Falkland Islands Holdings plc
Annual Report 2005

Falkland Islands Holdings

Contents

Significant Events

OF THE FINANCIAL PERIOD

- **19 May 2004**
  Purchase of 21.6% of The Portsmouth Harbour Ferry Company PLC (PHFC).

- **6 October 2004**
  Launch of full cash/share offer valuing PHFC at £35 per share.

- **11 October 2004**
  Placing of 1.49m Falkland Islands Holdings shares raising £4.7m net of expenses.

- **14 October 2004**
  Flotation of Falkland Oil and Gas Limited (FOGL) on AIM raising £12m.

  Market cap £32m at flotation price of 40p per share.

  Falkland Islands Holdings stake post float – 18.1% valued at £5.8m on flotation.

- **8 December 2004**
  Offer to acquire PHFC recommended by the PHFC Board.

- **9 December 2004**
  Flotation of Falkland Gold and Minerals Limited (FGML) on AIM raising £10m.

  Market cap £31.3m at flotation price of 40p per share.

  Falkland Islands Holdings retain 14.4% valued at £4.5m on flotation.

  Offer for PHFC declared unconditional.

- **26 January 2005**
  John Foster appointed to the Board as Deputy Managing Director.

- **24 March 2005**
  Completion of the acquisition of the entire share capital of PHFC.

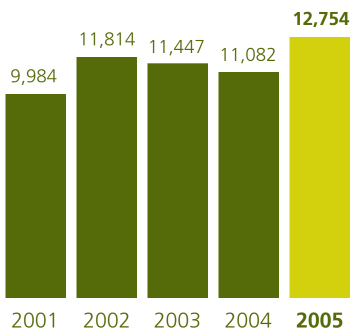
- **7 April 2005**
  Falkland Oil and Gas announce 'encouraging' progress with 2D seismic survey work.

Financial Highlights

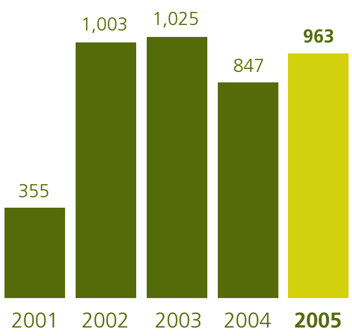
	2005 £'000	2004 £'000	Change %
Turnover	12,754	11,082	15.1
Profit before tax and goodwill amortisation	963	847	13.6
Basic earnings per share before goodwill amortisation	8.9p	9.7p	(8.2)
Dividend per share	6.0p	5.75p	4.4
Cash flow from operations	777	1,744	(55.4)
Net asset value per share*	130.4p	57.0p	128.8

*Net asset value per share includes the investments in Falkland Oil and Gas Limited (FOGL) and Falkland Gold and Minerals Limited (FGML) at their cost of £0.9 million. Both companies are listed on AIM and the market value of the Group shareholdings at 31 March 2005 was £21.4 million. The net asset value per share based on that valuation is 374p.

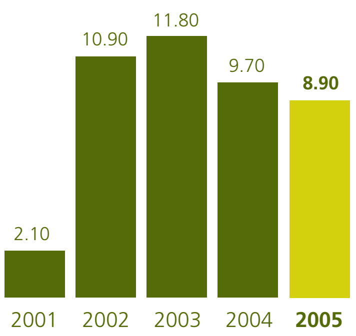
Turnover (£'000)



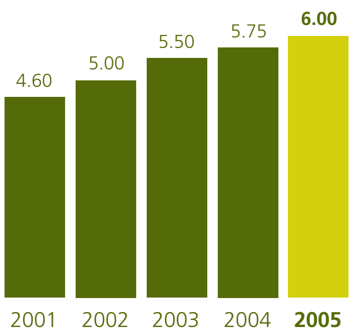
Profit before tax (£'000)



Earnings per share (pence)



Dividend per share (pence)



Chairman's Statement and Review of Operations

Overview

This has been a year of transformation for your Company during which its scale, valuation and prospects have moved to a higher level. The equity base has been increased by some 36% through the issue of new shares and the Group now has a much larger institutional representation amongst its shareholders.

The flotations of Falkland Oil and Gas Limited (FOGL) and of Falkland Gold and Minerals Limited (FGML) have placed a substantial value on our shareholdings and they have both raised the required funds for major exploration programmes. A successful outcome for either company will increase the value of our shareholdings and they both have the potential to transform the economy of the Falklands which would be of substantial benefit to the Company.

The acquisition in December of The Portsmouth Harbour Ferry Company (PHFC) has given us an excellent cash generative business in the UK which significantly improves the quality of the Group's earnings. We have a strong track record in operating essential services like these.

The trading environment in the Falklands has remained subdued but with the benefit of three months trading from PHFC a satisfactory result has been achieved.

Your Board, as a sign of its confidence in the future, is pleased to recommend a 4.4% increase in the dividend from 5.75p to 6.0p.

Financial summary

Trading

In the year to 31 March 2005 turnover rose by 15.1% to £12.8 million *(2004: £11.1 million)* and the profit before taxation increased by 6.0% to £898,000 *(2004: £847,000)*. Underlying profits before the amortisation of goodwill rose by 13.6% to £963,000 *(2004: £847,000)*. Basic earnings per share before goodwill amortisation were 8.9 pence per share *(2004: 9.7p)*.

PHFC, which was included for 16 weeks in what is the quietest period of its year, accounted for turnover of £1.3 million and profit before tax and goodwill amortisation of £202,000. This result was in line with our expectations but profits declined marginally in 2004/5 caused by increased salary and fuel costs and also by the impact on passenger numbers of the introduction of parking charges in Gosport in November 2004. To offset these factors fares were increased by 12.5% on 1 June 2005.

Turnover in the Group's core Falkland Islands business increased marginally to £11.5 million *(2004: £11.1 million)* as the Group saw the benefit of an earlier investment to increase the size of retailing space at its flagship West Store in Stanley. Vehicle sales remained strong and insurance income also improved. Conversely the fishing agency had a quiet year and the hotel incurred losses as a significant upgrade was carried out and the benefits of this investment will be felt in the coming years. The Falkland Islands businesses achieved an increased profit of £1,294,000 *(2004: restated £1,130,000)* in the year.

However Group results bore the impact of a substantial increase in Head office costs from £283,000 to £533,000 reflecting increased staff costs and overheads associated with the much increased scale of corporate activity.

Cash Flow

Cash flow at the operating level was satisfactory at £0.8 million and more closely reflected underlying profitability than the exceptionally high levels seen in 2004 which were due largely to favourable working capital movements. Tax and dividend payments totalled £0.6 million in the year and were adequately covered by the net cash flow from operating activities.

During the year the Group invested heavily to broaden its operating base. In the year to March 2005, completion of the acquisition of PHFC had a cash cost of £5.5 million with a further £0.3 million to be paid in coming years and a further £0.6 million was invested in FOGL and FGML prior to their flotations.

Within the Group the cost of completing the purchase of the new ferry *Spirit of Portsmouth* was £1.0 million. She entered service in June 2005 and with an estimated useful life of 30 years will operate as both a ferry and a cruise ship in the harbour and the Solent area.

The cash cost of the acquisition of PHFC together with new capital expenditure totalled £7.3 million and was funded largely by share placings with new Institutional investors which raised £5.5 million. The balance of £1.8 million being funded by the draw down of loans (£1.0 million), the issue of new shares and the use of existing cash resources.

The Portsmouth Harbour Ferry Company PLC

"The acquisition in December of PHFC has given the Group an excellent cash generative business in the UK which significantly improves the quality of the Group's earnings."

Chairman's Statement and Review of Operations

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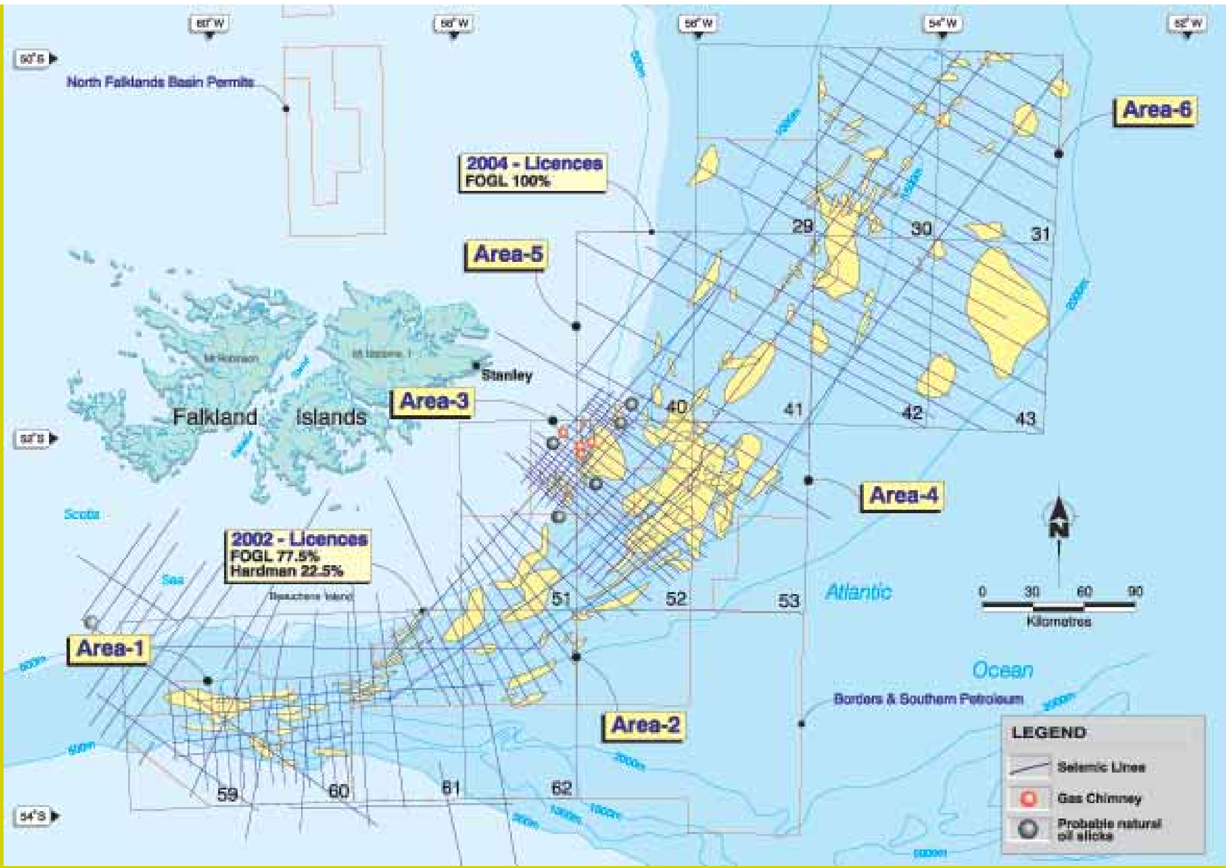

Falkland Oil and Gas Limited

"A further 50,000 sq km acreage was acquired shortly after flotation and since then 2D seismic surveys have identified over 130 leads. The outlook for FOGL, which has an enviable position with effectively a 90% interest in 83,000 sq km, is exciting."

Investments

The Group's shareholdings in FOGL and FGML are stated at cost of £900,000 in the accounts and their market value at 31 March 2005 was £21.4 million equivalent to £2.55 per Falkland Islands Holdings (FIH) share.

Acquisition

Control of PHFC was obtained on 9 December 2004. PHFC has operated a passenger ferry service from Gosport to Portsmouth for over 125 years and its acquisition greatly strengthens the Group's cash flow and profitability. The acquisition was made at a total cost of £7.5 million and was funded by cash of £5.7 million and the balance by the issue of new FIH shares and loan notes.

Upon acquisition, PHFC had net assets of £3.3 million giving rise to goodwill of £4.2 million, which is being written off over 20 years.

Balance Sheet

The financial statements at 31 March 2005 reflect the acquisition of PHFC and the further investments in the exploration companies noted above. The year end position also reflects the strengthening of the Group's Balance Sheet which saw shareholders' funds treble during the year from £3.5 million to £10.9 million following the expansion of the Group's capital base.

Tangible assets acquired with the purchase of PHFC included freehold land and buildings with a value of £1.3 million, and ferries and other fixed assets totalling £2.8 million. Together with £1.0 million spent on the ferry purchase, these items largely account for the £4.9 million increase in tangible fixed assets in the year.

Working capital levels increased in the year in part reflecting the expansion of the business following the acquisition of PHFC. In addition stock levels increased as a result of the continued expansion of the Group's retail activities in the Falklands. Other changes in working capital reflect timing differences and a return to debtor and creditor levels seen in earlier years.

The Group ended the year in a strong financial position and at 31 March 2005, with 90% of the new ferry paid for, the Group had cash balances of £914,000 and unutilised banking facilities of £3.3 million.

Strategic transformation

The acquisition of a good solid business in the United Kingdom complementary to our businesses in the Falklands has been an objective since the Company moved to AIM in 2003. The acquisition of PHFC fulfilled these criteria, and although the acquisition proved to be a difficult process, the purchase was finally completed in December.

I am pleased to say that the ferry service has continued to operate without disruption and its financial performance has been in line with our expectations. The new ferry, *Spirit of Portsmouth*, was launched on 11 May 2005 and is now in full service. 2005 promises to be a busy year for PHFC with the *International Festival of the Sea* and *Trafalgar 200* celebrations being based in Portsmouth.

In line with our undertakings to the people of Portsmouth and Gosport we have maintained a local Board of directors for PHFC and we thank the Board members for their contribution.

Exploration activities

The flotations of FOGL and FGML in the last quarter of 2004 raised a total of £22 million from institutions and the public. Unfortunately it was not possible to give priority in those issues to our own shareholders but through our long term shareholdings of 18.1% in FOGL and 14.4% in FGML shareholders will benefit from any future success of these exploration ventures.

Both companies have made good progress in carrying out the exploration programmes they outlined at flotation. FOGL, which raised £12 million, acquired a further 50,000 sq km shortly after flotation and since then 2D seismic surveys have identified over 130 leads, compared with just eight which had been identified at flotation. This has led its Board to expand significantly the planned exploration programme. Accordingly, the outlook for FOGL, which has an enviable position with effectively a 90% interest in 83,000 sq km (almost 20 million acres), is exciting. Shareholders can follow developments on its web site www.FOGL.com.

The substantial increase in the scale of the work programme has been funded in May this year by a £10 million Institutional share placing. Your Company invested

Chairman's Statement and Review of Operations

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£2 million which marginally increased our shareholding to 18.3%. The FOGL share price has performed well since flotation and the placing was achieved despite recent adverse sentiment in the sector.

FGML which raised £10 million has also made a good start. Initial set up work has included the commissioning of two drilling rigs and the establishment of a drilling base at Goose Green. A 1,500 km ground magnetic survey has now been completed and the Company has completed three months of its 24 month initial drilling programme. The results of drilling and the survey are currently being analysed and further information will be available soon. Results will be posted on the FGML web site www.FGML.com.

Your Board views shareholdings in both these companies as long term investments and believes that shareholders will benefit from their retention.

People

We were pleased to welcome John Foster, who joined the Board in January 2005 as an executive director and today he succeeds Bryan McGreal as Managing Director. John's experience over 20 years in advising, managing and investing in a variety of companies is well fitted to our future plans. Bryan, who is now 65, will be retiring from the Board at the Annual General Meeting. He has been with the Group since 1987 and has been Managing Director since 1997. His shrewd judgement and overall contribution have been of great value to shareholders and I would like to thank him most warmly on your behalf. I am delighted that his services will continue to be available to us as he has agreed to remain as a consultant for a year.

We welcome to the Group the employees of PHFC and we look forward to working with them. I would also like to express my appreciation to all our employees for their ongoing dedication to the business.

For further information on the Group, shareholders should visit our new Company web site www.fihplc.com.

Outlook

Our strategy is to ensure that the future of your Company is not wholly dependent upon our investments in the listed Falkland exploration companies. In 2005, with the PHFC acquisition, the first steps have been taken towards building a meaningful business outside the Falklands. PHFC represents a good base on which we can build in the domestic maritime sector.

The short term outlook in the Falklands remains somewhat clouded by the fallout from the third successive year of poor Illex catches. However, the much increased level of oil and minerals exploration activity is helping confidence in the Islands. With a full year's contribution from PHFC where we will benefit from the increased fares which apply from 1 June 2005, a satisfactory result should be achieved for shareholders.

David Hudd
Chairman
10 June 2005

Falkland Gold and Minerals Limited

"Initial set up work set up work has included the commissioning of two drilling rigs and the establishment of a drilling base at Goose Green. A 1,500 km ground magnetic survey has now been completed and the results are currently being analysed."

Group Activities

Following the acquisition of The Portsmouth Harbour Ferry Company and the successful admission to AIM of the two Falkland Islands exploration companies in the 4th quarter of 2004, Falkland Islands Holdings now has two principal operating businesses and substantial shareholdings in two listed companies.

The Falkland Islands Company (FIC)

100% shareholding

The Groups' operations in the Falkland Islands date back over 150 years to 1852 when the Company was granted its Royal Charter. From its early days as a major landowner and sheep farmer controlling almost half the land area of the Islands, the Group has steadily widened its activities to provide a broad range of essential services to the people of the Falklands.

Retailing

Retailing forms the largest single element of FIC's trading activities. Locally grown and supplied produce is used wherever possible but most of FIC's products are sourced from the UK and would be familiar to any shopper in a UK supermarket. FIC's retailing operations are the largest on the Islands with a market share estimated at around 60% although there is competition from a number of smaller independent retailers. FIC has nine retail outlets in total, ranging from the 7,500 sq ft West Store supermarket in central Stanley to the Capstan tourist gift shop on the waterfront that serves the 40,000 cruise ship passengers that visit the Islands each year. Other outlets sell clothing, office supplies, DIY, home improvement and building supplies. In total FIC has nearly 30,000 sq ft of retail space in the Stanley area and a retail outlet located at the military base at Mount Pleasant.

Fishing Agency

The cold waters around the Falkland Islands are a prolific source of fish and squid and attract fishing fleets from all over the world, particularly from Japan, Korea and Taiwan. FIC provides a broad range of logistic, administrative, supply and maintenance services to these offshore fishing fleets that can be away from their home ports for several months at a time. Income from the Fishing Agency is dependent on the duration of the fishing season which in turn depends on the size of the squid and fishing shoals. Recent years have seen a sharp fall in the level of the annual catch of Illex squid and a consequent reduction in the contribution from the agency.

FIC also provides logistical support and port agent services for visiting cruise ships that come to Stanley en route to the Antarctic or Patagonia. The number of cruise ships visiting the islands has risen sharply in recent years, more than trebling since 1995 to over 80 vessels in 2004. FIC also has the capacity to provide maintenance and repair services and the provision of agency services for the support vessels and combat ships of the Royal Navy.

Recently the Agency has been acting as the agent for the GSI Admiral which has been carrying out seismic surveys in the area for the last six months for FOGL and others.

Automotive

With only a basic road infrastructure outside the main urban area of Stanley, 4WD vehicles are an essential part of Island life. FIC is the authorised importer for the full range of Land Rover products for the Falkland Islands. The Company also provides a full spares and repair and maintenance facility at its Stanley workshops. It also supplies DAF heavy trucks, CAT earthmovers and Suzuki vehicles and motorbikes.

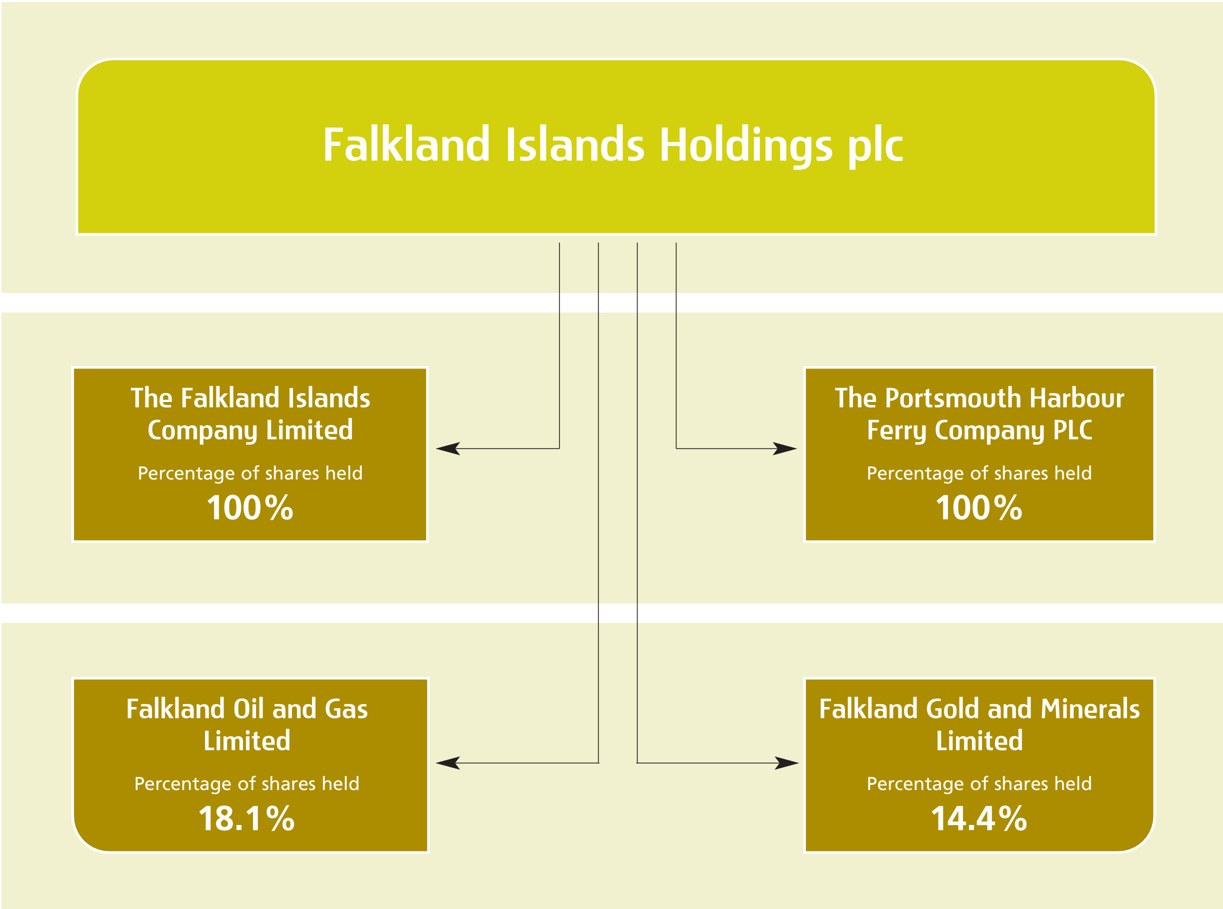
Property, Insurance and Port Services

Although having divested its agricultural holdings in 1991, FIC has retained a number of parcels of land aggregating some 400 acres, with the potential for residential or commercial development. The Company also owns 22 residential properties which are rented out on a long-term basis to business users such as Ministry of Defence contractors, and fishing companies. FIC is steadily developing these sites as the economy of the Islands continues to grow and is well placed in the event that significant Oil or Mineral production takes place.

FIC is also a significant insurance broker in the Falkland Islands and now acts as the sole agent for the Caribbean Alliance Insurance Company which is a former subsidiary of Royal and Sun Alliance who withdrew from the Islands in 2003. Since then more active management by CAIC has led to significant growth in the insurance business. The Company also manages the port and wharf at Stanley.

Darwin Shipping

FIC operates its own shipping business currently chartering five vessels a year to supply freight services to the Islands with regular runs to the South Atlantic from the UK. The service is used both by FIC's own operations and by independent businesses and private individuals.



The Portsmouth Harbour Ferry Company PLC

100% shareholding

The Portsmouth Harbour Ferry Company (PHFC) has a history almost as long as that of its new fellow subsidiary, The Falkland Islands Company. Incorporated in 1884 the business has provided a passenger ferry service across the mouth of Portsmouth harbour from Gosport to Portsea for well over 100 years.

PHFC provides a vital service to the residents of Gosport many of whom work or travel to the shops or restaurants in the larger City of Portsmouth across the water. Approximately half a mile across the harbour by sea, the ferry journey takes a little over 5 minutes whereas the journey by road to Portsmouth skirting around the head of the harbour is approximately 14 miles long and in today's congested traffic the journey can take up to an hour.

Ferry services run for $18\frac{1}{2}$ hours a day from 5.30am until midnight, crossing the harbour every $7\frac{1}{2}$ minutes in peak periods. The ferry service operates 363 days a year and in calendar 2004 carried almost 4 million passengers.

The ferry is renowned for its reliability and the friendly and efficient service of its crew many of whom come from families who have worked as watermen in the harbour for generations. The ships are serviced and maintained by the Company's own team of specialist marine engineers and shipwrights who are based at a one acre site at Clarence Marina half a mile from the Company's Gosport base.

PHFC currently operates four vessels on its ferry service with two on duty on any given day. The oldest two vessels were commissioned in 1966 and are still in excellent condition but the Company has recently taken delivery of a new ferry, *Spirit of Portsmouth*, which is capable of carrying 300 passengers and of doubling as a pleasure cruiser in summer.

The Company is committed to maintaining and where possible extending the ferry service it offers to passengers but with increased tourist activity in the Portsmouth and Solent area particularly in the coming year with the 200th anniversary celebrations of the battle of Trafalgar and the *International Festival of the Sea* in July, the Company is well placed to develop its pleasure cruising activities and also to use its vessels for special events, weddings, parties and corporate entertaining.

Group Activities

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Falkland Gold and Minerals Limited

14.4% shareholding

Falkland Gold and Minerals Limited (FGML) was incorporated in February 2004 and has an exclusive license for mineral exploration on all of the onshore land mass of the Falkland Islands.

Based on preliminary exploration work and the results of an aeromagnetic survey which identified magnetic anomalies that indicate the possible presence of commercial gold deposits, the Company raised £10 million through a flotation on AIM in December 2004 to fund more detailed exploration of the areas identified.

A systematic drilling programme has been commenced in the Goose Green area by an experienced team of geological engineers and is scheduled for completion by the end of 2007.

Following the AIM listing FIH holds 11,250,000 FGML shares. At the balance sheet date this 14.4% holding had a book value of £0.2 million and a market value based on the FGML share price at 31 March 2005 of £4.3 million.

Falkland Oil and Gas Limited

18.1% shareholding

A year ago, FIC had a 20% interest in the Falkland Hydrocarbon Consortium. In the last twelve months the consortium has been transformed into Falkland Oil and Gas Limited (FOGL) and tremendous progress has been made. FIC still retains an 18% interest in FOGL.

FOGL was admitted to AIM in October 2004 at 40p per share, raising £12 million in the process. At that time, it held a 77.5% interest in licences covering 33,700 sq km and the available data enabled eight leads to be investigated. In December 2004, FOGL applied for and was awarded a 100% interest in licences covering an additional 50,000 sq km.

Immediately following the share placing a 9,450 km 2D seismic survey commenced which was completed in May 2005. The seismic work provides a 2 dimensional map of the rock strata under the sea bed and is designed to identify potentially oil bearing formations. The results of the survey were encouraging and revealed leads both in the original licensed area but also in the totally unexplored northern licence area. To date some 130 leads have been identified compared with just eight at the time of the share placing.

Initial interpretation of the new data gives considerable cause for optimism. The preliminary results of the survey identify numerous Direct Hydrocarbon Indicators (DHI's) pointing to the presence of working petroleum systems. The leads are large and diverse, with some leads possibly covering areas of 300 to 500 sq km, sufficient to hold large reserves of oil or gas.

FOGL now represents a much larger project than originally anticipated and as a result the planned scope of the exploration programme has been increased far beyond that envisaged at the time of the share placing. The plan now is to conduct further 2D seismic work and a contract has already been signed to acquire at least a further 8,000 km of 2D. A 3D seismic survey over up to 2,000 sq km is also under consideration. The target is to develop a portfolio of about 20 high quality and technically drillable prospects by the end 2006, with drilling expected to start in 2007.

To fund the expanded programme, FOGL conducted a share placing in May 2005 in which FIH participated acquiring a further 2.3 million shares at 85p which resulted in a slight increase in the shareholding to 18.4%. The placing raised £10 million, which together with FOGL's existing cash resources of £11 million, will enable the Company to fund its planned exploration programme and cover all the Company's overheads through 2006. It is also anticipated that discussions will commence with potential operating partners in the second half of the year.

At 31 March 2005 the Group held 14,450,000 FOGL shares with a market value of £17.1 million. Following the recent share placing FIH owns 16,803,000 shares with a cost of £2.7 million.

Any oil and gas exploration production would be likely to have a dramatic impact both on the Islands' population, currently some 3,000 people and on the economy. FIC would be a major beneficiary of this. Already there is much activity in the region with a number of other companies exploring for oil and gas around the Falkland Islands. They include two other AIM listed companies, Desire Petroleum and Borders and Southern.

FOGL shares have performed well since admission to AIM and your Board intends to be a long-term shareholder.

Board of Directors

1 David Hudd (60) Chairman [n]

David joined the Board on 4 March 2002 and is Chairman of the Nominations Committee. 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 plc and of Betcorp Limited, non-executive Deputy Chairman of both Falkland Oil and Gas Limited and Falkland Gold and Minerals Limited and a director of QA plc.

Bryan McGreal (65) Managing Director

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

2 John Foster (47) Deputy Managing Director

John joined the Board on 26 January 2005. He is a Chartered Accountant and previously served as Group Finance Director for Macro 4 plc between 2000 and 2003, and Hamleys plc between 1998 and 2000. Prior to joining Hamleys, he spent three years as Corporate Finance Director of Ascot plc and before that worked for nine years as a venture capitalist with a leading investment bank in the City.

3 Anthony Knightley (55) Finance Director

Tony 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 Licht (60) Non-executive Director [a][n][r]

Leonard 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 (68) Non-executive Director [a][n][r]

Sir Harry 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.

[a] Member of the Audit Committee
[n] Member of the Nomination Committee
[r] Member of the Remuneration Committee

Directors' Report

The Directors present their annual report and the financial statements for the Company and for the Group for the year ended 31 March 2005. 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 22. The Group profit for the year after taxation amounted to £589,000 *(2004: £592,000)*. The Directors recommend the payment of a dividend of 6.0p *(2004: 5.75p)* per share which, if approved by the shareholders at the forthcoming Annual General Meeting, will be paid on 3 November 2005 to shareholders on the register at the close of business on 7 October 2005. Basic earnings per share were 8.0p *(2004: 9.7p)*.

Principal activities and business review

The business of the Group during the year ended 31 March 2005 was general trading in the Falkland Islands and since 9 December 2004 the operation of a passenger service across Portsmouth Harbour. The principal activities were retail and wholesale distribution, servicing the fishing industry, port operation, shipping, automotive, financial services, hotel and commercial accommodation, and investments in companies that are exploring for minerals onshore and oil offshore. The principal activity of the Company is that of a holding 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 2 to 10.

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 17 and 18. Details of how the Board and the principal Board Committees operate are set out below and under the heading 'Board Committees' on page 13 and also under the heading 'Corporate Governance' on pages 14 to 16.

The Board currently comprises a part-time executive Chairman, three executive Directors and two non-executive Directors, whose biographies are on page 11.

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 Directors retiring by rotation at the forthcoming Annual General Meeting are Mr David Hudd, Mr Anthony Knightley and Sir Harry Solomon and, being eligible, they offer themselves 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 18 and 19. 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 16.

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 of 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 36 to 39.

Share capital and substantial interests in shares

During the year a further 319,906 shares were issued as partial consideration for the purchase of 100% of The Portsmouth Harbour Ferry Company plc. There were two placements of shares for cash during the year to fund the acquisition. The first was of 308,500 shares at £2.55 per share and the second of 1,492,537 shares at £3.35 per share. In addition, 88,500 share options were exercised in the year. The authorised share capital has been increased to 10,000,000 ordinary shares.

Further information about the Company's share capital is given in note 18 on page 39. Details of the Company's Executive Share Option Scheme and Employee Ownership Plan can be found on pages 18 and 19 and in note 18 on page 39.

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 1 June 2005.

Substantial shareholdings

	Number of shares	Percentage of issued shares
Artemis Investment Management	908,015	10.84
INVESCO English & International Trust plc	396,904	4.74
Jupiter Asset Management	292,200	3.49
L S Licht	791,250	9.44
Sir Harry Solomon	425,027	5.07

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 2005 or 31 March 2004.

Charitable and political donations

Charitable donations made by the Group during the year amounted to £3,241 *(2004: £4,728)*. 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.

Directors' Report

CONTINUED

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 25 July 2005 at 11.30am. The Notice of the Annual General Meeting and a description of the special business to be put to the meeting are 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 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 a part-time executive director 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, three 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 11, 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 pages 11 and 16.

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 any 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 18 and 19.

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 20 and 'Respective Responsibilities of Directors' and Auditors' on page 21.

The Directors confirm that they have established procedures necessary to implement the provisions of the Combined Code as set out in the Listing Rules of the Financial Services Authority and have complied with it for the year to 31 March 2005.

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 2005 (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.

Directors' Report
CONTINUED

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 this Annual Report and Accounts, 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
The following disclosure is the Directors' Remuneration report as required by Section 234B of the Companies Act 1985 (as amended). It also contains additional information required by the Listing Rules of the Financial Services Authority and other relevant information relating to the Group remuneration policy.

All tables and associated narrative have been audited by KPMG Audit Plc.

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 Directors 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 previous year.

Annual bonus

Annual bonuses are payable at a level up to 30% of basic salary for the Executive Directors 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. David Hudd was paid two bonuses of £30,000 each in recognition of his efforts in respect of the acquisition of PHFC and the flotation of FOGL.

Share options

Details of the Company's Executive Share Option Scheme and Employee Share Option Plan can be found on pages 18 and 19 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, John Foster 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 2005 are shown in the table below under 'Taxable Benefits'

Termination, notice periods and retirement by rotation

Anthony Knightley has a service contract, 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 retires at the end of the forthcoming Annual General Meeting.

John Foster has a service contract, and he or the Company may terminate the contract by giving six months notice.

Mr David Hudd, Mr Anthony Knightley and Sir Harry Solomon are the Directors retiring by rotation at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election in accordance with the Company's Articles of Association. Mr John Foster, having been appointed during the year, offers himself for election in accordance with the Company's Articles of Association.

Directors' Report
CONTINUED

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 share options) provided for and received by each Director during the year to 31 March 2005 and in the preceding year is as follows:

	Salary £'000	Bonuses £'000	Taxable benefits £'000	Pensions £'000	2005 Total £'000	2004 Total £'000
David Hudd	65	60	–	–	125	50
Bryan McGreal	84	8	15	20	127	124
John Foster	27	–	–	6	33	–
Anthony Knightley	67	10	12	15	104	90
Leonard Licht	20	–	–	–	20	20
Sir Harry Solomon	20	–	–	–	20	20
	283	78	27	41	429	304

Directors' interests in shares

As at 31 March 2005, 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 J L Foster	Number of shares A M Knightley	Exercise price	Exercisable from	Expiry date
Opening									
1 April 2004	A	17 Jan 1998	–	25,000	–	15,000	£1	17 Jan 2001	16 Jan 2008
		27 July 2001	–	3,500	–	10,000	£1.395	27 July 2004	26 July 2011
	B	10 April 2000	–	25,000	–	–	£1.50	10 April 2003	9 April 2010
		27 July 2001	–	6,500	–	–	£1.395	27 July 2004	26 July 2011
		15 Aug 2002	81,300	–	–	–	£1.845	15 Aug 2005	14 Aug 2012
Total			81,300	60,000	–	25,000			
Exercised in period	A		–	(28,500)	–	(25,000)			
Granted in period	A		–	–	5,769	–	£5.20	10 Feb 2005	9 Feb 2015
	B		–	–	51,923	–	£5.20	10 Feb 2005	9 Feb 2015
Closing 31 March 2005	A		–	–	5,769	–			
	B		81,300	31,500	51,923	–			
			81,300	31,500	57,962	–			

Scheme A = Executive Share Option Scheme. Scheme B = Employee Share Ownership Plan.

The mid-market price of the Company's shares at 31 March 2005 was 592.5p and the range during the year was 246.5p to 722.5p. 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 and Mr Foster 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 least 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 2005	Ordinary shares at 31 March 2004
David Hudd	5,400	5,400
Bryan McGreal	4,320	4,320
Anthony 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 2005	Ordinary shares at 31 March 2004
David Hudd	38,400	20,000
Bryan McGreal	46,533	22,033
John Foster	2,000	–
Anthony Knightley	24,000	6,000
Leonard Licht	791,250	1,191,250
Sir Harry Solomon	425,027	625,027

From 31 March 2005 to 1 June 2005 there were no changes in the above interests. All the above interests were beneficial at the above dates. Bryan McGreal and John Foster 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 55,417 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.

Directors' Report

CONTINUED

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
10 June 2005

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 22 to 42. We have also audited the information in the Remuneration section of the Directors' Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 Auditor's 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 Directors' Report and, as described on page 20, 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, the Listing Rules of the Financial Services Authority 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 whether the financial statements and the part of the Remuneration Section of the Directors' Report that is described as having been audited have been 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 the audited financial 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 and the Remuneration Section of the Directors' Report that is described as having been audited. 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 and the Remuneration Section of the Directors' Report that is described as having been audited.

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 2005 and of the profit of the Group for the year then ended; and
- the financial statements and the Remuneration Section of the Directors' Report that is described as having been audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
10 June 2005
Nottingham

Group Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH 2005

Notes		Continuing operations £'000	Acquisitions £'000	Total 2005 £'000	Total 2004 £'000
2	Turnover	11,468	1,286	12,754	11,082
	Cost of sales	(7,910)	(798)	(8,708)	(7,762)
	Gross profit	3,558	488	4,046	3,320
	Administrative expenses	(3,091)	(354)	(3,445)	(2,743)
	Other operating income	287	4	291	283
3	Operating profit	754	138	892	860
4	Net interest income/(expense)	7	(1)	6	(13)
	Profit on ordinary activities before taxation	761	137	898	847
5	Taxation	(247)	(62)	(309)	(255)
	Profit on ordinary activities after taxation	514	75	589	592
6	Dividends			(520)	(351)
	Retained profit			69	241
7	Earnings per share				
	Basic			8.0p	9.7p
	Diluted			7.9p	9.4p
	Basic before amortisation of goodwill			8.9p	9.7p
6	Dividend per ordinary share			6.0p	5.75p

All results are derived from continuing operations in the current and preceding years.

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

Group Balance Sheet

AT 31 MARCH 2005

Notes		2005 £'000	2005 £'000	2004 £'000	2004 £'000
	Fixed assets				
9	Intangible assets		4,136		89
10	Tangible assets		8,501		3,552
11	Investment in joint venture				
	– share of gross assets		–		189
11	Other investments		900		–
			13,537		3,830
	Current assets				
12	Stocks	3,308		3,079	
13	Debtors due within one year	1,788		1,336	
13	Debtors due after one year	24		42	
		1,812		1,378	
	Cash at bank and in hand	914		1,183	
		6,034		5,640	
14	Creditors: amounts falling due within one year	(5,921)		(4,798)	
	Net current assets		113		842
	Total assets less current liabilities		13,650		4,672
15	Creditors: amounts falling due				
	after more than one year		(831)		–
17	Provisions for liabilities and charges		(1,895)		(1,157)
	Net assets		10,924		3,515
	Capital and reserves				
18	Called up share capital		838		617
19	Share premium account		7,061		54
19	Other reserves		703		703
19	Reserve for own shares		(83)		(112)
19	Profit and loss account		2,405		2,253
20	Equity shareholders' funds		10,924		3,515

The financial statements were approved by the Board of Directors on 10 June 2005 and were signed on its behalf by:

B McGreal
Managing Director

A M Knightley
Finance Director

Company Balance Sheet

AT 31 MARCH 2005

Notes		2005 £'000	2005 £'000	2004 £'000	2004 £'000
	Fixed assets				
11	Investments		15,997		8,000
	Current assets				
13	Debtors	1,509		770	
14	Creditors: amounts falling due within one year	(1,463)		(2,057)	
	Net current assets/(liabilities)		46		(1,287)
	Total assets less current liabilities		16,043		6,713
15	Creditors: amounts falling due after more than one year		(785)		–
	Net assets		15,258		6,713
	Capital and reserves				
18	Called up share capital		838		617
19	Share premium account		7,061		54
19	Other reserves		5,389		5,389
19	Reserve for own shares		(83)		(112)
19	Profit and loss account		2,053		765
20	Equity shareholders' funds		15,258		6,713

The financial statements were approved by the Board of Directors on 10 June 2005 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 2005

Reconciliation of operating profit to net cash inflow from operating activities

	2005 £'000	2004 £'000
Operating profit	892	860
Amortisation of goodwill	65	–
Depreciation charges	292	226
Increase in stocks	(229)	(221)
(Increase)/decrease in debtors	(256)	337
Increase in creditors and provisions	13	542
Net cash inflow from operating activities	777	1,744

Cash flow statement

	2005		2004	
	£'000	£'000	£'000	£'000
Cash flow from operating activities		777		1,744
Returns on investments and servicing of finance				
Interest received	47		12	
Interest paid	(31)		(25)	
		16		(13)
Taxation				
UK Corporation tax paid	(169)		(101)	
Overseas taxation paid	(104)		(207)	
		(273)		(308)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(1,243)		(503)	
Purchase of investments	(622)		(26)	
Receipts from sale of tangible fixed assets	144		–	
		(1,721)		(529)
Acquisitions				
Investment in Joint Ventures	–		(83)	
Investment in subsidiary undertaking	(5,556)		–	
		(5,556)		(83)
Equity dividends paid		(372)		(335)
Cash (outflow)/inflow before financing		(7,129)		476
Financing				
Repayment of secured loan	(279)		(250)	
Issue of ordinary share capital	5,472		–	
New secured loan	1,000		–	
Sale of own shares	112		–	
Share options exercised	98		–	
		6,403		(250)
(Decrease)/increase in cash in the year		(726)		226

Group Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2005 – CONTINUED

Reconciliation of net cash flow to movement in net funds

	2005 £'000	2004 £'000
(Decrease)/increase in cash in the year	(726)	226
Cash (inflow)/outflow from (increase)/decrease in debt	(848)	250
Change in net debt resulting from cash flows	(1,574)	476
Change in net debt resulting from acquisitions	209	–
Net cash at start of year	933	457
Net cash at end of year	(432)	933

Analysis of changes in net funds

	As at 31 March 2004 £'000	Cash flows £'000	Acquisitions £'000	As at 31 March 2005 £'000
Cash at bank and in hand	1,183	(698)	429	914
Overdraft	–	(28)	(52)	(80)
	1,183	(726)	377	834
Debt due within one year	(250)	(97)	(88)	(435)
Debt due after one year	–	(751)	(80)	(831)
	933	(1,574)	209	(432)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2005

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.

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 2005 and comparatives for the year ended 31 March 2004. The financial statements 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 FRS 10 '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. Purchased goodwill arising on consolidation arising from acquisitions after 1 April 1998 is written off over its estimated useful life in accordance with FRS 10.

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

Joint arrangements

Where the Group participates in joint arrangements that are not entities, it 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 cost of awards is charged to profit over the period to the date of expected vesting or the performance period, as appropriate.

The estimated cost of awards is the market value of the shares awarded or the intrinsic value of options awarded (being the difference between the exercise price and the market value of at date of grant, measured at the granting of the award). 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 UITF Abstract 38 'Accounting for ESOP trusts'.

Depreciation

Freehold land is not depreciated. Depreciation is provided by equal annual instalments to reduce the cost of fixed assets to their 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%
Ships	3.3%

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 is written off to the profit and loss account.

Notes to the Financial Statements

CONTINUED

1 Accounting policies CONTINUED

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 FRS 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 date 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. Where transactions are hedged with foreign currency contracts, the transactions are translated at the contracted rate for presentation in the year end balance sheet.

2 Segmental information

The table sets out information for both of the Group's industry segments and geographic areas of operation.

	General trading in the Falkland Islands		Ferry services in the United Kingdom		Total	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Turnover	11,468	11,082	1,286	–	12,754	11,082
Segment operating profit before Head office costs and goodwill amortisation	1,287	1,143	203	–	1,490	1,143
Segment profit before taxation, Head office costs and goodwill amortisation	1,294	1,130	202	–	1,496	1,130
Head office costs					(533)	(283)
Goodwill amortisation					(65)	–
Group profit before taxation					898	847
Net assets	7,783	3,515	3,141	–	10,924	3,515

3 Operating profit

	2005 £'000	2004 £'000
Operating profit on ordinary activities is stated after charging:		
Depreciation	292	226
Goodwill amortisation	65	–
Auditors remuneration		
– for audit services (Company £15,000 *(2004: £15,000)*)	32	30
– for non audit services	13	–
Operating lease rentals		
– vehicles	21	22
– other leases	59	30

Of the non-audit related fees paid to the auditor, £7,000 related to the acquisition. The balance relates to general advisory work.

4 Net interest expense

	2005 £'000	2004 £'000
Interest payable on bank loans	(41)	(25)
Interest receivable	47	12
	6	(13)

5 Taxation

	2005 £'000	2004 £'000
The tax charge based on profit for the period comprises:		
UK corporation tax at 30%	226	227
Less double taxation relief	(149)	(106)
	77	121
Overseas taxation at 25% *(2004: 32.5%)*	231	158
Adjustments in respect of prior periods	(31)	(24)
Total current tax	277	255
Deferred taxation	32	–
	309	255

Notes to the Financial Statements

CONTINUED

5 Taxation CONTINUED

Factors affecting the tax charge for the current period:

The current tax charge for the period is higher *(2004: lower)* than the standard rate of corporation tax in the Falkland Islands 25% *(2004: 32.5%)*. The difference can be explained below:

	2005 £'000	2004 £'000
Current tax reconciliation:		
Profit on ordinary activities before tax	898	847
Current tax at 25% *(2004: 32.5%)*	225	275
Expenses not deductible for taxation purposes	15	16
Depreciation for the period in excess of capital allowances	36	–
Marginal rate on overseas tax earnings	32	(12)
Adjustments to tax charge in respect of previous periods	(31)	(24)
Total current tax	277	255

6 Dividend

	2005 £'000	2004 £'000
Proposed final dividend 6.0p *(2004: 5.75p)*	520	351

7 Earnings per share

Earnings per share has been calculated on profit after tax of £589,000 *(2004: £592,000)* and based on the weighted average number of shares in issue, excluding shares held in the Employee Share Ownership Plan, of 7,336,298 *(2004: 6,095,037)*. The fully diluted earnings have been further adjusted by the dilutive outstanding share options resulting in a weighted average number of shares of 7,427,648 *(2004: 6,322,547)*.

	2005 Number	2004 Number
Allotted called up and fully paid – Ordinary shares of 10p each	7,391,715	6,170,037
Less: shares held under ESOP (note 19)	(55,417)	(75,000)
	7,336,298	6,095,037
Maximum dilution re share options (including ESOP)	91,350	227,510
Diluted weighted average number of ordinary shares in issue	7,427,648	6,322,547

8 Employment costs including Directors

	2005 £'000	2004 £'000
Wages and salaries	2,423	2,066
Social security costs	128	83
Other pension costs	187	163
	2,738	2,312

Details of Directors' remuneration are included within the Directors' Report, under the headings 'Remuneration' and 'Details of Directors' remuneration and emoluments' on pages 18 and 19.

	2005	2004
Average number of persons employed:		
United Kingdom	53	8
Falkland Islands	85	112
	138	120

9 Intangible assets

	Goodwill £'000	Expedition expenditure £'000
As at 1 April 2004	–	89
On acquisition	4,201	–
Transferred to investments (note 11)	–	(89)
	4,201	–
Amortised to profit and loss account	(65)	–
Balance at 31 March 2005	4,136	–

The exploration expenditure was incurred by The Falkland Hydrocarbon Consortium, a joint arrangement that is not an entity in which the Group had a 20% interest. The expenditure related to offshore exploration to the South and East of the Falkland Islands. During the year the interest in The Falkland Hydrocarbon Consortium was exchanged for an 18.1% interest in Falkland Oil and Gas Limited, a company listed on the Alternative Investment Market. This interest is included in Investments, see note 11.

Notes to the Financial Statements

CONTINUED

10 Tangible fixed assets of the Group

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Ships £'000	Vehicles plant and equipment £'000	Total £'000
Cost:					
At 1 April 2004	3,251	342	–	2,047	5,640
Acquisitions	1,298	–	2,391	453	4,142
Additions	195	–	933	115	1,243
Disposals	–	–	(144)	(22)	(166)
At 31 March 2005	4,744	342	3,180	2,593	10,859
Accumulated depreciation:					
At 1 April 2004	619	36	–	1,433	2,088
Charge for the period	86	7	16	183	292
Disposals	–	–	–	(22)	(22)
At 31 March 2005	705	43	16	1,594	2,358
Net book value:					
At 31 March 2005	4,039	299	3,164	999	8,501
At 31 March 2004	2,632	306	–	614	3,552

Included in freehold land and buildings is land stated at £948,000 *(2004: £782,000)* which is not depreciated.
The Company has no tangible fixed assets.

11 Fixed asset investments

	Group		
	Investment in joint venture and associate £'000	Other investments £'000	Total £'000
As at 1 April 2004	189	–	189
Additions in the year	–	622	622
Transfers from joint venture to 'other investments'	(189)	189	–
Transferred from intangible assets (note 9)	–	89	89
As at 31 March 2005	–	900	900

The investments are shown at cost at the balance sheet date. The joint venture investment in the opening balance sheet is Falkland Gold and Minerals Limited (FGML), a company incorporated in the Falkland Islands. At the beginning of the year the Company had 22.5% of the issued ordinary shares of £1 each. The main activity of FGML was exploration for minerals on the Falkland Islands.

In addition to FGML, in June 2004, the Company transferred its interest in an oil exploration joint arrangement, The Falkland Hydrocarbon Consortium, into ownership of 28.9% of the issued ordinary shares of a newly formed company, Falkland Oil and Gas Limited (FOGL), a company incorporated in the United Kingdom. The main activity of FOGL is offshore exploration for oil and gas in the Falkland Islands.

Subsequently both FGML and FOGL have been admitted to the Alternative Investment Market. In addition to the transfer of the previous investments, the Group acquired £0.6 million of shares for cash in these entities in the year. As a result of the placings the effective equity interest held by The Falkland Islands Company Limited in both has reduced.

At the year end the Company had a 14.4% interest in the issued share capital of FGML and an 18.1% interest in the issued share capital of FOGL.

The market value of these investments at 31 March 2005 was: Falkland Gold and Minerals Limited £4.3 million and Falkland Oil and Gas Limited £17.1 million.

11 Fixed asset investments CONTINUED

	Company Investment in Group undertakings £'000
As at 1 April 2004	8,000
Acquired during the year	8,425
Disposed of during the year	(428)
As at 31 March 2005	15,997

During the year the Company acquired a 100% interest in The Portsmouth Harbour Ferry Company PLC (PHFC), see note 23. During the year the Company also purchased investments in FOGL and FGML for £900,000 from a Group company. The disposal relates to a transfer of an investment in a subsidiary company to a fellow subsidiary company.

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%	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% indirect	Shipping services between the United Kingdom and the Falkland Islands
The Portsmouth Harbour Ferry Company PLC	Ordinary shares of £1	100%	Ferry services and travel agency in the United Kingdom
Portsea Harbour Company Limited	Ordinary shares of £1	100% indirect	Statutory harbour authority
Clarence Marine Engineering Limited	Ordinary shares of £1	100% indirect	Marine and engineering maintenance
Gosport Ferry Limited	Ordinary shares of £1	100% indirect	Passenger ferry operator
Cobham Travel Service Limited	Ordinary shares of £1	100% indirect	Travel Agency

12 Stocks

	Group	
	2005 £'000	2004 £'000
Goods for resale	3,308	3,079

Notes to the Financial Statements

CONTINUED

13 Debtors

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Amounts falling due within one year:				
Trade debtors	1,310	1,071	–	–
Amounts owed by subsidiary undertakings	–	–	1,315	756
Hire purchase receivables	86	100	–	–
Corporation tax	33	–	168	–
Other debtors	38	50	26	14
Prepayments and accrued income	321	115	–	–
	1,788	1,336	1,509	770
Amounts falling due after more than one year:				
Hire purchase receivables	24	42	–	–
	1,812	1,378	1,509	770

The cost of assets acquired for the purpose of letting under hire purchase agreements by the Group during the period amounted to £125,000 *(2004: £124,000)*.

The aggregate rentals receivables during the period in respect of hire purchase agreements were £190,000 *(2004: £214,000)*.

14 Creditors: amounts falling due within one year

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans and overdrafts (note 16)	472	250	480	1,575
Trade creditors	2,506	3,185	–	–
Other creditors including taxation and social security	598	150	178	18
Corporation tax	427	282	–	–
Accruals and deferred income	1,373	576	260	109
Dividends payable	502	355	502	355
Unsecured loan notes (note 16)	43	–	43	–
	5,921	4,798	1,463	2,057

Within other creditors is tax and social security of £11,000 *(2004: £13,000)*.

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

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans	746	–	700	–
Unsecured loan notes	85	–	85	–
	831	–	785	–

16 Borrowings, derivatives and other financial instruments

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
The bank loans, overdrafts and unsecured loan notes are repayable as follows:				
Within one year	(515)	(250)	(343)	(250)
Between one and two years	(389)	–	(343)	–
Between two and five years	(442)	–	(442)	–
	(1,346)	(250)	(1,128)	(250)
Cash/(overdraft)	914	1,183	(180)	–
Net (debt)/funds	(432)	933	(1,308)	(250)

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 £1.6 million overdraft facility.

Cash	Company	
	2005 £'000	2004 £'000
Cash comprises:		
Short term money markets	250	937
Cash held in sterling accounts	610	158
Cash held in foreign currency accounts	54	88
	914	1,183

Interest rate risk

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 1.6% per annum above LIBOR. The interest on the bank 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 2005 the Group had contracts outstanding to purchase foreign currency amounting to £nil *(2004: £nil)*.

Fair value of financial instruments

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

Notes to the Financial Statements

CONTINUED

17 Provisions for liabilities and charges

	2005 £'000	2004 £'000
Pensions	1,383	1,057
Deferred tax	512	100
As at 31 March	1,895	1,157

Pensions	2005 £'000	2004 £'000
As at 1 April	1,057	1,030
Acquisition	290	–
Charge to profit and loss account	120	113
Less pensions paid in the period	(84)	(86)
Balance at 31 March	1,383	1,057

The acquisition relates to a closed defined benefit scheme held within the new Group subsidiary, The Portsmouth Harbour Ferry Company PLC. An actuarial report at 31 March 2005 valued the deficit in this scheme at £290,000. The current year end is the only year in which actuarial information has been made available, therefore no historical data has been disclosed. The major assumptions in this FRS 17 valuation were:

	2005 %
Rate of increase in salaries	3.5
Rate of increase in pensions payments	3.0
Discount rate applied to scheme liabilities	6.5
Inflation rate	2.5

The assumptions used by the actuary are those indicated by management from a range of possible actuarial assumptions which, due to 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 2005 £'000
Present value of scheme liabilities	(290)
Related deferred tax assets	87
Total present liability (net of deferred tax)	(203)
Amount provided (net of deferred tax)	203
Unprovided pension liability	–

17 Provisions for liabilities and charges CONTINUED

	2005 £'000
Movement in deficit during the year:	
Deficit in scheme at beginning of year (net of deferred tax)	(281)
Contributions paid	3
Other finance cost	(12)
Deficit in the scheme at end of year (net of deferred tax)	(290)

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

	2005 £'000
Analysis of amounts included in other finance costs:	
Interest on pension scheme liabilities	(12)

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 provision in the financial statements is based on the latest valuation undertaken by a professionally qualified actuary, Lane Clark and Peacock LLP, which was carried out on 31 March 2005 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:

	Per annum %
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 updated by the actuary on an FRS 17 basis as at 31 March 2005, 31 March 2004, 31 March 2003 and 31 March 2002. The major assumptions in this valuation were:

	2005 %	2004 %	2003 %	2002 %
Rate of increase in salaries	3.5	3.5	3.5	4.5
Rate of increase in pensions payments	3.0	3.0	3.0	3.0
Discount rate applied to scheme liabilities	6.5	6.5	6.5	6.5
Inflation rate	2.5	2.5	2.5	2.5

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

Notes to the Financial Statements
CONTINUED

17 Provisions for liabilities and charges CONTINUED
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 2005 £'000	Value at 2004 £'000	Value at 2003 £'000	Value at 2002 £'000
Present value of scheme liabilities	(1,464)	(1,386)	(1,435)	(1,460)
Related deferred tax assets	475	450	467	470
Total present liability (net of deferred tax)	(989)	(936)	(968)	(990)
Amount provided (net of deferred tax)	738	714	684	673
Unprovided pension liability	(251)	(222)	(284)	(317)

The amount of this unprovided pension liability would have a consequential effect on reserves.

	2005 £'000	2004 £'000	2003 £'000
Movement in deficit during the year:			
Deficit in scheme at beginning of year (net of deferred tax)	(936)	(968)	(990)
Current service cost	(20)	(19)	(20)
Contributions paid	120	113	114
Other finance cost	(91)	(94)	(94)
Deferred tax movement	25	(17)	(3)
Actuarial (loss)/gain	(87)	49	25
Deficit in the scheme at end of year (net of deferred tax)	(989)	(936)	(968)

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

	2005 £'000	2004 £'000	2003 £'000
Analysis of pension cost in arriving at operating profit:			
Current service cost	20	19	20
Analysis of amounts included in other finance costs:			
Interest on pension scheme liabilities	91	94	94
Analysis of amount recognised in statement of total recognised gains and losses:			
Actuarial (loss)/gains on changes in assumptions recognised in statement of total recognised gains and losses	(87)	49	25

The Company operates a defined contribution scheme to which in the year to 31 March 2005, the Company contributed £55,000 *(2004: £49,000)*. There were no outstanding contributions payable at the year end.

17 Provisions for liabilities and charges CONTINUED

Deferred taxation	2005 £'000	2004 £'000
Provision for deferred tax liability	512	100
Balance at 31 March	512	100

	2005 £'000	2004 £'000
Falkland Islands Company		
Deferred tax asset relating to pension scheme	(283)	(277)
Deferred tax liability relating to accelerated capital allowances	383	377
	100	100
Portsmouth Harbour Ferry Company		
Deferred tax asset relating to pension scheme	(87)	–
Deferred tax liability relating to accelerated capital allowances	499	–
	412	–
Total deferred tax provision	512	100

18 Called up share capital

	Group and Company	
	2005 £'000	2004 £'000
Authorised:		
10,000,000 *(2004: 8,250,000)* Ordinary shares of 10p each	1,000	825
Allotted, called up and fully paid:		
8,379,480 *(2004: 6,170,037)* Ordinary shares of 10p each	838	617

A total of 320,000 shares were issued during the year as part of the consideration in the acquisition of The Portsmouth Harbour Ferry Company PLC. A further 1.8 million shares were issued for cash to fund this acquisition. As a result of these transactions, share premium was uplifted by £7 million (note 19).

A total of 160,075 *(2004: 251,300)* Executive share options had been granted at the balance sheet date, all have conditions attached as disclosed in the Executive share options scheme section of the Directors' Report under the heading 'Remuneration', page 18.

In addition, there were 84,132 *(2004: 89,864)* share options outstanding under the Company's Saving Related Share Option Scheme at 31 March 2005. These options have an exercise price of 175p and are exercisable on or after 1 April 2006.

Notes to the Financial Statements

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19 Reserves

Group	Share premium account £'000	Other reserves £'000	Reserves for own shares £'000	Profit and loss account £'000	Total £'000
At 1 April 2004	54	703	(112)	2,253	2,898
Premium on shares issued in the year, net of expenses	7,007	–	–	–	7,007
Retained profit for the year	–	–	–	69	69
Sale of own shares	–	–	29	83	112
At 31 March 2005	7,061	703	(83)	2,405	10,086

Cumulative goodwill written off to reserves in prior periods was £4,686,000. This goodwill arose on a 100% share-for-share exchange. The acquisition 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 2005 the plan held 55,417 *(2004: 75,000)* ordinary shares at an average cost of £83,000 *(2004: £112,000)*. The market value of the shares at 31 March 2005 was £331,000 *(2004: £171,000)*. Options described in the Directors' Report over these shares are exercisable at prices of 139.5p, 150p and 520p from 2003 to 2011. Shares held under ESOP have had their rights to dividends waived, as in prior years.

Company	Share premium account £'000	Other reserves £'000	Reserves for own shares £'000	Profit and loss account £'000	Total £'000
At 1 April 2004	54	5,389	(112)	765	6,096
Premium on shares issued in the year, net of expenses	7,007	–	–	–	7,007
Retained profit for the year	–	–	–	1,205	1,205
Sale of own shares	–	–	29	83	112
At 31 March 2005	7,061	5,389	(83)	2,053	14,420

A profit of £1,725,000 *(2004: £444,000)* has been dealt with in the account 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 in shareholders' funds

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Profit for the financial year	589	592	1,725	444
Dividends	(520)	(351)	(520)	(351)
Issue of shares	7,228	–	7,228	–
Sale of own shares	112	–	112	–
Net addition to shareholders' funds	7,409	241	8,545	93
Opening shareholders' funds	3,515	3,274	6,713	6,620
Closing shareholders' funds	10,924	3,515	15,258	6,713

21 Operating lease commitments

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

	Group			
	2005		2004	
	Land and buildings £'000	Other operating leases £'000	Land and buildings £'000	Other operating leases £'000
Operating leases which expire:				
Within one year	–	3	–	8
In the second to fifth years inclusive	30	21	30	14
Over five years	26	–	–	–
	56	24	30	22

The Company had no operating lease commitments.

22 Capital commitments

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Contracted amounts not provided in these financial statements are:	130	16	–	–

Notes to the Financial Statements

CONTINUED

23 Purchase of subsidiary

	Book value £'000	Fair value adjustments £'000	Total £'000
Net assets acquired			
Tangible fixed assets	3,698	444	4,142
Debtors	146	–	146
Taxation recoverable	133	(116)	17
Cash at bank and in hand	429	–	429
Creditors	(570)	(240)	(810)
Bank overdrafts	(52)	–	(52)
Loans and finance leases	(168)	–	(168)
Deferred taxation	(452)	72	(380)
Net assets acquired			3,324
Goodwill			4,201
			7,525
Satisfied by			
Shares allotted			1,658
Cash			5,739
Loan notes			128
			7,525

The fair value adjustments made are as follows:

- a revaluation of the tangible fixed assets of the subsidiary, as confirmed by a professional valuation. The revaluation was in respect of land and buildings;
- provision for taxation payable;
- provision for a deficit on a defined benefit pension scheme as calculated by a qualified actuary (note 17); and
- deferred taxation in respect of the deficit on the defined benefit pension scheme.

Directors and Corporate Information

Directors

David Hudd *Chairman*
Bryan McGreal *Managing Director*
John Foster *Deputy Managing Director*
Anthony Knightley *Finance Director*
Leonard Licht*
Sir Harry Solomon*

**Non-executive Directors*

Web site

www.fihplc.com

Corporate information

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Web site: www.the-falkland-islands-co.com

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Auditor
KPMG Audit Plc
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London SW1H 0BL

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Capita Registrars
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Financial PR
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Nominated Adviser
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Senior Staff in the Falkland Islands

Roger Spink *Senior Director and General Manager*
David Castle *Retailing Director*
Ana Crowie *Financial Controller*

Senior Staff at Portsmouth Harbour Ferry Company

Mike Killingley *Non-executive Chairman*
Captain Paul Bryant *General Manager*

Printed by Royle Corporate Print, London

www.fihplc.com

Falkland Islands Holdings