

FALCON SECURITIES LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER, 2005

WITH MANAGEMENT SCHEDULES

FALCON SECURITIES LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2005

CONTENTS	PAGE
Corporate information	1
Result at a glance	2
Report of the directors	3
Report of the auditors	5
Statement of accounting policies	6
Balance sheet	7
Profit and loss account	8
Cash flow statement	9
Notes to the accounts	10
Statement of value added	17
Five-year financial summary	18

FALCON SECURITIES LIMITED
CORPORATE INFORMATION

Directors: Mr. O. J. A. Idudu - *Chairman*
Brig. General J. T. Ogbeha (Rtd.)
Captain T. G. Ogisi
Olorogun L. Oghene-Omoru(JP)
Senator (Chief) S. A. Otegbola
Chief Eric N. Nwobi
Rear Admiral F. I. O. Nesiama (Rtd.)
Dr. M. A. Uduebo
Mr. Peter U. Ololo - *Managing Director*

Secretary: Miss. Colette R. Ogigi

Registered number: RC 219781

Registered office: 15, Olowu Street,
Ikeja,
Lagos.

Auditors: Oyelami Soetan Adeleke & Co.,
Chartered Accountants,
Kresta Laurel Complex (4 Floor),
376, Ikorodu Road,
Maryland,
Lagos.

Bankers: Central Bank of Nigeria
Oceanic Bank International Plc
Zenith International Bank
Intercontinental Bank Plc
Union Bank of Nigeria Plc
First Bank of Nigeria Plc
Access Bank Plc
Spring Bank Plc
Skye Bank Plc
Guaranty Trust Bank Plc
Afribank Nigeria Plc
First City Monument Bank
Standard Chartered Bank of Nigeria

FALCON SECURITIES LIMITED

RESULTS AT A GLANCE

For the year	2005	2004	% Increase/ Decrease
	x'000	x'000	
Gross income	1,462,979	638,216	129
Operating expenses	1,253,901	580,867	116
Profit before taxation	209,078	57,349	265
Profit after taxation	183,421	51,349	257
Dividend	85,523	20,000	328
	x'000	x'000	
Major balances sheet items			
Share capital	285,076	87,353	226
Total assets	23,816,369	9,827,607	142
Total liabilities	23,230,444	9,639,080	141
Shareholders' fund	585,925	188,527	211
Number of employees	15	13	

FALCON SECURITIES LIMITED

REPORT OF THE DIRECTORS

1. The directors have pleasure in presenting their report and audited financial statements of the company for the year 31 December, 2005.

2. Result of operations for the year	₦'000
Profit before taxation	209,078
Taxation	<u>(25,657)</u>
Profit after tax	183,421
<i>Less: Appropriation</i>	
Dividend	<u>85,523</u>
Retained profit	97,898
	=====

3. **Principal activities**

The company is engaged in the business of stock broking and issuing house activities.

4. **Business review**

The company's profit before tax increased from ₦57,348,940 in the previous year to ₦209,078,000 owing to expansion in the company's business. The directors have continued with their expansion plans for the company which will hopefully improve the operational results in the ensuing years.

5. **Directors**

The names of the directors of the company are as stated on page 1 of these reports and financial statements.

6. **Directors' interest**

The directors' interests in the company's shares were as follows: -

	31/12/2005	31/12/2004
	No. of shares	No. of shares
Mr. O. J.A Idudu	4,336,699	1,000,000
Brig. General J. T. Ogbeha (Rtd.)	1,653,561	1,090,000
Captain T. G. Ogisi	2,345,901	1,090,000
Olorogun Lucky Oghene-Omoru (JP)	1,442,966	500,000
Senator (Chief) S. A. Otegbola	6,967,837	2,200,000
Chief Eric N. Nwobi	1,039,976	100,000
Rear Admiral F. I. O. Nesiama (Rtd.)	935,978	500,000
Dr. M. A. Uduebo	649,985	-
Mr. Peter Ukuoritsemofe Ololo - Direct	109,557,031	37,400,000
- Indirect	169,510,639	37,400,000

7. **Fixed assets**

Movements in fixed assets during the year are shown in note 6 to the financial statements. In the opinion of the directors, the market value of the company's assets is not substantially less than the value shown in the financial statements.

8. **Dividend**

The directors recommend the payment of a dividend of ₦85,522,780 which is equivalent to 30k per share of ₦1.00 held by members. The dividend will be subjected to the deduction of appropriate withholding tax at the time of payment

9. **Donations**

There were no donations during the year.

10 **Employment and employees**

(i) *Employment of disabled persons:*

The company does not discriminate in considering applications for employment including those from disabled person. All employees are given equal opportunities to develop their knowledge and skills within the organisation. As at 31 December, 2005 there were, however, no disabled persons in the company's employment.

(ii) *Employee's involvement and training:*

The company is committed to keeping employees fully informed as far as possible about the company's performance and progress and seeking their views wherever practicable on matters which particularly affect them as employees. The company provides a range of training from time to time for employees' career development within the organisation.

(iii) *Staff welfare and safety at work:*

The company places high premium on its human resources and there is existing provision for lunch, rent and transportation allowances. The company conducts its activities in a way to take foremost account of the safety of its employees and other persons.

11 **Auditors**

Messrs. Oyelami Soetan Adeleke & Company (Chartered Accountants) have indicated their willingness to continue as auditors in accordance with section 357(2) of the Companies and Allied Matters Act 1990. A resolution will be proposed to authorise the directors to fix their remuneration.

By order of the Board

Miss. Colette R. Ogi
Secretary

LAGOS, Nigeria
10 November, 2006

**AUDITORS' REPORT
TO THE MEMBERS OF
FALCON SECURITIES LIMITED**

We have audited the financial statements set out on pages 7 to 17 which have been prepared under the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

The responsibilities of directors on the financial statements as contained in Sections 334 and 335 of the Companies and Allied Matters Act, 1990 are stated in note 20. It is our responsibility as auditors to form an independent opinion, based on our audit, on the financial statements prepared by the directors and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with generally accepted auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the information in the financial statements.

We have obtained all the information and explanations considered necessary for the purpose of our audit. Proper books of account have been kept by the company and the financial statements are in agreement with the books of account.

Opinion

In our opinion and to the best of our information and the explanations given to us, the financial statements give a true and fair view of the state of affairs of the company as at 31 December, 2005 and of its profit and cash flow for the year then ended and have been properly prepared in accordance with the Companies and Allied Matters Act, 1990.

**Oyelami Soetan Adeleke & Co.
CHARTERED ACCOUNTANTS**

**Lagos, Nigeria
10 November, 2006**

FALCON SECURITIES LIMITED
ACCOUNTING POLICIES

The following is a summary of significant accounting policies adopted in the preparation of Falcon Securities Limited financial statements:

1. Basis of preparation

The financial statements are prepared under the historical cost convention.

2. Income

Income is accounted for when due.

3. Long term investment

Investments are stated at cost.

4 Fixed assets

The fixed assets are stated at cost less accumulated depreciation.

5 Depreciation

Depreciation charged on fixed assets is calculated on a straight line basis at the following annual rates to write off the cost of the assets over their estimated useful lives: -

Motor vehicle	-	25%
Computer equipment	-	33a%
Office equipment	-	20%
Office furniture & fittings	-	25%
Other fixed assets	-	20%
Leased equipment	-	Over the period of the lease

6 Debtors

Debtors balances are stated after deduction of provision for specific debts considered to be doubtful of collection.

7 Deferred taxation

No provision has been made for deferred taxation since there is reasonable probability that there will be recurring differences, which will ensure that the deferred tax will not crystallise in the foreseeable future.

8 Leased equipment

Leased equipment are accounted for strictly in accordance with their legal form as fixed assets.

FALCON SECURITIES LIMITED

BALANCE SHEET AS AT 31 DECEMBER, 2005

	Notes	2005 x'000	2004 x'000
Assets			
Cash and short term funds	1	180,311	24,805
Mandatory deposits	2	1,100	1,100
Short-term investments	3	23,463,336	9,728,209
Long-term investments	4	45,920	20,000
Other assets	5	116,518	50,839
Fixed assets	6	<u>9,184</u>	<u>2,655</u>
Total assets		<u>23,816,369</u> =====	<u>9,827,608</u> =====
Liabilities			
Clients funds	7	13,731,283	7,412,932
Bank loan/overdraft	8	9,345,691	2,124,315
Other liabilities	9	18,586	58,130
Taxation	10	49,361	23,704
Dividend		<u>85,523</u>	<u>20,000</u>
		<u>23,230,444</u> -----	<u>9,639,081</u> -----
Capital and reserves			
Share capital	11	285,076	87,353
Deposit for shares	12	155,000	43,223
Bonus issue reserve	13	-	10,000
Profit and loss account		<u>145,849</u>	<u>47,951</u>
Shareholders' fund		<u>585,925</u> =====	<u>188,527</u> =====
		<u>23,816,369</u> =====	<u>9,827,608</u> =====

.....)
))
) **Directors**
))
.....)

The accounting policies on page 6 and the notes on pages 10 to 15 form part of these financial statements.

FALCON SECURITIES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER, 2005

	Notes	2005 x'000	2004 x'000
Income			
Brokerage income		694,531	287,830
Dividend income	14	757,281	336,519
Other income	15	<u>11,167</u>	<u>13,867</u>
		1,462,979	638,216
		-----	-----
<i>Less: Cost of fund</i>			
Interest on placements		-	107,583
Interest on loans/overdraft		<u>1,142,431</u>	<u>341,233</u>
		1,142,431	448,816
Overheads		<u>111,470</u>	<u>132,051</u>
		1,253,901	580,867
		-----	-----
Profit before taxation	16	209,078	57,349
Current taxation	10	<u>(25,657)</u>	<u>(6,000)</u>
Profit after taxation		183,421	51,349
Appropriation			
Dividend		85,523	20,000
Transfer to bonus issue reserve	13	<u>-</u>	<u>10,000</u>
		<u>85,523</u>	<u>30,000</u>
		97,898	21,349
Profit brought forward		<u>47,951</u>	<u>26,602</u>
Retained profit transferred to balance sheet		145,849	47,951
		=====	=====
Earnings per share		x0.64	x0.59
		=====	=====

The accounting policies on page 6 and the notes on pages 10 to 15 form part of these financial statements.

FALCON SECURITIES LIMITED**CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER, 2005**

	2005	2004
	x'000	x'000
Cash flow from operating activities:		
Profit before taxation	209,078	57,349
Adjustment for non-cash items, etc		
Depreciation	<u>4,415</u>	<u>1,680</u>
Cash flow before changes in working capital	213,493	59,029
Changes in working capital:		
Other assets	(65,679)	(8,671)
Clients funds	6,318,351	7,128,560
Mandatory deposits	-	(50)
Other liabilities	<u>(39,544)</u>	<u>884,736</u>
	6,426,621	8,063,604
Tax paid	<u>-</u>	<u>-</u>
Net cash generated from operating activities	6,426,621	8,063,604
Cash flow from investing activities:		
Short term investments	(13,735,127)	(8,040,642)
Long term investments	(25,920)	-
Acquisition of fixed assets	(10,944)	(2,240)
Cash flow from financing activities		
Loan	7,221,376	-
Proceeds of increase in share capital	144,500	-
Additional deposit for shares	155,000	18,645
Dividend paid	<u>(20,000)</u>	<u>(25,000)</u>
Net increase in cash and cash equivalent	155,506	14,367
Cash and equivalents at 1 January	<u>24,805</u>	<u>10,438</u>
Cash and cash equivalents at 31 December	180,311	24,805
	=====	=====
Represented by:		
Cash and bank balances	180,311	24,805
	=====	=====

	2005	2004
	x'000	x'000
3. Short-term investments		
Dealing securities	17,368,184	8,936,052
Assets under management	6,096,141	-
Treasury bills	86,417	50,000
Quoted Securities/Box load	-	831,517
2 nd FGN Bond 2008	<u>30,500</u>	<u>-</u>
	23,581,242	9,817,569
Less: Provision for diminution in value of investments	<u>(117,906)</u>	<u>(89,361)</u>
	23,463,336	9,728,209
	=====	=====

Of the x17,368,184,000 shown above as dealing securities, x10,492,879,850 represent securities placed under lien for short-term loans and overdrafts obtained from some banks by the company. The market value of the dealing securities as at 31 December, 2005 was N20,056,845,000.

4. Long-term investments		
Deap Capital Management and Trust Limited		
46,800,000 ordinary shares of x1 each	45,920	20,000
	=====	=====
5. Other assets		
Trade debtors	121,745	57,733
Due from clients	<u>1,667</u>	<u>-</u>
	123,412	57,733
Less: Provision for doubtful account	<u>(6,894)</u>	<u>(6,894)</u>
	116,518	50,839
	=====	=====

6. Fixed assets					
	Motor	Office	Furniture	Computer	Total
Cost	vehicle	equipment	fitting	equipment	x'000
	x'000	x'000	x'000	x'000	x'000
At 1 January, 2005	113	2,061	4,277	2,368	8,819
Additions	<u>9,621</u>	<u>1,323</u>	<u>-</u>	<u>-</u>	<u>10,944</u>
At 31 December, 2005	9,734	3,384	4,277	2,368	19,763
	=====	=====	=====	=====	=====
Depreciation					
At 1 January, 2005	113	1,277	2,670	2,104	6,164
Charge for the year/adjustment	<u>2,405</u>	<u>677</u>	<u>1,069</u>	<u>264</u>	<u>4,415</u>
At 31 December, 2005	2,518	1,954	3,739	2,368	10,579
	=====	=====	=====	=====	=====
Net book value					
At 31 December, 2005	7,216	1,430	538	-	9,184
	=====	=====	=====	=====	=====
At 31 December, 2004	-	784	1,607	264	2,655
	=====	=====	=====	=====	=====

	2005	2004
	x'000	x'000
7. Clients funds		
Deposit for securities	4,415,884	4,579,747
Funds under management	<u>9,315,399</u>	<u>2,833,185</u>
	13,731,283	7,412,932
	=====	=====
7.1 Insider related deposit for securities		
Included in Deposit for securities are the following balances in respect of related parties: -		
Resolution Securities Limited	205,017	373,658
Resolution Trust and Investment Company Limited	413,477	111,211
Pine Petosan Limited	1,340,258	1,323,209
Peter Ukuoritsemofe Ololo	<u>202,348</u>	<u>57,713</u>
	2,161,100	1,865,791
	=====	=====
8. Bank loan/overdrafts		
Short term loans and overdrafts	9,345,691	2,124,315
	=====	=====
The bank overdrafts/short term loans were secured by lien on various stocks owned by the company valued at x10,492,879,850.		
9. Other liabilities		
Regulatory fees payable	16,920	-
Accrued expenses	<u>1,666</u>	<u>58,130</u>
	18,586	58,130
	=====	=====
10. Taxation		
<i>.1 Per profit and loss account:-</i>		
Income tax	25,657	6,000
	=====	=====

	2005	2004
	₦'000	₦'000
<i>.2 Per balance sheet</i>		
At 1 January	23,704	17,704
Charge for the year	<u>25,657</u>	<u>6,000</u>
At 31 December	49,361	23,704
	=====	=====
11. Share capital		
<i>a) Authorised</i>		
400,000,000 ordinary shares of ₦1.00 each	400,000	100,000
	=====	=====
<i>b) Issued and fully paid</i>		
285,075,935 ordinary shares of ₦1.00 each	285,076	87,353
	=====	=====
11.1	The authorised share capital of the company was increased from 100,000,000 ordinary shares of ₦1.00 each to 400,000,000 ordinary shares of ₦1.00 each on 17 May, 2005.	
11.2	In August 2005, additional 197,722,935 ordinary shares of ₦1.00 each were allotted to increase the issued share capital to ₦285,075,935. The relevant form Co2 was filed with the Corporate Affairs Commission on 25 August, 2005.	
12. Deposit for shares	2005	2004
	₦'000	₦'000
Olorogun L. Oghene-Omoru	-	887
Mr. O. J. A. Idudu	-	3,170
Senator Chief S. A. Otegbola	-	4,500
Rear Admiral F. I. O. Nesiama	-	900
Brigadier General J. T. Ogbeha (Rtd.)	-	500
Captain T. G. Ogisi	-	1,166
Chief Eric Nwobi	-	900
Mr. Simbabi J. Ogbeha	-	500
Pine Petosan Limited	65,000	8,563
Dr. M. A. Uduebo	-	625
Mr. Peter Ukuoritsemofe Ololo	60,000	10,252
Resolution Securities Limited	<u>30,000</u>	<u>11,260</u>
	155,000	43,223
	=====	=====

	2005	2004
13. Bonus issue reserve	x'000	x'000
At 1 January	10,000	5,000
Allotted during the year	<u>10,000</u>	<u>5,000</u>
	-	-
Transfer from profit and loss account	<u>-</u>	<u>10,000</u>
At 31 December	<u>-</u>	<u>10,000</u>
	=====	=====
14. Dividend income		
Dividend from quoted securities	755,481	333,689
Dividend from dealing securities	<u>1,800</u>	<u>2,830</u>
	757,281	336,519
	=====	=====
15. Other income		
Transfer fees	-	14
Fees on public issue	-	8,741
Income on CBN certificate of deposit	-	2,203
Interest on deposits	10,053	254
Others	<u>1,114</u>	<u>2,655</u>
	11,167	13,867
	=====	=====
16. Profit before taxation		
<i>This is arrived at: -</i>		
After charging		
Depreciation of fixed assets	4,415	1,680
Auditors' remuneration	1,000	500
	=====	=====
17. Employees emoluments		
(a) <i>Employees numbers</i>	Number	Number
Employees(excluding directors) employed by the company during the year were	15	13
	=====	=====
(b) <i>The related staff costs amounted to: -</i>		
Wages and salaries	24,169	9,452
Staff welfare and training	<u>1,759</u>	<u>1,079</u>
	25,928	10,531
	=====	=====

(c) *Salary strand*

The number of employees of the company, other than the directors who earned more than x60,000 during the year were: -

	2005	2004
	Number	Number
x60,001 - x70,000	-	-
x70,001 - x100,000	-	-
x100,001 - x120,000	-	-
x171,001 - x180,000	1	1
x231,001 - x240,000	4	2
x291,001 - x300,000	5	1
x331,001 - x340,000	-	1
x351,001 - x400,000	1	4
x441,001 - x450,000	2	2
x1,071,001- x1,080,000	2	1
x1,190,001- x1,200,000	-	1
	====	==

18. **Directors' emoluments:**

(a) *Chairman's emoluments*

	x'000	x'000
Fees	120	120
	====	====

(b) *The highest paid director: -*

Fees	7	7
Other emoluments	5,000	5,000
	====	=====

(c) Other directors received remuneration in the following ranges:

x50,001 - x60,000	-	-
x60,001 - x70,000	-	-
x70,001 - x80,000	-	-
x80,001 - x90,000	-	-
x90,001 - x100,000	7	7
	====	====

19. **Capital commitments and contingent liabilities**

There were no capital commitments or contingent liabilities as at 31 December, 2005

20. **Responsibilities of directors on the financial statements**

In accordance with the provisions of section 334 and 335 of the Companies and Allied Matters Act 1990, the company's directors are responsible for the preparation of the financial

statements which give a true and fair view of the state of the company's affairs as at 31 December, 2005 and of the profit or loss for the year ended on that date, and comply with requirements of the Companies and Allied Matters Act, 1990. These responsibilities include ensuring that: -

- i) adequate internal control procedures are instituted to safeguard assets and prevent fraud and other irregularities;
- ii) proper accounting records are maintained;
- iii) applicable accounting standards are followed;
- iv) suitable accounting policies are used and consistently applied.

FALCON SECURITIES LIMITED
STATEMENT OF VALUE ADDED
FOR THE YEAR ENDED 31 DECEMBER, 2005

	2005		2004	
	x'000	%	x'000	%
Turnover	1,513,654		654,037	
Bought-in-goods and service	<u>(1,274,233)</u>		<u>(585,556)</u>	
Value added	239,421	100	68,481	100
	=====	=====	=====	=====
Applied as follows: -				
<i>Employees</i>				
Salaries, wages and other benefits	25,928	11	9,452	14
<i>Providers of finance</i>				
Dividend	85,523	36	20,000	29
Bonus issue	-	-	10,000	15
<i>Government</i>				
Taxation	25,657	10	6,000	9
<i>The future</i>				
Depreciation	4,415	2	1,680	2
Retained profit	<u>97,898</u>	<u>41</u>	<u>21,349</u>	<u>31</u>
Value added	239,421	100	68,481	100
	=====	=====	=====	=====

FALCON SECURITIES LIMITED

FIVE-YEAR FINANCIAL SUMMARY

	2005 x'000	2004 x'000	2003 x'000	2002 x'000	2001 x'000
Assets employed					
Cash and short term funds	180,311	24,805	10,437	80,511	83,749
Mandatory deposit	1,100	1,100	1,050	1,050	1,050
Investments	23,509,256	9,748,209	1,707,568	3,184,204	262,267
Other assets	116,518	50,839	42,167	29,147	25,050
Fixed assets	<u>9,184</u>	<u>2,655</u>	<u>2,095</u>	<u>3,244</u>	<u>361</u>
Total assets	<u>23,816,369</u> =====	<u>9,827,608</u> =====	<u>1,763,317</u> =====	<u>3,298,156</u> =====	<u>372,477</u> =====
Clients funds	13,731,283	7,412,932	284,372	80,913	3,399
Bank loan/overdraft	9,345,691	2,124,315	1,000,000	2,700,000	-
Other liabilities	18,586	58,130	322,709	400,687	270,164
Dividend	85,523	20,000	-	-	-
Provision for tax	<u>49,361</u>	<u>23,704</u>	<u>17,704</u>	<u>16,333</u>	<u>10,521</u>
Liabilities	23,230,444	9,639,080	1,624,785	3,197,933	284,084
Shareholders funds	<u>585,925</u>	<u>188,527</u>	<u>138,532</u>	<u>100,223</u>	<u>88,393</u>
	<u>23,816,369</u> =====	<u>9,827,608</u> =====	<u>1,763,317</u> =====	<u>3,298,156</u> =====	<u>372,477</u> =====
Profit and loss accounts					
Gross earnings	1,462,979	638,216	365,739	222,835	121,067
Profit before tax	209,078	57,349	35,138	22,606	19,571
Taxation	25,657	6,000	1,371	5,812	4,234
Profit after taxation	183,421	51,349	33,767	16,794	15,337
Dividend	85,523	20,000	15,000	10,000	10,000
Retained profit	<u>97,898</u> =====	<u>21,349</u> =====	<u>13,767</u> =====	<u>6,794</u> =====	<u>5,337</u> =====
Per x1.00 share data					
Earnings (Basic)	64k	59k	41k	20k	19k
Earnings (Diluted)	64k	18k	12k	6k	5k
Dividend (Basic)	30k	23k	18k	12k	12k
Dividend(Diluted)	30k	7k	5k	4k	4k
Net asset per share (Diluted)	225	66	48	35	31

Note: Basic earnings and dividend per share are based on the issued ordinary shares at 31 December

each year, qualifying for dividend.