
	<u>323,747</u>	<u>312,464</u>

### 2. Cost of Sales

This item includes:  
Depreciation of factory buildings and plant and machinery

	2006	2005
	<u>7,597</u>	<u>7,700</u>

### 3. Selling, General and Administrative Expenses

Selling, general and administrative expenses include:

	2006	2005
Depreciation - Other Assets	16,237	13,843
Directors' remuneration	1,105	878
Auditors' remuneration	155	135
Donations	267	74
Interest on overdraft and loan	459	1,393
Finance lease charges	<u>2,587</u>	<u>343</u>

### 4. Other Income

Profit on Sale of Fixed Assets (8d)  
Interest on Current Accounts  
Sale of Scraps  
Exchange Gain  
Rent Income  
Bad debts recovered  
Provident Fund Refund

	2006	2005
	609	464
	786	14
	386	193
	123	560
	519	423
	25	7
	21	0
	<u>2,469</u>	<u>1,661</u>

### 5. National Reconstruction Levy

The National Reconstruction Levy is assessed at 1.5% of accounting profit before tax and it is not tax deductible. The levy was abolished by the government for manufacturing companies effective January 1, 2006.

### 6. Tax

#### (i) Income tax

	Balance 1/1/06	Paid during the period	Charge for the year/ adjustment	Balance 31/12/06
2005	(574)	0	0	(574)
2006	0	9,869	11,798	1,929
<b>Total</b>	<u>(574)</u>	<u>9,869</u>	<u>11,798</u>	<u>1,355</u>

The amount provided for income tax is calculated at the rate of 25% of adjusted profit.

#### (ii) Deferred Income Tax

As at December 31, 2006, the company had a potential deferred income tax liability of **¢7,172 million** (2005: **¢5,436 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.



## Accounting Policies

(Continued)



### 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 has substantially all the risk and rewards incident to ownership are classified as finance lease. Finance leases are capitalised at inception at amount equal to the fair value of the lease property or, if lower, at the present value of the minimum lease payment. Property, plant and equipment acquired under finance lease are depreciated over the shorter of the useful life of such assets or the lease period.



Newly installed 2MW Generator plant.

## Directors' Report 2006

(Continued)



### 6. Financial Highlights

Partly due to the power issues mentioned above and also price increases introduced in February 2006, Net Sales for the year under review increased only marginally.

The operational results are summarised below:

(All amounts are expressed in millions of GHC)

	2006	2005	Cedi Change	% Change
Turnover	323,747	312,464	11,283	3.6
Cost of Sales	(170,178)	(169,677)	(501)	(0.3)
Selling, General and Administrative Expenses	(111,493)	(95,846)	(15,647)	(16.3)
Operating Profit	42,076	46,941	(4,865)	(10.4)
Other Income	2,469	1,661	808	48.6
Profit before Taxation & Nat. Rec. Levy	44,545	48,602	(4,057)	(8.3)
Taxation & Nat. Rec. Levy	(11,798)	(13,379)	1,581	11.8
Profit After Taxation	32,747	35,223	(2,476)	(7.0)

### 7. Dividend

In spite of the lower profit recorded for 2006 as compared to 2005, the Board is pleased to recommend an increase of 15% in dividends. The increase amounts to a total of GHC 460 per share for the financial year 2006. The total amount payable as dividends will be GHC 9,100,892,080 (2005: GHC 7,913,819,200).

### 8. Performance On The Stock Market

On the Ghana Stock Exchange (GSE) the value of your Company's shares increased from GHC 15,800 in January 2006 to GHC 18,002 as at the end of the year representing a rise of 13.9%. The GSE All-share index closed the year at 5,005.97 points, which was a marginal net gain of approximately 5%.

## Directors' Report 2006

(Continued)



### 9. Directors

In accordance with Section 298 of the Companies Code, 1963 (ACT 179) and the Company's Regulation 61 (2 a&b), Mrs. Peace Ayisi-Okyere and Mr. George H. O. Thompson retire from the Board by rotation, and being eligible, they offer themselves for re-election.

### 10. 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 2007 representing a 15% increase over and above the fees for 2006:

The Chairman	-	GHC 18,975,000.00
Other Directors	-	GHC 14,662,500.00

### 11. 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 2007.

### 12. 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.

The Company's commitment to environmental matters, and more importantly the actions it intends to take are outlined in a three year Environmental Management Plan which has been submitted to the Environmental Protection Agency who in turn has issued Fan Milk Limited with a three year environmental operation permit.

The Company continues to recognize the indispensability of water as a global resource and its importance to our operation as a food and beverage producing entity. To this effect, Fan Milk Limited continues to install various devices for the conservation of water as well as a treatment plant to purify water.

In 2006, construction of a new waste water treatment plant began and should be completed during 2007 at a total cost of GHC 6.7 billion.

Fan Milk Limited also pays a recycling company, City Waste Management Company Limited, to collect damaged products from our depots and factory. The packaging material are cleansed and shredded for recycling by that company.

Fan Milk Limited continues to support the Ghana National Scholarship Beneficiaries Association (GNASBA) financially and in kind for its environmental sanitation education campaigns. These efforts have contributed towards awareness creation among school children countrywide on the importance of maintaining high standards of sanitation and protection of our environment.

## Accounting Policies

(Continued)



### 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.



Conveyor belt of spiral freezer.



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 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 materials 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 are recognised at the depots and Sales Vans when the risks and rewards to the products has been substantially transferred to the customer. Sales are shown net of returns and value added tax.



Loading bay

(Continued)



**13. Capital Expenditure**

During the financial year under review, Fan Milk Limited made total investments of approximately GHC36.2 billion. Among the significant acquisitions were:

- A2MW generator plant, which was delivered in December 2006 and became operational in January 2007.
- Various construction works at the Harbour Road site in Tema including erecting of perimeter walls, construction of a cold store and sales office.
- Nine trucks which were added to the fleet including an articulator head and trailer to enhance the nationwide distribution of the company's products.
- Several bicycles, pushcarts and freezers.

For 2007 the Company estimated to spend approximately GHC 83 billion on various fixed assets.

**14. Capitalisation by Transfer from Income Surplus Account to Stated Capital**

During the year 2006, Fan Milk Limited took advantage of the Tax amnesty granted taxpayers in the 2006 National Budget to transfer GHC 54 billion from Income Surplus Account to Stated Capital thereby raising the Stated Capital from GHC 6 billion to GHC 60 billion.

**15. Outlook for 2007 and Beyond**

The macro-economic conditions of the Country are expected to continue to improve in 2007 and beyond. However, the effects of high crude oil prices and the potential risk of a continued power rationing scheme in combination should not be underestimated.

Provided the above mentioned electricity issues are carefully managed by the respective authorities, the Board foresees the future prospects of your company to be bright.

**16. Acknowledgement**

The Board of Directors wish to express their appreciation to our shareholders, customers, distributors, agents, vendors and employees for their support and invaluable contributions, and taking into consideration the peculiar circumstances, ensured the satisfactory 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 shareholder 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.



*New roller gate in operation.*

## Cash Flow Statement

as at December 31



*(All amounts are expressed in millions of cedis)*

### Cash Flow from Operating Activities

Cash generated from operations

Interest paid

Interest received

Tax paid

**Net cash generated from operating activities**

### Cash Flows from Investing Activities

Purchase of property, plant and equipment

Proceeds from sale of plant and equipment

**Net cash used in investing activities**

### Cash Flows from Financing Activities

Dividend paid

Loan repaid

Finance lease drawn down

Finance lease repaid

**Net cash (used in)/generated from financing activities**

**Increase in cash and cash equivalents**

Cash and cash equivalents at the beginning of the year

Cash and cash equivalents at the end of the year

Note	2006	2005
	<b>62,648</b>	<b>45,566</b>
	<b>(35,367)</b>	<b>(45,347)</b>
	<b>(7,693)</b>	<b>10,799</b>
	<b>19,588</b>	<b>11,018</b>
17	<b>6,041</b>	<b>(4,977)</b>
17	<b>25,629</b>	<b>6,041</b>

*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
<b>Year ended December 31, 2006</b>			
At the beginning of the year	6,000	80,244	<b>86,244</b>
Transfer to stated capital	54,000	(54,000)	<b>0</b>
Net Profit	0	32,747	<b>32,747</b>
Proposed dividend	0	(9,101)	<b>(9,101)</b>
<b>At the end of the year</b>	<b>60,000</b>	<b>49,890</b>	<b>109,890</b>
<b>Year ended December 31, 2005</b>			
At the beginning of the year	6,000	52,935	<b>58,935</b>
Net Profit	0	35,223	<b>35,223</b>
Proposed dividend	0	(7,914)	<b>(7,914)</b>
<b>At the end of the year</b>	<b>6,000</b>	<b>80,244</b>	<b>86,244</b>

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



Long distance haulage truck.

## Corporate Governance

(Continued)



### The Audit Committee

The Audit Committee is made up of the four directors, of whom three 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.



Testing new equipment.

## Auditors' Report



Report of the Independent Auditors 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 17 - 30. These financial statements comprise the balance sheet as at December 31, 2006 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Director's Responsibility for the Financial Statements

As stated on page 9, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with Ghana Accounting Standards and with the requirements of the Ghana Companies Code, 1963 (Act 179). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an independent opinion on these 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 our audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 management, as well 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.

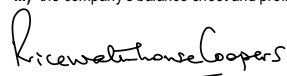
### Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the financial affairs of the company at December 31, 2006 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).

### Report on other Legal Requirements

The Ghana Companies Code, 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 information and explanations which to the best of our knowledge and belief were necessary for the purposes of audit;
- ii) in our opinion proper books of accounts have been kept by the company, so far as appears from our examination of those books;
- iii) the company's balance sheet and profit and loss account are in agreement with the books of accounts.

  
 Chartered Accountants  
 Accra.  
 February 26, 2007  
 PRICEWATERHOUSECOOPERS

## Balance Sheet

as at December 31



(All amounts are expressed in millions of cedis)

	Note	2006	2005
<b>Property, Plant and Equipment</b>	8	<u>108,158</u>	<u>96,016</u>
<b>Current Assets</b>			
Inventories	9	40,822	49,030
Trade and Other Receivables	10	8,142	4,152
Tax		0	574
Bank and Cash Balances		<u>25,848</u>	<u>8,211</u>
		<b><u>74,812</u></b>	<b><u>61,967</u></b>
<b>Current Liabilities</b>			
Trade and Other Payables	11	52,358	46,632
Bank Overdraft	12	219	2,170
Loan	13	0	9,141
Tax	6	1,355	0
Dividend	7	<u>10,049</u>	<u>8,791</u>
		<b><u>63,981</u></b>	<b><u>66,734</u></b>
<b>Net Current Assets/(Liabilities)</b>		<u>10,831</u>	<u>(4,767)</u>
Obligation under Finance Lease	14	(9,099)	(5,005)
<b>Net Assets</b>		<b><u>109,890</u></b>	<b><u>86,244</u></b>
<b>Represented by:</b>			
Stated Capital	15	60,000	6,000
Income Surplus Account		<u>49,890</u>	<u>80,244</u>
<b>Shareholders' Fund</b>		<b><u>109,890</u></b>	<b><u>86,244</u></b>

The financial statements on pages 17 to 30 were approved by the Board of Directors on February 22, 2007 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.



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## Income Surplus Account

for the year ended December 31



(All amounts are expressed in millions of cedis)

Note	2006	2005
Balance at January 1	80,244	52,935
Transfer to Stated Capital	(54,000)	0
	<u>26,244</u>	<u>52,935</u>
Net Profit for the year	<u>32,747</u>	<u>35,223</u>
	58,991	88,158
Dividend Proposed	(9,101)	(7,914)
<b>Balance at December 31</b>	<b><u>49,890</u></b>	<b><u>80,244</u></b>

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



New dehumidifier equipment.

## Profit and Loss Account

for the year ended December 31



(All amounts are expressed in millions of cedis)

Note	2006	2005
<b>Turnover</b>	323,747	312,464
Cost of Sales	(170,178)	(169,677)
<b>Gross Profit</b>	153,569	142,787
Selling, General and Administrative Expenses	(111,493)	(95,846)
<b>Operating Profit</b>	42,076	46,941
Other income	2,469	1,661
<b>Net Profit before National Reconstruction Levy and Tax</b>	44,545	48,602
National Reconstruction Levy	0	(729)
<b>Net Profit before Tax</b>	44,545	47,873
Tax	(11,798)	(12,650)
<b>Net Profit after tax transferred to Income Surplus Account</b>	<b><u>32,747</u></b>	<b><u>35,223</u></b>

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



Fan Milk at the Trade Fair.



*Your World of Healthy Dairy Products!*