

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

1. If you are in any doubt about the action you should take, please consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.
  2. If you have disposed of or otherwise transferred all of your ordinary shares in Falcon Investment Holdings Société Anonyme (“Falcon”), please forward this circular, together with the accompanying notice convening an Extraordinary General Meeting of shareholders and a form of proxy to the purchaser or transferee of such ordinary shares or to the stockbroker banker or other agent through whom the disposal or transfer was effected.
  3. Certificated and dematerialised shareholders in South Africa with own-name registration who are unable to attend the Extraordinary General Meeting of shareholders of Falcon to be held at 10.00 a.m. on Friday 14th November 2003, at the registered offices of Falcon and who wish to be represented thereat, must complete the attached form of proxy in accordance with the instructions contained herein.
  4. Dematerialised shareholders in South Africa, other than those shareholders with own-name registration who wish to attend the Extraordinary General Meeting or vote by way of proxy must contact their Central Securities Depository Participant (“CSDP”) or broker with the necessary instructions for attending or voting at the extraordinary general meeting in the manner and time stipulated in the custody agreement governing the relationship between the shareholder and their CSDP or broker. These instructions must be provided to the CSDP or broker by the cut-off time and date advised by their CSDP or broker for instructions of this nature.
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**Falcon Investment Holdings Société Anonyme**

*(Incorporated in Luxembourg - RC Luxembourg No. B 39773)*

(“Falcon” or “the Company”)

JSE CODE: FLC ISIN: LU0042254812

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**Circular to shareholders of Falcon relating to:**

- **the sale of the assets of Minera Falcon de Chile SCM; and**
  - **notice of an Extraordinary General Meeting to approve the disposal**
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**JSE dispensation**

As a result of Falcon having their primary listing on the LuxSE and their secondary listing on the JSE, the JSE has granted certain dispensations with regards to its Listings Requirements.

Date of issue: 23rd October 2003

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## Corporate information

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### Directors

D.C. Marshall (Chairman)  
A.R.C. Barclay, FCA  
C.P. Jousse  
J.M. Robotham, OBE, FCA

### Group Secretaries

City Group P.L.C.  
25 City Road,  
London, EC1Y 1BQ, U.K.  
Tel: +44 20 7448 8950

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### Group Offices

#### Luxembourg (Registered Office)

6 rue Adolphe Fischer,  
L-1520 Luxembourg  
(PO Box 1361, L-1013 Luxembourg)  
Tel: +352 4025051

#### South Africa

11 Sunbury Park,  
La Lucia 4051, Durban  
(P.O. Box 4126, The Square, Umhlanga 4320)  
Tel: +27 31 566 7600

#### Zimbabwe

1st 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

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### Registrars

Maitland Management Services 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

### Transfer Agents

#### Europe

Capita Registrars Limited  
Northern House, Woodsome Park,  
Fenay Bridge, Huddersfield, HD8 0LA  
United Kingdom  
Tel: 0870 162 3131

#### South Africa

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

#### Zimbabwe

Syfrets Corporate and Merchant Bank  
Central Scrip Administration  
5th Floor, 46 Speke Avenue,  
(P.O. Box 2540) Harare  
Tel: +263 4 757 535

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### Auditors and Commissaire

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

### Principal Bankers

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

### South African Sponsor on the JSE

Imara Corporate Finance South Africa (Pty) Ltd  
Ground Floor, West Wing  
25 Wellington Road  
Parktown, Johannesburg 2093  
Tel: +27 11 484 6220

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## Definitions

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In this circular, unless the context indicates otherwise, the following expressions bear the meanings assigned to them below:

“the Board”	the Board of Directors of Falcon;
“the Directors”	the Directors of Falcon as listed on page 2 of this circular;
“Falcon” or “the Company”	Falcon Investment Holdings Société Anonyme, a company incorporated on 12th March 1992 in Luxembourg with financial holding company status (RC Luxembourg No. B 39773), registered as an external company in South Africa (registration no. 1994/10167/10) and listed on the LuxSE, the JSE and the ZSE;
“the Group”	Falcon and its subsidiaries;
“the JSE”	the JSE Securities Exchange South Africa;
“the LuxSE”	the Luxembourg Stock Exchange;
“MFdC”	Minera Falcon de Chile SCM, a company incorporated on 8th November 1999 in Chile (R.U.T. no 77.354.520-0) with its registered office at Rosa O’Higgins 54, Piso 2, Las Condes, Santiago 6761317, Chile and a 52.3% subsidiary of Falcon;
“Monteagle”	Monteagle Holdings Société Anonyme, a company incorporated in Luxembourg with financial holding company status (RC Luxembourg No. B 19600), registered as an external company in South Africa (registration no. 1982/08014/10) and listed on the LuxSE, the London Stock Exchange and the JSE, and which has a 49.95% interest in Falcon;
“South Africa”	the Republic of South Africa;
“SQM”	Sociedad Quimica y Minera de Chile S.A., a company incorporated in Chile (R.U.T. no. 93.007.000-9); and
“ZSE”	the Zimbabwe Stock Exchange.

FALCON  
INVESTMENT



## Falcon Investment Holdings Société Anonyme

*(Registered in Luxembourg R.C. No. B39773)*

*(Republic of South Africa Reg. No. 1994/10167/10)*

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### Circular to shareholders

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#### Notice of Extraordinary General Meeting

On 26th June 2003, the Board announced that it had accepted the offer to sell the assets of its subsidiary, MFdC, to SQM for a final consideration of US\$11.7 million. The rules of the JSE require that the Directors produce this circular and convene an Extraordinary General Meeting of the Company in order to obtain your retrospective consent for the sale.

An Extraordinary General Meeting of Falcon shareholders will be held at 10.00 a.m. on Friday 14th November 2003 at the office of Maitland Management Services S.A. to consider and approve the resolution necessary to approve the sale of the assets of MFdC.

A notice convening the Extraordinary General Meeting and a form of proxy for use by certificated and own-name registered dematerialised Falcon shareholders who are unable to attend the meeting are included herewith and form part of this circular. Duly completed forms of proxy must be received at the registered office of Falcon by 10.00 a.m. on Wednesday 12th November 2003 or by the transfer agents, at the addresses shown on page 2 by 10.00 a.m. on Friday 7th November 2003.

Dematerialised shareholders in South Africa, other than those shareholders with own-name registration who wish to attend the Extraordinary General Meeting or vote by way of proxy must contact their Central Securities Depository Participant ("CSDP") or broker with the necessary instructions for attending or voting at the Extraordinary General Meeting in the manner and time stipulated in the custody agreement governing the relationship between the shareholder and their CSDP or broker. These instructions must be provided to the CSDP or broker by the cut-off time and date advised by their CSDP or broker for instructions of this nature.

#### Directors' opinion and recommendation and Shareholders' undertaking

The Directors are of the opinion that the value offered for the assets of MFdC was fair and reasonable and that the sale and the generation of U.S. dollar proceeds are to the long term advantage of the Company and its shareholders. Accordingly, your Directors unanimously recommend that Falcon shareholders vote in favour of the sale and state that they intend to vote all shares that they own in favour of the disposal.

Monteagle has given an undertaking to vote in favour of the resolution in respect of its holding of 931,024 shares representing 49.95% of the issued share capital of the Company.

#### Interim results

On 26th June 2003 the Company announced its interim results for the six months to 31st March 2003. These were posted to shareholders on 4th July 2003 and are included in this circular on pages 20 to 25.

Yours faithfully

On behalf of the Board  
City Group P.L.C.  
Group Secretaries

23rd October 2003

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## Sale of assets of Falcon de Minera de Chile SCM

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Shareholders will be aware that the Group has been developing an iodine deposit in Chile over several years. As reported in the September 2002 Chairman's Review, an environmental report had been submitted and negotiations were taking place with a potential joint venture partners to assist with marketing and to whom part of the project could be farmed out to assist in funding the next stage of development.

Shareholders will also be aware that it has been the Board's policy that the funding of dividends could only be made from remittances received in Luxembourg from our operating subsidiaries. Although our Zimbabwean subsidiaries continue to operate under severe financial restrictions and still have value for shareholders in the long term, the flow of income from Zimbabwe has dried up, leaving the parent company short of funds in Luxembourg. The last dividend that the Company paid was US 10 cents per share on 24th January 1998, being an interim dividend for the year ended 30th September 1997.

Recent changes to Zimbabwean exchange control regulations prioritise the use of foreign currency and mean that it is unlikely that Falcon will receive any significant dividends from its subsidiaries in Zimbabwe in the foreseeable future.

In view of the above, in particular the funding requirements for the future development of MFdC, and, following an approach by SQM, the Board decided to consider selling its Chilean operations. MFdC is a 52.3% subsidiary of Falcon whose sole asset was the iodine project in the commune of Pozo Almonte, Iquique province in the First Region of Chile. On conclusion of negotiations with SQM an agreement to accept a non-returnable payment of US\$1,300,000 for an option for the sale of the assets of MFdC was signed on 31st January 2003. The Group share of the proceeds of the option have been included in the interim results sent to shareholders on 4th July 2003. This circular deals with the exercise of the option by SQM and the final payment of US\$11,700,000 pursuant thereto.

### **Summary of Terms and Conditions of Sale Agreement:**

1. An agreement was entered into on 31st January 2003 granting SQM a 119 day option to Friday 30th May 2003 to acquire MFdC's mineral claims and concessions in Chile.
2. The basis of the purchase and sale price of the rights was US\$100,000 for the denouncements and US\$2,150,000 for each of six claims. The price of the option paid was US\$1,300,000 leaving a balance of US\$11,700,000 to be paid on exercise of the option.
3. MFdC has warranted that:
  - (a) MFdC was the unrestricted owner of the claims and concessions;
  - (b) During the life of the option MFdC would maintain the claims and concessions;
  - (c) MFdC had no conflicting mineral interests;
  - (d) MFdC will not acquire land, water or mineral rights in the area for a period of ten years; and
  - (e) MFdC will cease all other mining activity in the area forthwith.
4. MFdC and SQM undertook irrevocably to sign the necessary Real Estate transfer deed to give effect to the option once exercised and paid for.
5. The sale was subject to:
  - (a) SQM receiving the necessary certificates; and
  - (b) The Real Estate Registrar of Pozo Almonte recording the transfers.
6. There was provision for penalties to be imposed on each party being US\$1,000,000 for their failure to perform their obligations and a subsequent US\$100,000 for each further failure.

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7. The parties may not cede their rights under the agreement.

8. Disputes on the agreement are subject to arbitration.

SQM exercised the option by means of a notarial deed dated 9th May 2003. Their payment of US\$11.7 million was received by the notary on 26th May 2003 and subsequently released to MFdC on 19th June 2003 following satisfaction of all conditions. Falcon expects to receive at least US\$4 million after taxes, costs and minority interests. The profit for the Company on this transaction is expected to exceed US\$2.6 million.

In accordance with the terms of the JSE Listing Requirements, this transaction requires a circular letter to shareholders to obtain their prior approval for the sale. However, the Directors considered that due to the nature and commercial sensitivities of the transaction, any prior publicity may have had an adverse impact on the transaction. Nevertheless, prior to entering into the transaction the Company obtained the approval of the principal shareholder, Monteagle which owns 49.95% of the issued share capital of Falcon.

The benefit of this transaction is that an asset which was not producing any income and which required considerable further funding before it was generating cash, has been sold and the proceeds received in US dollars in Luxembourg. The costs attributable to the subsidiary disposed of were historically consolidated into Group results.

The table below shows the estimated historic financial effects per Falcon share, based on the following assumptions:

- 1,864,026 Falcon shares of €1.25 each in issue
- The transaction having been concluded with effect from 1st April 2002 in respect of the earnings and headline earnings per share calculations and on 31st March 2003 in respect of net tangible and net asset value per share calculations; and
- No reinvestment return for the proceeds during the year to 31st March 2003.

<i>Item</i>	<i>Before the disposal including option (at 31st March 2003) Unaudited US cents</i>	<i>After the disposal US cents</i>	<i>Change</i>	<i>% change</i>
Net tangible and net asset values	92	217	125	136
(Loss)/Earnings	(34)	92	125	N/a
Headline loss	(15)	(10)	5	33

As stated in the Chairman's Review in the interim report for the half year to 31st March 2003, "[Our] intention is that the cash realised from Chile will be re-invested in an operating subsidiary in Europe in due course". When there are any developments to report to shareholders an announcement will be made to shareholders.

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## Financial information on Falcon

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Summary financial information for Falcon is set out below in the form of the audited results for the three years ended 30th September 2002, 2001 and 2000:

Falcon changed its accounting policy in respect of Zimbabwean subsidiaries with effect from 1st October 2001. Accordingly the figures on pages 7 to 19 for 2002 do not consolidate the Zimbabwean subsidiaries whereas the figures for 2001 and 2000 have consolidated those subsidiaries.

### CONSOLIDATED PROFIT AND LOSS ACCOUNT For the year ended 30th September

	2002 US\$000	2001 US\$000	2000 US\$000
Revenue	–	13,894	12,062
Operating costs	(361)	(14,613)	(12,774)
Operating loss before interest and taxation	(361)	(719)	(712)
Income from investment in Zimbabwean subsidiary – dividend	125	–	–
Interest received	11	83	307
Interest paid	–	(1)	–
Exchange losses	(4)	(15)	(20)
Loss before exceptional item and taxation	(229)	(652)	(425)
Exceptional item	(559)	–	198
Loss before taxation	(788)	(652)	(227)
Tax (charge)/credit on ordinary activities	(33)	210	(16)
Loss on ordinary activities after tax	(821)	(442)	(243)
Minority interests	24	43	30
Loss attributable to shareholders and retained for the year	(797)	(399)	(213)
Loss per share US cents – basic	43c	21c	11c
– headline	13c	21c	22c

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### CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES For the year ended 30th September

	2002 US\$000	2001 US\$000	2000 US\$000
Exchange differences on translation of the financial statements of foreign entities	31	(307)	(507)
Net profit/(loss) not recognised in the income statement	31	(307)	(507)
Net loss for the year	(797)	(399)	(213)
Total recognised losses and movement in shareholders' funds	(766)	(706)	(720)
Opening shareholders' funds	1,919	3,194	3,914
Change in accounting policy (Non-consolidation of Zimbabwean subsidiaries)	–	(569)	–
Closing shareholders' funds	1,153	1,919	3,194

**CONSOLIDATED BALANCE SHEET**  
**At 30th September**

	<i>2002</i> <i>US\$000</i>	<i>2001</i> <i>US\$000</i>	<i>2000</i> <i>US\$000</i>
<b>Assets</b>			
<b>Non current assets</b>			
Property, plant and equipment	1,722	4,855	4,651
Investments	130	18	17
	<u>1,852</u>	<u>4,873</u>	<u>4,668</u>
<b>Current assets</b>			
Mine stores	–	733	296
Accounts receivable	111	1,154	334
Cash and bank balances	319	864	1,998
	<u>430</u>	<u>2,751</u>	<u>2,628</u>
<b>Current liabilities</b>			
Accounts payable (falling due within one year)	(272)	(3,054)	(1,512)
	<u>158</u>	<u>(303)</u>	<u>1,116</u>
Net current assets/(liabilities)			
	<u>158</u>	<u>(303)</u>	<u>1,116</u>
Total assets less current liabilities	2,010	4,570	5,784
<b>Non current liabilities</b>			
Deferred taxation	–	(325)	(722)
	<u>2,010</u>	<u>4,245</u>	<u>(5,062)</u>
<b>Capital and reserves</b>			
Called up share capital	2,060	2,060	5,592
Other reserves	326	326	(1,432)
Retained earnings	(1,233)	102	(966)
	<u>1,153</u>	<u>2,488</u>	<u>3,194</u>
<b>Shareholders' funds</b>	1,153	2,488	3,194
<b>Minority interests</b>	857	1,757	1,868
	<u>2,010</u>	<u>4,245</u>	<u>5,062</u>

**CONSOLIDATED CASH FLOW STATEMENT**  
**For the year ended 30th September**

	<i>2002</i>	<i>2001</i>	<i>2000</i>
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
<b>Cash flows from operating activities</b>			
Cash used by operations	(435)	(403)	(529)
Interest received	11	83	307
Interest paid	–	(1)	–
Dividend received from Zimbabwean subsidiary	125	–	–
Taxation paid	(40)	(183)	(231)
Net cash outflows from operating activities	<u>(339)</u>	<u>(504)</u>	<u>(453)</u>
<b>Investment activities</b>			
Purchase of tangible assets	(90)	(1,124)	(2,226)
Proceeds on disposal of investments and tangible fixed assets	–	111	437
Net cash outflow from investment activities	<u>(90)</u>	<u>(1,013)</u>	<u>(1,789)</u>
Net cash outflow before financing activities	<u>(429)</u>	<u>(1,517)</u>	<u>(2,242)</u>
<b>Financing activities</b>			
Minority interests in Minera Falcon de Chile	29	94	820
Dividend paid to outside shareholders	–	(107)	–
Net cash inflow/(outflow) from financing	<u>29</u>	<u>(13)</u>	<u>820</u>
<b>Net decrease in funds</b>	(400)	(1,530)	(1,422)
<b>Net funds at start of year</b>	721	1,998	3,879
Effect of foreign exchange rate changes	(2)	(83)	(459)
<b>Net funds at end of year *</b>	<u>319</u>	<u>385</u>	<u>1,998</u>

\* 2001 – net of overdraft of US\$479,000.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30th September 2002**

**1. GENERAL**

The Company is incorporated as a “société anonyme” with holding company status in the Grand Duchy of Luxembourg under the law of 31st July 1929, as amended. 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.

**2. ACCOUNTING POLICIES**

**Change in Policy**

The Group has changed its accounting policy in respect of Zimbabwean subsidiaries, which from 1st October 2001 are no longer consolidated. There is lack of clarity in respect of exchange rates pertaining in Zimbabwe. Dividends from Zimbabwean subsidiaries are now included in the Consolidated Profit and Loss Account at the U.S. dollar value received. The investments in Zimbabwean companies are included in the Consolidated Balance Sheet from 1st October 2001 at fair value according to International Accounting Standard 39.

**General**

The principal accounting policies of the Group, which are set out below, have been applied to the current year and restated prior year financial statements and comply with International Accounting 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. With the exception of the treatment of its Zimbabwean subsidiaries mentioned above the accounting policies adopted are consistent with those of 2001 and 2000.

**(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 (and Zimbabwean subsidiaries from 1st October 2001) 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*

With effect from 1st October 2001, dividends from Zimbabwean subsidiaries are included in the consolidated profit and loss account at the U.S. dollar value received. Dividends declared but not yet received have not been accrued. The investments in Zimbabwean companies at 30th September 2002 are included in the consolidated balance sheet at fair value, in accordance with IAS 39; Falcon Gold Zimbabwe Limited based on the market value of that listed investment translated at Z\$720 :US\$1 and Olympus Gold Mines Limited at the book value of its net assets, translated at Z\$720:US\$1.

**(c) Exploration and Development**

Expenditure on mining claims, rights, shafts and development is charged to operating costs except when it is anticipated that recoveries of the expenditure will occur in future periods.

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**(d) 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.

**(e) 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 U. S. dollars 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.

Differences on translation arising in changes in the United States dollar 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.

	<i>Profit &amp; Loss Account</i>			<i>Balance Sheet</i>		
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Euro – €	0.921	1.12	1.05	0.98	1.10	1.14
Zimbabwe – Z\$	450	55	40.21	720	55	53.00
Chile – Chilean pesos	721	629	563.55	748	695	563.55

**(f) 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.

**(g) Financial Instruments**

*Financial Assets*

The principal financial assets are the investments in subsidiaries and the cash, bank balance 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. The principal financial liabilities are bank overdrafts and accounts payable.



### 3. SEGMENTAL REPORTING (continued)

Revenue excludes the proceeds of sales of fixed assets. Sales revenue is based on the country in which the order is received. It would not be materially different if based on the country in which the customer is located.

	<i>Assets</i>	<i>Liabilities</i>	<i>Net assets/ (liabilities)</i>	<i>Capital Expenditure</i>	<i>Depreciation Charge</i>
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
<b>Segmental analysis of net assets – 30th September 2002</b>					
Investment in gold mining – Zimbabwe	130	–	130	–	–
Iodine development – Chile	1,725	(3)	1,722	90	–
Unallocated	427	(269)	158	–	–
Consolidated total	<u>2,282</u>	<u>(272)</u>	<u>2,010</u>	<u>90</u>	<u>–</u>
<b>Segmental analysis of net assets – 30th September 2001</b>					
Gold mining – Zimbabwe	4,894	(2,162)	2,732	548	394
Iodine development – Chile	1,784	(2)	1,782	576	–
Other	21	(238)	(217)	–	–
Unallocated	925	(977)	(52)	–	–
Consolidated total	<u>7,624</u>	<u>(3,379)</u>	<u>4,245</u>	<u>1,124</u>	<u>394</u>
<b>Segmental analysis of net assets – 30th September 2000</b>					
Gold mining – Zimbabwe	3,627	(976)	2,651	831	544
Iodine development – Chile	1,594	(81)	1,513	1,395	–
Other	22	(261)	(239)	–	–
Unallocated	2,053	(916)	1,137	–	–
Consolidated total	<u>7,296</u>	<u>(2,234)</u>	<u>5,062</u>	<u>2,226</u>	<u>544</u>
			<i>2002</i>	<i>2001</i>	<i>2000</i>
The average number of employees of the Group were:					
Mining Production			–	1,155	1,149
Administration			–	9	8
Management, including Directors			4	10	14
			<u>4</u>	<u>1,174</u>	<u>1,171</u>

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#### 4. OPERATING LOSS BEFORE INTEREST AND TAXATION

	2002 US\$000	2001 US\$000	2000 US\$000
Operating loss is stated after deducting:			
Depreciation	–	394	544
Exploration, prospecting, shafts and development costs, mine buildings and surface services	90	92	315
Provision against exploration expenditure previously capitalised	56	134	(356)
Related party fees: administration	74	72	84
Staff costs:			
Salaries and wages	–	3,013	2,428
Pension and social security costs	–	129	100

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 ITEM

Provision against investment in subsidiary	<u>559</u>	<u>–</u>	<u>198</u>
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#### 6. TAXATION

Corporation tax	–	111	131
Capital tax	8	11	12
Withholding tax	25	39	(8)
Deferred tax	–	(371)	(119)
Charge/(Credit) for the period	<u>33</u>	<u>(210)</u>	<u>16</u>

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

Expected tax charge at statutory rates	–	(64)	104
Profits not taxed at standard rates–	–	3	(88)
Withholding taxes	25	39	–
Capital taxes	8	11	–
Effect of reduction in rate of taxation on deferred liabilities	–	(199)	–
	<u>33</u>	<u>(210)</u>	<u>16</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.

#### 7. LOSS PER SHARE

The loss per share is based on the result for the year attributable to members and the number of shares in issue	<u>43c</u>	<u>21c</u>	<u>11c</u>
---	------------	------------	------------

## 8. PLANT AND EQUIPMENT

	2002 US\$000	2001 US\$000	2000 US\$000
<b>Mining rights and developments</b>			
Brought forward			
At valuation	–	5,696	8,444
At cost	1,779	2,400	–
Translation differences	(91)	(469)	(2,399)
	<u>1,688</u>	<u>7,627</u>	<u>6,045</u>
Additions	90	1,124	2,226
Provisions	(56)	(134)	174
Disposals	–	(107)	(349)
	<u>1,722</u>	<u>8,510</u>	<u>8,096</u>
Carried forward at 30th September			
At valuation	–	5,488	5,696
At cost	1,722	3,022	2,400
	<u>1,722</u>	<u>8,510</u>	<u>8,096</u>
<b>Depreciation</b>			
Brought forward	–	3,445	4,435
Translation differences	–	(124)	(1,260)
	<u>–</u>	<u>3,321</u>	<u>3,175</u>
Charge for the year	–	394	44
Translation difference	–	–	(131)
Disposals	–	(60)	(143)
	<u>–</u>	<u>(3,655)</u>	<u>3,445</u>
Carried forward at 30th September	–	(3,655)	3,445
<b>Net book value at 30th September</b>	<u>1,722</u>	<u>4,855</u>	<u>4,651</u>

Tangible assets at 30th September 2002 of US\$1,722,000 (2001 – US\$1,779,000, 2000 – US\$1,569,000) relate to mining development assets located in Chile.

Tangible assets in Zimbabwe of US\$3,076,000 were included in the originally reported balance sheet at 30th September 2001 (2000 – US\$3,082,000), at their net book value translated at the official exchange rate ruling at that date. The realisable value of these assets remains uncertain and unquantifiable.

Zimbabwean assets were depreciated at the following rates on the straight-line method

Mining claims, rights, shafts and developments	2½%
Plant and equipment	6⅔%
Motor vehicles	25%
Mine buildings and surface services	2½%
Freehold properties	Nil

The non-depreciation of certain Zimbabwean freehold properties for the years ended 30th September 2001 and 2000, were not in compliance with IAS. Had IAS been applied the depreciation charge for those years would have increased by US\$3,000.

## 9. INVESTMENTS

	2002 US\$000	2001 US\$000	2000 US\$000
<b>Listed subsidiary – at fair value</b>			
Brought forward	689	–	–
Value adjustment (note 5)	(559)	–	–
Balance carried forward	130	–	–
<b>Other unlisted investments – at cost</b>	–	18	18

### Unconsolidated subsidiaries at 30th September 2002

#### Listed

##### Falcon Gold Zimbabwe Limited

Owned 57.1%

Incorporated and operating in Zimbabwe

Activity – Gold mining

Profit 30th September 2002 – Z\$27,372,000 (2001 – Loss Z\$17,468,000)

Reserves: 30th September 2002 – Z\$137,289,000 (2001– Z\$109,197,000)

#### Unlisted

##### Olympus Gold Mines Limited

Owned 66.67%

Incorporated and operating in Zimbabwe

Activity – Gold mining

Profit 30th September 2002 – Z\$3,802,000 (2001 – Z\$18,122,000)

Reserves: 30th September 2002 – negative Z\$5,289,000 (2001– Z\$618,000)

## 10. ACCOUNTS RECEIVABLE

Due within one year:

Taxation	67	60	54
Subsidiary companies	37	–	–
Other	7	1,094	280
	111	1,154	334

## 11. ACCOUNTS PAYABLE

Amounts falling due within one year:

Trade creditors	95	1,652	716
Bank overdrafts	–	479	–
Leave pay and payroll accruals	–	213	181
Taxation	–	173	195
Other	177	537	420
	272	3,054	1,512

## 12. DEFERRED TAXATION

	2002 US\$000	2001 US\$000	2000 US\$000
The provision for deferred tax comprises the following effects of temporary timing differences:			
Deferred tax liabilities	–	833	1,611
Deferred tax assets	–	(508)	(889)
Net deferred tax liability at 30th September	<u>–</u>	<u>325</u>	<u>722</u>

The tax losses have no expiry date.

The following are the major deferred tax liabilities and assets recognised by the Group and the movements thereon during the period:

Balances brought forward	325	722	1,134
Change in accounting policy	(325)	–	–
Exchange differences	–	(26)	(293)
Release to income during year	–	(172)	(119)
Effect of change in rate	–	(199)	–
Balances carried forward	<u>–</u>	<u>325</u>	<u>722</u>

## 13. OTHER RESERVES

### (a) Share premium account

Balance brought forward	–	2,406	2,406
Transfer to retained earnings	–	(2,406)	–
	<u>–</u>	<u>–</u>	<u>2,406</u>

### (b) Legal reserve

Balance brought forward	326	321	321
Transfer from retained earnings	–	5	–
Balance carried forward	<u>326</u>	<u>326</u>	<u>321</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. Distribution of this reserve is restricted.

### (c) Capital reserve on consolidation

Balance brought forward	–	(4,159)	(4,159)
Transfer to retained earnings	–	4,159	–
Balance carried forward	<u>–</u>	<u>–</u>	<u>(4,159)</u>
<b>Total other reserves</b>	<u>326</u>	<u>326</u>	<u>(1,432)</u>

The balance on the Capital reserve at 1st October 2000 was transferred as part of the capital reorganisation to retained earnings. This balance represented goodwill written off in previous years on acquisition of subsidiaries.

#### 14. RETAINED EARNINGS

	30th September		
	2002	2001	2000
	US\$000	US\$000	US\$000
Balance brought forward	102	(966)	(246)
Change in accounting policy	(569)	–	–
Exchange difference arising during year	31	(307)	(507)
	<u>(436)</u>	<u>(1,273)</u>	<u>(753)</u>
Capital reduction	–	3,532	–
Transfer from share premium account	–	2,406	–
Transfer from capital reserve	–	(4,159)	–
Transfer to legal reserve	–	(5)	–
Loss for the year	(797)	(399)	(213)
	<u>(1,233)</u>	<u>102</u>	<u>(966)</u>

#### 15. NOTES TO CASHFLOW STATEMENT

##### (a) Reconciliation of loss before tax to net cash used by operations

Loss before tax	(788)	(652)	(227)
Provision against subsidiary	559	–	–
Provision against project expenditure	56	134	–
Dividend from subsidiary	(125)	–	–
Interest received	(11)	(83)	(307)
Interest paid	–	1	–
Depreciation	–	394	544
Net profit on sale of investments and fixed assets	–	(66)	(198)
Exchange difference	–	15	(57)
Net increase in working capital (refer to note 15b)	(126)	(146)	(284)
	<u>(435)</u>	<u>(403)</u>	<u>(529)</u>

##### (b) Net increase in working capital

Increase in mine stores	–	(448)	(66)
Decrease/(Increase) in accounts receivable	13	(823)	(85)
(Decrease)/Increase in accounts payable	(139)	1,125	(133)
	<u>(126)</u>	<u>(146)</u>	<u>(284)</u>

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## 15. NOTES TO CASHFLOW STATEMENT (continued)

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

	2002	2001	Exchange movement	Cash flow movement
	US\$000	US\$000	US\$000	US\$000
United States dollars	300	675	–	(375)
Chilean pesos	9	32	(2)	(21)
Pounds Sterling	10	14	–	(4)
Funds at end of year	<u>319</u>	<u>721</u>	<u>(2)</u>	<u>(400)</u>
	2001	2000	Exchange movement	Cash flow movement
	US\$000	US\$000	US\$000	US\$000
Zimbabwe dollars	–	577	(21)	(891)
United States dollars	675	1,093	–	(419)
Chilean pesos	32	326	(62)	(232)
Pounds Sterling	14	2	–	12
Funds at end of year	<u>721</u>	<u>1,998</u>	<u>(83)</u>	<u>(1,530)</u>

## 16. CAPITAL COMMITMENTS

There was no capital expenditure authorised but not contracted at 30th September 2002 (2001 – US\$765,000,2000 – US\$626,000).

## 17. PENSIONS

Pensions are provided by Zimbabwean subsidiaries for certain employees in Zimbabwe through the National Social Security Authorisation Scheme and the Mining Industry Pension Fund, money purchase schemes to which the group has no responsibility for unfunded liabilities. All contributions are charged to profit and loss account in the year to which they relate.

## 18. CONSOLIDATION

These financial statements do not consolidate the results of our interests in Zimbabwe (see note 2) with effect from 1st October 2001.

## 19. HYPERINFLATION

Our Zimbabwe subsidiaries, Falcon Gold Zimbabwe Limited and Olympus Gold Mines Limited do not comply with IAS 29, Financial Reporting in Hyperinflationary Economies.

## 20. 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.



## **Falcon Investment Holdings Société Anonyme**

*(Incorporated in Luxembourg R.C. No. B39773)*

*Registered Office*  
6 rue Adolphe Fischer,  
L-1520, Luxembourg

26th June 2003

Dear Shareholder,

### **Results for the half-year ended 31st March 2003**

#### **Chile**

During the period our 52.29% owned subsidiary, Minera Falcon de Chile SCM ("MFdC") entered into an option agreement to sell its mining assets in Chile. The non-refundable premium received was US\$1.3 million, with a further US\$11.7 million payable on exercise of the option. We have received confirmation that the option has been exercised and cash has been received by MFdC. We plan to return the maximum funds possible to MFdC's shareholders after costs, local taxation and foreign dividend taxes. We anticipate that we will receive approximately US\$4 million by way of dividends and return of capital, generating an after tax profit on this investment of US\$2.6 million.

#### **Zimbabwe**

In line with the accounting policy adopted at 30th September 2002, we have not consolidated the results of our Zimbabwean subsidiaries, but have included them in the accounts as fixed asset investments. Our 57.1% stake in Falcon Gold Zimbabwe Limited is included at its market value on the Zimbabwe Stock Exchange converted at the "implied" or "parallel" exchange rate Z\$1400:US\$1 at 31st March 2003. Our unlisted investment in Olympus Gold Mines Limited remains in our balance sheet at nominal value (30th September 2002 and 31st March 2002 - same).

The price received for our gold production is determined by the Government of Zimbabwe. Gold produced is now paid for in US dollars at the prevailing international price of gold in respect of 50% of the total production and the balance is paid in Zimbabwe dollars converted at the official exchange rate of Z\$824:US\$1. The increase with effect from January in the proportion of our income received in US dollars (from 20%) and the devaluation of the official exchange rate (from Z\$55:US\$1) have substantially improved the income recorded by our mines in Zimbabwe. However, this increase in income has not all been reflected in cash balances as a substantial part of the cash was outstanding at 31st March 2003.

Total operating profits of our Zimbabwean subsidiaries converted at average "parallel" exchange rates were US\$697,000 in the six months to 31st March 2003, compared to a profit of US\$87,000 for the whole of last year and a loss of US\$19,000 for the first half of last year. Our operating costs in Zimbabwe for the six months ended 31st March 2003 have increased by 123% compared to the same period last year. Gold production has declined 18% to 461kg from 564kg in the same period last year, and 13% from 529kg in the second half of last year. This reduction is mainly due to the treatment of lower grade material from the dumps and underground operations at Dalny.

The operating environment remains difficult in Zimbabwe. We are suffering from regular power cuts despite the imposition of an increase in electricity prices of 1300% with effect from 1st February 2003. Indeed, we are having problems securing payments from the Gold Fund, established to assist the mining industry, and also accessing the foreign currency bank accounts in order to pay for essential inputs.

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Our suppliers are finding it increasingly difficult to operate because of the extreme shortage of foreign exchange. As a result, they are carrying lower stocks and we are suffering from increased lead times for basic inputs. These increased lead times could cause us to run out of spare parts and stocks of consumables with a knock-on effect on production. Our increasing investment in inventories and other increases in working capital resulting from hyperinflation make it prudent for our Zimbabwean subsidiaries to preserve cash and therefore it is unlikely that dividends will be paid until the situation improves.

In any event, owing to the shortage of foreign exchange, the Government of Zimbabwe has recently prioritised how foreign exchange receipts can be utilised, and dividend remittances in foreign currency are deemed a low priority. Therefore we do not expect to be able to remit any dividends from our subsidiaries in Zimbabwe to Luxembourg in the foreseeable future.

### **Prospects**

#### *Europe*

It is your Director's intention that the cash realised from Chile will be re-invested in an operating subsidiary in Europe in due course.

#### *Zimbabwe*

The recent devaluation and increase in proportion of income received in US dollars have enabled our Zimbabwe subsidiaries to survive for the time being. However, in the absence of continuing devaluation of the official exchange rate, operating costs will soon catch up with this increase in income, and the future viability of all operations in Zimbabwe remains uncertain. Gold is a major foreign currency earner for the country. We expect that the Government of Zimbabwe will manage the mechanism for the purchase of gold by the State in a manner that enables the bulk of the gold mining industry to continue operating.

Yours faithfully

**D.C. MARSHALL**  
Chairman

## CONSOLIDATED GROUP PROFIT AND LOSS ACCOUNT

	<i>Half years ended 31st March</i>		<i>Year ended 30th September</i>
	<b>2003</b>	2002	2002
	<b>Unaudited</b>	<i>Unaudited</i>	<i>Audited</i>
	<b>US\$000</b>	<i>US\$000</i>	<i>US\$000</i>
		<i>Restated</i>	
Revenue	–	–	–
Operating costs	<b>(274)</b>	(253)	(361)
Operating loss before interest and taxation	<b>(274)</b>	(253)	(361)
Income from investment in Zimbabwean subsidiary-dividend	–	34	125
Interest received	<b>1</b>	5	11
Exchange (losses)/gains	<b>(25)</b>	4	(4)
Loss before exceptional items and taxation	<b>(298)</b>	(210)	(229)
Exceptional item (note 4)	<b>1,408</b>	576	(559)
Profit/(Loss) before taxation	<b>1,110</b>	366	(788)
Taxation	<b>(5)</b>	(14)	(33)
Profit/(Loss) after taxation	<b>1,105</b>	352	(821)
Attributable to outside shareholders	<b>(560)</b>	27	24
Retained profit/(loss) for the period	<b>545</b>	379	(797)
Profit/(Loss) per share (US cents) – basic	<b>29c</b>	20c	(43)c
Headline loss per share (US Cents)	<b>(8)c</b>	(11)c	(13)c

## CHANGES IN EQUITY

Exchange differences	<b>10</b>	100	31
Net profit/(loss) for the period	<b>545</b>	379	(797)
	<b>555</b>	479	(766)
Shareholders' funds at start of the period	<b>1,153</b>	1,919	1,919
Shareholders' funds at end of the period	<b>1,708</b>	2,398	1,153

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**CONSOLIDATED GROUP BALANCE SHEET**

	<i>31st March</i>		<i>30th</i>
	<b>2003</b>	<i>2002</i>	<i>2002</i>
	<b>Unaudited</b>	<i>Unaudited</i>	<i>Audited</i>
		<i>Restated</i>	
	<b>US\$000</b>	<i>US\$000</i>	<i>US\$000</i>
Non current assets			
Property, plant and equipment	<b>1,722</b>	1,788	1,722
Investments	<b>238</b>	1,265	130
	<b>1,960</b>	3,053	1,852
Current assets			
Other current assets	<b>88</b>	68	111
Cash and bank balances	<b>1,076</b>	420	319
	<b>1,164</b>	488	430
Current liabilities	<b>(249)</b>	(275)	(272)
Net current assets	<b>915</b>	213	158
Total assets, less current liabilities	<b>2,875</b>	3,266	2,010
Capital and reserves			
Share capital	<b>2,060</b>	2,060	2,060
Non-distributable reserves	<b>326</b>	326	326
Revenue reserve	<b>(678)</b>	12	(1,233)
Shareholders' funds	<b>1,708</b>	2,398	1,153
Outside shareholders' interests	<b>1,167</b>	868	857
	<b>2,875</b>	3,266	2,010

## CONSOLIDATED GROUP CASH FLOW STATEMENT

	<i>Half years ended 31st March</i>	<i>Year ended 30th September</i>
	<b>2003</b>	2002
	<b>Unaudited</b>	<i>Unaudited Restated</i>
	<b>US\$000</b>	<i>US\$000</i>
		<i>Audited</i>
		<i>2002</i>
		<i>US\$000</i>
<b>Operating activities</b>		
Cash absorbed by normal trading activities	(263)	(314)
<b>Returns on investments and servicing of finance</b>		
Interest received and other investment income	1	5
Dividend received from Zimbabwean subsidiary	–	34
	<u>1</u>	<u>39</u>
	<u>(8)</u>	<u>(40)</u>
<b>Taxation</b>		
<b>Investment activities</b>		
Purchase of tangible assets	(6)	(9)
Proceeds on disposal of investments and tangible fixed assets	1,300	–
Net cash inflow/(outflow) from investment activities	<u>1,294</u>	<u>(9)</u>
Net cash inflow/(outflow) before financing	<u>1,024</u>	<u>(302)</u>
<b>Financing activities</b>		
Minority interest in Minera Falcon de Chile	–	–
Dividend paid to outside shareholders	(267)	–
Net cash (outflow)/inflow from financing	<u>(267)</u>	<u>–</u>
<b>Net increase/(decrease) in cash</b>	<b>757</b>	<b>(302)</b>
<b>Net funds at start of period</b>	<b>319</b>	<b>721</b>
Effect of foreign exchange rate changes	–	1
<b>Net funds at end of period</b>	<b><u>1,076</u></b>	<b><u>420</u></b>
		<b><u>319</u></b>

### Offices:

#### Zimbabwe

131 Josiah Tongogara Street,  
14th Avenue,  
Bulawayo

#### South Africa

11 Sunbury Park,  
La Lucia Ridge Office Estate,  
La Lucia 4051, Durban

#### United Kingdom

25 City Road,  
London, EC1Y 1BQ

### Transfer Agents

#### Europe

Northern Registrars Limited  
Northern House,  
Woodsome Park,  
Fenay Bridge, Huddersfield,  
HD8 0LA, England

#### South Africa

Computershare Limited  
70 Marshall Street,  
Johannesburg, 2001  
(P.O. Box 61051,  
Marshalltown 2107)

#### Zimbabwe

Syfrets Corporate and Merchant Bank  
Central Scrip Administration,  
5th Floor, Zimbank House  
46 Speke Avenue, (P.O. Box 2540),  
Harare

## NOTES

### 1. Accounting Policy

The results for the half year ended 31st March 2003 and the balance sheet as at that date, which are unaudited, have been prepared on the basis of accounting policies adopted for the period to 30th September 2002, and comply with International Accounting Standards and Luxembourg law. The Group changed its accounting policy at 30th September 2002 and the results of Zimbabwean subsidiaries are not consolidated. They have been included the accounts as fixed asset investments. Comparative figures for the half year to 31st March 2002 have been restated.

### 2. Profit/(Loss) per share

Profit/(Loss) per share is based on the result attributable to members and the 1,864,026 shares in issue.

### 3. Segmental analysis

The segmental analysis of turnover and operating profit is as follows:

	<i>Half years ended 31st March</i>		<i>Year ended 30th September</i>	
	<b>2003</b>		<i>2002</i>	<i>2002</i>
	<b>US\$000</b>		<i>US\$000</i>	<i>US\$000</i>
	<b>Revenue</b>	<b>Result</b>	<i>Revenue</i>	<i>Result</i>
Iodine development				
– Chile	–	<b>(132)</b>	–	(91)
Head office, projects and other	–	<b>(142)</b>	–	(162)
	<u>–</u>	<u><b>(274)</b></u>	<u>–</u>	<u>(253)</u>
Dividend from subsidiary		–		34
Interest received and other income		<b>1</b>		5
Exchange (losses)/gains		<b>(25)</b>		4
Exceptional items				
– gold mining – Zimbabwe		<b>108</b>		576
– iodine development – Chile		<b>1,300</b>		–
Profit/(Loss) before tax		<u><b>1,110</b></u>		<u>366</u>

- The exceptional item in the current period includes the receipt of US\$1,300,000 non-refundable option over the assets of Minera Falcon de Chile SCM and the fair value adjustment to market value of the investment in Falcon Gold Zimbabwe Limited. In the prior year the exceptional item was a fair value adjustment, to market value, of the investment in Falcon Gold Zimbabwe Limited.
- There was no capital expenditure authorised but not contracted, and none contracted at 31st March 2003 (2002 – same)

## PRO FORMA CONSOLIDATED BALANCE SHEET

Set out below is the audited balance sheet of Falcon at 31st March 2003 with the adjustments reflecting the disposal of MFdC assets and the resultant pro forma balance after the disposal.

The pro forma balance sheet is shown for illustrative purposes only and because of the nature thereof, may not give a true picture of Falcon's financial position, changes in equity, results of operations or cash flows.

### Pro Forma Consolidated Balance Sheet

Based on 31st March 2003

	<i>Note</i>	<i>31st March 2003 US\$000</i>	<i>Adjustments in respect of disposal US\$000</i>	<i>After the disposal US\$000</i>
<b>Assets</b>				
<b>Non current assets</b>				
Property, plant and equipment	1	1,722	(1,722)	–
Investments		238	–	238
		<u>1,960</u>	<u>(1,722)</u>	<u>238</u>
<b>Current assets</b>				
Accounts receivable	2	88	(70)	18
Cash and bank balances	3	1,076	2,956	4,032
		1,164	2,886	4,050
<b>Current liabilities</b>				
Accounts payable (falling due within one year)	2	(249)	–	(249)
Net current assets		915	2,886	3,801
Total assets less current liabilities		<u>2,875</u>	<u>1,164</u>	<u>4,039</u>
<b>Capital and reserves</b>				
Called up share capital		2,060	–	2,060
Other reserves		326	–	326
Retained earnings	4	(678)	2,331	1,653
<b>Shareholders' funds</b>		1,708	2,331	4,039
<b>Minority interests</b>	5	1,167	(1,167)	–
		<u>2,875</u>	<u>1,164</u>	<u>4,039</u>
Net asset value and net tangible asset value per share		US\$ 0.92		US\$ 2.17

Notes:

1. Elimination of the cost of investment in the iodine project in the Group accounts at 30th September 2002, being:

	<i>US\$000</i>
Investment in books of MFdC at 30th September 2002	1,232
Additional investment in books of holding company at 30th September 2002	490
Total cost of investment	<u>1,722</u>

2. Receipt of 31st March 2003 MFdC debtors and payment of 31st March 2003 MFdC creditors.
3. The net increase in Group cash balances arising from the sale has been calculated as follows:

	<i>US\$000</i>	
Gross receipt by MFdC on sale	13,000	
Less project expenditure to date, selling expenses and accrued costs to wind up MFdC	2,705	
Distributable profit	<u>10,295</u>	
Falcon's share of the distributable profit	4,640	
Less Chilean taxes	<u>(1,624)</u>	
	3,016	
Return of capital from MFdC	<u>989</u>	
Cash received from Chile	4,005	See note 4 below
Other cashflows	<u>(59)</u>	Cash in MFdC and circular costs
Net increase in Group cash balances	3,946	
Less received by the Group at 31st March 2003	<u>990</u>	
Balance now accounted for	<u>2,956</u>	

Falcon is currently in arbitration proceedings in Chile with another shareholder in MFdC regarding the interpretation of a clause in the shareholder's agreement concerning the distribution of funds by MFdC. The minimum amount receivable by Falcon from MFdC is US\$4 million and the maximum amount is US\$4.4 million before allowing for any costs associated with the arbitration proceedings. Falcon's share of the costs of the arbitration process are dependent on the decision of the Arbitrator, but are not expected to exceed US\$0.1m.

4. The net profit on the sale has been calculated as follows:

	<i>US\$000</i>	<i>US\$000</i>	
Cash received from Chile (as in 3 above)		4,005	See note 3 above
MFdC net assets at 30th September 2002			
Fixed assets	1,232		See "Financial information on MFdC" below
Net current assets	77		
Additional investment in books of holding company	490		
	<u>1,799</u>		
Less Minority Interest in MFdC at 30th September 2002	<u>(857)</u>		
		(942)	
Less cost of circular		<u>(50)</u>	
		3,013	
Less share of profit on option accounted for in the period to 31st March 2003		<u>682</u>	
Balance now brought to account		<u>2,331</u>	

5. The minority interests in MFdC are being paid out in full as part of the disposal process.

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## Financial information on MFdC

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The audited results of MFdC for the nine months ended 30th September 2000 and the years ended 30th September 2001 and 2002 are set out below:

### Income statement

Period ended 30th September

	<i>Notes</i>	<i>2002</i> <i>US\$000</i>	<i>2001</i> <i>US\$000</i>	<i>2000</i> <i>US\$000</i>
Administrative and other expenses		(49)	(68)	(35)
Other revenues				
Financial income		<u>5</u>	<u>17</u>	<u>2</u>
Loss for the period		<u>(44)</u>	<u>(51)</u>	<u>(33)</u>

### Balance Sheet

At 30th September

#### Assets

<b>Fixed assets</b>	1	<u>1,232</u>	<u>1,291</u>	<u>1,214</u>
<b>Current assets</b>				
Cash at bank and fixed deposits		9	32	325
Recoverable taxes		67	60	54
Sundry debtors		<u>3</u>	<u>4</u>	<u>25</u>
		79	96	404
<b>Current liabilities</b>		<u>(2)</u>	<u>(3)</u>	<u>(81)</u>
Total assets less current liabilities		<u>1,309</u>	<u>1,384</u>	<u>1,537</u>

#### Shareholders' equity

Paid in capital		1,908	1,830	1,630
Profits/(losses)		<u>(599)</u>	<u>(446)</u>	<u>(93)</u>
		<u>1,309</u>	<u>1,384</u>	<u>1,537</u>

The exchange rates applicable to the figures above are US\$ 1 =

	<i>2002</i>	<i>2001</i>	<i>2000</i>
		Chilean pesos.	
Profit and Loss Account	721	629	564
Balance Sheet	748	695	564

*Note:*

- Fixed assets represent the capitalised costs of initial surveys, assays and established water and other rights over the Chilean property.

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## General Information

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### Goodwill

No goodwill arises in Falcon as a result of this transaction. There is no other goodwill in the records of the Company.

### Indebtedness

As at the date of this circular, there was no indebtedness within the Group.

### Major Shareholders

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

	<i>Shares</i>	<i>%</i>
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 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, as required by Luxembourg law or of over 5% as required by the JSE.

### Directors' interests

The share interests of the Directors who held office as at 30th September 2002 and at Friday 17th October 2003, the latest practical date before the posting of this circular, including those arising through Monteagle were as follows.

	<i>17th October 2003</i>			<i>30th September 2002</i>		
	<i>Beneficial</i>	<i>%</i>	<i>Non-beneficial</i>	<i>Beneficial</i>	<i>%</i>	<i>Non-beneficial</i>
A.R.C. Barclay	–	–	931,024 *	–		931,024 *
C.P. Jousse	79	0.004	–	79	0.004	–
D.C. Marshall	–	–	931,024 *	–		931,024 *
J.M. Robotham	2,000	0.107	931,024 *	2,000	0.107	931,024 *

\* These non-beneficial holdings, totalling 49.95%, arise because the individual concerned is also a director of Monteagle, a shareholder in Falcon.

In addition, the following are deemed to have the interests shown in the share capital of Falcon by virtue of their share interests in Monteagle:

	<i>17th October 2003</i>			<i>30th September 2002</i>		
	<i>Beneficial</i>	<i>%</i>	<i>Non-beneficial</i>	<i>Beneficial</i>	<i>%</i>	<i>Non-beneficial</i>
D.C. Marshall	146,962	7.884	293,924 *	146,962	7.884	293,924 *
J.M. Robotham	1,117	0.060	103,344 *	1,117	0.060	103,344 *

\* These non-beneficial holdings, arise wholly or partly, because the individuals concerned were also directors or trustees of entities that hold shares in Monteagle.

There were no changes in Directors' interests between 17th October 2003 and the date of this circular.

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None of the directors have any direct or indirect interest in the transactions of the Company during the current or immediately preceding financial year and which remain in any respect outstanding or unperformed other than in respect of their share interests in the Company as disclosed in the table above.

### **Share capital**

The authorised and issued share capital of Falcon is:

Authorised	4,000,000 shares of €1.25 each	€5,000,000
Issued	1,864,026 shares of €1.25 each	€2,330,032

Falcon has its primary listing on the LuxSE and secondary listings on the JSE and the ZSE. Other than as advised in the table above, the Company has no other class of shares authorised.

### **Litigation**

Falcon is currently in arbitration proceedings in Chile with another shareholder in MFdC regarding the interpretation of a clause in the shareholder's agreement concerning the distribution of funds by MFdC. The minimum amount receivable by Falcon from MFdC is US\$4 million and the maximum amount is US\$4.4 million before allowing for any costs associated with the arbitration proceedings. Falcon's share of the costs of the arbitration process are dependent on the decision of the Arbitrator, but are not expected to exceed US\$0.1m.

Other than as mentioned above there are no legal or arbitration proceedings which may have or during the 12 months preceding this circular have had a material effect on the financial position of Falcon or the Group. Neither Falcon nor its subsidiaries are aware that any such proceedings are pending or threatened.

### **Working capital**

The Directors are of the opinion that the Group has sufficient working capital available for its current and foreseeable future requirements.

### **Material changes**

Other than in respect of the sale of MFdC, the Directors report that since the date of the interim report for the six months ended 31st March 2003, there have been no material changes in financial and trading position, or the assets and liabilities of Falcon and/or its subsidiaries, including MFdC

### **Change in control**

There has been no change in the history of the controlling shareholders and trading objects of Falcon and its subsidiaries during the previous five years.

### **Material and significant contracts**

No Group company has entered into any material or significant contracts other than in the ordinary course of business within two years prior to the date of this circular

### **Director's service contracts**

None of the directors has a service contract with the Company.

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### **Group Prospects Statement**

The Directors are of the opinion that this transaction has considerably benefited the Group by substantially increasing the Company's cash balances in Luxembourg. The Company will be able to use these funds to look for opportunities to acquire new investments. It is envisaged that any such investments will be made in countries where there are no restrictions on the free remittance of dividends to Luxembourg.

### **Directors' responsibility statement**

The Directors, whose names are given in the "Corporate information" section on page 2 of this circular collectively and individually accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading, and that they have made all reasonable enquiries to ascertain such facts.

### **Advisers consent**

Imara Corporate Finance South Africa (Pty) Ltd, the South African JSE Sponsor and Computershare Limited, the South African transfer agent to Falcon, have not withdrawn their written consent to act as Sponsor and transfer agent respectively to Conafex on the sale prior to the posting of this circular

### **Documents available for inspection**

The following documents, or copies thereof, will be available for inspection during normal business hours at the registered office of the Company at 6 rue Adolphe Fischer, L-1520, Luxembourg, the office of the Group Secretaries, City Group P.L.C., 25 City Road, London, EC1Y 1BQ, U.K. and at the offices of Monteagle Merchant Group Limited 11 Sunbury Park, La Lucia Ridge Office Estate, La Lucia 4051, Durban:

- (a) the Articles of Incorporation of the Company;
- (b) a copy of the agreement between the Company and SQM;
- (c) the audited annual financial statements of the Company for each of the preceding three years; and
- (c) MFdC's audited financial statements for the previous three accounting periods.

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## Independent Accountant's Report on the Financial Effects and the Pro Forma Balance Sheet

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17th October 2003

The Directors  
Falcon Investment Holdings Société Anonyme  
P.O. Box 1361  
L-1013 Luxembourg

Dear Sirs

### REPORT OF THE INDEPENDENT REPORTING ACCOUNTANTS TO THE DIRECTORS OF FALCON INVESTMENT HOLDINGS SOCIETE ANONYME ("Falcon" or "the company")

We have conducted certain procedures with regard to the pro forma financial information and financial effects set out in the circular to be mailed to Falcon shareholders on or about 22nd October 2003.

The pro forma financial information and effects of the disposal of Minera Falcon de Chile SCM ("MFdC") have been prepared for illustrative purposes only to provide information about how the transaction might have effected the financial information presented. The compilation, contents and presentation of the circular are the responsibility of the company's directors. Our responsibility is to express an opinion on the pro forma financial information and effects included in the circular.

### SCOPE

We conducted procedures, which involved no independent examination of any of the underlying financial information, and which consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information and effects with the directors of the company.

### OPINION

Based on our procedures, nothing has come to our attention that causes us to believe that:

- the pro forma financial information and effects have not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of Falcon; and
- the adjustments are inappropriate for the purposes of the pro forma financial information and effects as disclosed pursuant to paragraph 8.29 of the JSE Listings Requirements.

Yours faithfully  
AGN Horsburgh & Co SA  
Réviseur d'entreprises  
15-17 avenue Gaston Diderich,  
L-1420 Luxembourg

**K. Horsburgh**  
Partner

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## Notice of Extraordinary General Meeting

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**NOTICE is hereby given** that an Extraordinary General Meeting of Falcon Investment Holdings Société Anonyme will be held at the offices of Maitland Management Services S.A., 6 rue Adolphe Fischer, L-1520, Luxembourg on Friday 14th November 2003 at 10.00 a.m. for the following purposes:

1. To retrospectively approve the sale of the assets of the Company's subsidiary, Minera de Falcon de Chile SCM, to Sociedad Quimica y Minera de Chile S.A. for a final consideration of US\$11.7 million.

The approval of a simple majority of the votes cast by shareholders present or represented by proxy at this meeting is required for the resolution above to become effective.

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

6 rue Adolphe Fischer,  
Luxembourg,  
22nd October 2003

*Notes:*

- (i) **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 Extraordinary General Meeting.**
- (ii) Dematerialised shareholders in South Africa, other than those shareholders with own-name registration who wish to attend the Extraordinary General Meeting or vote by way of proxy must contact their Central Securities Depository Participant ("CSDP") or broker with the necessary instructions for attending or voting at the Extraordinary General Meeting in the manner and time stipulated in the custody agreement governing the relationship between the shareholder and their CSDP or broker. These instructions must be provided to the CSDP or broker by the cut-off time and date advised by their CSDP or broker for instructions of this nature.
- (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.

### CHANGE OF ADDRESS

Shareholders are requested to advise the European transfer agents, Capita Registrars Limited, the South African transfer agents, Computershare Limited or the Zimbabwean transfer agents, Syfrets Corporate and Merchant Bank whose addresses can be found on page 2 of this report, of any change of address.

