Falkland Islands Holdings plc

Annual Report 2004

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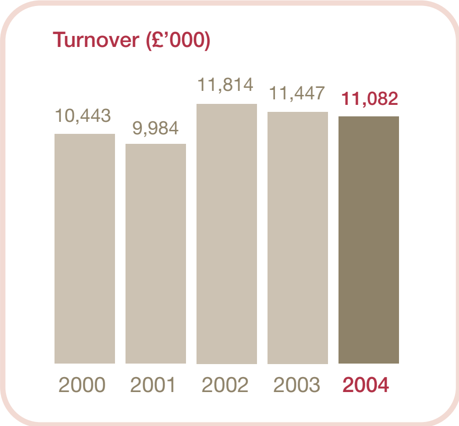
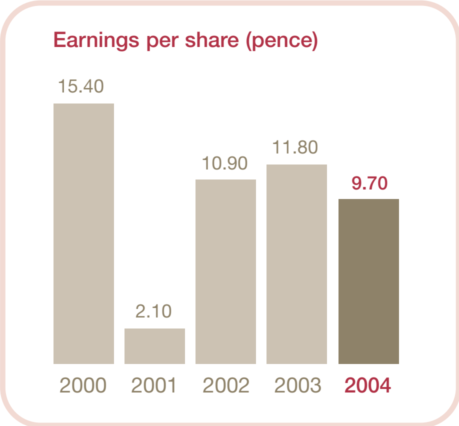
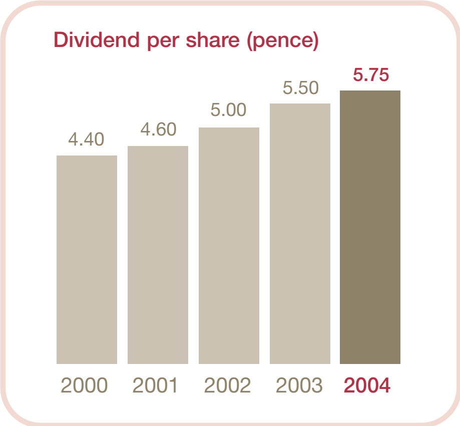
Financial Highlights

	2004 £'000	2003 £'000	Change %
Turnover	11,082	11,447	(3)
Profit before tax	847	1,025	(17)
Basic earnings per share	9.7p	11.80p	(18)
Dividend per share	5.75p	5.50p	5
Cashflow from operations	1,744	1,600	9
Net asset value per share	57.0p	53.1p	7







Directors and Corporate Information

Directors

David L Hudd *Chairman*

Bryan McGreal *Managing Director*

Anthony M Knightley *Finance Director*

Leonard S Licht*

Sir Harry Solomon*

**Non-Executive Directors.*

Corporate Information

Company Secretary and Registered Office

Anthony M Knightley,
Charringtons House,
The Causeway, Bishop's Stortford,
Hertfordshire CM23 2ER
Telephone: 01279 461630
Fax: 01279 461631
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Registered number 3416346

Stockbrokers

Evolution Beeson Gregory
100 Wood Street,
London EC2V 7AN

Solicitors

Addleshaw Goddard
100 Barbirolli Square,
Manchester M2 3AB

Bankers

HSBC Bank plc
18 North Street, Bishop's Stortford,
Hertfordshire CM23 2LP

Falkland Islands Office

Crozier Place, Stanley,
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Telephone: 00 500 27600
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Web: www.the-falkland-islands-co.com

Auditor

KPMG Audit Plc
St Nicholas House, Park Row,
Nottingham NG1 6FQ

Registrars

Capita Registrars
The Registry, 34 Beckenham Road,
Beckenham, Kent BR3 4TU

Nominated Advisers

Dawnay, Day Corporate Finance Limited
8-10 Grosvenor Gardens,
London SW1W 0DH

Senior Staff in the Falkland Islands

Roger Spink *Senior Director and General Manager*

David Castle *Retailing Director*

Ana Crowie *Financial Controller*

Chairman's Statement and Review of Operations

I am delighted to be able to report a year of real progress for your Group, as we look to extend the range of the Group's activities in order to increase shareholder value. Significant participations have been secured in major exploration programmes in the Falklands for minerals and oil and subsequent to the year end we have made our first corporate investment outside the Islands.

The creation of a new oil exploration vehicle, to which funds managed by RAB Capital plc (RAB) have subscribed, is a particularly exciting development and follows the encouraging initial interpretation of seismic over our Falkland Islands licences. More detailed work will proceed. The increased activity that we expect to see in both the oil and minerals sectors is beneficial to the local economy and, consequently, to our Falkland Islands activities in general.

Despite challenging trading conditions in the Falklands we have produced a satisfactory result and for the sixth year in succession your Board are recommending an increased dividend.

Financial summary

Turnover was little changed at £11.1m (2003: £11.4m). However due to increased shipping costs and a poor 2004 fishing season, operating profit fell to £860,000 from £1,052,000 and, after a reduced interest charge, profit before tax declined 17.4% to £847,000 compared with £1,025,000 in 2003.

Basic earnings per share were 18% lower at 9.7p (2003: 11.8p). However, as an indication of their confidence in the future, the Directors are recommending a 4.5% increase in the dividend for the year to 5.75p (2003: 5.5p) payable on 4 November 2004 to shareholders on the register on 8 October 2004.

The financial position of the Group remained strong with net cash balances increasing to £933,000 (2003: £457,000) despite capital expenditure of £503,000, principally on the West Store. A new £1.5 million, 5 year term loan facility has been arranged to fund the additional investments being made in the current financial year.

Review of activities

The retail division benefited from the increased selling area within the West Store but some of the other outlets did not achieve historic profit levels. The Capstan gift shop also had a quiet year as the strength of sterling against the US$ led to cruise ship passengers reducing their expenditure.

Shipping profits, where five voyages were completed in the year (2003: five), were impacted by a combination of factors, including adverse exchange rates, increased fuel prices and low levels of freight, the latter resulting from reduced levels of public and private capital spending.

The Upland Goose had a poor year with lower occupancy levels. However a new management approach is being adopted in order to improve performance.

The automotive business did well again with good Land Rover sales and maintained its profits in line with 2003.

Management services had a good year with the insurance agency performing particularly well as a result of the new agency agreement with Caribbean Alliance Insurance Company who have made a significant commitment to the Falklands.

Our thanks are due to our staff in the Falklands and the UK for their continued enthusiasm and commitment.

Chairman's Statement and Review of Operations continued

Exploration activities

Your Board continues to take an active role in oil and mineral exploration in the Falklands. The policy being followed is to facilitate initial exploration by investing to secure a meaningful stake. However, the Board is cognisant of the fact that such investments are by their nature speculative and has limited the Group's exposure whilst maintaining a material share of the potential upside. Total expenditure for this year is currently estimated to amount to US$6 million, of which the Group is contributing US$1.4 million.

Minerals

In February the onshore minerals exploration licence in which The Falkland Islands Company Limited (FIC) had earned a one third interest was transferred into a new Company, Falkland Minerals Limited (FML), in exchange for shares in that Company. FML is now carrying out an extensive programme to investigate the minerals potential of the Falklands.

The initial funding for FML's programme amounts to US$1.535 million. Funds managed by RAB, agreed to subscribe US$1.2 million to secure a 51% shareholding in FML and FIC agreed to subscribe US$241,000 to secure a 22.5% shareholding and the balance will be funded by the other shareholders. Cambridge Mineral Resources plc (11.5%) and Global Petroleum Limited (15%).

The work programme comprises an aeromagnetic survey over the Falkland Islands which was completed at the end of May. This survey covered about 90% of the land area of 12,000 sq km mostly at 500 m spacing but with spacing down to between 250 m to 100 m on areas of interest. Additional stream sampling, field work and assaying has also been carried out.

The preliminary results are encouraging and nine magnetic features have been identified which merit further investigation. Interpretation and modelling which is underway will focus on these areas, some of which are coincident with the areas where previous stream sediment samples and assays for gold have been positive.

It is expected that the interpretation will be completed by late July at which time an assessment of the project will be undertaken. If suitable targets are identified drilling could start as early as the end of the fourth quarter this year. The Board of FML will be considering a number of options to fund this next stage including possible admission to AIM.

Oil

The Falklands Hydrocarbon Consortium in which FIC had a 20% interest has made good progress with the analysis and reprocessing of the 4,340 km of 2D seismic data which was purchased in 2002. The result of that work has been that a number of large leads have been identified, several of which have been selected for further work. The work programme, includes the design, processing and interpretation of some 3,500 km of 2D seismic which it is planned to shoot over the Austral Summer in 2004/5. The current Joint Venture budget for the work, which is expected to continue until June 2005, amounts to US$4.5 million.

The targets identified are located in water depths between 400 m and 1,850 m and the targets are 1,100 m to 2.700 m below sea floor. Current estimates of the potential sizes of the leads being from 200 million to 2.5 billion barrels of oil.

Following the model of the minerals venture of using a corporate structure which is capable of being listed, Global Petroleum, the operator with 50% and FIC (20%), have transferred their interests in the licence to a newly formed company, Falklands Oil and Gas Limited (FOGL). Funds managed by AIM listed hedge fund manager RAB have agreed to subscribe US$2.2 million, FIC will subscribe US$1.1 million and Global US$0.5 million. As a result of these transactions FOGL will own 77.5% of the licence and Hardman Resources Limited, who are investing US$0.9 million, 22.5%. The effective interest of FIC in the licence, which covers 33,700 sq km to the south and east of the Falkland Islands, will be 22.4%. An AIM listing for FOGL will be considered following the completion of the seismic programme.

Portsmouth Harbour Ferry Company

On 18 May 2004 the Group purchased, as a long term investment, 21.6% of the issued share capital of this public unlisted company for £759,000 satisfied by £596,000 in cash with the balance in newly issued shares in the Company. PHFC is a long established company operating the passenger ferry across the mouth of Portsmouth harbour. For the year ended 31 December 2003 the pre tax profit was £775,000 and its net assets were £2.9 million. Earnings per share were 223p and a total dividend of 50p per share was paid in respect of 2003.

Outlook

Our strategy is to continue to develop our operations in the Falklands and to generate potential upside from our exploration activities whilst utilising our operational experience to diversify into related areas outside the Islands.

The benefits of the significant investment in our retail facilities and the new insurance agency will continue to provide the potential for real growth for those operations this year. However, the economic background in the Falklands is likely to be subdued until fishing catches recover to normal levels or exploration activity becomes significant to the economy.

Over the next financial year, with both the offshore seismic survey and the onshore drilling scheduled to take place and the corporate structures in place mean that the Group is well placed to benefit from any exploration success. The Group's range of activities in the Falklands is expected to mitigate the impact of any slowdown in the economy.

Your Board will continue to work to increase shareholder value.

David Hudd
Chairman
22 June 2004

Directors' Report

The Directors present their annual report and the financial statements for the Company and the Group, for the year ended 31 March 2004. The annual report also includes the Board's statement on its corporate governance policies and procedures, confirmation of the Board's remuneration policy and details of how it applies that policy.

Results and Dividend

The Group's results for the year, together with the appropriations made and proposed, are set out in the Group profit and loss account on page 20. The Group profit for the year after taxation amounted to £592,000 (2003: £717,000). The Directors recommend the payment of a dividend of 5.75p (2003: 5.5p) per share which, if approved by the shareholders at the forthcoming Annual General Meeting, will be paid on 4 November 2004 to shareholders on the register at the close of business on 8 October 2004. Basic earnings per share were 9.7p (2003: 11.8p).

Principal Activities and Business Review

The business of the Group during the 12 months ended 31 March 2004 under review was general trading in the Falkland Islands. The principal activities were retail and wholesale distribution, servicing the fishing industry, port operation, shipping, automotive, financial services, hotel and commercial accommodation, and exploration for minerals onshore and oil offshore. The principal activity of the Company is an investment company. A review of the Group's business activities over the year, together with developments since the year end and intended future developments, is included in the Chairman's Statement and Review of Operations on pages 3 to 5.

Post Balance Sheet Events

On 19 May 2004 it was announced that The Falkland Islands Company Limited had secured a 21.6% interest in the issued share capital of The Portsmouth Harbour Ferry Company plc, a public unlisted company. The £759,000 consideration was satisfied by a £596,000 cash payment and the balance by the issue of new FIH shares.

Subsequent to the year end and before the date of signing these financial statements, an agreement was signed to form a new company, Falklands Oil and Gas Limited (FOGL), which will be the company to exploit the Group's offshore exploration licence for Oil and Gas in the Falklands. The Falkland Island Company Limited holds a 28.9% interest in the issued shared capital of FOGL.

Directors and Secretary

Information about the Directors and Secretary is set out below and details of the remuneration packages and service contracts of Directors appear under the headings 'Remuneration' and 'Details of Directors' Remuneration and Emoluments' on pages 13 to 15. Details of how the Board and the principal Board Committees operate are set out below and under the heading 'Board Committees' on page 8 and also under the heading 'Corporate Governance' on pages 9 to 12.

The Board currently comprises a part-time executive Chairman, two executive Directors and two non-executive Directors, as follows:

David L Hudd, 59 (Chairman) joined the Board on 4 March 2002. He is a Chartered Accountant and was a partner in Price Waterhouse until 1982. Since then, he has been Chairman or Chief Executive of a number of listed companies. He was, until April 1998, Executive Chairman of Vardon plc (now Cannons Group Limited), a company he founded. He is currently non-executive Chairman of API Group plc, and a director of Paramount plc and QA plc. David Hudd is the Chairman of the Company's Nominations Committee.

Bryan McGreal, 64 (Managing Director) was appointed to the Board on 17 October 1997. He joined the Falkland Islands Group of Companies as Managing Director in 1987.

Anthony M Knightley, 54 (Finance Director) was appointed to the Board on 4 September 2002. He is a fellow of the Association of Chartered Certified Accountants. He was appointed Company Secretary on 17 October 1997 and was previously Group Financial Officer of Anglo United plc.

Leonard S Licht, 59 (non-executive Director) was appointed to the Board on 8 December 1999. He was a founding Director and Vice Chairman of Mercury Asset Management Group PLC from 1987 to 1992 and Deputy Chairman of Jupiter Asset Management PLC from 1992 to his retirement from fund management in 1996. He is Chairman of Hg Capital LLP. He is a member of the Company's Nominations and Remuneration Committees and a member and Chairman of the Company's Audit Committee.

Sir Harry Solomon, 67 (non-executive Director) was appointed to the Board on 8 December 1999. He qualified as a solicitor in 1960 and entered private practice. He was joint founder and Chief Executive Officer of Hillsdown Holdings plc and subsequently became Chairman, resigning in 1992. He is currently a Director of a number of companies both private and public. He is a member of the Company's Nominations and Audit Committees and a member and Chairman of the Remuneration Committee.

All the Directors are subject to retirement by rotation under the Company's Articles of Association and must submit themselves for re-election every three years. The Director retiring by rotation at the forthcoming Annual General Meeting is Mr B McGreal and, being eligible, he offers himself for re-election.

During the year the Company maintained liability insurance for the Directors and Officers of the Company and for the Directors and Officers of its subsidiaries.

Directors' Interests

The interests of the Directors in the issued shares and share options over the shares of the Company are set out below under the heading 'Directors' Interests in Shares' on pages 16 and 17. During the year, no Director had an interest in any significant contract relating to the business of the Company or its subsidiaries other than his own service contract.

Board Committees

The three principal standing committees of the Board are the Audit, Nominations and Remuneration Committees.

The Audit Committee comprises Leonard Licht and Sir Harry Solomon and is chaired by Leonard Licht. The Company’s Auditor is normally in attendance. The Audit Committee reviews the external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half year and annual financial statements before they are presented to the Board for approval. The Audit Committee also keeps under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the Auditor and the effectiveness of the Group’s internal control systems.

The Nominations Committee comprises David Hudd, Leonard Licht and Sir Harry Solomon and is chaired by David Hudd. The Committee nominates candidates (both executive and non-executive) for the approval of the Board to fill vacancies or appoint additional persons to the Board. It also makes recommendations regarding the composition and balance of the Board.

Details of the Remuneration Committee, its members and activities are set out below under the heading ‘Remuneration’ on page 13.

Health and Safety

The Group is committed to the health, safety and welfare of its employees and third parties who may be affected by the Group’s operations. The focus of the Group’s efforts is to prevent accidents and incidents occurring by identifying risks and employing appropriate control strategies. This is supplemented by a policy of investigating and recording all incidents.

Employees

The Board is aware of the importance of good relationships and communication with employees. Where appropriate, employees are consulted about matters which affect the progress of the Group and which are of interest and concern to them as employees. Within this framework, emphasis is placed on developing greater awareness of the financial and economic factors which affect the performance of the Group. Employment policy and practices in the Group are based on non-discrimination and equal opportunity irrespective of age, race, religion, sex, colour and marital status. In particular, the Group recognises its responsibilities towards disabled persons and does not discriminate against them in terms of job offers, training or career development and prospects. If an existing employee were to become disabled during the course of employment, every practical effort would be made to retain the employee’s services with whatever retraining is appropriate. The Group’s pension arrangements for employees are summarised in note 17 on pages 34 to 36.

Share Capital and Substantial Interests in Shares

On the 18 May 2004 a further 66,268 shares were issued as partial consideration for the Company’s purchase of 21.6% of The Portsmouth Harbour Ferry Company plc. No shares were issued during the year to 31 March 2004. Further information about the Company’s share capital is given in note 18 on page 36. Details of the Company’s executive share option scheme and employee ownership plan can be found on pages 16 and 17 and in note 18 on page 36.

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 14 June 2004.

	Number of shares	Percentage of issued shares
Dr Alfred Bader	316,782	5.08
Channel Hotels and Properties Limited	400,000	6.41
INVESCO English & International Trust plc	267,000	4.28
Jupiter Asset Management	224,750	3.60
L S Licht	1,191,250	19.10
Sir Harry Solomon	625,027	10.02

Payments to Suppliers

The policy of the Company and each of its trading subsidiaries, in relation to all its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions. The Group does not follow any code or standard on payment practice. As a holding company, the Company had no trade creditors at either 31 March 2004 or 31 March 2003.

Charitable and Political Donations

Charitable donations made by the Group during the year amounted to £4,728 (2003: £2,389). There were no political donations.

Auditors

A resolution proposing the re-appointment of KPMG Audit Plc will be put to shareholders at the Annual General Meeting.

Annual General Meeting

The Company's Annual General Meeting will be held at the London offices of the Company's Solicitors: Addleshaw Goddard, 25 Cannon Street, London EC4M 5TB on Wednesday 4 August 2004 at 12 noon. The Notice of the Annual General Meeting and a description of the special business to be put to the meeting is contained in the separate Circular to Shareholders which accompanies this document.

Corporate Governance

The Board is responsible for the governance of the Company, governance being the systems and procedures by which the Company is directed and controlled. A prescribed set of rules does not itself determine good governance or stewardship of a company and, in fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of the shareholders, whilst having due regard to the interests of other 'stakeholders' in the Group including, in particular, customers, employees and creditors. In addition, and notwithstanding that the Company's shares are now traded on the Alternative Investment Market of the London Stock Exchange plc – rather than (as previously) admitted to the Official List of the UK Listing Authority – the policy of the Board is to continue to manage the affairs of the Company substantially in accordance with the principles of Good Governance and Code Provisions set out in Section 1 of the Combined Code on Corporate Governance appended to the Listing Rules of the Financial Services Authority (the 'Combined Code') despite there being no legal requirement to comply.

For the year under review the Company has complied in all respects with the Combined Code except as follows:

- Currently, the non-executive Directors have no service contracts and are not appointed for specific periods under letters of appointment or otherwise, although they are subject to retirement by rotation under the Company's Articles of Association on the same basis as executive Directors.
- Executive share options have been awarded in 'blocks' in order to provide sufficient incentive to the relevant Directors (taking into account the total number of shares in issue).
- Any bonus paid to Messrs McGreal and Knightley is pensionable since the Board is of the opinion that, because of the diversified nature of the Group's activities, the influence of the Managing Director and Finance Director justifies such bonus payments being pensionable.
- The Chairman is also an executive of the Company.

The following parts of this Directors' Report, which reflect the provisions of the Combined Code, describe the Board's approach to some key areas of corporate governance and how the principles of the Combined Code are applied. The provisions of the Combined Code applicable to the Company are divided into four parts:

Part A: Directors
Part B: Directors' Remuneration
Part C: Relations with Shareholders
Part D: Accountability and Audit

Part A: Directors

The Board currently comprises a part-time executive Chairman, two executive Directors, and two non-executive Directors. It is the policy of the Nominations Committee and the Board to maintain an appropriate balance between executive and non-executive Directors. As reflected in the biographical details of the Directors given on page 7, the Directors have a wide range of business, general and international experience, which they can contribute to the Group. The non-executive Directors are considered to be independent of management.

The Chairman is primarily responsible for the workings of the Board and ensuring that its role is achieved. Save for matters reserved for the Board, the Managing Director with the support of the Chairman, is responsible for the running of the Group's business, carrying out the agreed strategy adopted by the Board and implementing specific Board decisions relating to the operation of the Group.

The Combined Code states that the Board should have a recognised senior independent Director to whom any concerns can be conveyed. Leonard Licht has been elected by the Board as the senior independent Director.

The Board meets on a regular basis and appropriate documentation and financial information is provided in advance of each Board meeting. These normally include monthly management accounts and a report from the Chairman on corporate issues and from the Managing Director on the management accounts, the performance of the Group's businesses, the Group's current trading and prospects and business issues facing the Group. Regular reports are given to the Board on such matters as insurances, treasury issues and pensions and specific presentations are made on business or strategic issues when appropriate. These procedures are intended to ensure that the Board is supplied in a timely manner with information appropriate to enable the Board to discharge its duties. The Board has a formal schedule of reserve powers, which it retains for Board decision-making on a range of key issues, including the formulation of strategy, major items of capital expenditure, treasury policy and the approval of budgets.

A procedure has been adopted for Directors to obtain independent professional advice, where appropriate, at the cost of the Company and all Directors have unrestricted access to the Company Secretary. In relation to non-reserved matters, the Board is assisted by three Committees with delegated authority. The Audit, Remuneration and Nominations Committees and the make-up and roles of those Committees are described on page 8 and (in relation to the Remuneration Committee) on page 13.

On appointment, Directors are briefed regarding the activities of the Group and encouraged to visit its businesses. Manuals, books and training are available to all Directors on their duties as Directors. On appointment, the Company Secretary would ensure that a new Director has access to appropriate training or advice which may be relevant. Directors are also informed regularly on relevant material changes to laws and regulations affecting the Company or the Group's businesses.

Part B: Directors' Remuneration

Details of Directors' remuneration and emoluments and the Company's compliance with the Combined Code's requirements regarding remuneration matters are set out below under the headings 'Remuneration' and 'Details of Directors' Remuneration and Emoluments' on pages 13 to 17.

Part C: Relations with Shareholders

The Company seeks to maintain good relations with shareholders and maintains a dialogue with institutional and individual shareholders on an ongoing basis. The Company makes every reasonable effort to respond, as appropriate, to telephone and postal enquiries from private and institutional investors. At the Annual General Meeting separate issues are proposed as individual resolutions.

The Company despatches the notice of Annual General Meetings, with an explanation of any special business, at least 20 working days before the meeting. All shareholders have the opportunity formally and informally to put questions at the Company's Annual General Meetings. The Chairmen of the Audit, Nominations and Remuneration Committees would normally attend the Annual General Meeting to answer questions which may be relevant to the work of those Committees. Details of the proxy voting on each of the resolutions are made available at the meeting.

Part D: Accountability and Audit

The respective responsibilities of the Directors and Auditors in connection with the financial statements are explained below under the headings 'Statement of Directors' Responsibilities' on page 18 and 'Respective Responsibilities of Directors' and Auditors' on page 19.

Further to the publication of the Combined Code in June 1998 and the report on 'Internal Control; Guidance for Directors on the Combined Code' (the 'Turnbull Guidance') in September 1999, the UK Listing Authority requires that all listed companies follow this guidance when determining their compliance with the Combined Code. The Directors confirm that they have established procedures necessary to implement the Turnbull Guidance and have complied with it for the year to 31 March 2004.

The Board has overall responsibility for ensuring that the Group maintains a system of internal controls and the Board has formally reviewed the effectiveness of the internal control system of the Group for the year ended 31 March 2004 (including financial, operational and compliance and risk management controls). Internal control systems, by their nature, can provide reasonable, but not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets. It is also recognised that it is the nature of any business that commercial risk must be taken and, for a business to succeed, enterprise, initiative and motivation are key elements to success which should not be unduly stifled.

The Board's internal control system focuses on a wide range of business and financial risks. An ongoing procedure has been established by the Board for identifying, evaluating and monitoring the business risks faced by the Group and this process incorporates discussions with all levels of management, both in the UK and the Falkland Islands. It is intended that this procedure will be continually reviewed and developed in the future through liaison with line management. The Group's framework of internal control includes:

- maintaining a clear organisation structure with defined lines of responsibility for executive Directors and senior managers throughout the Group;
- Board approval of Group strategy, budgets, major items of capital expenditure and acquisitions;
- a comprehensive system of monthly financial reporting to the Board of actual results including comparisons with budgets and explanations of variances;
- controls to limit exposure to loss of asset value by a programme of risk management; and
- review of management accounting and other information by the Board with corrective action being agreed and implemented if any significant weaknesses in internal controls are brought to the Board's attention.

The Group does not have an internal audit department. Responsibility for reviewing areas of greatest risk for the Group during the year and up to the date of this Directors' Report is carried out by the Group's senior managers, reporting to the Managing Director. This position is reviewed on a regular basis to determine whether a formal internal audit department would be more cost effective.

The Group is intending to apply International Financial Reporting Standards when applicable to AIM. The Group has commenced work to ensure information is available for future disclosure.

Going Concern

The Directors consider that, after making appropriate enquiries and at the time of approving these Annual Reports and Accounts, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors therefore continue to adopt the going concern basis in preparing these Accounts.

Remuneration

Remuneration Committee

The Remuneration Committee ('Committee') comprises Sir Harry Solomon and Leonard Licht. Although not members of the Committee, on occasions, and for matters not related to their own remuneration packages, the Committee would normally consult the Chairman and Managing Director on proposals relating to the remuneration of the other executive Director and members of the Group's senior management team, and they attend meetings of the Committee by invitation. The Committee, on behalf of the Board, determines all elements of the remuneration packages of the executive Directors and would also approve any compensation arrangements resulting from the termination by the Company of a Director's service contract. The Committee also approves the grant of share options.

Non-Executive Directors

The remuneration of non-executive Directors is reviewed and determined by the other members of the Board.

Remuneration Policy

The objective of the Remuneration Committee is to reward Directors on a competitive and appropriate basis. In particular, remuneration packages are designed to attract, retain and motivate high quality Directors and senior executives and to reward them by reference to the overall performance of the Group, with the object of obtaining growth in shareholder value. It is the policy of the Committee and the Board to offer remuneration packages which are appropriate to the experience, qualification and level of responsibility of the appropriate individual. The remuneration of individual executive Directors is determined by reference to that policy and following a review of the performance of each executive Director and taking into account any advice received from independent consultants and data from surveys. Remuneration packages are reviewed on an annual basis. Share options are granted to management in relation to their ability to influence profitability.

The Directors confirm that, when determining the Board's remuneration policy, full consideration was given to the Combined Code.

Executive Directors' Remuneration Packages

The components of the remuneration packages for the executive Directors, as reflected in their service contracts, are as follows:

Basic Salary – This is fixed by the Committee taking into account, from time to time, advice of independent consultants and the market level of positions with similar responsibilities. Basic salaries are normally reviewed on 1 April each year and take account of individual performance during the year.

Annual Bonus – Annual Bonuses are payable at a level up to 30% of basic salary for the Managing Director, Finance Director and other senior executives of the Group; the amount of the bonus payable each year depends upon the achievement by the Group of financial targets for the relevant financial period established by the Committee. Any bonuses paid to Bryan McGreal and Anthony Knightley are pensionable since the Board are of the opinion that, as a result of the diversified nature of activities, the influence of the Managing Director and Finance Director on profitability warrants their bonuses being pensionable. No other Director of the Company received a bonus in the year under review.

Share Options – Details of the Company's Executive Share Option Scheme and Employee Share Option Plan can be found on pages 16 and 17 under the heading 'Directors' Interests in Shares', and note 18.

Under the Company's employee share ownership plan, certain Directors have been granted options to acquire issued ordinary shares in the Company from the trustees of the plan after a three year period. All outstanding options have been granted at not less than market value and have the same performance criteria as options granted under the Company's executive share option scheme.

Pensions and Life Assurance – Bryan McGreal and Anthony Knightley are accruing benefits under a defined contribution pension scheme. The Scheme also covers three other United Kingdom based staff. None of the other Directors received pension benefits from the Group during the year.

Other Benefits – Bryan McGreal's and Anthony Knightley's benefits include the provision of a fully expensed company car, health insurance and telephones. The value of the taxable benefits of the executive Directors for the year ended 31 March 2004 are shown in the table below under 'Taxable Benefits'.

Termination, Notice Periods and Retirement by Rotation

Bryan McGreal and Anthony Knightley have service contracts, terminable by either party subject to one years' notice. David Hudd has a service contract and he or the Company may terminate the contract by giving six months' notice.

Bryan McGreal is the Director retiring by rotation at the forthcoming Annual General Meeting and, being eligible, he offers himself for re-election in accordance with the Company's Articles of Association. Bryan McGreal's service contract has an unexpired term of seven months.

Details of Directors' Remuneration and Emoluments

The remuneration of the non-executive Directors consists only of annual fees for their services both as members of the Board and of the Committees on which they serve.

An analysis of the remuneration and taxable benefits in kind (excluding pension benefits and share options) provided for and received by each Director during the year to 31 March 2004 and in the preceding year is as follows:

	Salary	Taxable Benefits	**2004 Total**	2003 Total (including bonuses)
	£'000	£'000	**£'000**	£'000
D L Hudd	50	–	**50**	40
B McGreal	88	15	**103**	123
A M Knightley	63	12	**75**	47
G R Wallace	–	–	**–**	15
L S Licht	20	–	**20**	13
C M Orsborn	–	–	**–**	2
Sir Harry Solomon	20	–	**20**	13
	241	27	**268**	253

Directors' Pension Entitlements

The Company operates a defined contribution scheme to which, in the period to 31 March 2004, the Company contributed, in respect of Bryan McGreal, £20,800 (2003: £20,600) and Anthony Knightley £15,000 (2003: £7,000).

Directors' Interests in Shares

As at 31 March 2004, the share options of the executive Directors may be summarised as follows:

Share Options	Scheme	Date of Grant	Number of Shares D L Hudd	Number of Shares B McGreal	Number of Shares A M Knightley	Exercise Price	Exercisable From	Expiry Date
Opening 1 April 2003	A	17 Jan 1998	–	25,000	15,000	£1.00	17 Jan 2001	16 Jan 2008
		27 July 2001	–	3,500	10,000	£1.395	27 July 2004	26 July 2011
		15 Aug 2002	81,300	–	–	£1.845	15 Aug 2005	14 Aug 2012
	B	10 April 2000	–	25,000	–	£1.50	10 April 2003	6 April 2010
		27 July 2001	–	6,500	–	£1.395	27 July 2004	26 July 2011
Total			81,300	60,000	25,000			
Closing 31 March 2004	A		81,300	28,500	25,000			
	B			31,500				

Scheme A = executive share option scheme. *Scheme B = employee share ownership plan.*

No options were exercised by the Directors in the year. The mid-market price of the Company's shares at 31 March 2004 was 227.5p and the range during the year was 176p to 246.5p.

The exercise of all options is conditional upon the growth in earnings per share over a period of three consecutive financial years (starting no earlier than the financial year in which the option is granted) being greater than the increase in the retail price index over that period plus 6%.

Under the Company's executive share option scheme, executive Directors and senior executives have been granted options to acquire ordinary shares in the Company after a period of three years from the date of the grant. All outstanding options have been granted at an option price of not less than the market value at the date of the grant. The exercise of options is conditional upon the growth in earnings per share over a period of three consecutive financial years, (starting no earlier than the year in which the option is granted), being greater than the increase in the retail price index over that period plus 6%.

The options granted to Mr Hudd may normally only be exercised if the compound annual growth (CAGR) of the share price of the Company is at least 10% over three years from the date of the grant. If CAGR is 10% the option may only be exercised as to half the shares comprised in it. The option may only be exercised in full if CAGR is at latest 20%. For CAGR between 10% and 20%, the option may be exercised in respect of a rising proportion of the shares, calculated on a straight line basis.

The following Directors were granted options to subscribe for shares under the Company's savings related share option scheme. The price of the grant is 175p per share and the shares are exercisable on or after 1 April 2006.

	Ordinary Shares at 31 March 2004	Ordinary Shares at 31 March 2003
D L Hudd	5,400	5,400
B McGreal	4,320	4,320
A M Knightley	5,400	5,400

In addition to the share options set out above, the interests of the Directors, their immediate families and related trusts in the shares of the Company according to the register required to be kept pursuant to the Companies Act 1985 were as shown below:

	Ordinary Shares at 31 March 2004	Ordinary Shares at 31 March 2003
D L Hudd	20,000	20,000
B McGreal	22,033	22,033
A M Knightley	6,000	6,000
L S Licht	1,191,250	1,191,250
Sir Harry Solomon	625,027	625,027

From 31 March 2004 to 14 June 2004 there were no changes in the above interests. All the above interests were beneficial at the above dates. David Hudd, Bryan McGreal and Anthony Knightley were, at the date of this Directors' Report, deemed to be interested as Discretionary Beneficiaries of the Company's executive share option scheme in all the 75,000 ordinary shares of the Company held by the Employee Share Ownership Plan (ESOP). On 13 November 2000, the ESOP waived all future dividends (other than nominal dividends) in respect of the Company's shares held by the ESOP. Save as mentioned above, no Director had any interest in any share capital of the Company or of any subsidiary.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year 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 profit or loss of the Group for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that these financial statements comply with the above requirements.

The Directors are also responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. The Directors also have a general responsibility at law for taking such steps that are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

By Order of the Board

AM Knightley

A M Knightley
Secretary
22 June 2004

Charringtons House
The Causeway
Bishop's Stortford
Hertfordshire
CM23 2ER

Independent Auditor's Report to the Members of Falkland Islands Holdings plc

We have audited the financial statements on pages 20 to 39.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 and our terms of engagement. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report and, as described on page 18, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. 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 estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit of the Group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
22 June 2004
Nottingham

Group Profit and Loss Account

For the year ended 31 March 2004

Notes		2004 £'000	2003 £'000
2	Turnover	11,082	11,447
	Cost of sales	(7,762)	(7,871)
	Gross profit	3,320	3,576
	Administrative expenses	(2,743)	(2,789)
	Other operating income	283	265
3	Operating profit	860	1,052
4	Net interest expense	(13)	(27)
	Profit on ordinary activities before taxation	847	1,025
5	Taxation	(255)	(308)
	Profit for the year after taxation	592	717
6	Dividend	(351)	(336)
	Retained profit	241	381
7	Earnings per share		
	Basic	9.7p	11.8p
	Diluted	9.4p	11.2p
6	Dividend per ordinary 10p share	5.75p	5.5p

All results are derived from continuing operations in the current and prior year.

There were no recognised gains or losses in either the current or preceding years other than those disclosed in the profit and loss account.

Group Balance Sheet

At 31 March 2004

Notes		2004 £'000	2004 £'000	2003 As restated (note 1) £'000	2003 As restated (note 1) £'000
	Fixed assets				
9	Intangible assets		89		63
10	Tangible assets		3,552		3,275
11	Investment in joint venture,				
	Share of gross assets		189		–
	Share of gross liabilities		–		–
			3,830		3,338
	Current assets				
12	Stocks	3,079		2,858	
13	Debtors due within one year	1,336		1,677	
13	Debtors due after one year	42		38	
		1,378		1,715	
	Cash at bank and in hand	1,183		957	
		5,640		5,530	
14	**Creditors:** amounts falling due within one year	(4,798)		(4,214)	
	Net current assets		842		1,316
	Total assets less current liabilities		4,672		4,654
15	**Creditors:** amounts falling due after more than one year		–		(250)
17	Provisions for liabilities and charges		(1,157)		(1,130)
	Net assets		3,515		3,274
	Capital and reserves				
18	Called up share capital		617		617
19	Share premium account		54		54
19	Other reserves		703		703
19	Reserve for own shares		(112)		(112)
19	Profit and loss account		2,253		2,012
20	**Equity shareholders' funds**		3,515		3,274

The financial statements were approved by the Board of Directors on 22 June 2004 and were signed on its behalf by:

B McGreal
Managing Director

A M Knightley
Finance Director

Company Balance Sheet

At 31 March 2004

Notes		2004 £'000	2004 £'000	2003 As restated (note 1) £'000	2003 As restated (note 1) £'000
	Fixed assets				
11	Investments		8,000		8,000
			8,000		8,000
	Current assets				
13	Debtors	770		796	
14	**Creditors:** amounts falling due within one year	(2,057)		(1,926)	
	Net current liabilities		(1,287)		(1,130)
	Total assets less current liabilities		6,713		6,870
15	**Creditors:** amounts falling due after more than one year		–		(250)
	Net assets		6,713		6,620
	Capital and reserves				
18	Called up share capital		617		617
19	Share premium account		54		54
19	Other reserves		5,389		5,389
19	Reserve for own shares		(112)		(112)
19	Profit and loss account		765		672
	Equity shareholders' funds		6,713		6,620

The financial statements were approved by the Board of Directors on 22 June 2004 and were signed on its behalf by:

B McGreal
Managing Director

A M Knightley
Finance Director

Group Cash Flow Statement

For the year ended 31 March 2004

Reconciliation of operating profit to net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	860	1,052
Depreciation charges	226	207
(Increase)/decrease in stocks	(221)	298
Decrease/(increase) in debtors	337	(156)
Increase in creditors and provisions	542	199
Net cash inflow from operating activities	1,744	1,600

Cash flow statement

	2004		2003	
	£'000	£'000	£'000	£'000
Cash flow from operating activities		1,744		1,600
Returns on investments and servicing of finance				
Interest received	12		14	
Interest paid	(25)		(40)	
		(13)		(26)
Issue of shares		–		25
Taxation				
UK Corporation tax paid	(101)		(30)	
Overseas taxation paid	(207)		(343)	
		(308)		(373)
Capital expenditure				
Purchase of tangible fixed assets	(503)		(396)	
Purchase of intangible fixed assets	(26)		(63)	
		(529)		(459)
Acquisitions				
Investment in Joint Venture		(83)		–
Equity dividends paid		(335)		(304)
Cash inflow before financing		476		463
Financing				
Repayment of secured loan		(250)		(250)
Increase in cash		226		213

Group Cash Flow Statement continued

For the year ended 31 March 2004

Reconciliation of net cash flow to movement in net funds

	2004 £'000	2003 £'000
Increase in cash in the year	**226**	213
Cash outflow from decrease in debt	**250**	250
Movement in net debt in year	**476**	463
Net cash/(debt) at start of year	**457**	(6)
Net cash at end of year	**933**	457

Analysis of changes in net funds

	As at 31 March 2003 £'000	Cash flows £'000	Other non cash changes £'000	As at 31 March 2004 £'000
Cash at bank and in hand	957	226	–	**1,183**
Debt due within one year	(250)	250	(250)	**(250)**
Debt due after one year	(250)	–	250	**–**
Total	457	476	–	**933**

Notes to the Financial Statements

For the year ended 31 March 2004

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements except that UTIF Abstract 38 'Accounting for ESOP trusts' has been adapted for the first time this year.

Basis of accounting

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2004 and comparatives for the year ending 31 March 2003. The accounts include the appropriate share of the results and net assets of its joint venture and associates.

The results of subsidiary undertakings, joint ventures and associates acquired or disposed of during the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal, unless otherwise stated the acquisitions method of accounting has been adopted.

Entities in which the Group holds an interest on a long term basis and are jointly controlled by the Group with one or more other parties under contractual agreement, are treated as joint ventures and are accounted for using the gross equity method.

Purchased goodwill arising on consolidation in respect of acquisitions before 1 April 1998, (the date from which FRS10 'Goodwill and Intangible Assets' was adopted) was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost.

Joint arrangements

The Group participates in joint arrangements that are not entities and accounts for their own assets, liabilities and cash flows, measured according to the terms of the agreements governing the arrangements.

Employee share awards

The estimated costs of awards is charged to profit over the period to the date of expected vesting or the performance period, as appropriate.

Where shares are bought on markets to satisfy the delivery of shares on vesting, the cost of these share investments is reported within reserves, in accordance with UTIF Abstract 38, 'Accounting for ESOP trusts'. The estimated cost of awards is the market value of shares awarded or the intrinsic value of options awarded (being the difference between the exercise price and the market value at date of grant, measured at the granting of the award).

Depreciation

Freehold Land is not depreciated. Depreciation is provided by equal annual instalments to reduce the cost of fixed assets to residual value over their estimated useful working lives. The principal annual rates are:

Freehold buildings	2 – 5%
Long leasehold land and buildings	2%
Vehicles, plant and equipment	10 – 25%

1 Accounting policies continued

Deferred taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the Balance Sheet date, except as otherwise required by FRS 19 'Deferred Tax'.

Exploration expenditure

Exploration expenditure is accounted for in accordance with the full cost method, as detailed in the Oil and Gas Statement of Recommended Practice. Exploration expenditure is initially capitalised as an intangible asset. When proven reserves of oil and natural gas are determined and a development is sanctioned, the relevant expenditure will be transferred to tangible production assets. Exploration expenditure determined as unsuccessful will be written off in the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value including cost of transportation to the Falkland Islands.

Turnover

Turnover represents the amounts invoiced to third parties excluding value added tax.

Pensions

Contributions to the defined benefit schemes in which the Group participates are charged to the profit and loss account so as to spread the regular cost together with any adjustments arising on actuarial valuations over the average service life of employees. The provisions of Financial Reporting Standard 17: Retirement Benefits are being adopted in accordance with the transitional rules provided therein.

Contributions to defined contribution schemes are charged to the profit and loss account as incurred.

Leased assets

As lessee

Rentals in respect of all operating leases are charged to the profit and loss account on a straight line basis over the lease term.

As lessor

Assets under hire purchase agreements are shown in the balance sheet under current assets and are stated at the value of the net investment in the agreements. The income from such agreements is credited to the profit and loss account each year so as to give a constant rate of return on the funds invested.

Foreign currencies

Transactions in foreign currencies are recorded using the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the relevant rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Foreign currency contracts are translated at the contracted rate for presentation in the year end balance sheet.

Prior year adjustments

UITF Abstract 38 'Accounting for ESOP trusts' has been adopted for the first time in the year ended 31 March 2004. UITF Abstract 38 changes the presentation of own shares held in ESOP trusts from requiring them to be recognised as an asset to requiring them to be deducted in arriving at shareholders' funds. There is no impact on the profit for either the current or preceding periods, as a result of this adjustment.

1 Accounting policies continued

The effect for both the Group and Company of implementing UITF Abstract 38 has been to reduce fixed asset investments by £112,000 (2003: £112,000), and equity shareholders' funds by £112,000 (2003: £112,000).

The comparative Company balance sheet has also been restated to reflect an amount of £5,389,000 of merger relief as 'Other reserves', which was previously included within the balance of the Share Premium Account.

2 Segmental information

All significant turnover, profits and net assets have been generated from general trading in the Falkland Islands.

3 Operating profit

Operating profit on ordinary activities is stated after charging:

	2004 £'000	2003 £'000
Depreciation	226	207
Auditors remuneration		
– for audit services (Company £15,000, 2003: £15,000)	30	30
– for non audit services due diligence costs	–	13
Operating lease rentals – vehicles	22	22
– other leases	30	18

4 Net interest expense

	2004 £'000	2003 £'000
Interest payable on bank loans	(25)	(40)
Interest receivable	12	13
	(13)	(27)

5 Taxation

	2004 £'000	2003 £'000
The tax charge based on profit for the period comprises:		
UK corporation tax at 30%	227	245
Less double taxation relief	(106)	(142)
	121	103
Overseas taxation at 32.5%	158	231
Adjustments in respect of prior periods	(24)	(126)
Total current tax	255	208
Deferred taxation	–	100
	255	308

5 Taxation continued

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower (2003: lower) than the standard rate of corporation tax in the Falkland Islands 32.5% (2003: 32.5%). The difference can be explained below:

	2004 £'000	2003 £'000
Current tax reconciliation:		
Profit on ordinary activities before tax	**847**	1,025
Current tax at 32.5% (2003: 32.5%)	**275**	333
Expenses not deductible for taxation purposes	**16**	24
Capital allowances for the period in excess of depreciation	**–**	(3)
Other timing differences	**–**	5
Marginal rate on overseas tax earnings	**(12)**	(25)
Adjustments to tax charge in respect of previous periods	**(24)**	(126)
Total current tax	**255**	208

6 Dividend

	2004 £'000	2003 £'000
Proposed final 5.75p (2003: 5.5p)	**351**	336

7 Earnings per share

Earnings per share has been calculated on profit after tax of £592,000 (2003: £717,000) and based on the weighted average number of shares in issue, excluding shares held in the Employee Share Ownership Plan, of 6,095,037 (2003: 6,077,024). The fully diluted earnings have been further adjusted by the dilutive outstanding share options resulting in a weighted average number of shares of 6,322,547 (2003: 6,388,233).

	2004 Number	2003 Number
Allotted called up and fully paid Ordinary shares of 10p each	**6,170,037**	6,152,024
less Shares held under ESOP (page 37)	**(75,000)**	(75,000)
	6,095,037	6,077,024
Maximum dilution re share options (including ESOP)	**227,510**	311,209
Diluted weighted average number of ordinary shares in issue	**6,322,547**	6,388,233

8 Employment costs including Directors

	2004 £'000	2003 £'000
Wages and salaries	**2,066**	2,082
Social security costs	**83**	74
Other pension costs	**163**	160
	2,312	2,316

Details of Directors' remuneration are included within the Directors' report, under the headings 'Remuneration' and 'Details of Directors' Remuneration and Emoluments' on pages 13 to 15.

Average number of persons employed:

	2004	2003
United Kingdom	**8**	10
Falkland Islands	**112**	104
	120	114

9 Intangible assets

	2004 £'000
Exploration expenditure:	
As at 1 April 2003	**63**
Additions in the year	**26**
Balance at 31 March 2004	**89**

The exploration expenditure has been incurred by The Falklands Hydrocarbon Consortium, a joint arrangement that is not an entity, in which the Group has a 20% interest. The expenditure relates to offshore exploration to the South and East of the Falkland Islands.

10 Tangible fixed assets of the Group

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Vehicles plant and equipment £'000	Total £'000
Cost:				
At 1 April 2003	3,052	342	1,755	5,149
Additions	199	–	304	503
Disposals	–	–	(12)	(12)
As at 31 March 2004	**3,251**	**342**	**2,047**	**5,640**
Accumulated depreciation:				
At 1 April 2003	546	29	1,299	1,874
Charge for the period	73	7	146	226
Disposals	–	–	(12)	(12)
As at 31 March 2004	**619**	**36**	**1,433**	**2,088**
Net book value:				
As at 31 March 2004	**2,632**	**306**	**614**	**3,552**
As at 31 March 2003	2,506	313	456	3,275

Included in freehold land and buildings is land stated at £782,000 which is not depreciated (2003: £782,000).

The Company has no tangible fixed assets.

11 Investments

	Investment in own shares £'000	Group Investment in joint venture £'000	Total £'000
As at 1 April 2003	112	–	112
Prior year adjustment (note 1)	(112)	–	(112)
At 1 April 2003 as restated	–	–	–
Acquired during the year		189	189
As at 31 March 2004	**–**	**189**	**189**

The investment in the joint venture is the share of gross assets at the balance sheet date. The investment is in Falkland Minerals Limited, a company incorporated in the Falkland Islands. The Group owns 22½% of the issued ordinary shares of £1 each. The main activity of Falkland Minerals Limited is exploration for minerals on the Falkland Islands.

There is a further instalment due of £106,000 in 2004 which is included in accruals and deferred income.

11 Investments continued

	Investment in own shares £'000	Company Investment in group undertakings at cost £'000	Total £'000
As at 1 April 2003	112	8,000	8,112
Prior year adjustment (note 1)	(112)	–	(112)
At 1 April 2003 and 31 March 2004 as restated	**–**	**8,000**	**8,000**

Details of subsidiary undertakings which have all been consolidated in these financial statements are as follows:

	Description of shares held	Percentage of shares held	Principal activity
The Falkland Islands Company Limited	Ordinary shares of £1 Preference shares of £10	100% 100%	General trading in the Falkland Islands
The Falkland Islands Trading Company Limited	Ordinary shares of £1	100%	Arranging the purchase and shipment of goods to the Falkland Islands
Darwin Shipping Limited	Ordinary shares of £1	100%	Shipping services between the United Kingdom and the Falkland Islands

The Falkland Islands Company Limited and The Falkland Islands Trading Company Limited are incorporated in the United Kingdom. Darwin Shipping Limited is incorporated in the Falkland Islands.

Other than purchases of goods by The Falkland Islands Trading Company Limited which are sold intragroup to The Falkland Islands Company Limited in the United Kingdom, activities of the subsidiary undertakings are predominately in the Falkland Islands.

12 Stocks

	Group	
	2004	2003
	£'000	£'000
Goods for resale	**3,079**	2,858

13 Debtors

	Group		Company	
	2004	2003	**2004**	2003
Amounts falling due within one year	**£'000**	£'000	**£'000**	£'000
Trade debtors	**1,071**	1,432	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**756**	783
Hire purchase receivables	**100**	117	**–**	–
Other debtors	**50**	73	**14**	13
Prepayments and accrued income	**115**	55	**–**	–
	1,336	1,677	**770**	796
Amounts falling due after more than one year				
Hire purchase receivables	**42**	38	**–**	–
	1,378	1,715	**770**	796

The cost of assets acquired for the purpose of letting under hire purchase agreements by the Group during the period amounted to £124,000 (2003: £173,000).

The aggregate rentals receivables during the period in respect of hire purchase agreements were £214,000 (2003: £194,000).

14 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Bank loans and overdrafts (see note 16)	**250**	250	**1,575**	1,413
Trade creditors	**3,185**	2,498	**–**	–
Other creditors, including tax and social security	**150**	265	**18**	85
Corporate taxes	**282**	335	–	–
Accruals and deferred income	**576**	527	**109**	89
Dividends payable	**355**	339	**355**	339
	4,798	4,214	**2,057**	1,926

Within other creditors is tax and social security of £13,000 (2003: £19,000).

There are fixed and floating charges over the assets of the Company in respect of the bank loans and overdrafts, shown in notes 14 to 16.

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Bank loans	**–**	250	**–**	250

16 Derivatives and other financial instruments

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
The bank loans are repayable as follows:				
Within one year	**(250)**	(250)	**(250)**	(250)
Between one and two years	**–**	(250)	**–**	(250)
	(250)	(500)	**(250)**	(500)
Cash	**1,183**	957	**–**	–
Net funds/(debt)	**933**	457	**(250)**	(500)

The Group's financial instruments comprise cash and borrowings and arise directly from its operations. The principal function of these financial instruments is to fund the Group's operations. Cash at bank is money on call or short term deposit. This together with cash in hand is used to fund the day-to-day operations. The Group has not utilised its £1 million overdraft facility.

Cash

Cash comprises:

	Group	
	2004	2003
	£'000	£'000
Short term money market deposits	**937**	757
Cash held in sterling accounts	**158**	156
Cash held in foreign currency accounts	**88**	44
	1,183	957

Interest risk rate

The Group's trading operations are financed through a mixture of retained profits, liquid resources and a bank loan.

The interest on bank loans is 1.5% per annum above LIBOR. The interest on the overdraft facility is 1.5% per annum above HSBC Bank plc base rate in respect of any utilisation.

Short term sterling money market deposits attract interest at commercial rates.

Foreign currency risk

The Group's present exposure to foreign currency risk is limited. It is policy to purchase foreign currency forward in order to match purchases as and when they occur. At 31 March 2004 the Group had contracts outstanding to purchase foreign currency amounting to £ Nil (2003: £ Nil).

Fair value of financial instruments

There is no material difference between the book values and the fair values of financial instruments.

17 Provisions for liabilities and charges

	2004 £'000	2003 £'000
Pensions	**1,057**	1,030
Deferred tax	**100**	100
As at 31 March	**1,157**	1,130

Pensions

	Group 2004 £'000	Group 2003 £'000
As at 1 April	**1,030**	1,007
Charge to profit and loss account	**113**	114
Less pensions paid in the period	**(86)**	(91)
Balance at 31 March	**1,057**	1,030

The Falkland Islands Company Limited operates a defined benefit pension scheme for certain employees which is unfunded and was closed to new members in 1988. Benefits are only payable on leaving service of the Company at normal retirement age. The most recent valuation undertaken by a professionally qualified actuary, Lane Clark and Peacock LLP, was carried out at 31 March 2004 using the attained age method, which estimates the average annual cost of all future years service. The assumptions, which have the most significant effect on the results of the valuation are:

Interest rate	6.5%
Salary increase rate	3.5%
Pension increase rate	3.0%
Discount rate	6.5%
Inflation rate	2.5%

FRS 17 – Transitional disclosures

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pensions Costs', under FRS 17 'Retirement Benefits' the following transitional disclosures are required:

The valuation was used for FRS 17 disclosure has been based upon the latest full actuarial valuation at 31 March 2004, 31 March 2003 and 31 March 2002 respectively. The major assumptions in this valuation were:

	2004 %	2003 %	2002 %
Rate of increase in salaries	**3.5**	3.5	4.5
Rate of increase in pensions payments	**3.0**	3.0	3.0
Discount rate applied to scheme liabilities	**6.5**	6.5	6.5
Inflation rate	**2.5**	2.5	2.5

17 Provisions for liabilities and charges continued

The assumptions used by the actuary are those indicated by management from a range of possible assumptions which, due the timescales covered, may not necessarily be borne out in practice.

Scheme liabilities – The present value of the scheme liabilities which are derived from cash flow projections over long periods and thus inherently uncertain were:

	Value at 2004 £'000	Value at 2003 £'000	Value at 2002 £'000
Present value of scheme liabilities	**(1,386)**	(1,435)	(1,460)
Related deferred tax asset	**450**	467	470
Total present liability (net of deferred tax)	**(936)**	(968)	(990)
Amount provided (net of deferred tax)	**714**	684	673
Unprovided pension liability	**(222)**	(284)	(317)

Movement in deficit during the year:

	2004	2003
Deficit in scheme at beginning of year (net of deferred tax)	**(968)**	(990)
Current service cost	**(19)**	(20)
Contributions paid	**113**	114
Other finance cost	**(94)**	(94)
Deferred tax movement	**(17)**	(3)
Actuarial gain	**49**	25
Deficit in the scheme at end of year (net of deferred tax)	**(936)**	(968)

If FRS 17 had been fully adopted in these financial statements the pension cost for the defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating profit:	2004 £'000	2003 £'000
Current service cost	**19**	20
Interest on pension scheme liabilities	**94**	94

Analysis of amounts recognised in statement of total recognised gains and losses:	2004 £'000	2003 £'000
Actuarial gain on changes in assumptions recognised in statement of total recognised gains and losses	**49**	25

17 Provisions for liabilities and charges continued

The Company operates a defined contribution scheme to which in the year to 31 March 2004, the Company contributed £49,000 (2003: £46,000). There were no outstanding contributions payable at the year end.

Deferred taxation:	2004	2003
	£'000	£'000
Provision for deferred tax liability	**100**	100
Balance at 31 March	**100**	100

The aggregate balance of the Group's deferred tax balance is £100,000 (2003: £100,000). Under Falkland Islands taxation there is an asset of £277,000 (2003: £346,000), which arises mainly as a result of the liability for the unfunded pension scheme, and a liability of £377,000 (2003: £446,000) which arises mainly from accelerated capital allowances.

18 Called up share capital

	Group and Company	
	2004	2003
	£'000	£'000
Authorised		
8,250,000 Ordinary shares of 10p each	**825**	825
Allotted called up and fully paid		
As at 1 April		
6,170,037 (2003: 6,145,037) Ordinary shares of 10p each	**617**	615
Issued during the year		
25,000 Ordinary shares of 10p each	**–**	2
As at 31 March	**617**	617

A total of 251,300 (2003: 261,300) Executive share options were in issue at the balance sheet date, all have conditions attached as disclosed in the Executive share option scheme section of the Directors' report under the heading 'Remuneration', page 13.

In addition there were 89,964 (2003: 108,108) share options outstanding under the company's Savings Related Share Option Scheme at 31 March 2004.

19 Reserves

	Share Premium account £'000	Other Reserves £'000	Reserves for own shares £'000	Profit and loss account £'000	Total £'000
Group					
Balance at 1 April 2003					
as previously reported	54	703	–	2,012	2,769
Prior year adjustment	–	–	(112)	–	(112)
Balance at 1 April 2003 as restated	54	703	(112)	2,012	2,657
Retained profit for the year	–	–	–	241	241
Balance at 31 March 2004	**54**	**703**	**(112)**	**2,253**	**2,898**

Cumulative goodwill written off to reserves in prior periods was £4,686,000. This goodwill arose on a 100% share-for-share exchange. The acquisitions method of accounting was adopted and the goodwill was written off against other reserves.

On 31 March 2000 an Employee Share Ownership Plan was established. At 31 March 2003 and 31 March 2004 the plan held 75,000 ordinary shares at an average cost of £112,000. The market value of the shares at 31 March 2004 was £171,000 (31 March 2003: £136,000). Options described in the Directors Report over these shares are exercisable at prices of 139.5p and 150p from 2003 to 2011. Shares held under ESOP have had their rights to dividends waived, as in prior year.

	Share Premium account £'000	Other Reserves £'000	Reserves for own shares £'000	Profit and loss account £'000	Total £'000
Company					
Balance at 1 April 2003	5,443	–	–	672	6,115
Prior year adjustment (note 1)	(5,389)	5,389	(112)	–	(112)
Balance at 1 April 2003 as restated	54	5,389	(112)	672	6,003
Retained profit for the year	–	–	–	93	93
Balance at 31 March 2004	**54**	**5,389**	**(112)**	**765**	**6,096**

A profit of £444,000 (2003: £537,000) has been dealt with in the accounts of the Parent Company. As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

20 Reconciliation of movement on shareholders' funds

	Group	
	2004	2003
	£'000	£'000
Profit for the financial year	592	717
Dividends	(351)	(336)
Issue of shares	–	25
Net addition (deduction to shareholders' funds)	241	406
Opening shareholders' funds (previously £3,386,000 before deducting prior year adjustment of £112,000).	3,274	2,868
Closing shareholders' funds	3,515	3,274

21 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	Group			
	2004		2003	
	Land and buildings	Other operating leases	Land and buildings	Other operating leases
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	–	8	–	–
In the second to fifth years inclusive	30	14	18	22
	30	22	18	22

The Company had no operating lease commitments.

22 Capital commitments

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Contracted amounts not provided for in these accounts are:	16	147	–	–

23 Post balance sheet events

On 19 May 2004 it was announced that The Falkland Islands Company Limited had purchased a 21.6% interest in the issued share capital of The Portsmouth Harbour Ferry Company plc, a public unlisted company. The £759,000 consideration was satisfied by a £596,000 cash payment and the balance by the issue of 66,268 new shares in the Company.

Subsequent to the year end and before the date of signing these financial statements, an agreement was executed to form a new company, Falklands Oil and Gas Limited (FOGL), which will be engaged in offshore exploration for Oil and Gas in the Falklands. The Falkland Island Company Limited will subscribe US$1.1 million for shares in FOGL and will hold a 28.9% interest in the issued share capital of FOGL.

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