



FALCON INVESTMENT  
HOLDINGS  
SOCIETE ANONYME

2004



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# Falcon Investment Holdings Société Anonyme

(Incorporated in Luxembourg)

R.C. Luxembourg No. B 39773

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## Directors

D.C. MARSHALL, *Chairman*, age 60

Mr Marshall has been a Director and Chairman of Falcon since 1993. He resides in South Africa, where he has extensive interests in listed trading, financial and property companies. In recent years he has taken a leading role in the re-organisation and development of medium sized listed companies in the U.K. and overseas. He is the chief executive of Monteagle Holdings S.A. and a non-executive director of Conafex Holdings S.A. He is also chairman of a number of listed English and South African companies, including Creston plc, London Finance & Investment Group P.L.C., Western Selection P.L.C. and Marshalls Limited. He is a non-executive director of Finsbury Food Group plc and Marylebone Warwick Balfour Group Plc.

A.R.C. BARCLAY, FCA age 65 †

Mr Barclay joined the board in 1993. He is a Chartered Accountant and a director of Monteagle Holdings S.A. and Western Selection P.L.C. He was chief executive of City Group P.L.C., Falcon's administrative and corporate secretary between 1980 and 1999.

C.P. JOUSSE, B Econ. age 56

Mr Jousse has been a Director of Falcon since 1993. He is the chief executive of Conafex Holdings S.A. and was largely responsible for the reorganisation of that Group's agricultural interests. He resides in Zimbabwe and is a non-executive director of several companies outside of the Falcon group, which are listed on the Zimbabwe Stock Exchange.

J.M. ROBOTHAM, OBE, FCA, MSI, age 71 †

Mr Robotham has been a Director of Falcon since 1993. He resides in the United Kingdom; he is Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Securities Institute and associated with J.M. Finn & Co., a firm of London stockbrokers. He is the chairman of Monteagle Holdings S.A. and a director of a number of listed English companies including London Finance & Investment Group P.L.C., Marylebone Warwick Balfour Group Plc and Western Selection P.L.C.

† Member of the Audit Committee

# Shareholder Information

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## Financial Calendar

Financial year end	30 <sup>th</sup> September 2004
Preliminary announcement of results	20 <sup>th</sup> December 2004
Annual General Meeting	24 <sup>th</sup> March 2005 at 3.00 p.m. 6 rue Adolphe Fischer, L-1520, Luxembourg
Half year	31 <sup>st</sup> March 2005
Half-year results announced	May 2005

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## Share Information

The Company has 1,864,026 shares in issue. The shares are listed on the following stock exchanges and the respective share prices as at 31<sup>st</sup> January 2005, the latest practical date, are shown.

Luxembourg	US\$ 1.9
Johannesburg	R 15.00
Zimbabwe	Z\$ 12,000

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## Group Offices

### Luxembourg (Registered Office)

6 rue Adolphe Fischer,  
L-1520 Luxembourg  
(P.O. Box 1361, L-1013 Luxembourg)  
Tel.: +352 40 25 051

### South Africa

11 Sunbury Park,  
La Lucia 4051, Durban  
(P.O. Box 4126, The Square, 4021)  
Tel.: +27 31 566 7600

### Zimbabwe

1<sup>st</sup> Floor, KPMG House,  
133 Josiah Tongogara Street,  
Bulawayo  
Tel: +263 9 76826

### United Kingdom

25 City Road,  
London, EC1Y 1BQ  
Tel: +44 20 7448 8950  
E-mail: falcon@city-group.com

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## Registrars

Maitland Luxembourg S.A.  
6 rue Adolphe Fischer,  
L-1520, Luxembourg,  
(P.O. Box 1361, L-1013 Luxembourg)

## Listing and Paying Agents

Dexia-Banque Internationale à Luxembourg  
69 route d'Esch,  
L-1470, Luxembourg

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## Transfer Agents

### Europe

Capita Registrars  
The Registry,  
34 Beckenham Road,  
Beckenham,  
Kent, BR3 4TU, U.K.  
Tel: 0870 162 3131

### South Africa

Computershare Investor Services  
2004 (Pty.) Limited  
70 Marshall Street,  
Johannesburg, 2001,  
(P.O. Box 61051, Marshalltown 2107)  
Tel: + 27 11 370 5000

### Zimbabwe

Syfrets Corporate and  
Merchant Bank  
Financial Services  
P.O. Box 2540  
4<sup>th</sup> Floor, Batanai Gardens,  
Cnr. First Street/Jason Moyo  
Avenue, Harare  
Tel: +263-4 766180

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## Auditors and Commissaire

AGN Horsburgh & Co.  
*Registered Auditors*  
15-17 avenue Gaston Diderich  
L-1420, Luxembourg

## Principal Bankers

Credit Suisse (Luxembourg) S.A.  
56 Grand Rue,  
L-1660, Luxembourg

# Chairman's Review

OF THE YEAR ENDED 30<sup>th</sup> SEPTEMBER 2004

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I am pleased to be able to report that the protracted process of liquidating our subsidiary in Chile has finally been completed and all funds have now been returned from Chile to the parent company and our co-investors. Settlement of the arbitration process regarding the interpretation of the shareholders agreement cost US\$299,000 including expenses. Additional taxes of US\$320,000 were paid to ensure that the liquidation process was not delayed by the Chilean tax authorities.

The liquidation of our Chilean subsidiary has dramatically altered the balance sheet. There were significant cash outflows in the period to settle tax liabilities and when control passed to the liquidator we ceased to consolidate its cash balances and minority interests, instead our balance sheet now shows as a receivable the cash due on completion of the liquidation.

The final distributions from Chile have been received after the year end and the Group now has liquid funds in Luxembourg available for re-investment in excess of US\$4 million (US\$2.25 per share). We continue to hold the bulk of these funds in Sterling as we expect the US Dollar to weaken further and we are looking for investment opportunities in the UK. The deposits in Sterling have generated interest income in the year of US\$122,000 and exchange gains of US\$203,000. These unrealised paper profits on exchange may increase or decrease in future periods, depending on the movement in exchange rates.

During the year we received US\$70,000 for the grant of an exclusivity period to a potential buyer of one of our subsidiaries. Discussions regarding a sale are ongoing and shareholders will be advised as soon as there is anything substantive to report. The exclusivity period has lapsed and so we have recognised this amount as exceptional income.

In the interim statement Shareholders were advised that negotiations for a potential acquisition of a new business had been discontinued, as we had been unable to agree satisfactory terms. Costs incurred of US\$46,000 were included as Operating costs in the interim report, but are now shown as part of Exceptional items.

The Zimbabwean gold mining companies in which we are invested remain in operation, but the economic situation in Zimbabwe is such that their future continues to be uncertain. Reserves are still being depleted, restricting future gold mining capabilities. Staff in the mining companies continue to work in very difficult circumstances and we remain grateful for their ongoing efforts.

We do not consolidate the accounts of our Zimbabwean subsidiaries because of an effective lack of control over these investments whose operational viability is dependent on the manner in which the Government of Zimbabwe manages the price for the compulsory purchase of gold. The situation as this review is being written is critical. Significant back-dated pay increases have just been agreed with unions and the Department of Mines but the Government has not yet granted any increase in the gold price to offset the increased operating cost. The profit generated by the mines last year was insufficient to fund the back-dated pay awards and increases in their working capital requirements due to inflation.

The search continues for a well established and profitable business in which we can re-invest our funds and so give the Company a new future.

**David C Marshall**  
Chairman

20th December 2004

## Consolidated Profit and Loss Account

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER

	Notes	2004 US\$000	2003 US\$000
Operating costs		(319)	(387)
Operating loss before interest and taxation	3 & 4	(319)	(387)
Income from investment in Zimbabwean subsidiary – dividend		-	65
Interest received		149	11
Exchange gains		206	89
Profit/(Loss) before exceptional item and taxation		36	(222)
Exceptional items	5	(275)	10,108
(Loss)/Profit before taxation		(239)	9,886
Tax charge	6	(326)	(3,199)
(Loss)/Profit on ordinary activities after tax		(565)	6,687
Minority interests		207	(4,341)
<b>(Loss)/Profit attributable to shareholders and retained for the year</b>		<b>(358)</b>	<b>2,346</b>
(Loss)/Earnings per share US cents	7	(19)c	126c
Headline earnings/(loss) per share US cents		2c	(11)c

## Consolidated Statement of Recognised Gains and Losses

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER

	2004 US\$000	2003 US\$000
Exchange differences on translation of the financial statements of foreign entities not recognised in the income statement	(6)	720
Net (loss)/profit for the year	(358)	2,346
Total recognised (losses)/gains and movement in shareholders' funds	(364)	3,066
Opening shareholders' funds	4,219	1,153
Closing shareholders' funds	3,855	4,219

The notes on pages 7 to 13 form part of these financial statements.

# Consolidated Balance Sheet

AT 30<sup>th</sup> SEPTEMBER

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	Notes	2004 US\$000	2003 US\$000
<b>Assets</b>			
<b>Non current assets</b>			
Investments	8	<u>130</u>	<u>130</u>
<b>Current Assets</b>			
Accounts receivable	9	703	57
Cash and bank balances		<u>3,166</u>	<u>8,084</u>
		<b>3,869</b>	8,141
<b>Current liabilities</b>			
Accounts payable (falling due within one year)	10	<u>(144)</u>	<u>(2,477)</u>
Net current assets		<u>3,725</u>	<u>5,664</u>
Total assets less current liabilities		<u><b>3,855</b></u>	<u>5,794</u>
<b>Capital and reserves</b>			
Called up share capital (page 15, note (d))		2,060	2,060
Legal reserves	11	402	326
Retained earnings	12	<u>1,393</u>	<u>1,833</u>
<b>Shareholders' funds</b>		<b>3,855</b>	4,219
<b>Minority interests</b>		-	<u>1,575</u>
		<u><b>3,855</b></u>	<u>5,794</u>

Approved by the Board on 31<sup>st</sup> January 2005

**D.C. MARSHALL**  
Chairman

The notes on pages 7 to 13 form part of these financial statements.

# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER

	Notes	2004 US\$000	2003 US\$000
<b>Cash flows from operating activities</b>			
Cash (used)/generated by operations	13(a)	(406)	202
Interest received		149	11
Dividend received from Zimbabwean subsidiary		-	65
Taxation paid		(1,970)	(1,157)
Net cash outflows from operating activities		<u>(2,227)</u>	<u>(879)</u>
<b>Investment activities</b>			
Purchase of tangible assets		-	(12)
Liquidation of subsidiary		(1,914)	-
Arbitration settlement		(299)	-
Net proceeds on disposal of tangible fixed assets		-	11,729
Net cash (outflow)/inflow from investment activities		<u>(2,213)</u>	<u>11,717</u>
Net cash (outflow)/inflow before financing activities		<u>(4,440)</u>	<u>10,838</u>
<b>Financing activities</b>			
Dividends paid to outside shareholders		(472)	(3,705)
Net cash outflow from financing		<u>(472)</u>	<u>(3,705)</u>
<b>Net (decrease)/increase in funds</b>	13(c)	<b>(4,912)</b>	<b>7,133</b>
<b>Net funds at start of year</b>		<b>8,084</b>	<b>319</b>
Effect of foreign exchange rate changes	13(c)	(6)	632
<b>Net funds at end of year</b>		<u><b>3,166</b></u>	<u><b>8,084</b></u>

The notes on pages 7 to 13 form part of these financial statements

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER 2004

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## 1. GENERAL

The Company is incorporated as a “société anonyme” with holding company status in the Grand Duchy of Luxembourg under the law of 31<sup>st</sup> July 1929, as amended. The capital of the parent company is denominated in euros (“€”), but in view of the international nature of the Group's operations, and, as allowed by Luxembourg law, the amounts shown in these consolidated financial statements are presented in United States dollars (“US\$”).

## 2. ACCOUNTING POLICIES

The principal accounting policies of the Group, which are set out below, have been applied consistently and comply with International Financial Reporting Standards in all respects and with Luxembourg legal requirements.

### (a) Basis of Preparation

The consolidated financial statements are prepared under the historical cost convention and on the going concern basis.

### (b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings (all of which are companies) operating outside Zimbabwe, being those companies in which the Group, directly or indirectly, has an interest of more than one-half of the voting rights and is able to exercise control over the operations. Separate disclosure is made of minority interests.

The results of non-Zimbabwean subsidiaries acquired during the year are included from the date of acquisition and for those subsidiaries disposed of during the year up to the date of disposal. On acquisition, the purchase consideration is allocated over fair values of net tangible assets. All inter-group transactions and balances are eliminated on consolidation.

#### *Investments in Zimbabwean companies*

Dividends from Zimbabwean subsidiaries are included in the consolidated profit and loss account at the US\$ value received. Dividends declared but not yet received have not been accrued. The investments in Zimbabwean companies are included in the consolidated balance sheet in accordance with IAS 39; Falcon Gold Zimbabwe Limited based on the market value of that listed investment at 30<sup>th</sup> September 2002 and Olympus Gold Mines Limited at the book value of its net assets. In the Directors' opinion, the current uncertainties in both the market and the exchange rates make it inappropriate to write back any of the provision made in previous years.

### (c) Taxation

Tax payable on distributions to the Company from the retained earnings of subsidiaries or associates is provided where there is a current intention to remit such earnings.

Deferred taxation is provided at current rates using the balance sheet liability method. Full provision is made for all temporary differences between the taxation base of assets and the liabilities and their balance sheet carrying values. Assets are not raised in respect of deferred taxation on assessed losses unless it is probable that future taxable income will be available against which the deferred tax asset can be realised in the foreseeable future.

# Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER 2004

## 2. ACCOUNTING POLICIES (continued)

### (d) Foreign Currencies

All exchange gains and losses on settlement of foreign currency transactions or the translation of monetary assets and liabilities at year-end exchange rates are included in the profit and loss account of the relevant Group company.

On consolidation, profit and loss accounts of companies expressed in a currency other than US\$ are translated at average rates of exchange for the year. Balance sheets are translated at the rates of exchange at the end of the year. Zimbabwe dollar income is converted at the exchange rate ruling on the date of receipt in hard currency. Zimbabwe dollar assets are converted at a rate which, in the Directors' opinion, is applicable.

Differences on translation arising in changes in the US\$ value of overseas net assets held at the beginning of the accounting period to that at the end of the period are shown as a movement on reserves. The exchange gain or loss arising from the difference in rates used for profit and loss and balance sheet purposes is also taken to reserves.

The rates used are:

	Profit & Loss Account		Balance Sheet	
	2004	2003	2004	2003
Euro – €1 =	US\$1.219	US\$0.915	US\$1.242	US\$0.858
United Kingdom – £1 =	US\$1.800	US\$1.605	US\$1.810	US\$1.661

### (e) Funds

For the purposes of the cash flow statement, funds comprise cash in hand, deposits held at call with banks, and investments in money market instruments.

### (f) Financial Instruments

#### *Financial Assets*

The principal financial assets are the investments in subsidiaries and the cash, bank balances and accounts receivable. Investments are stated at the values as set out in note 2(b) and other financial assets at nominal values.

#### *Financial Liabilities*

Financial liabilities are classified according to the substance of the contractual agreements entered into.

## 3. SEGMENTAL REPORTING

### *Primary reporting format – business segments*

The Group is organised on a worldwide basis into two business segments, which are also geographically distinct:

Gold mining            three gold mines in Zimbabwe. One is owned 66.67% by the Group and 33.33% (not consolidated) by Monteagle Holdings S.A., and two are wholly owned by our 57.1% subsidiary Falcon Gold Zimbabwe Limited.

Iodine deposit        a venture in Chile the assets of which were sold during the preceding year and which has since been put into liquidation.

Other operations of the Group include project costs, surplus on disposal of fixed assets and local head office costs.

### 3. SEGMENTAL REPORTING (continued)

No revenue is recorded as the Zimbabwean operating subsidiaries are not consolidated. There are no sales or other transactions between business segments. Segment assets consist of property, plant and equipment, inventories and receivables and exclude cash balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and borrowings. Capital expenditure comprises additions to property, plant and equipment.

	<b>2004</b>	2003
	<b>US\$000</b>	US\$000
	<b>Result</b>	Result
Iodine development – Chile	(61)	(82)
Other operations	(258)	(305)
	<u>(319)</u>	<u>(387)</u>
Dividend from subsidiary	-	65
Interest received	149	11
Exchange gains	206	89
Exceptional items	(275)	10,108
(Loss)/Profit before tax	<u>(239)</u>	<u>9,886</u>

	Assets	Liabilities	Net assets	Capital expenditure	Depreciation charge
	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Segmental analysis of net assets – 30<sup>th</sup> September 2004</b>					
Investment in gold mining – Zimbabwe	130	-	130	-	-
Iodine development – Chile	-	-	-	-	-
Other	703	(144)	559	-	-
Unallocated	3,166	-	3,166	-	-
Consolidated total	<u>3,999</u>	<u>(144)</u>	<u>3,855</u>	<u>-</u>	<u>-</u>

	Assets	Liabilities	Net assets/ (liabilities)	Capital expenditure	Depreciation charge
	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Segmental analysis of net assets – 30<sup>th</sup> September 2003</b>					
Investment in gold mining – Zimbabwe	130	-	130	-	-
Iodine development – Chile	1	(277)	(276)	12	-
Other	3	(217)	(214)	-	-
Unallocated	8,137	(1,983)	6,154	-	-
Consolidated total	<u>8,271</u>	<u>(2,477)</u>	<u>5,794</u>	<u>12</u>	<u>-</u>

Unallocated assets and liabilities comprise cash balances, taxation and borrowings.

	<b>2004</b>	2003
The average number of employees of the Group were:		
Management, including Directors	<u>4</u>	<u>4</u>

# Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER 2004

## 4. OPERATING LOSS BEFORE INTEREST AND TAXATION

	<b>2004</b>	2003
	<b>US\$000</b>	US\$000
Operating loss – US\$319,000 (2003 – US\$387,000) is stated after deducting:		
Provision against capitalised exploration expenditure	-	12
Related party fees:		
Administration	<b>92</b>	80
Project fees	<b>12</b>	-

Related party fees arise from the provision of consultancy and administration services to group companies by European companies, which, through Board representation and/or shareholdings, are classified as related parties.

## 5. EXCEPTIONAL ITEMS

Profit on disposal of tangible fixed assets	-	10,108
Profit on non-refundable deposit/option	<b>70</b>	-
Arbitration settlement	<b>(299)</b>	-
Expenditure on aborted projects	<b>(46)</b>	-
	<u><b>(275)</b></u>	<u>10,108</u>

## 6. TAXATION

Corporation tax		
Current year	-	1,886
Prior year adjustment – re exceptional profit on disposal	<b>320</b>	-
Capital tax	<b>6</b>	3
Withholding tax	-	1,310
Charge for the period	<u><b>326</b></u>	<u>3,199</u>

Reconciliation of the expected tax charge of Group companies to the actual tax charge is as follows:

Expected tax charge at statutory rates	-	1,886
Prior year adjustment	<b>320</b>	-
Withholding taxes	-	1,310
Capital taxes	<b>6</b>	3
	<u><b>326</b></u>	<u>3,199</u>

The taxation charge of the Group companies includes taxes of general application and also taxes at special rates levied on particular forms of income.

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## 7. (LOSS)/EARNINGS PER SHARE

	2004	2003
The (loss)/earnings per share is based on the result for the year attributable to members and the number of shares in issue.	<u>(19)c</u>	<u>126c</u>
Headline earnings/(loss) per share, is based on the result attributable to shareholders excluding exceptional items, net of minority interests and tax, and the average number of shares in issue.	<u>2c</u>	<u>(11)c</u>

## 8. INVESTMENTS

	2004 US\$000	2003 US\$000
<b>Listed subsidiary</b> – at fair value		
Brought forward and carried forward	<u>130</u>	<u>130</u>

### Unconsolidated subsidiaries

#### Listed

##### Falcon Gold Zimbabwe Limited

Owned 57.1%

Incorporated and operating in Zimbabwe

Activity – Gold mining

Profit 30<sup>th</sup> September 2004 – Z\$2,513,056,000 (2003 – Z\$1,074,640,000)

Capital & Reserves: 30<sup>th</sup> September 2004 – Z\$3,724,985,000 (2003 – Z\$1,211,929,000)

The market value of this investment at 30<sup>th</sup> September 2004 was Z\$25,380,000,000 (2003: Z\$12,694,000,000)

#### Unlisted

##### Olympus Gold Mines Limited

Owned 66.67%

Incorporated and operating in Zimbabwe

Activity – Gold mining

Profit 30<sup>th</sup> September 2004 – Z\$967,490,000 (2003 – Z\$301,933,000)

Capital & Reserves: 30<sup>th</sup> September 2004 – Z\$969,000,000 (2003 – negative Z\$221,510,000)

The investments in Zimbabwean companies are included in the consolidated balance sheet in accordance with IAS 39; Falcon Gold Zimbabwe Limited based on the market value of that listed investment at 30<sup>th</sup> September 2002 and Olympus Gold Mines Limited at the book value of its net assets. In the Directors' opinion, the current uncertainties in both the market and the exchange rates make it inappropriate to write back any of the provisions made in previous years.

## 9. ACCOUNTS RECEIVABLE

	2004 US\$000	2003 US\$000
Due within one year:		
Liquidation proceeds	696	-
Taxation	-	53
Other	7	4
	<u>703</u>	<u>57</u>

The liquidation proceeds were received in full after the balance sheet date.

# Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER 2004

## 10. ACCOUNTS PAYABLE

	<b>2004</b>	2003
	<b>US\$000</b>	US\$000
Amounts falling due within one year:		
Trade creditors	4	35
Taxation	-	1,983
Other	<b>140</b>	459
	<b>144</b>	<b>2,477</b>

## 11. LEGAL RESERVES

Balances brought forward – subsidiary company	<b>196</b>	196
– parent company	<b>130</b>	130
Transfer from retained earnings – parent company	<b>76</b>	-
Balances carried forward	<b>402</b>	326

Luxembourg law requires that an appropriation of at least 5% of a Luxembourg company's own annual distributable profits be made to legal reserve until such time as the reserve attains 10% of its issued share capital. As the reserves have now reached this limit the directors are no longer required to make transfers to legal reserve. Distribution of this reserve is restricted.

## 12. RETAINED EARNINGS

Balance brought forward	<b>1,833</b>	(1,233)
Exchange difference arising during year	<b>(6)</b>	720
Transfer to legal reserve	<b>(76)</b>	-
	<b>1,751</b>	(513)
(Loss)/Profit for the year	<b>(358)</b>	2,346
Balance carried forward at 30 <sup>th</sup> September	<b>1,393</b>	1,833

### 13. NOTES TO CASH FLOW STATEMENT

	2004 US\$000	2003 US\$000
<b>(a) Reconciliation of (loss)/profit before tax to net cash (used)/generated by operations</b>		
(Loss)/profit before tax	(239)	9,886
Arbitration settlement	299	-
Net profit on sale of fixed assets	-	(10,108)
Provision against project expenditure	-	12
Dividend from subsidiary	-	(65)
Interest received	(149)	(11)
Net (increase)/decrease in working capital (refer to note 13(b))	(317)	488
Cash (used)/generated by operations	<u>(406)</u>	<u>202</u>
<b>(b) Net (increase)/decrease in working capital</b>		
Decrease in accounts receivable	32	4
(Decrease)/Increase in accounts payable	(349)	484
	<u>(317)</u>	<u>488</u>

#### (c) Analysis by currency of the funds as shown in the balance sheet

	2004 US\$000	2003 US\$000	Exchange movement US\$000	Cash flow movement US\$000
United States dollars	(1,119)	1,034	-	(2,153)
Chilean pesos	-	4,955	(6)	(4,949)
Pounds sterling	4,285	2,095	-	2,190
Funds at end of year	<u>3,166</u>	<u>8,084</u>	<u>(6)</u>	<u>(4,912)</u>

### 14. CAPITAL COMMITMENTS

There was no capital expenditure authorised but not contracted at 30<sup>th</sup> September 2004 (2003 – nil).

### 15. CONSOLIDATION

These financial statements do not consolidate the results of our interests in Zimbabwe (see note 2).

### 16. FINANCIAL RISK MANAGEMENT

#### Credit risk management

Concentration of credit risk consists principally of accounts receivable and cash at bank. At the year-end the Directors do not consider there to be any significant concentration of credit risk which has not been adequately provided for.

#### Fair value of financial instruments

The carrying amounts of the accounts receivable and liabilities reported in the balance sheet approximate their fair values at the year-end.

# Financial Statements

FALCON INVESTMENT HOLDINGS SOCIETE ANONYME

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER

	<b>2004</b>	2003
	<b>€000</b>	€000
<b>INCOME</b>		
Income from fixed assets	57	2,747
Income from current assets	100	97
<b>Loss for the year</b>	<b>149</b>	-
	<u>306</u>	<u>2,844</u>
<b>EXPENSES</b>		
Administration and other charges	162	168
Exchange (gain)/loss	31	436
Exceptional provision and costs	113	1,194
<b>Profit for the year</b>	<b>-</b>	1,046
	<u>306</u>	<u>2,844</u>

## BALANCE SHEET AT 30<sup>th</sup> SEPTEMBER

	Notes		
<b>ASSETS</b>			
<b>Non current assets</b>			
Investments	(c)	3	865
<b>Current assets</b>			
Amounts due from group companies		122	170
Prepayments and accrued income		568	2
Cash and bank balances		2,542	2,576
<b>Loss for the year</b>		<b>149</b>	-
		<u>3,384</u>	<u>3,613</u>
<b>LIABILITIES</b>			
<b>Capital and Reserves</b>			
Called up share capital	(d)	2,330	2,330
Legal reserve	(e)	233	143
Retained profit/(loss)	(f)	728	(228)
<b>Profit for the year</b>		<b>-</b>	1,046
<b>Accounts payable (falling due within one year)</b>	(g)	<b>93</b>	322
		<u>3,384</u>	<u>3,613</u>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER 2004

## (a) GENERAL

The company is incorporated as a “société anonyme” with holding company status in the Grand Duchy of Luxembourg under the Law of 31<sup>st</sup> July 1929, as amended.

## (b) ACCOUNTING POLICIES

The principal accounting policies of the Company, which are set out below, comply with Luxembourg law, regulations and generally accepted accounting practices and have been consistently followed.

### (i) Fixed Asset Investments

Listed and unlisted investments are stated at cost less amounts written off, where, in the opinion of the Directors, a permanent decline in value has arisen.

### (ii) Dividends

Dividends are accounted for when received, other than dividends from subsidiaries, which are accounted for when the Directors are confident that the dividend will be paid. Dividends from certain subsidiaries are subject to exchange control.

### (iii) Foreign Currencies

The share capital of the company was issued in US\$ on incorporation and later converted to euros. The Group's consolidated accounts are presented in US\$, which is considered the currency of measurement, and include share capital at the historic US\$ value.

Foreign exchange losses and realised gains on settlement of foreign currency transactions or on the translation of monetary assets and liabilities at year-end exchange rates are accounted for through the profit and loss account.

## (c) INVESTMENTS

	<b>2004</b>	2003
	<b>€000</b>	€000
Subsidiaries (see note (h))		
Balance brought forward	<b>865</b>	-
Acquisition	-	1,440
(Disposal)/Additions	<b>(862)</b>	389
Exceptional provision	-	(964)
Balance 30 <sup>th</sup> September	<u><b>3</b></u>	<u>865</u>

## (d) SHARE CAPITAL

	Number		
<b>Authorised</b>			
Shares of €1.25 each	4,000,000	<u><b>5,000</b></u>	<u>5,000</u>
<b>Issued and fully paid</b>			
As at 1 <sup>st</sup> October 2003 and 30 <sup>th</sup> September 2004	1,864,026	<u><b>2,330</b></u>	<u>2,330</u>

## (e) LEGAL RESERVE

Balance brought forward	<b>143</b>	143
Transfer in respect of preceding year	<b>90</b>	-
Balance carried forward	<u><b>233</b></u>	<u>143</u>

Luxembourg law requires that an appropriation of at least 5% of a Luxembourg company's own annual distributable profits be made to legal reserve until such time as the reserve attains 10% of its issued share capital. Consequently the directors are no longer required to make further transfers from retained earnings to legal reserve. Distribution of this reserve is restricted.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER 2004

### (f) RETAINED PROFIT/(LOSS)

	<b>2004</b>	2003
	<b>€000</b>	€000
Balance brought forward	<b>(228)</b>	131
Profit/(Loss) of the preceding year	<b>1,046</b>	(359)
Transfer to legal reserve	<b>(90)</b>	-
Balance carried forward	<b><u>728</u></b>	<u>(228)</u>

### (g) ACCOUNTS PAYABLE

Falling due within one year:		
Other accounts payable and accruals	<b>93</b>	318
Amounts due to group companies	<b>-</b>	4
	<b><u>93</u></b>	<u>322</u>

Under the terms of its Articles of Incorporation, the Company is empowered to borrow from banks and shareholders only.

### (h) SUBSIDIARIES

(a) The following companies, which are the principal active subsidiaries of Falcon Investment Holdings Société Anonyme, have been consolidated into the financial statements of the Group:

<b>Wholly-owned</b>	<b>Principal activities</b>
(i) Incorporated in Luxembourg and operating internationally Falcon Mines Holdings Société Anonyme	Investment holding
(ii) Incorporated in British Virgin Islands and operating internationally Falcon International Finance Limited	Management services

(b) The following subsidiaries of Falcon Mines Holdings Société Anonyme have not been consolidated into the financial statements of the Group:

(i) Incorporated and operating in Zimbabwe Falcon Gold Zimbabwe Limited (owned 57.1%)	Gold mining
(ii) Olympus Gold Mines Limited (owned 66.67%)	Gold mining

All subsidiaries have accounting periods co-terminous with that of the Company.

# Report of the Directors

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER 2004

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The Directors submit their report and the audited financial statements for the year ended 30<sup>th</sup> September 2004.

## PRINCIPAL ACTIVITIES

Falcon is incorporated as a société anonyme in the Grand Duchy of Luxembourg with holding company status. Its activities in Luxembourg comprise the function of central supervision and control of the Group's mining interests through a wholly owned subsidiary, Falcon Mines Holdings Société Anonyme. These interests include the Group's investment in Falcon Gold Zimbabwe Limited ("Falgold"), a 57.1% owned subsidiary, and in Olympus Gold Mines Limited, a 66.67% owned subsidiary. Falcon's shares are listed on the Luxembourg, Johannesburg and Zimbabwe Stock Exchanges.

Copies of the accounts of Falcon Gold Zimbabwe Limited, which is listed on the Zimbabwe Stock Exchange, can be obtained from any of the Group offices shown on page 2.

## OPERATING REVIEW

Details of the operations of the Group are set out in the Chairman's Review.

## DIVIDEND

The Directors do not propose to pay a dividend for the year.

## DIRECTORS

A list of the present Directors of the Company is shown on page 1. In accordance with the Articles of Incorporation, all the Directors retire at the forthcoming Annual General Meeting and stand for re-election.

The share interests of the Directors who held office during the year ended 30<sup>th</sup> September 2004 were as below.

	Beneficial		Non-beneficial	
	2004	2003	2004	2003
A.R.C. Barclay	-	-	931,024*	931,024*
C.P. Jousse	79	79	-	-
D.C. Marshall	-	-	946,090*†	946,090*
J.M. Robotham	2,000	2,000	946,090*†	946,090*

\* These non-beneficial holdings arise because the individuals concerned are also directors of Monteagle Holdings S.A.

† Mr. Marshall and Mr. Robotham are also directors and trustees of entities that hold shares in the Company.

There were no changes in Directors' interests between 30<sup>th</sup> September 2004 and the date of this report.

# Report of the Directors (continued)

FOR THE YEAR ENDED 30<sup>th</sup> SEPTEMBER 2004

The remuneration paid to, or receivable by, the Directors, all of whom are non-executive, for the year and the previous year are as follows:

	2004			2003
	Parent company	Other	Total	Total
	directors fee	fees		
	US\$000	US\$000	US\$000	US\$000
A.R.C. Barclay	3	12	15	10
C.P. Jousse *	3	12	15	10
D.C. Marshall #	3	12	15	10
J.M. Robotham	3	12	15	10
Total	<u>12</u>	<u>48</u>	<u>60</u>	<u>40</u>

\* Mr. Jousse's earnings have been ceded to Conafex Holdings S.A., a company of which he is Chief Executive.

# Mr. Marshall ceded his fees of US\$15,000 for the year (2003 – US\$10,000) to an overseas company which supplies his services and in which none of the directors are beneficially interested.

Other than shown above, no other payments or benefits were paid to, or receivable by, the Directors.

## SUBSTANTIAL INTERESTS

At the date of this report, the following holdings represented 5% and over of the issued share capital of the Company:

	Shares	%
Monteagle Holdings S.A.	931,024	49.95
Messina Investments Limited	138,516	7.43
Mr. R. Turner	133,231	7.15

The Company has not been notified, as required by Luxembourg Law, of any other shareholdings that exceeded or fell below the thresholds of 10%, 20%, 33.33%, 50% or 66.66% in the capital of the Company.

## AUDITORS AND COMMISSAIRE

AGN Horsburgh & Co are willing to continue as the Auditors and Commissaire of the Company and a resolution will be proposed at the Annual General Meeting for their re-appointment as such.

## ARTICLES OF INCORPORATION

*Change of name* – As stated in the Chairman's Review, the Company is searching for an investment in the U.K. In preparation for such a change, the Board feels it appropriate that the Company adopt a new name, as the Falcon name is associated with the many years of mining activities that the Company was engaged in. Accordingly, resolution 6, to be proposed at the Annual General Meeting, will seek shareholder's approval to amend Article 2 of the Articles of Incorporation by changing the name of the Company to Halogen Holdings Société Anonyme. This is intended to be a new name only and has no particular link to any activity or geographical area that the Company may invest in.

*Change of accounting currency* – Because of the intention to acquire a U.K. subsidiary and the fact that the majority of the Company's assets are in Sterling, the Board feels that it would be sensible for the Company to change the accounting currency to Sterling.

The change in the accounting currency is within the Board's power, however as shareholders will in future be asked to adopt the financial statements in Sterling, your approval is sought for this change and resolution 7 will deal with this matter.

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*Authority to issue shares* – The Board proposes to renew, for a further five years, the authority to issue new shares (up to the limit of the Company’s authorised share capital), on the basis that such new shares can be issued without the shareholders of the Company having any preferential subscription right. Resolution 8 to be proposed at the Annual General Meeting will deal with this renewal of authority.

Also, in terms of the Law of 10<sup>th</sup> August 1915 on commercial companies, as amended, and the Listings Requirements of the JSE Securities Exchange South Africa, the Board of Directors of the Company proposes renew the general authority to issue shares for cash as and when suitable situations arise, subject to the limitations as set out in resolution 9 on the Notice of Meeting.

At present there are no plans to make any issues of shares, however the Board believes that the renewal of these authorities will give it flexibility for any future share issues that may be required in the future.

By Order of the Board,

**CITY GROUP P.L.C.**  
Group Secretaries

31<sup>st</sup> January 2005

# **Corporate Governance, Internal Financial Control, Directors' Responsibilities and Going Concern**

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## **CORPORATE GOVERNANCE**

The Directors have reviewed the Company's compliance with the requirements of the King Report on Corporate Governance, which applies to all companies listed on the Johannesburg Stock Exchange.

As the parent holding company of the Group, the Directors have adopted procedures within the context of the Company and the financial and human resources currently available to the Group.

The Board comprises Mr D.C. Marshall, the Chairman, Mr A.R.C. Barclay, Mr C.P. Jousse, and Mr. J.M. Robotham, who are all non-executive Directors. The Audit Committee comprises Mr Barclay and Mr Robotham and their report on internal financial control is set out below. Details of the Directors' interests in the Company and of their remuneration are set out in the Directors' Report on pages 17 to 19.

The Board meets regularly and through an executive committee retains full and effective control over the Group. The nomination of Directors is a matter for the entire Board and there is therefore no nomination committee. Each Director is required to retire every year in accordance with the Articles of Incorporation and Luxembourg law and re-appointment is not automatic.

## **INTERNAL FINANCIAL CONTROL**

The Group's system of internal financial control is established to provide the safeguarding of the Group's assets, the maintenance of proper accounting records and the reliability of financial information. Such a system of control can provide only reasonable and not absolute assurance against material misstatement or loss. Procedures are established which are designed to provide an effective system of internal financial control including the segregation of duties and management authorisation and review. In addition, the Company safeguards its interests in the Group by appointing directors to the Boards of subsidiary companies.

The Audit Committee meets periodically to review accounting, auditing, internal control and related matters of the Group. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of the controls, procedures and systems has occurred during the year under review. The Audit Committee has reported to the Directors that the Auditors concur with the statements above on internal financial control.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Directors of the Company are responsible for the preparation, integrity and objectivity of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year, and of the respective results for that year. The Directors consider that appropriate accounting policies have been used and applied consistently, reasonable and prudent judgements have been made and accounting standards applicable to the operations of the Company and of the Group have been followed.

The Directors are responsible for maintaining accounting records in accordance with Luxembourg law and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company, and detect and prevent fraud and other irregularities.

## **GOING CONCERN**

The accounts have been prepared on the going concern basis since the Directors are satisfied that the parent company and its consolidated subsidiaries have adequate resources to continue in operational existence for the foreseeable future.

# Report of the Independent Auditors

TO THE SHAREHOLDERS OF FALCON INVESTMENT HOLDINGS SOCIETE ANONYME

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Following our appointment at the Annual General Meeting of shareholders held on 26<sup>th</sup> March 2004, we have audited the accompanying consolidated balance sheet of Falcon Investment Holdings Société Anonyme as of 30<sup>th</sup> September 2004, and the related consolidated statements of income, and cash flows for the year then ended as set out on pages 4 to 13 and have read the report of the directors on pages 17 to 19. These consolidated financial statements and the report of the directors are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to confirm the consistency of the report of the directors with the consolidated financial statements.

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

## **Basis of opinion**

Zimbabwe continued to experience a deterioration of its economic and political climate during the year under consideration and in addition it is recognised as being hyperinflationary for the purposes of financial reporting. A number of different official and unofficial exchange rates exist between the Zimbabwean dollar and other currencies. The Board of Directors of the Company has decided not to consolidate the results of the Zimbabwean subsidiaries but to include them as investments under IAS 39, which deals with the recognition and measurement of financial assets. As independent auditors, we agree with this treatment.

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of 30<sup>th</sup> September 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The report of the Directors is in agreement with these consolidated financial statements.

AGN HORSBURGH & CO.  
Réviseur d'entreprises  
15-17 avenue Gaston Diderich, L-1420 Luxembourg

**K. Horsburgh**  
Partner

31<sup>st</sup> January 2005

# Report of the Commissaire

TO THE MEMBERS OF FALCON INVESTMENT HOLDINGS SOCIETE ANONYME

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Following our appointment at the Annual General Meeting of shareholders held on 26<sup>th</sup> March 2004, we have audited the financial statements of Falcon Investment Holdings Société Anonyme for the year ended 30<sup>th</sup> September 2004 as set out on pages 14 to 16. The contents of these financial statements are the responsibility of the Board of Directors. Our responsibility is, on the basis of our audit, to express an opinion on these financial statements.

We conducted our audit in accordance with International Standards on Auditing, which require that we plan and perform the audit to obtain a reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, the assessment of the accounting principles used and significant estimates made by management, and the evaluation of the overall financial statements' presentation. We consider that our procedures form a reasonable basis to express our opinion presented below.

In our opinion these financial statements which conform with legal requirements, have been prepared in accordance with the accounting policies set out on page 15, and give a true and fair view of the state of affairs of the Company at 30<sup>th</sup> September 2004, and of the result of its operations, for the year then ended.

We propose that you approve these financial statements at the next Annual General Meeting of the Company.

AGN HORSBURGH & CO.  
Réviseur d'entreprises  
15-17 avenue Gaston Diderich, L-1420 Luxembourg

**K. Horsburgh**  
Partner

31<sup>st</sup> January 2005

# Notice of Meeting

FALCON INVESTMENT HOLDINGS SOCIETE ANONYME

R.C. LUXEMBOURG NO. B 39773

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**NOTICE is hereby given** that the thirteenth ANNUAL GENERAL MEETING of Falcon Investment Holdings Société Anonyme will be held at the offices of Maitland Luxembourg S.A., 6 rue Adolphe Fischer, L-1520, Luxembourg on 24<sup>th</sup> March 2005, at 3.00 p.m. for the following purposes:

1. To receive and adopt the reports of the Directors, Auditors and Commissaire for the year ended 30<sup>th</sup> September 2004.
2. To receive and adopt the balance sheet of the Company at 30<sup>th</sup> September 2004 and the profit and loss account for the year ended on that date.
3. To receive and adopt the consolidated balance sheet of the Group at 30<sup>th</sup> September 2004 and the consolidated profit and loss account for the year ended on that date.
4. To grant discharge to the Directors and Commissaire in respect of the execution of their mandates to 30<sup>th</sup> September 2004.
5. To receive and act on the statutory nomination of the Directors, Auditors and Commissaire for a new term of one year.

## SPECIAL BUSINESS

6. To approve the change of the Company's name to Halogen Holdings Société Anonyme and to consequently amend the Company's Articles of Incorporation to give effect to this resolution.
7. To approve changing the accounting currency of the Company from Euro to Sterling.
8. To renew the authority granted to the Board of Directors of the Company pursuant to Article 7 of the Articles of Incorporation by amending Article 7.1 so as to authorise the Board, for a period of five years from the date of amendment of the Articles of Incorporation of the Company to this effect, to issue shares up to the limit of the authorised share capital of the Company pursuant to and within the terms of this authority.
9. To limit the authority granted to the Board of Directors in resolution 8 and to give, in terms of the Law of 10<sup>th</sup> August 1915 on commercial companies, as amended, and the Listings Requirements of the JSE Securities Exchange South Africa, the Board of Directors of the Company general authority to issue ordinary shares in the share capital of the Company for cash as and when suitable situations arise, subject to the following limitations:
  - that this authority shall not extend beyond 15 (fifteen) months from the date of this annual general meeting and is renewable at the next annual general meeting;
  - that issues in the aggregate in any one year may not exceed 10% of the number of shares of that class of the Company's issued share capital, including instruments which are compulsorily convertible into shares of that class, provided further that such issues shall not in aggregate in any three-year period exceed 15% of the Company's issued share capital of that class, including instruments which are compulsorily convertible into shares of that class; and
  - that in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of the shares in question, as determined over the 30 days prior to the date that the price of the issue is determined or agreed by the Board of Directors.

By order of the Board,  
**CITY GROUP P.L.C.**  
Group Secretaries

6 rue Adolphe Fischer,  
Luxembourg  
31<sup>st</sup> January 2005

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## Notes:

- (i) The resolutions will be validly adopted without any quorum requirements by a majority of the shares present or represented at the meeting.
  - (ii) **A proxy form is enclosed with this document. You are requested to complete and return the form whether or not you intend to attend the Annual General Meeting.**
  - (iii) In terms of Article 24.4 of the Company's Articles of Incorporation, a shareholder may appoint a proxy who need not be a shareholder of the Company. Any company being a shareholder of the Company may execute a form of proxy under the hand of a duly authorised officer.
  - (iv) To be effective, the form of proxy, duly completed, must arrive at the registered office of the Company not less than forty-eight hours before the time fixed for the meeting. Proxies sent to the office of a transfer agent for forwarding to the Company, at shareholders' risk, must be received by the transfer agent not less than seven days before the meeting.
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## Change of Address

Members are requested to advise their relevant transfer agents, whose address can be found on page 2 of this report, of any change of address.



