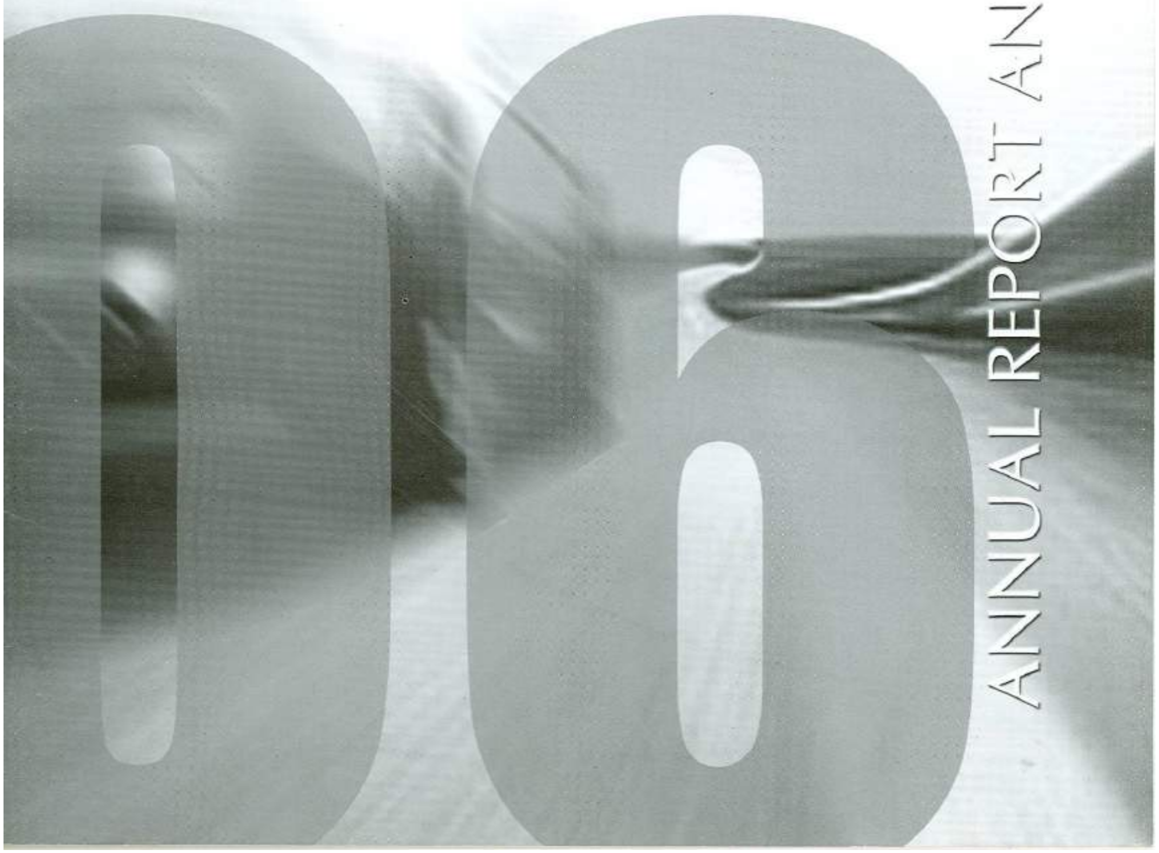
Mechanical Lloyd Company Limited

ANNUAL REPORT AND ACCOUNTS 2006



MECHANICAL LLOYD COMPANY LIMITED

Annual Report and Financial Statements for the year ended 31 December 2006

CONTENTS

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 Napoleon Kpakpo Bulley Andrew Lawson Charles Bartels Kwesi Zwennes Irene Addo (Mrs) *(Resigned 1 Dec. 2006)*
Secretary	Caroline Darko
Solicitor	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 No. 12 Aviation Road UNA Home, 3rd Floor, Airport City 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 Stanbic Bank Ghana Limited Fidelity Bank Limited

NOTICE OF THE FIFTEENTH ANNUAL GENERAL MEETING OF MECHANICAL LLOYD CO. LTD.

Notice is Hereby given that the **Fifteenth** Annual Genral 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 Tuesday, **12 June, 2007** 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, 2006 together with the Profit and Loss and Income Surplus Accounts for the year ended, 31 December, 2006 and the Report of the Auditors thereon.

2. To declare a dividend for the year ended, 31 December, 2006.

3. To re-elect the following Directors retiring by rotation:
   i. Mr. Andrew Lawson.
   ii. Mr. Yaw Assah - Sam.

4. 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, 2007.

BY ORDER OF THE BOARD

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

Caroline Darko
Secretary.

FINANCIAL HIGHLIGHTS

(All amounts are expressed in thousands of cedis)

	2006	2005	% Change
Turnover	**125,271,873**	111,753,711	12.10
Profit Before Tax	**8,812,657**	10,058,324	(12.38)
Profit After Tax	**7,508,885**	7,978,786	(5.89)
Dividend proposed	**2,003,837**	2,003,837	0.00
Retained Profit	**5,505,048**	5,974,949	(7.86)
Shareholders' funds	**82,557,810**	77,052,762	7.14
Capital expenditure	**5,535,661**	7,834,217	(29.34)
Total assets	**156,436,947**	149,268,128	4.80
Dividend per share (¢)	**40.00**	40.00	0.00
Earnings per share (¢)	**149.89**	159.27	(5.89)
Net assets per share (¢)	**1,647.99**	1,538.10	7.14

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of the company for the year ended 31 December 2006.

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 the same. The company also builds and acquires properties for rental.

Financial results

The financial results of the company are set out below:

	2006	2005
	¢'000	¢'000
Profit before tax for the year ended 31 December is	8,812,657	10,058,324
from which is deducted tax of	(1,303,772)	(2,079,538)
giving a profit after tax for the year of	7,508,885	7,978,786
to which is added balance brought forward on Income Surplus Account of	19,887,727	13,912,778
giving a balance of	27,396,612	21,891,564
out of which the directors recommend to be paid a dividend amounting in total to	(2,003,837)	(2,003,837)
which leaves a balance carried forward on Income Surplus Account of	25,392,775	19,887,727

The company's net worth increased from ¢77.0 billion as at 1 January 2006 to **¢82.5 billion** at the end of 2006.

REPORT OF THE DIRECTORS (CONT'D.)

Dividend

The directors recommend the payment of a dividend for the year ended 31 December 2006 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

Y.M. SARPONG	**T.R. DARKO**
CHAIRMAN	**MANAGING DIRECTOR**

29th March 2007

CHAIRMAN'S REVEIW OF 2006

Ladies and Gentlemen, it is my pleasure to welcome you, on behalf of my fellow Board Members to the 15th Annual General Meeting of your Company.

The Government's continuing pursuit of sound economic policies, which has won for it the World Bank's top ranking in Africa in overall performance in business reforms, was responsible for the economy remaining in healthy shape during the year. All key economic indicators moved in the right direction.

Growth in GDP continued to improve, reaching 6.2% per annum as compared to 5.8% per annum in 2005.

Strong export performance neutralised an increased import bill, in which high and volatile oil prices featured prominently, to result in a narrowing of the usually high balance of trade deficit, and an improved Balance of Payment surplus position.

This was aided by ever-increasing private inward remittances, now running at about $5.8 billion per annum, to improve the level of foreign reserves to maintain the local currency in its relatively stable mode against the major currencies.

Inflation which started the year at 14.8% per annum declined steadily to 9.5% in April 2006. However due to fuel price adjustments in the first half of the year following hefty and volatile increases in world oil prices, reaching over $70 per barrel at one point, it climbed up to 11.4% in July. The economy demonstrated its resilience by absorbing these increases and still managing to reduce inflation steadily to 10.5% by the end of the year. The Bank of Ghana responded to this decline by decreasing its Prime Rate from 16.5% per annum at the beginning of the year to 12.5% per annum in December. This in turn led to some reduction in the Base Lending Rates of the Banks.

For 2006 we achieved a Turnover of ¢125.2 billion, an increase of 12.1 % over that of 2005. This was in spite of the fact that our revenue from Parts Sales and Workshop earnings declined by 19.5% from ¢29.01 billion to ¢24.28 billion because of the following reasons:

i. About 90% of a contract we undertook in 2003 to rehabilitate some completely broken down Land Rover vehicles for the Ghana Police had been completed in 2005;

ii. The Metro Mass Transit Company ceased in 2006 to bring their buses to our Workshop for repairs and service because they had established their own.

Selling General and Administrative Expenses at ¢25.63 billion, was ¢4.69 billion or 22.4% above that of 2005.

CHAIRMAN'S REVEIW OF 2006 (CONT'D.)

Contributory factors to this increase which resulted in a reduction of equal magnitude in our "bottom line" were the following:

i. ¢1.28 billion was attributable to increased staff emolument costs to attract and retain quality staff.

ii. Apart from general provision for Bad Debts that we normally make, this year we have had to make additional specific provision of ¢1.076 billion for debts that have proven intractable to collect, and are now the subject of court action.

iii. Investment of ¢5.5 billion in machinery and special workshop tools, including new comprehensively equipped tool boxes for each of our 44 workshop staff gave rise to an extra depreciation charge for the year of ¢524.70 million.

iv. Net Finance costs increased by ¢1.6 billion on account of Arrangement Fees, Facilities Fees and other charges that the Company had to pay when it arranged and obtained new banking facilities from two new banks.

We consider these additional costs, in spite of their deleterious effect on our profitability for the year, to be investments in infrastructural, human and financial resources that will propel the Company to deliver improved returns in the coming years.

The new banking facilities are required to broaden and enhance the Company's platform for its financial requirements for future growth. This move also enables the Company to take advantage of recent competitiveness in the banking sector to reduce its charges and interest burden.

After adjusting for Other Operating Income of ¢4.77 billion (2005: ¢4.37 billion) made up of Fees and Sales Commission earned from DAFBus, and Other Income of ¢1.8 billion including Exchange Gain of ¢1.57 billion (2005: ¢886 million) we ended the year with a Net Profit Before Tax of ¢8.81 billion. (2005: ¢10.06 billion) and a Net Profit After Tax of ¢7.51 billion which is 6.26% below that of 2005 of ¢7.98 billion.

DIVIDEND

On the basis of the above results, the Directors recommend the payment of a Dividend of ¢40.0 per share.

FORD

Ford bounced back in 2006 and is now firmly entrenched as our biggest franchise, contributing 55% of our Total Turnover. From its dismal performance in 2005 of achieving only 63% of budgeted sales it recorded 101% of an increased budgeted figure. This was even in spite of shipment delays which caused loss of sales on some models. Our sales to the private retail segment remains strong and is largely responsible for this performance. Sales to Government and MDA's though still weak, are beginning to show improvement. As we make inroads into this rather large (40 - 45%) segment of the market, and also introduce the saloon cars we expect our Ford performance to improve further.

CHAIRMAN'S REVEIW OF 2006 (CONT'D.)

BMW

BMW achieved 82% of budget. Apart from the X5 which achieved 118% of budget the other models all missed their targets. We are eagerly awaiting the introduction of the new X5 into our market in June 2007.

MASSEY FERGUSON (MF)

MF had a poor year, achieving only 48% of targeted sales. Two reasons account for this. The importation by the government of 1000 small cheaper tractors from India all but killed the demand from most farmers for our brand. Secondly, the large well-established pineapple farmers who could and would have bought our tractors, had to invest their resources to re-crop their plantations with a new pineapple variety - the MD2, in replacement of the old variety - the smooth Cayenne which is no longer in demand in their European export markets. Fortunately, these same farmers have been identified to receive funding from the portion of the Millennium Challenge Account earmarked for agriculture; and they will be in a position to buy new tractors in the coming years.

DAFBUS PROJECT

The Third phase of the DAFBus Project on which I reported last year has materialised. The first 20 of the 75 Chassis which were programmed to arrive in 2006 arrived in November and have been assembled by Neoplan in Kumasi and put to use. Two more consignments of 24 and 30 Chassis have since arrived and are currently being assembled.

OUTLOOK FOR 2007

We are pleased with the result of our initial foray into the Property business and are looking for prime land to further pursue this line of diversification.

We have made the necessary infrastructural investment in physical and IT facilities and also procured the requisite financial resources that will be needed for our future growth and expansion.

The government and the Bank of Ghana for their part continue to create the conducive environment to grow the economy. To this end the Bank of Ghana in August 2006 abolished the Secondary Reserve to free more resources for lending by the banks and topped that with a further reduction in its Prime Rate in December 2006. It is our view, however, that the response of the commercial banks to these bold initiatives is feeble and inadequate, and may very well prevent the full realisation of their potential.

I would like to thank my fellow Directors for their support and contribution, and the Management and Staff of the Company for their good work and dedication to duty.

Y.M. Sarpong

Y.M. SARPONG (CHAIRMAN)

CORPORATE GOVERNANCE REPORT

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 seven 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 SHAREHOLDERS OF MECHANICAL LLOYD COMPANY LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Mechanical Lloyd Company Limited on pages 15 to 27, which comprise the balance sheet as of 31 December 2006 and the profit and loss account, statement of changes in shareholders' equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

As stated on page 8, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with Ghana Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditors' Responsibility

Our responsibility is to express an 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 the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers 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 as 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 financial position of the Company as of 31 December 2006, and of its financial performance and its 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 to you on the following matters. We confirm that:

i. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our 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; and
iii. the balance sheet and profit and loss account of the company are in agreement with the books of accounts.

PricewaterhouseCoopers

Chartered Accountants

3rd April 2007

PRICEWATERHOUSECOOPERS

PROFIT AND LOSS ACCOUNT

(All amounts are expressed in thousands of cedis)

	Notes	Year ended 31 December 2006	2005
Turnover	1	**125,271,873**	111,753,711
Cost of sales		**(94,747,275)**	(85,344,013)
Gross Profit		**30,524,598**	26,409,698
Selling, General and Administrative Expenses	2	**(25,910,756)**	(20,939,983)
		4,613,842	5,469,715
Other operating income	3	**4,773,417**	4,374,834
Operating Profit		**9,387,259**	9,844,549
Other income	4	**1,800,931**	985,220
Finance (costs) / income - net	5	**(2,375,533)**	(771,445)
Profit Before Tax		**8,812,657**	10,058,324
Tax	11	**(1,303,772)**	(2,079,538)
Net Profit After Tax Transferred to Income Surplus Account		**7,508,885**	7,978,786

INCOME SURPLUS ACCOUNT

	2006	2005
Balance at 1 January	**19,887,727**	13,912,778
Net profit for the year	**7,508,885**	7,978,786
	27,396,612	21,891,564
Dividend proposed	**(2,003,837)**	(2,003,837)
Balance at 31 December	**25,392,775**	19,887,727

The accounting policies and notes on pages 19 to 27 form an integral part of these financial statements.

BALANCE SHEET

(All amounts are expressed in thousands of cedis)

	Notes	At 31 December 2006	2005
Non-Current Assets			
Property, plant and equipment	7	**45,815,630**	43,846,439
Investment properties	8	**18,917,539**	18,917,539
		64,733,169	62,763,978
Current Assets			
Stocks	9	**49,654,964**	48,872,319
Tax receivable	11	**2,033,867**	-
Debtors	10	**35,595,172**	35,400,486
Bank and cash balances		**4,419,775**	2,231,345
		91,703,778	86,504,150
Current Liabilities			
Creditors	12	**46,298,950**	44,335,832
Bank overdrafts	13	**1,857,363**	10,388,168
Tax payable	11	-	285,245
Dividend payable	14	**2,003,837**	2,003,837
Current portion of loans	15	**10,117,452**	6,604,856
		60,277,602	63,617,938
Net Current Assets		**31,426,176**	22,886,212
Non-current portion of loans	15	**(13,601,535)**	(8,597,428)
Net Assets		**82,557,810**	77,052,762
Shareholders' Funds:			
Stated capital	16	**27,714,856**	27,714,856
Capital surplus account	17	**29,450,179**	29,450,179
Income surplus account		**25,392,775**	19,887,727
		82,557,810	77,052,762

The financial statements on pages 15 to 27 were approved by the Board of Directors on 29th March 2007 and signed on its behalf by:

Y.M. Sarpong (Chairman) | **T.R. Darko (Managing Director)**

The accounting policies and notes on pages 19 to 27 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 2006	27,714,856	29,450,179	19,887,727	**77,052,762**
Net profit	-	-	7,508,885	**7,508,885**
Dividend proposed	-	-	(2,003,837)	**(2,003,837)**
At 31 December 2006	**27,714,856**	**29,450,179**	**25,392,775**	**82,557,810**
Balance at 1 January 2005	27,714,856	29,450,179	13,912,778	71,077,813
Net profit	-	-	7,978,786	7,978,786
Dividend proposed	-	-	(2,003,837)	(2,003,837)
At 31 December 2005	27,714,856	29,450,179	19,887,727	77,052,762

The accounting policies and notes on pages 19 to 27 form an integral part of these financial statements.

CASH FLOW STATEMENT

(All amounts are expressed in thousands of cedis)

	Notes	Year ended 31 December 2006	2005
Operating Activities			
Cash generated from operations	18	**17,306,312**	7,363,506
Interest received		**54,205**	70,146
Interest paid		**(4,178,793)**	(3,461,868)
Tax paid	11	**(3,622,884)**	(2,312,661)
Net Cash Generated from Operating Activities		**9,558,930**	1,659,123
Investing Activities			
Purchase of property, plant and equipment	7	**(5,535,661)**	(7,834,217)
Proceeds from disposal of property, plant and equipment	7	**475,917**	76,000
Net Cash Used in Investing Activities		**(5,059,744)**	(7,758,217)
Financing Activities			
Loans received	15	**32,178,760**	3,937,317
Repayment of loans	15	**(23,954,874)**	(7,290,928)
Dividend paid		**(2,003,837)**	(1,502,878)
Net cash generated from/(used in) financing activities		**6,220,049**	(4,856,489)
Net Increase/(Decrease) in Cash and Cash Equivalents		**10,719,235**	(10,955,583)
Movement in Cash and Cash Equivalents			
At start of year		**(8,156,823)**	2,798,760
Increase/(decrease) in year		**10,719,235**	(10,955,583)
At end of year	19	**2,562,412**	(8,156,823)

The accounting policies and notes on pages 19 to 27 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 the directors 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 [CONT'D.]

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 are expressed in thousands of cedis (¢) unless otherwise stated)

1. Turnover

	2006	2005
Motor vehicles and farm machinery sales	**98,786,133**	81,283,954
Spare parts sales and workshop earnings	**24,283,924**	29,010,347
Rental income from investment properties	**2,201,816**	1,459,410
	125,271,873	111,753,711

2. Selling, General and Administrative Expenses

Selling, general and administrative expenses include:

Depreciation	**3,032,090**	2,507,296
Directors' emoluments	**2,363,328**	1,743,968
National reconstruction levy	-	150,875
Auditors' remuneration	**238,056**	187,200
Donations	**161,204**	55,120

The national reconstruction levy no longer applies to the company with effect from 1 January 2006, (Act 597) (2005:1.5% 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. Other Income

	2006	2005
Miscellaneous income	**282,972**	48,018
Exchange gain	**1,576,422**	886,238
(Loss)/profit on sale of property, plant and equipment	**(58,463)**	50,964
	1,800,931	985,220

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

(All amounts are expressed in thousands of cedis (¢) unless otherwise stated)

5. Finance (Costs) / Income - Net

	2006	2005
Bank interest expense	**(4,280,240)**	(3,600,861)
Interest income on credit sales and bank interest income	**1,904,707**	2,829,416
	(2,375,533)	(771,445)

6. Staff Costs

	2006	2005
Wages and salaries (including executive directors' salaries)	**10,515,159**	9,449,269
Social security contributions	**1,171,963**	953,576
	11,687,122	10,402,845

The average number of persons employed by the company during the year was **165** (2005:167).

7. Property, Plant and Equipment

	Buildings	Plant and machinery, equipment, Furniture and vehicles	Capital Work-in-progress	Total
Cost/Valuation				
At 1 January 2006	38,339,274	17,464,993	800,013	**56,604,280**
Additions	-	5,535,661	-	**5,535,661**
Disposals	-	(831,418)	-	**(831,418)**
At 31 December 2006	38,339,274	22,169,236	800,013	**61,308,523**
Accumulated Depreciation				
At 1 January 2006	6,274,756	6,483,085	-	**12,757,841**
Charge for year	825,142	2,206,948	-	**3,032,090**
Disposals	-	(297,038)	-	**(297,038)**
At 31 December 2006	7,099,898	8,392,995	-	**15,492,893**
Net book value				
At 31 December 2006	**31,239,376**	**13,776,241**	**800,013**	**45,815,630**
At 31 December 2005	32,064,518	10,981,908	800,013	43,846,439

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

(All amounts are expressed in thousands of cedis (¢) unless otherwise stated)

7. 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:

	2006	2005
Cost	**9,005,354**	9,005,354
Accumulated depreciation	**(2,067,161)**	(1,963,138)
Net book value	**6,938,193**	7,042,216

Loss/(profit) on disposal of property, plant and equipment

Cost	**831,418**	97,292
Accumulated depreciation	**(297,038)**	(72,256)
Net book value	**534,380**	25,036
Proceeds of sales	**(475,917)**	(76,000)
Loss/(profit)	**58,463**	(50,964)

8. Investment Properties

Cost/Valuation		
At 1 January	**18,917,539**	-
Additions (transferred from capital work-in-progress)	-	18,917,539
Revaluation surplus	-	-
At 31 December	**18,917,539**	18,917,539

9. Stocks

	2006	2005
Trade stocks	**46,233,403**	47,083,369
Goods in transit	**2,501,213**	93,231
Work-in-progress	**720,000**	775,774
Non-trade stocks	**200,348**	919,945
	49,654,964	48,872,319

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

(All amounts are expressed in thousands of cedis (¢) unless otherwise stated)

10. **Debtors**

Trade debtors	**34,607,272**	33,897,491
Staff debtors	**727,131**	984,760
Other debtors and prepayments	**260,769**	518,235
	35,595,172	35,400,486

The maximum amount of staff indebtedness during the year did not exceed **¢1,000,000,000** (2005: ¢1,000,000,000).

11. **Tax**

Year of assessment	Balance at 1 January 2006	Payments	Charge for the year	Balance at 31 December 2006
Current tax				
Up to 2004	518,368			518,368
2005	(233,123)			(233,123)
2006	-	(3,622,884)	1,303,772	(2,319,112)
	285,245	**(3,622,884)**	**1,303,772**	**(2,033,867)**

12. **Creditors**

	2006	2005
Trade creditors	**45,138,479**	42,660,415
Accrued charges	**326,554**	565,758
Sundry creditors	**833,917**	1,109,659
	46,298,950	44,335,832

13. **Bank Overdrafts**

At the balance sheet date the company had certain banking facilities not exceeding **¢12,000 million** (2005: ¢10,500 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.

The overdraft attracts interest at 21.25% per annum.

The Banks have provided some of the company's suppliers with guarantees of payment up to $370,000 from Fidelity Bank Limited and $5.35 million from Barclays Bank of Ghana Limited. These guarantees attract interest charges as and when it is accessed by the company.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

(All amounts are expressed in thousands of cedis (¢) unless otherwise stated)

14. **Dividend**

The directors propose a dividend per share of **¢40.00** (2005: ¢40.00) amounting to **¢2,003,837,000** (2005: ¢2,003,837,000).

15. **Loans**

	Balance at 1/1/2006	Drawdown	Repayment	Exchange rate adjustment	Balance at 31/12/2006
Bank loans	15,202,284	32,178,760	(23,954,874)	292,817	**23,718,987**
Current portion of loans	(6,604,856)				**(10,117,452)**
Non-current portion of loans	8,597,428				**13,601,535**

The bank loans comprise the following facilities:

a. US$1.5 million with Fidelity Bank Limited to be paid by July 2009;
b. US$2 million with Barclays Bank of Ghana Limited to be paid by January 2010; and
c. US$530 thousand with Barclays Bank of Ghana Limited to be paid by January 2008.

The Barclays loans attract interest on a floating rate basis at a percentage rate per annum equal to the aggregate of the margin of 2% per annum plus the Barclays' Base Rate (currently at 8.5% per annum). The Fidelity loan attracts interest on a floating rate basis at a percentage rate per annum. The interest is charged at US Prime rate (presently at 8%) plus 1% per annum. The loans are secured by both fixed and floating charges on certain fixed assets of the company.

16. **Stated Capital**

The company has 100,000,000 authorised ordinary shares of no par value out of which 50,095,925 (2005: 50,095,925) have been issued as follows:

	2006	2005	2006	2005
	No. of shares		Amount	
Issued for cash	**11,426,643**	11,426,643	**477,920**	477,920
Rights issue	**34,011,865**	34,011,865	**27,087,899**	27,087,899
Transfer from income surplus	**4,657,417**	4,657,417	**149,037**	149,037
	50,095,925	50,095,925	**27,714,856**	27,714,856

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

(All amounts are expressed in thousands of cedis (¢) unless otherwise stated)

17. **Capital Surplus Account**

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

18. **Cash Generated from Operations**

	2006	2005
Profit before tax	**8,812,657**	10,058,324
Depreciation charge	**3,032,090**	2,507,296
Exchange loss on bank borrowings	**292,817**	55,284
Loss/(profit) on disposal of property, plant and equipment	**58,463**	(50,964)
Bank interest expense	**4,280,240**	3,600,861
Bank interest income	**(54,205)**	(70,146)
Net increase in stocks	**(782,645)**	(14,329,491)
Net (increase)/decrease in debtors	**(194,686)**	2,463,837
Net increase in creditors (less accrued bank interest)	**1,861,581**	3,128,505
Cash generated from operations	**17,306,312**	7,363,506

19. **Cash and Cash Equivalents**

Cash and cash equivalents comprise the following:

	2006	2005
Bank and cash balances	**4,419,775**	2,231,345
Bank overdrafts	**(1,857,363)**	(10,388,168)
	2,562,412	(8,156,823)

20. **Deferred Tax**

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

	2006		2005	
	Potential liability	**Provision made**	Potential liability	Provision made
Accelerated capital allowances	**4,325,248**	-	4,730,080	-
Other timing differences	**320,576**	-	15,480	-
	4,645,824	-	4,745,560	-

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)

(All amounts are expressed in thousands of cedis (¢) unless otherwise stated)

21. Capital Commitments

Capital commitments at the balance sheet date amounted to **Nil** (2005: Nil).

22. Contingent Liabilities

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

23. Comparatives

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

24. Investment Properties

Valuation of investment properties by the directors during the year amounted to ¢26,087,880,000. The surplus over book value of ¢ 7.17 billion has not being recognised in the financial statements.

FINANCIAL SUMMARIES

	31.12.02	31.12.03	31.12.04	31.12.05	31.12.06
	¢'000	¢'000	¢'000	¢'000	¢'000
Turnover	84,041,473	92,290,931	120,401,856	111,753,711	125,271,873
P/(L) before Taxation	5,459,113	7,356,673	7,806,136	10,058,324	8,812,657
Taxation	1,641,690	2,435,152	2,141,563	2,079,538	1,303,772
P/(L) after Taxation	3,817,423	4,921,521	5,664,573	7,978,786	7,508,885
Dividends	961,842	1,202,302	1,502,878	2,003,837	2,003,837
P/(L) Transferred	2,855,581	3,719,219	4,161,695	5,974,949	5,505,048
BALANCE SHEET					
Fixed Assets	37,033,753	46,344,712	57,472,093	43,846,439	64,733,169
Investment Properties	0	0	0	18,917,539	18,917,539
Cash / Investments	8,154,891	9,109,450	3,720,561	2,231,345	4,419,775
Other Current Assets	40,972,016	56,373,838	72,852,965	84,272,805	85,250,136
Total Assets	86,160,660	111,828,000	134,045,619	149,268,128	173,320,619
Less C/Liabilities	36,960,215	50,763,838	51,692,993	63,617,938	60,277,602
TOTAL NET ASSETS	**49,200,445**	**61,064,162**	**82,352,626**	**85,650,190**	**113,043,017**
Financed as follows:					
Stated Capital	2,666,894	2,666,894	27,714,856	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	6,122,626	9,841,845	14,003,540	19,887,727	25,392,775
	38,239,699	41,958,918	71,168,575	77,052,762	82,557,810
Medium Term Loans	10,960,746	19,105,280	11,174,051	8,597,428	13,601,535
	49,200,445	**61,064,198**	**82,342,626**	**85,650,190**	**96,159,345**
STATISTICS	2002	2003	2004	2005	2006
Earnig/Share	95.25	122.80	113.07	159.27	149.89
Net Assets/Share	954.16	1,046.96	1,420.65	1,538.10	1,647.99
Current Assets/ Current Liabilities	1.33	1.29	1.48	1.36	1.52
Return on S/Holder's Fund	9.98%	11.73%	7.96%	10.35%	9.10%
Return on Turnover	4.54%	5.33%	4.70%	7.14%	5.99%

SHAREHOLDING ANALYSIS AS AT 31 DEC. 2006

Categories of Shares	No. of Holders	Holding	% Of Total Holding
1 - 1,000	3,174	1,344,940	2.68
1,001 - 5000	797	1,763,437	3.52
5,001 - 10,000	116	904,404	1.81
10,001 and over	159	46,083,144	91.99
	4,246	**50,095,925**	**100.00**

Directors' Shareholdings

The following Directors held shares as at 31 December, 2006

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 Genral Meeting to be Held at 11.00 am. On Tuesday, 12 June, 2007 at 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 12 June, 2007.

Dated this .... Day of 2007

....
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

For Company's Use	No. of Shares	
Resolution	**For**	**Against**
1. To recieve the Accounts		
2. To declare a dividend		
3. To re-elect Mr. A. Lawson as Director		
4. To re-elect Y. Assah-Sam as Director		
5. 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 **Accra International Conference Centre,** Accra onTuesday, 12 June, 2007 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

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