

**MECHANICAL LLOYD CO. LTD.**



**ANNUAL REPORT AND ACCOUNTS  
2005**



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### **Mission Statement**

The Corporate Mission of Mechanical Lloyd is to establish itself as the leader in the Ghanaian Automotive Industry by:

- Providing good quality products and service, competitively priced, and delivered in the most courteous and professional manner.
- Securing for its shareholders the optimum return on their invested capital.
- Maintaining an environment where its human resource is provided with the opportunity to develop to its maximum potential.
- Contributing meaningfully to the welfare of the community in which it operates, and bringing a sense of responsibility to bear on its policies in order to promote what it believes to be in the public interest.



## Corporate Information

Directors	Yaw Manu Sarpong (Chairman) Terence Ronald Darko (Managing Director) Charles Sydney Aidoo Yaw Assah-Sam (Appointed 23 March 2005) Napoleon Kpakpo Bulley Andrew Lawson Charles Bartels Kwesi Zwennes Irene Addo (Mrs)
Secretary	Caroline Darko
Solicitors	Gaisie Zwennes Hughes & Co 57 Kojo Thompson Road P O Box 3238 Accra
Registered Office	No. 2 Adjuma Crescent Ring Road West South Industrial Area P O Box 2086 Accra
Auditors	PricewaterhouseCoopers Chartered Accountants Gulf House, 4 th Floor PMB CT42 Cantonments Accra
Registrars	Merchant Bank (Ghana) Limited Registrar's Department 57 Examination Loop, North Ridge P O Box 401 Accra
Bankers	Barclays Bank of Ghana Limited Standard Chartered Bank Ghana Limited



## **Notice of the Fourteenth Annual General Meeting of Mechanical Lloyd Company Limited**

**Notice is Hereby given** that the **Fourteenth** Annual General Meeting of members of Mechanical Lloyd Company Limited has been convened by the Board of Directors of the Company to be held at the **ACCRA INTERNATIONAL CONFERENCE CENTRE**, Accra on Thursday, **08 June, 2006** at **11.00 o'clock** in the forenoon for the following purposes:

### **Agenda**

1. To receive the Report of the Directors, the Balance Sheet as at 31 December, 2005 together with the Profit and Loss and Income Surplus Accounts for the year ended, 31 December, 2005 and the Report of the Auditors thereon.
2. To declare a dividend for the year ended, 31 December, 2005.
3. To re - elect the following Directors retiring by rotation:
  - i. Mr. C. S. Aidoo.
  - ii. Mr. N. K. Bulley
4. To approve non-executive Directors' fees
5. To authorise the Directors to fix the remuneration of the Auditors.

A member of the Company entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him. A proxy need not also be a member. A form of proxy is attached and if it is to be valid for the purposes of the meeting, it must be completed and deposited with the **REGISTRARS, MERCHANT BANK (GHANA) LIMITED, 57 EXAMINATION LOOP, NORTH RIDGE, P.O. BOX 401, ACCRA** not less than 48 hours before the time for holding the Meeting.

Dated this 29th day of March, 2006.

BY ORDER OF THE BOARD

**Caroline Darko**  
Secretary.

Registered Office:  
No.2 Adjuma Crescent  
Ring Road West  
South Industrial Area  
P. O. Box 2086, Accra.



## Financial Highlights

(All amounts are expressed in thousands of cedis )

	2005	2004	% Change
Turnover	111,753,711	120,401,856	-7.18
Profit Before Tax	10,058,324	7,675,037	+31.05
Profit After Tax	7,978,786	5,573,811	+43.15
Dividend Proposed	2,003,837	1,502,878	+33.33
Retained Profit	5,974,949	4,070,933	+46.77
Shareholders' Funds	77,052,762	71,077,813	+8.41
Capital Expenditure	7,834,217	13,654,413	-42.63
Total Assets	<u>149,268,128</u>	<u>133,589,805</u>	+11.74
Dividend per Share (c)	40.00	30.00	+33.33
Earnings per Share (c)	159.27	111.26	+43.15
Net Assets per Share (c)	<u>1,538.10</u>	<u>1,418.83</u>	+8.41



## Report of the Directors

The directors submit their report together with the audited financial statements of the company for the year ended 31 December 2005.

### Statement of Directors' Responsibilities

The directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss and cash flows for that period. In preparing these financial statements, the directors have selected suitable accounting policies and then applied them consistently, made judgements and estimates that are reasonable and prudent and 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.

### Nature of Business

The company is engaged in the distribution and marketing of motor vehicles and farm machinery and in the repair, servicing and maintenance of same. The company also builds and acquires properties for rental.

### Financial Results

The financial results of the company are set out below:

	2005 c'000	2004 c'000
Profit before tax for the year ended 31 December 2005 is	10,058,324	7,675,037
from which is deducted tax of	(2,079,538)	(2,101,226)
giving a profit after tax for the year of	7,978,786	5,573,811
to which is added balance brought forward on Income Surplus Account of	13,912,778	9,841,845
giving a balance of	21,891,564	15,415,656
out of which the directors recommend to be paid a dividend amounting in total to	(2,003,837)	(1,502,878)
which leaves a balance carried forward on Income Surplus Account of	19,887,727	13,912,778

The company's net worth increased from c71.1 billion as at 1 January 2005 to **c77.0 billion** at 31st Dec. 2005.



**Report of the Directors (contd.)**

**Dividend**

The directors recommend the payment of a dividend for the year ended 31 December 2005 of **¢40.00** per share amounting to **¢2,003,837,000**.

**Auditors**

The auditors, PricewaterhouseCoopers, will continue in office in accordance with Section 134(5) of the Ghana Companies Code 1963, (Act 179).

By order of the board

29th March 2006

Handwritten signature of Y. M. Sarpong in black ink.

**Y. M. Sarpong**  
(Chairman)

Handwritten signature of T. R. Darko in black ink.

**T. R. Darko**  
(Managing Director)





### **Chairman's Review of 2005**

The Ghanaian economy in 2005 continued on its path of steady and stable improvement, equalling the previous year's growth of 5.8%.

Though inflation increased from 11.6% as at January 2005 to 16.7% in March as a result of a 50% hike in fuel prices, the fact that by December this rate had fallen to 14.6% underscores the underlying improvement in the resilience of the economy.

The performance of the cedi against major international currencies was even more impressive. The cedi depreciated against the dollar by only 0.65%, and actually appreciated against the Euro by over 14% and the Sterling by 10.9%.

During the year, the Bank of Ghana in its continuing efforts to make more funds available for lending to the private sector at reasonable cost, to further stimulate the economy reduced the prime rate progressively from 18.5% to 15.5% and whittled down the secondary reserves from 35% to 15%. These measures should have resulted in significant reductions in the cost of borrowing. However, the commercial banks' lending rates remained stubbornly high, dropping by an average of only 2-3 points; far from commensurate with the bold initiatives of the Bank of Ghana.

This was the background to the Company's performance during the year.

For 2005 we achieved a Turnover of c 111.76 billion which was 7.18% below that of 2004. Whereas the Spare Parts sales and Workshop earnings component of turnover improved by 20.5%, the motor vehicle sales component declined by 16%. The reason for this was the enactment by parliament of the Procurement Law during the year, which requires that all purchases by Ministries, Departments and Agencies (MDA's), which normally account for about 60% of all pick-up sales in the country, should be by open tender.

The bureaucratic nature of the tender process slowed down sales tremendously. Of even greater effect in causing a reduction in our sales was the fact that price was and presumably will continue to be a key determining factor in the evaluation process; and with our superior quality and better appointed and therefore slightly higher priced models, we are at a disadvantage in the face of cheaper and less durable models when it comes to such tenders.

Our sales to MDA's therefore dropped from 25% of total sales in 2004 to 5% in 2005.

However, we clawed back part of this shortfall by improving the margins on our sales to the private sector of the market which was more prepared to pay a little more for quality. Thus whereas our Turnover fell in absolute terms, our Gross margin percentage on turnover improved from 20.9% to 22.6%.

Aided by a new component in our Turnover being Rental Income, of c1.46 billion, our Gross Profit on Turnover improved by 4.9% from c25.16 billion to c26.4 billion. Selling General and Administrative Expenses amounted to c 20.9 billion (2004 : c19.8 billion) out of which c 2.5 billion (2004 : c2.98 billion) was attributable to Depreciation.

After adjusting for Other Operating income of c 4.374 billion (2004 : c2.516 billion) made up of Fees and Sales Commission earned from DAF Bus and Land Rover (and Other Income including Exchange Gain of c886 million) we ended the year with a Net Profit Before Tax of c 10.06 billion (2004 : c7.6 billion) and a Net Profit After Tax of c7.978 billion which is 43.15% above the 2004 figure of c5.57 billion.



### **Chairman's Review of 2005 ( contd. )**

#### **DIVIDEND**

On the basis of the foregoing results the Directors recommend the payment of a Dividend of c40.0 per share, an increase of 33% over that of the last two years.



#### **RESIDENTIAL PROPERTY**

Our Residential Property Development on which I reported to you last year has been completed and rented out. The income from this source added c 1.46 billion to our profit figure this year. We are looking for prime land to undertake similar developments in the future.

#### **FORD**

For the first time since its introduction, Ford which has become our largest franchise suffered a setback, and its ever improving growth was halted. The culprit for this was the Ranger pick-up. Whereas the SUV's, Explorer, Escape and Everest equalled or exceeded their budget figures, the Ranger, our biggest selling model achieved only 63% of budget. To combat this we have adopted a strategy of concentrating on sales to the Private sector and improving our service delivery.



#### **BMW**

BMW achieved 103% of budget and continues to maintain its lead in the luxury car segment.

A new 3 series model was launched in the 3rd quarter of the year; and is doing quite well.



#### **MASSEY FERGUSON**

Though Massey Ferguson achieved 98% of targeted sales, in itself a good performance, this was the first time in 3 years that it did not exceed its target. The main reason was the importation by the Government of a large number of smaller and much cheaper tractors from India which were sold to farmers and co-operatives on very concessionary terms.

#### **DAF BUS PROJECT**

In my report for 2004, I informed you that an Agreement for the third phase of this project involving 150 more DAF bus chassis, in addition to two earlier phases of 100 buses each, had been signed between the Ghana Government and DAF Bus of Holland.





### **Chairman's Review of 2005 (contd.)**

I am glad to report that further progress has been made on this project. All the necessary approvals have been obtained from both the Dutch and Ghana Governments. We expect the concessionary financing facility to be in place by May 2006, and production of the chassis to start soon thereafter. 75 Chassis are programmed to be delivered in 2006 and the other 75 in 2007.

#### **OUTLOOK FOR 2006 AND BEYOND**

With the investment we have made in the past in infrastructure, human and IT resources we believe we are poised and well focused for the achievement of appreciable growth and improved dividend and share value for our members.

The government, with the assistance of the Bank of Ghana is resolute in its determination to grow the economy towards the realisation of middle income status within 10 years. What is needed, and in our view is currently missing, is for the commercial banks to ensure that their lending rates reflect the economic realities. To this end the spread between their lending and borrowing rates should be much narrower and more in line with what obtains in other developing economies.

Until this is done, long-term investment which is crucial for Ghana's economic growth and development will not materialise, and the government's efforts will not achieve the desired results.

#### **CONCLUSION**

Once again it is my pleasure to thank, on behalf of the Board, the Management and Staff of the Company whose dedication and hard work are responsible for the Company's performance during the year.

Thank you.

**Y. M. Sarpong**  
(Chairman)



## **Corporate Governance**

### **Introduction**

Mechanical Lloyd Company Limited recognises the importance of good corporate governance as a means of sustained long-term viability of the business and therefore always seeks to align the attainment of the business objectives with good corporate behaviour.

In line with our corporate vision, values and business principles, Mechanical Lloyd's vision is to be first or among the first in its field. Planning takes place and resources are allocated towards achievement of accountability and reporting standards. The business adopts standard accounting practices and ensures sound internal controls to facilitate transparency in the disclosure of information and to give assurance to the reliability of the financial statements.

### **Board of Directors**

The responsibility of good corporate governance is placed in the hands of the Board of Directors and the Management Team. The board comprises eight directors. The directors are knowledgeable individuals with experience in the auto industry as well as in their fields of discipline.

### **The Audit Committee**

The Audit Committee is made up of four non-executive directors, all of who have a strong background in business and finance. The committee is charged to meet on a quarterly basis to review both the operational and financial performance of the company. It reviews the company's risk, management practices, compliance with policies, applicable laws and regulations, and assesses the adequacy of systems of internal controls in the company.

### **Systems of Internal Control**

Mechanical Lloyd Company Limited is continuously enhancing its comprehensive risk and control review. This is aimed at both improving the mechanism for identifying and monitoring risk as well as appraising the systems of internal control.

The company has effective systems for identifying, managing and monitoring risks. The systems of internal control are implemented and monitored by appropriately trained personnel, suitably segregated as to authority, duties and reporting lines.

### **Code of Business Ethics**

Mechanical Lloyd Company Limited continues to reinforce communication on a regular basis together with the development and application of complementary procedures so as to eliminate the potential for corrupt and illegal practices on the part of employees and contractors.



## **Report of the Auditors**

### **To the Members of Mechanical Lloyd Company Limited**

We have audited the financial statements of Mechanical Lloyd Company Limited set out on pages 15 to 26.

#### **Respective Responsibilities of Directors and Auditors**

As stated on page 8, 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 31 December 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).

*Pricewaterhouse Coopers*

**Chartered Accountants**

29th March 2006

PRICEWATERHOUSECOOPERS 



## Profit and Loss Account

(All amounts are expressed in thousands of cedis )

	Notes	Year ended 31 December	
		2005	2004
<b>Turnover</b>	1	<b>111,753,711</b>	120,401,856
Cost of sales		<u>(85,344,013)</u>	<u>(95,241,086)</u>
<b>Gross Profit</b>		<b>26,409,698</b>	25,160,770
Selling, general and administrative expenses	2	<u>(20,939,983)</u>	<u>(19,753,234)</u>
		<b>5,469,715</b>	5,407,536
Other operating income	3	<u>4,374,834</u>	<u>2,516,862</u>
<b>Operating Profit</b>		<b>9,844,549</b>	7,924,398
Share issue expenses	4	-	(1,029,591)
Other income	5	985,220	185,048
Finance (costs)/income - net	6	<u>(771,445)</u>	<u>595,182</u>
<b>Profit Before Tax</b>		<b>10,058,324</b>	7,675,037
Tax	13	<u>(2,079,538)</u>	<u>(2,101,226)</u>
<b>Net Profit After Tax Transferred to Income Surplus Account</b>		<b><u>7,978,786</u></b>	<u>5,573,811</u>
<b>INCOME SURPLUS ACCOUNT</b>			
At 1 January		13,912,778	9,841,845
Net profit for the year		<u>7,978,786</u>	<u>5,573,811</u>
		<b>21,891,564</b>	15,415,656
Dividend proposed		<u>(2,003,837)</u>	<u>(1,502,878)</u>
At 31 December		<b><u>19,887,727</u></b>	<u>13,912,778</u>

The accounting policies and notes on pages 19 to 26 form an integral part of these financial statements.



## Balance Sheet

(All amounts are expressed in thousands of cedis )

At 31 December

	Notes	2005	2004
<b>Non-Current Assets</b>			
Property, plant and equipment	8	43,846,439	57,462,093
Investment properties	10	18,917,539	-
		<u>62,763,978</u>	<u>57,462,093</u>
<b>Current Assets</b>			
Stocks	11	48,872,319	34,542,828
Debtors	12	35,400,486	37,864,323
Bank and cash balances		2,231,345	3,720,561
		<u>86,504,150</u>	<u>76,127,712</u>
<b>Current Liabilities</b>			
Creditors	14	44,335,832	41,068,334
Bank overdrafts	15	10,388,168	921,801
Tax payable	13	285,245	518,368
Dividend payable	16	2,003,837	1,502,878
Current portion of loans	17	6,604,856	7,326,560
		<u>63,617,938</u>	<u>51,337,941</u>
<b>Net Current Assets</b>			
Non-current portion of loans	17	(8,597,428)	(11,174,051)
<b>Net Assets</b>		<u>77,052,762</u>	<u>71,077,813</u>
<b>Shareholders' Funds:</b>			
Stated capital	18	27,714,856	27,714,856
Capital surplus account	19	29,450,179	29,450,179
Income surplus account		19,887,727	13,912,778
		<u>77,052,762</u>	<u>71,077,813</u>

The financial statements on pages 15 to 26 were approved by the Board of Directors on 29th March 2006 and signed on its behalf by:

  
( Chairman )

  
( Managing Director )

The accounting policies and notes on pages 19 to 26 form an integral part of these financial statements



### Statement of Changes in Shareholders' Equity

(All amounts are expressed in thousands of cedis )

	Stated Capital	Capital Surplus	Income Surplus	Total
Balance at 1 January 2005	27,714,856	29,450,179	13,912,778	<b>71,077,813</b>
Net Profit	-	-	7,978,786	<b>7,978,786</b>
Dividend proposed	-	-	(2,003,837)	<b>(2,003,837)</b>
<b>At 31 December 2005</b>	<b><u>27,714,856</u></b>	<b><u>29,450,179</u></b>	<b><u>19,887,727</u></b>	<b><u>77,052,762</u></b>
Balance at 1 January 2004	2,666,894	29,450,179	9,841,845	41,958,918
Proceeds of Rights Issue	25,047,962	-	-	25,047,962
Net Profit	-	-	5,573,811	5,573,811
Dividend proposed	-	-	(1,502,878)	(1,502,878)
<b>At 31 December 2004</b>	<b><u>27,714,856</u></b>	<b><u>29,450,179</u></b>	<b><u>13,912,778</u></b>	<b><u>71,077,813</u></b>

The accounting policies and notes on pages 19 to 26 form an integral part of these financial statements.





## Cash Flow Statement

(All amounts are expressed in thousands of cedis )

		Year ended 31 December	
	Notes	2005	2004
<b>Operating Activities</b>			
Cash generated from operations	20	7,363,506	514,535
Interest received		70,146	84,026
Interest paid		(3,461,868)	(2,068,065)
Tax paid	13	(2,312,661)	(2,310,156)
<b>Net cash generated from/(used in) operating activities</b>		<u>1,659,123</u>	<u>(3,779,660)</u>
<b>Investing Activities</b>			
Purchase of property, plant and equipment	8	(7,834,217)	(13,654,413)
Proceeds from disposal of property, plant and equipment	8	76,000	386,386
Proceeds from disposal of investment	9	-	16,654
<b>Net cash used in investing activities</b>		<u>(7,758,217)</u>	<u>(13,251,373)</u>
<b>Financing Activities</b>			
Proceeds from Rights Issue of shares		-	25,047,962
Loans received	17	3,937,317	11,799,658
Repayment of loans	17	(7,290,928)	(20,674,113)
Dividend paid		(1,502,878)	(1,202,302)
<b>Net cash (used in)/generated from financing activities</b>		<u>(4,856,489)</u>	<u>14,971,205</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(10,955,583)</u>	<u>(2,059,828)</u>
<b>Movement in cash and cash equivalents</b>			
At start of year		2,798,760	4,858,588
Decrease in year		(10,955,583)	(2,059,828)
<b>At end of year</b>	21	<u>(8,156,823)</u>	<u>2,798,760</u>

The accounting policies and notes on pages 19 to 26 form an integral part of these financial statements.



## 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 non-current assets and in accordance with Ghana Accounting Standards.

**(b) Property, plant and equipment**

Property, plant and equipment are initially recorded at cost. Land and buildings are subsequently shown at market value based on valuation by an external independent valuer less subsequent depreciation.

Furniture, plant, machinery, equipment and motor vehicles are stated at historical cost less depreciation.

Buildings on leasehold land are amortised over the lease period of the land.

Depreciation is calculated on the reducing balance method to write off the cost of each class of property, plant and equipment (other than leasehold buildings) to their residual values over their estimated useful lives as follows.

Buildings	3%
Plant and machinery	10%
Furniture and equipment	10%
Computers	33%
Motor vehicles	
- Saloon cars	15%
- Others	20%

**(c) Investment properties**

Investment properties are treated as long-term investments and initially recorded at cost. They are subsequently stated at their open market value which is determined annually by a qualified person having recent experience of valuing similar properties and at least every five years by an external valuer. Changes in the value of investment properties will be disclosed as a movement on an investment revaluation reserve. Where a deficit on revaluation exceeds the balance on the reserve, the difference will be disclosed in the profit and loss account.



### **Accounting Policies ( contd.)**

**(d) Stocks and work-in-progress**

Stocks are stated at the lower of cost and net realisable value. Cost of spare parts, trade and non-trading stocks includes freight, insurance, customs duty and all other costs incurred in bringing the stocks to their present location. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the cost of realisation.

Work in progress is valued at materials cost.

Provision is made where necessary for obsolete, slow-moving and defective stocks.

**(e) Debtors**

Trade debtors are carried at original invoice amount less an estimate for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

**(f) Deferred income tax**

Deferred income tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Provision is only made where it is anticipated that tax will be payable or a recovery will be made within the foreseeable future.

Currently enacted tax rates are used in determining deferred tax.

**(g) Foreign currencies**

Transactions in foreign currencies during the year are converted into cedis at prevailing rates at the time of the transactions. 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 from the translation are dealt with in the profit and loss account.

**(h) Revenue recognition**

Sales are recognised upon delivery of products and customer acceptance and on the performance of services. Sales are shown net of value added tax and discounts.

**(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 and other short-term highly liquid investments, net of bank overdrafts.



## Notes to the Financial Statements

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

1. Turnover	2005	2004
Motor vehicles and farm machinery sales	81,283,954	96,335,375
Spare parts sales and workshop earnings	29,010,347	24,066,481
Rental income from investment properties	1,459,410	-
	<u>111,753,711</u>	<u>120,401,856</u>

### 2. Selling, general and administrative expenses

Selling, general and administrative expenses include:

Depreciation	2,507,296	2,098,479
Directors' emoluments	1,743,968	1,256,627
National reconstruction levy	150,875	175,432
Auditors' remuneration	187,200	156,000
Donations	55,120	79,000

National reconstruction levy is assessed under the National Reconstruction Levy Act of 2001, (Act 597) at 1.5% of accounting profit before tax.

### 3. Other operating income

This represents commission and fees earned by the company on special projects embarked upon during the year.

### 4. Share issue expenses

This represents expenses incurred in connection with a rights issue undertaken during 2004.

### 5. Other income

	2005	2004
Miscellaneous income	48,018	120,219
Exchange gain	886,238	99,655
Profit/(loss) on sale of property, plant and equipment	50,964	(52,167)
Profit on disposal of investments	-	10,921
Sundry rental income	-	6,420
	<u>985,220</u>	<u>185,048</u>



### Notes to the Financial Statements ( contd. )

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

**6. Finance (costs) / Income - Net**

	2005	2004
Bank interest	(3,600,861)	(2,068,065)
Interest income on credit sales	<u>2,829,416</u>	<u>2,663,247</u>
	<u>(771,445)</u>	<u>595,182</u>

**7. Staff costs**

Wages and salaries (including executive directors' salaries)	7,038,753	5,808,599
Social security contributions	<u>846,207</u>	<u>654,914</u>
	<u>7,884,960</u>	<u>6,463,513</u>

The average number of persons employed by the company during the year was 167 (2004: 160).

**8. Property, plant and equipment**

Cost/valuation	Buildings	Plant and machinery, equipment, furniture and vehicles	Capital Work-in-progress	Total
At 1 January 2005	38,342,473	13,806,227	15,636,194	67,784,894
Additions	-	3,752,859	4,081,358	7,834,217
Transfers	(3,199)	3,199	(18,917,539)	(18,917,539)
Disposals	-	(97,292)	-	(97,292)
<b>At 31 December 2005</b>	<u>38,339,274</u>	<u>17,464,993</u>	<u>800,013</u>	<u>56,604,280</u>
<b>Accumulated depreciation</b>				
At 1 January 2005	5,448,274	4,874,527	-	10,322,801
Charge for year	826,482	1,680,814	-	2,507,296
Disposals	-	(72,256)	-	(72,256)
<b>At 31 December 2005</b>	<u>6,274,756</u>	<u>6,483,085</u>	<u>-</u>	<u>12,757,841</u>
<b>Net book value</b>				
<b>At 31 December 2005</b>	<u>32,064,518</u>	<u>10,981,908</u>	<u>800,013</u>	<u>43,846,439</u>
At 31 December 2004	<u>32,894,199</u>	<u>8,931,700</u>	<u>15,636,194</u>	<u>57,462,093</u>



### Notes to the Financial Statements ( contd. )

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

#### 8. Property, plant and equipment (continued)

The buildings were last revalued at 31 December 2001 by independent valuers. Valuations were made on the basis of open market value. If buildings were stated on the historical cost basis, the amounts would be as follows:

	2005	2004
Cost	9,005,354	9,005,354
Accumulated depreciation	<u>(1,963,138)</u>	<u>(1,859,115)</u>
Net book value	<u>7,042,216</u>	<u>7,146,239</u>

#### (Profit)/loss on disposal of property, plant and equipment

Cost	97,292	619,674
Accumulated depreciation	<u>(72,256)</u>	<u>(181,121)</u>
Net book value	25,036	438,533
Proceeds of sales	<u>(76,000)</u>	<u>(386,386)</u>
(Profit)/loss	<u>(50,964)</u>	<u>52,167</u>

#### 9. Investment

The 148,000 ordinary shares owned by the company in CFAO Ghana Limited, a company listed on the Ghana Stock Exchange, were sold during 2004.

	2005	2004
Cost	-	5,733
Proceeds of sales	-	<u>(16,654)</u>
Profit	<u>-</u>	<u>(10,921)</u>

#### 10. Investment properties

##### Cost/valuation

At 1 January	-	-
Additions (transferred from capital work-in-progress)	18,917,539	-
Disposals	-	-
Revaluation surplus	-	-
At 31 December	<u>18,917,539</u>	<u>-</u>

**Notes to the Financial Statements ( contd. )**

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

**11. Stocks**

	2005	2004
Trade stocks	47,083,369	22,599,620
Goods in transit	93,231	10,855,170
Work-in-progress	775,774	850,890
Non-trade stocks	919,945	437,148
	<u>48,872,319</u>	<u>34,542,828</u>

**12. Debtors**

Trade debtors	33,897,491	36,441,440
Staff debtors	984,760	977,332
Other debtors and prepayments	518,235	445,551
	<u>35,400,486</u>	<u>37,864,323</u>

The maximum amount of staff indebtedness during the year did not exceed **c1,000,000,000** (2004: c1,000,000,000).

**13. Tax**

Year of assessment	Balance at 1 January 2005	Payments	Charge for the year	Balance at 31 December 2005
<b>Current tax</b>				
Up to 2002	461,686	-	-	461,686
2003	265,612	-	-	265,612
2004	(208,930)	-	-	(208,930)
2005	-	(2,312,661)	2,079,538	(233,123)
	<u>518,368</u>	<u>(2,312,661)</u>	<u>2,079,538</u>	<u>285,245</u>

**14. Creditors**

	2005	2004
Trade creditors	42,660,415	37,617,338
Accrued charges	565,758	2,010,012
Sundry creditors	1,109,659	1,440,984
	<u>44,335,832</u>	<u>41,068,334</u>

**15. Bank overdrafts**

At the balance sheet date the company had certain banking facilities not exceeding **c10,500 million** (2004: c5,500 million). The facilities are secured by a debenture over the floating assets of the company, a legal mortgage over specified properties and a lien over trading stocks.

**16. Dividend**

The directors propose a dividend per share of **c40.00** (2004: c30.00) amounting to **c2,003,837,000** (2004: c1,502,877,750).



### Notes to the Financial Statements ( contd. )

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

#### 17. Loans

	Balance at 1/1/2005	Drawdown	Repayment	Exchange rate adjustment	Balance at 31/12/2005
Bank loans	18,500,611	<u>3,937,317</u>	<u>(7,290,928)</u>	<u>55,284</u>	<u>15,202,284</u>
Current portion of loans		<u>(7,326,560)</u>			<u>(6,604,856)</u>
Non-current portion of loans	<u>11,174,051</u>				<u>8,597,428</u>

The bank loans comprise the following facilities:

- (a) US\$850,000 with Standard Chartered Bank Ghana Limited to be paid by January 2006;
- (b) US\$2 million with Barclays Bank of Ghana Limited to be paid by January 2010; and
- (c) A stock loan of c4 billion with Standard Chartered Bank Ghana Limited to be paid by April 2006.

The stock loan attracts interest at 26% p.a. The other loans attract interest at the higher of 6 months LIBOR plus 3% p.a. and 7% p.a. The loans are secured by a floating charge on certain fixed assets of the company.

#### 18. Stated Capital

The company has **100,000,000** authorised ordinary shares of no par value out of which **50,095,925** (2004: 50,095,925) have been issued as follows:

	2005		2004	
	No. of shares	Amount	No. of shares	Amount
Issued for cash	11,426,643	477,920	11,426,643	477,920
Rights Issue	34,011,865	27,087,899	34,011,865	27,087,899
Transfer from income surplus	<u>4,657,417</u>	<u>149,037</u>	<u>4,657,417</u>	<u>149,037</u>
	<u>50,095,925</u>	<u>27,714,856</u>	<u>50,095,925</u>	<u>27,714,856</u>

There is no unpaid liability on any share and there are no calls or instalments unpaid. There are no treasury shares.

#### 19. Capital Surplus Account

The capital surplus arose from the professional revaluation of the company's land and buildings at 31 December 2001.





**Notes to the Financial Statements ( contd. )**

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

<b>20. Cash generated from operations</b>		
	<b>2005</b>	<b>2004</b>
Profit before tax	10,058,324	7,675,037
Depreciation charge	2,507,296	2,098,479
Exchange loss/(gain) on bank borrowings	55,284	(99,655)
(Profit)/loss on disposal of property, plant and equipment	(50,964)	52,167
Profit on disposal of investments	-	(10,921)
Bank interest expense	3,600,861	2,068,065
Bank interest income	(70,146)	(84,026)
Net increase in stocks	(14,329,491)	(295,379)
Net decrease/(increase) in debtors	2,463,837	(15,737,898)
Net increase in creditors	3,128,505	4,848,666
<b>Cash generated from operations</b>	<b>7,363,506</b>	<b>514,535</b>

**21. Cash and cash equivalents**

Cash and cash equivalents comprise the following:

	<b>2005</b>	<b>2004</b>
Bank and cash balances	2,231,345	3,720,561
Bank overdrafts	(10,388,168)	(921,801)
	<b>(8,156,823)</b>	<b>2,798,760</b>

**22. Deferred tax**

Details of the full potential liability and the provision made are as follows: -

	2005		2004	
	Potential liability	Provision made	Potential liability	Provision made
Accelerated capital allowances	4,730,080	-	8,795,371	-
Other timing differences	15,480	-	27,903	-
	<b>4,745,560</b>	<b>-</b>	<b>8,823,274</b>	<b>-</b>

No provision has been made in the financial statements for the potential deferred tax liability because it is not expected to crystallise within the foreseeable future based on the company's capital expenditure projections.

**23. Capital commitments**

Capital commitments at the balance sheet date amounted to cNil (2004: c1,400,000,000).

**24. Contingent liabilities**

There were no contingent liabilities at the balance sheet date (2004: Nil).



**Financial Summaries**

	31.12.01	31.12.02	31.12.03	31.12.04	31.12.05
	c'000	c'000	c'000	c'000	c'000
Turnover	56,867,746	84,041,473	92,290,931	120,401,856	111,753,711
P/(L) before Taxation	5,036,798	5,459,113	7,356,673	7,806,136	10,058,324
Taxation	1,422,153	1,641,690	2,435,152	2,141,563	2,079,538
P/(L) after Taxation	3,614,645	3,817,423	4,921,521	5,664,573	7,978,786
Dividends	901,727	961,842	1,202,302	1,502,878	2,003,837
P/(L) Transferred	2,712,918	2,855,581	3,719,219	4,161,695	5,974,949
<b>BALANCE SHEET</b>					
Fixed Assets	33,669,446	37,033,753	46,344,712	57,472,093	43,846,439
Investment properties	-	-	-	-	18,917,539
Cash/Investments	4,120,778	8,154,891	9,109,450	3,720,561	2,231,345
Other Current Assets	25,363,852	40,972,016	56,373,838	72,852,965	84,272,805
Total Assets	63,154,076	86,160,660	111,828,000	134,045,619	149,268,128
Less C/Liabilities	26,089,958	36,960,215	50,763,838	51,692,993	63,617,938
<b>TOTAL NET ASSETS</b>	<b>37,064,118</b>	<b>49,200,445</b>	<b>61,064,162</b>	<b>82,352,626</b>	<b>85,650,190</b>
Financed as follows:					
Stated Capital	2,666,894	2,666,894	2,666,894	27,714,856	27,714,856
Capital Surplus	29,450,179	29,450,179	29,450,179	29,450,179	29,450,179
Income Surplus	3,267,045	6,122,626	9,841,845	14,003,540	19,887,727
Medium Term Loans	35,384,118	38,239,699	41,958,918	71,168,575	77,052,762
	1,680,000	10,960,746	19,105,280	11,174,051	8,597,428
	37,064,118	49,200,445	61,064,198	82,342,626	85,650,190
<b>STATISTICS</b>					
	2001	2002	2003	2004	2005
Earnings/Share	90.35	95.25	122.80	113.07	159.27
Net Assets/Share	882.93	954.16	1,046.96	1,420.65	1,538.10
Current Assets/Current Liabilities	1.13	1.33	1.29	1.48	1.36
Return on S/holders' Fund	10.22%	9.98%	11.73%	7.96%	10.35%
Return on Turnover	6.36%	4.54%	5.33%	4.70%	7.14%



### Shareholding Analysis as at 31 December 2005

Categories of Shares	No. of Holders	Holding	% Of Total Holding
1 - 1,000	3,187	1,350,694	2.70
1,001 - 5000	803	1,781,699	3.56
5,001 - 10,000	119	923,987	1.84
10,001 and over	156	46,039,545	91.90
	<u>4,265</u>	<u>50,095,925</u>	<u>100.00</u>

### Directors' Shareholdings

The following Directors held shares as at 31 December, 2005

Name	No. of Shares
Mr. Y. M. Sarpong	140,000
Mr. T. R. Darko	9,727,202
Mr. C. S. Aidoo	438,000
Mr. Yaw Assah - Sam	21,500
Mr. N. K. Bulley	43,376
Mr. N. K. Bulley (jointly with Mrs Agnes Jane Bulley)	20,600
Mr. A. Lawson	75,000
Mr. C. B. K. Zwennes (jointly with Mrs. Jacqueline Zwennes)	53,557



**Proxy Form**

Annual General Meeting to be held at 11.00 am. on Thursday, 08 June, 2006 at the **Accra International Conference Centre, Accra.**  
I / We.....

of .....  
being a member(s) of Mechanical Lloyd and entitled to attend and vote at Annual / Extra-Ordinary General Meetings of the Company hereby appoint :

of.....  
as my proxy to attend and vote for me and on my behalf at the Annual General Meeting of the Company to be held on 08 June, 2006.

Dated this ..... Day of ..... 2006

Shareholder's Signature

**This Proxy form should not be completed and sent to the Registrar's if the member will be attending the meeting.**

**Note:**  
Please sign the above Proxy Form and post it so as to reach the address shown below not later than 48 hrs.before the meeting.

Registrar's Dept.  
Merchant Bank(Ghana) Limited,  
57 Examination Loop,  
North Ridge, P.O. Box 401,Accra

	No. of Shares	
	For	Against
For Company's Use		
<b>Resolution</b>		
1. To receive the Accounts		
2. To declare a dividend		
3. To re-elect Mr. C. S. Aidoo as Director		
4. To re-elect Mr. N. K. Bulley as Director		
5. To approve non-executive Directors' fees		
6. To authorise the Directors to fix the remuneration of the Auditors.		

Please indicate with an "X" in the space above how you wish your votes to be cast on each of the above resolutions.



MECHANICAL LLOYD COMPANY LIMITED

**Admission Form**

Annual General Meeting to be held at the **Accra International Conference Centre, Accra** on Thursday, 08 June, 2006 at 11.00 o'clock in the forenoon.

Full name and address of shareholder .....

Number of shares held .....

**IMPORTANT:** This Admission Form must be produced by the Shareholder or his proxy in order to obtain entrance to the Annual General Meeting.



Second Fold Here

First Fold Here

Please Affix  
Stamp

Merchant Bank(Ghana) Limited,  
Registrar's Dept.  
57 Examination Loop,  
North Ridge,  
P.O. Box 401,Accra

