



Falkland Islands Holdings plc
Annual Report 2006

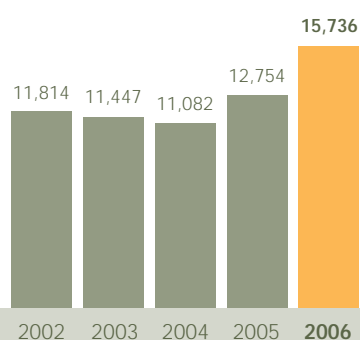


Financial Highlights

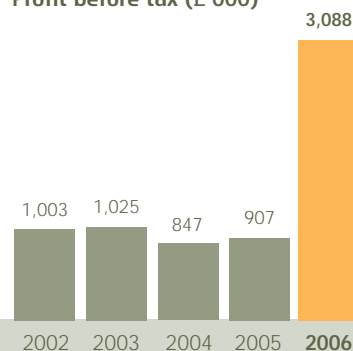
	2006 £'000	2005 £'000	Change %
Turnover	15,736	12,754	23
Profit before tax	3,088	907	240
Underlying profit before tax, goodwill amortisation, exceptional items and profit on sale of fixed asset investments	1,560	972	60
Basic earnings per share before goodwill amortisation and exceptional items as above	12.7p	9.1p	39.6
Dividend per share	6.5p	6.0p	8.3
Cash flow from operations	1,665	777	114
Net asset value per share at cost	153.3p	128.8p	19.0
Net asset value per share with investments in FOGL and FGML shown at market value	400.2p	373.4p	7

The investments in Falkland Oil and Gas (FOGL) and Falkland Gold and Minerals (FGML) are shown in the financial statements at their cost of £2.6 million. Both companies are listed on AIM and the market value of the Group shareholdings at 31 March 2006 was £23.3 million.

Turnover (£'000)

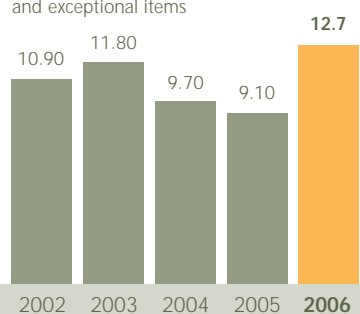


Profit before tax (£'000)

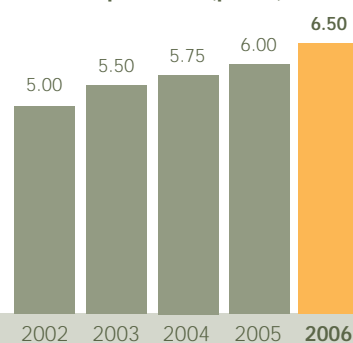


Basic earnings per share (pence)

before goodwill amortisation
and exceptional items



Dividend per share (pence)



Chairman's and Managing Director's Review of Operations

Overview

We are pleased to report that the year to 31 March 2006 has been an encouraging year for your Company and record levels of profitability have been achieved as the Group successfully consolidated its position following the strategic expansion seen in the prior year. The Group now has two solid cash generative businesses providing essential services to local communities. The Falkland operations produced a satisfactory result despite subdued levels of activity in the Islands, while the Portsmouth Harbour Ferry Company ("PHFC") benefited from the maritime festivals held in 2005.

Falkland Oil and Gas ("FOGL") and Falkland Gold and Minerals ("FGML") in which the Company has significant shareholdings of 16.3% and 14.4% respectively, continued their exploration efforts. FOGL raised a further £10 million from investors in May 2005 and we subscribed £2 million in that placing. We took the opportunity in February 2006 of recouping that cash outlay when we sold 1.8 million shares generating proceeds of £2.4 million and a profit of £2.1 million. This transaction increased the Group's distributable reserves and provides additional financial flexibility. At the end of the year the Group had net cash balances of £0.3 million (2005: borrowings £0.4 million) and the market value of its two investments was £23.3 million, equivalent to 278 pence per FIH share, compared with book cost of £2.6 million.

The Group now has a solid operating platform and a strong cash position from which to move forward and the exploration investments will provide an exceptional return in the event of a successful outcome. Your Board will seek to continue to deliver value to shareholders and as such is proposing to increase the annual dividend by 8.3% from 6p to 6.5p.

Financial summary

In the year to 31 March 2006 turnover rose by 23% to £15.7 million (2005: £12.8 million) and the profit before taxation including exceptional items increased to £3.1 million (2005: £0.9 million). Underlying profits before the amortisation of goodwill and exceptional items, including a first full year contribution from PHFC, rose by 61% to £1,560,000 (2005: £972,000).

Basic earnings per share rose to 32.6 pence (2005: 8.2p). Basic earnings per share on underlying profits increased 40% to 12.7 pence per share (2005: 9.1p). Further information on the Group's financial performance is contained in the enhanced Director's Report on pages 8 to 22.

Operations

Falkland Islands

Retail sales on the Islands were helped by the introduction of a new in-store delicatessen and coffee shop and further expansion of the product range. The steady increase in the number of cruise ship visitors visiting Stanley also helped to boost revenues at the Capstan gift shop. However, in contrast the Group's DIY retailing businesses suffered from the slow down in the local economy and a reduction in business confidence resulting from continued low levels of squid catches at the start of the year.

After a good year in 2005, the Land Rover dealership had a more difficult year and the numbers of vehicle sales fell although a contract to modify existing MoD vehicles helped the dealership achieve satisfactory results. The Upland Goose hotel faced fierce challenges from newly refurbished competition in Stanley and produced a disappointing result, accordingly we have taken the decision to reduce its carrying value by £0.4 million.

On a more positive note the Group's insurance agency continued to make steady progress, consolidating its reputation for high levels of customer service and net rental income from FIC's portfolio of 35 commercial and residential properties in Stanley also moved ahead. Darwin Shipping was able to maintain its contribution despite rising freight and fuel costs by changing from chartering its own vessels to taking space on Ministry of Defence Supply vessels which give the added advantage of more frequent vessel sailings per year, giving improved service levels and choice for customers.

Port Services continued to make an important contribution although profit levels fell slightly in the face of local competition. With poor squid catches in the early part of the financial year the Fishing Agency business only made a modest contribution. However the Agency team

“2005/6 saw a steady increase in the number of cruise ship visitors visiting Stanley.”



Capstan gift shop



Central Stanley showing West Store supermarket and Capstan gift shop

The Falkland Islands Company



Cruise ship in Stanley Harbour



West Store supermarket



Stanley's latest tourist attraction

Chairman's and Managing Director's Review of Operations

CONTINUED



The Portsmouth Harbour Ferry Company

“Maintaining the highest levels of service and passenger safety.”



were instrumental in developing a new tourist focussed business stream. This comprises Mini Bus tours for cruise line passengers and a former London double decker Routemaster bus which now runs along the sea front providing visitors with a unique view of Stanley. Further growth is expected from these tourist services in future years.

Portsmouth Harbour Ferry Company

PHFC's continuing ferry revenues of £3.3 million were in line with expectations. Passenger numbers declined marginally on the previous year as the effects of the introduction of parking charges in Gosport were felt. However revenues were buoyed by increased activity around Portsmouth Harbour linked to the *International Fleet Review* and *Festival of the Sea* in June and July 2005.

In May 2005 PHFC took delivery of a new ferry vessel, *Spirit of Portsmouth* at a total cost of £1.9 million underlining the commitment of the Company to modernising its fleet and maintaining the highest levels of service and passenger safety. The cost of the ferry was substantially paid last year.

Exploration Activities

Falkland Gold and Minerals Limited (FGML)

FIH 14.4% shareholding (2005: 14.4%)

FGML is now well into the second year of its exploration programme in the Falklands with its operational base at Goose Green. The work programme has been designed to establish the source of alluvial gold discovered in some of the streams in the Islands. As most of the target areas are covered with peat, the initial drilling targets were identified from the aero magnetic survey and this has been followed up by focused ground magnetic surveys.

By the end of May 2006, total investigative drilling totalled over 14,000m on ten targets while a further 8,000m is planned on seven further targets. In addition, geochemical peat soil sampling will be carried out on two additional areas of interest. It is now probable that the additional work resulting from increased knowledge of the subsurface terrain will extend the work programme well into 2007.

The British Geological Survey has recently completed a review of the methodology employed and the exploration work carried out to date. FGML is retaining their services to provide additional interpretative capacity as more data becomes available.

The market value of the Group's shareholding of 11,250,000 shares in FGML (14.4%) at 31 March 2006 was £1.8 million (*book value: £0.2 million*).

Falkland Oil and Gas Limited (FOGL)

FIH 16.3% shareholding (2005: 18.1%)

FOGL has continued to make good progress in acquiring and analysing data over its 79,000 sq km licence area to the South and East of the Falklands, in order to define and prioritise targets for drilling. Over the Austral Summer a further 13,000 km of 2D seismic was acquired bringing the total recorded by FOGL to 22,450 km.

The scale of the opportunity for FOGL is such that it became clear to the FOGL board that it was necessary to increase management resources in the UK to cope with the work load. In January 2006, Tim Bushell joined as Chief Executive succeeding John Armstrong who had served as Executive Chairman since the formation of the Company. At the same time John, who will remain on the board, was succeeded as non-executive Chairman by Richard Liddell. Tim is a qualified geologist and has spent the last 10 years developing the exploration and production interests of Paladin Resources in Norway. Prior to this he was responsible for LASMO's South Atlantic interests which included the exploration campaign in the North Falklands Basin in 1998.

Discussions are continuing with possible partners while further analysis and interpretation of data continues. The technical data continues to indicate that a major new petroleum province could lie within the licence area. The current short term objective is to plan and contract for the exploration effort over the next Austral Summer.

In February 2006 in order to provide the Group with additional financial flexibility FIH sold 1.8 million shares in FOGL generating proceeds of £2.4 million and a profit of

Chairman's and Managing Director's Review of Operations

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£2.1 million. The market value of the Group's remaining shareholding of 15 million shares at 31 March 2006 was £21.5 million (*book value: £2.4 million*).

People

On 10 June 2005 John Foster, was appointed Managing Director succeeding Bryan McGreal who had been with the Group since 1987. John is a Chartered Accountant with wide commercial and financial experience and has held directorships in a number of UK listed companies.

On 31 March 2006 Anthony Knightley retired from the Board after many years with the Group first as Company Secretary and then latterly as Finance Director. The Board would like to thank Anthony for his contribution to FIH. FIH's Group Financial Controller Mike West was appointed Company Secretary on 1 April 2006.

On 26 July 2005, Mike Killingley was appointed as a non-executive Director to the Board of FIH. Mike is also Chairman of the PHFC board, is a former Partner with KPMG and is Chairman of Beale Plc and Conder Environmental PLC.

Finally we would like to thank the staff and employees of the FIH Group both in the Falklands and in the UK for their contribution and hard work over the past year. As a Group focused on providing essential services to local customers the care and dedication shown by our staff in delivering these services underpins the continued success of your Company.

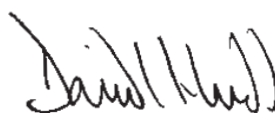
Outlook

As we noted last year our strategy is to ensure that the future of your Company is not wholly dependent upon our investments in the listed Falkland exploration

companies. The PHFC acquisition was the first step towards building a meaningful business outside the Falklands and we remain keen to identify UK based companies for acquisition, subject to them enhancing the underlying value of FIH shares.

As we start the new financial year the general backdrop to trading in the Falklands has improved and this should help underpin modest growth in the current year. The outlook for PHFC also remains stable although the absence of the maritime festivals this summer will mean that the contribution from the ferry business will fall back from the record levels seen in 2005/6.

Prospects for the Falklands over the medium term remain positive as expenditure on oil and mineral exploration activities continues. We remain confident that the Group's solid level of underlying profitability will be maintained in the current year.

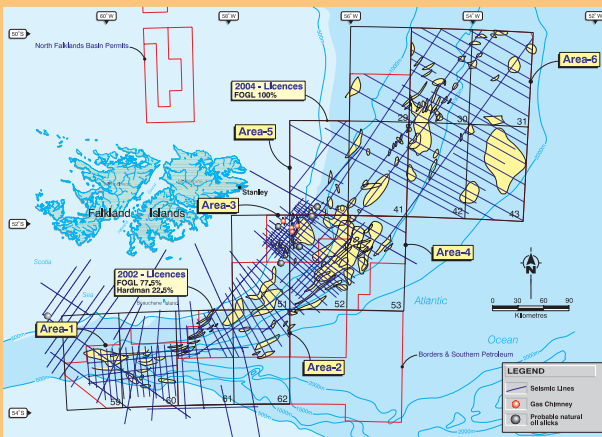


David Hudd
Chairman



John Foster
Managing Director
3 July 2006

Falkland Oil and Gas Limited



FOGL licence areas

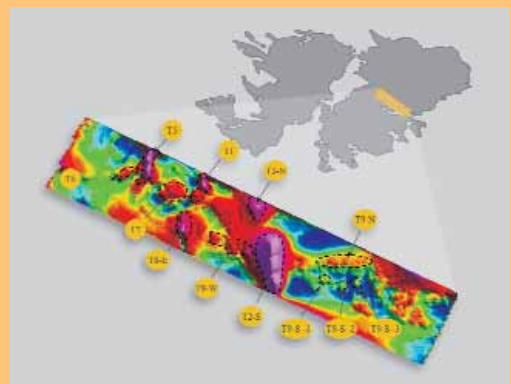


The seismic survey vessel GSI Admiral



FGML drill set for sub-peat soil sampling

Falkland Gold and Minerals Limited



Detailed magnetic image of prospect location Area 6

Financial Review

Summary

Turnover for the FIH Group for the year ended 31 March 2006 rose by 23% to £15.7 million (2005: £12.8 million) and turnover from continuing operations increased by £3 million to £15.2 million. Sales in the Group's Falkland Islands operations (FIC) increased marginally by 3.8% to £11.9 million (2005: £11.5 million) and revenue from the Group's continuing ferry operations at PHFC, which contributed for a full year (2005: 16 weeks) increased by £2.6 million to £3.3 million (2005: £0.7 million).

After allocating head office costs and interest payable which are integral to the management of the Group's operating businesses, underlying pre-tax profits attributable to FIH's Falklands business, fell slightly in the year from £908,000 to £893,000. Underlying pre tax profits attributable to the Group's ferry operations at PHFC rose to £667,000 (2005: 3½ months £64,000).

Exceptional costs of £487,000 (2005: *Nil*) were incurred due to a write down in the carrying value of the Upland Goose hotel, discussed in more detail below and a compensation payment made to a director for loss of office.

The effective tax rate was 12.1% (2005: 33.8%).

Cash Flow

Net cash flow from operating activities rose sharply from the £0.8 million in 2005 to £1.7 million in the year ended 31 March 2006 reflecting the increase in the Group's underlying profitability.

Net interest paid amounted to £165,000 (2005: £16,000 receivable) as borrowings increased to finance the £2 million further investment in FOGL shares in May 2005. Tax payments rose to £391,000 from £273,000 in the year in line with the increase in profit levels.

During the year the Group invested £505,000 in capital expenditure to maintain and enhance the infrastructure

of its operating businesses and to add new capacity in growth areas (eg tourist mini buses in Stanley) and in May 2005 the Group made a further investment of £2 million in FOGL to help finance an acceleration of the oil exploration company's seismic survey programme.

In February 2006 the Group was able to realise £2.4 million from the sale of a 2% stake in FOGL adding to the proceeds already received earlier in the year from the sale of its Cobham Travel subsidiary.

After paying dividends in November 2005 of £502,000 (2004/5: £372,000) the Group enjoyed a net cash inflow before financing of £0.72 million (2005: outflow £7.1 million).

During the year, the Group repaid £0.6 million of existing borrowings and drew down a boat mortgage of £1.9 million, repayable over 10 years, to finance the cash cost of the new ferry vessel *Spirit of Portsmouth* which came into service in May 2005. Further loans of £0.7 million were drawn down to help fund capital expenditure. The total of new loans drawn down in the year amounted to £2.6 million and at 31 March 2006 the Group's borrowings amounted to £3.3 million.

The Group ended the year in a strong financial position with cash balances of £3.6 million and unutilised banking facilities of a further £2.3 million. After taking account of £3.3 million of borrowings at 31 March 2006 the Group had net cash balances of £0.3 million (2005: net borrowings £0.4 million).

Balance Sheet

Intangible assets of £4.0 million (2005: £4.1 million) relate principally to goodwill created on the acquisition of PHFC in December 2004 which is being amortised over a period of 20 years.

Tangible fixed assets decreased to £8.0 million (2005: £8.5 million) as the carrying value of the Upland Goose

hotel was reduced by £382,000 to reflect its commercial value. During the year fixed asset additions of £505,000 compared to underlying depreciation of £456,000 (prior to the £382,000 exceptional write down at the Upland Goose).

Stocks were reduced following the introduction of the more regular freight shipments via EXEL and stock levels at year end fell from £3.3 million to £3.1 million in the prior year. Trade debtors decreased in the year by £225,000 to £1.1 million but an increase in corporation tax and other debtors meant that total debtors remained unchanged at £1.8 million.

Creditor balances due within one year fell from £5.4 million in March 2005 to £4.8 million as the level of extended credit taken from suppliers was reduced. Creditor balances due after one year increased from £0.8 million at 31 March 2005 to £2.8 million as the

Group drew down medium and long term loans to finance capital expenditure.

Provisions for liabilities and charges relate to deferred tax balances on accelerated capital allowances and other timing differences; these remained largely unchanged at £0.9 million (2005: £0.9 million). Long term liabilities due under the Group's defined benefit pension schemes in both the UK and the Falkland Islands are shown net of deferred tax. Both these schemes have been closed to new members for many years (see note 20 on page 40). During the year the level of these liabilities increased, reflecting the use of updated assumptions on life expectancy and long term discount rates.

Shareholders funds grew in the year from £10.8 million to £12.9 million. Net assets per share at cost were 153.3 pence per share (2005: 128.8 pence per share).

Group Activities

Falkland Islands Holdings has two principal operating businesses and substantial shareholdings in two AIM quoted companies.

Operating Businesses

The Falkland Islands Company (FIC)

FIH 100% shareholding

The Group's 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 growing number of 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 logistical 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. Income from the sale of squid licences is a key driver of the Falklands economy.

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 85 vessels in 2005/6. FIC also has the capacity to provide maintenance and repair services and provides 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.

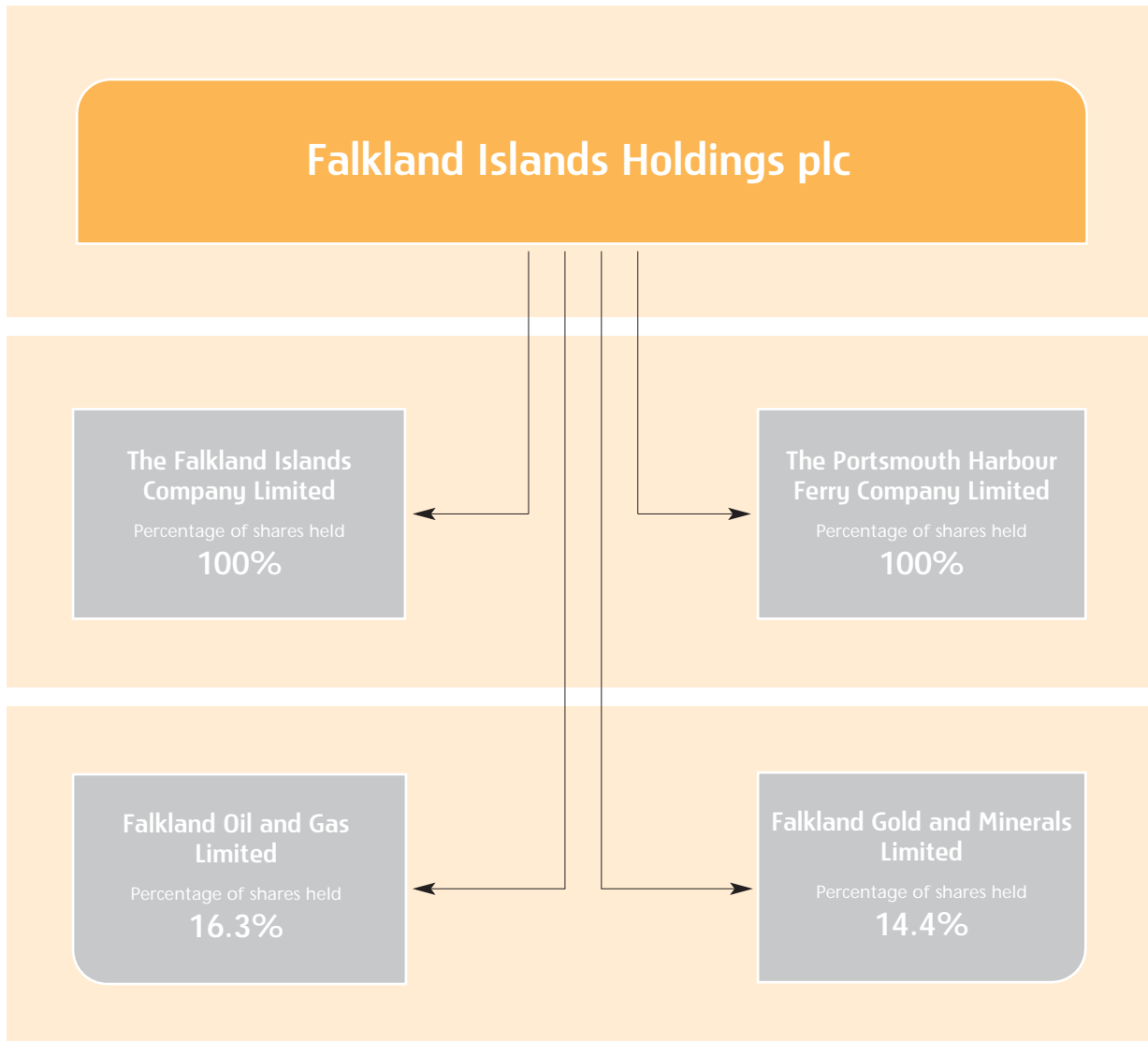
Property, Insurance and Port Services

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.

Darwin Shipping

FIC provides shipping services to the Falkland Islands and working with the UK Ministry of Defence and its contractor EXEL, Darwin supplies the Islands with a



regular shipment 10 times a year. Darwin's service is used both by FIC's own operations and by independent businesses and private individuals.

The Portsmouth Harbour Ferry Company Limited (PHFC)

FIH 100% shareholding

The Portsmouth Harbour Ferry Company (PHFC) has a history almost as long as that of The Falkland Islands Company. Incorporated in 1884 the business has provided a passenger ferry service across the mouth of Portsmouth Harbour from Gosport to Portsmouth 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 18½ hours a day from 5.30am until midnight, crossing the harbour every 7½ minutes in peak periods. The ferry service operates 363 days a year and in calendar 2005 carried almost 4 million passengers.

Group Activities

CONTINUED

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 relatively good condition but in 2005 the Company took delivery of a new ferry, *Spirit of Portsmouth*, which is capable of carrying 300 passengers and of doubling as a pleasure cruiser in summer and for special events, weddings, parties and corporate entertaining.

Falkland Gold and Minerals Limited (FGML)

FIH 14.4% shareholding

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

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 2006 of £1.8 million.

Falkland Oil and Gas Limited (FOGL)

FIH 16.3% shareholding

Falkland Oil and Gas Limited (FOGL) was incorporated in 2004 and is quoted on AIM. The Company has licences over 79,000 sq km in the South and East Falklands basin and is currently progressing its seismic programme designed to identify and prioritise targets for drilling.

At 31 March 2006 the Group held 15,000,000 FOGL shares with a market value of £21.5 million.

In addition to FOGL there are a number of other companies exploring for oil and gas around the Falkland Islands including three other AIM listed companies: Desire Petroleum, Borders and Southern Petroleum and Rockhopper Exploration. Any oil or gas production would have a dramatic impact on the economy of the Falkland Islands and FIC would be a major beneficiary of this.

Board of Directors and Secretary

David Hudd (61) Chairman

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 Betcorp Limited, and non-executive Deputy Chairman of both Falklands Oil and Gas Limited and Falkland Gold and Minerals Limited.



John Foster (48) 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.



Leonard Licht (61) Non-executive Director

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, Remuneration and Audit Committees and is the senior independent non-executive Director.

Sir Harry Solomon (69) Non-executive Director

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.

Mike Killingley (55) Non-executive Director

Mike was appointed to the Board on 26 July 2005, having previously been appointed non-executive Chairman of the Portsmouth Harbour Ferry Company Limited, following the Company's successful bid. He is a Chartered Accountant and was a partner of KPMG (and predecessor firms) from 1984 to 1998. He is currently non-executive Chairman of Beale plc, a listed Company, and non-executive Chairman of Conder Environmental plc, an AIM listed Company, as well as a non-executive director of several private companies. Until 2005 he was non-executive Chairman of Southern Vectis plc which was an AIM listed Company. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

Mike West (45) Company Secretary

Mike is a fellow of the Association of Chartered Certified Accountants and associate of the Institute of Chartered Secretaries and Administrators and was appointed Company Secretary on 1 April 2006.

Bryan McGreal and Anthony Knightley served as directors during the year. Bryan McGreal retired on 25 July 2005 and Anthony Knightley retired on 31 March 2006.

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 2006. 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 pages 24 and 34. The Group profit for the year after taxation amounted to £2,714,000 (2005: £601,000). Basic earnings per share were 32.6p (2005: 8.2p). The Directors recommend the payment of a dividend of 6.5p (2005: 6.0p) per share which, if approved by the shareholders at the forthcoming Annual General Meeting, will be paid on 3 November 2006 to shareholders on the register at the close of business on 6 October 2006. This has not been included within creditors as it was not approved before the year end. Dividends paid during the year comprise a dividend of 6.0p per share in respect of the previous year ended 31 March 2005.

Principal activities and business review

The business of the Group during the year ended 31 March 2006 was general trading in the Falkland Islands and the operation of a passenger ferry service across Portsmouth Harbour. The principal activities of the Group were ferry operations in the UK, retail and wholesale distribution, servicing the fishing industry, port operation, shipping, automotive, financial services, hotel and commercial accommodation in the Falkland Islands, 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 and Managing Director's Review of Operations and in the Financial Review and Group Activities on pages 2 to 12 and should be considered as part of the Directors' Report for the purposes of the requirements of the enhanced Directors' Report guidance.

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 19 and 20. Details of how the Board and the principal Board Committees operate are set out below and under the heading 'Board Committees' on page 14 and also under the heading 'Corporate Governance' on pages 16 to 18.

The Board currently comprises a part-time executive Chairman, one executive Director and three non-executive Directors, whose biographies are on page 13.

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 Leonard Licht and Mike Killingley 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 20 and 21. 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 Mike Killingley, Leonard Licht and Sir Harry Solomon and is chaired by Mike Killingley. 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 18.

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 20 on pages 40 to 44.

Share capital and substantial interests in shares

During the year 1,758 share options were exercised. There have been no changes to the authorised share capital which remains at 10,000,000 ordinary shares.

Further information about the Company's share capital is given in note 21 on page 45. Details of the Company's executive share option scheme and employee ownership plan can be found on pages 20 and 21 and in notes 21 and 22 on page 45.

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 1 June 2006.

Substantial shareholdings

	Number of shares	Percentage of issued shares
Artemis Investment Management	1,128,402	13.46
Jupiter Asset Management	543,988	6.49
INVESCO English & International Trust plc	365,557	4.36
L S Licht	791,250	9.44
Sir Harry Solomon	430,027	5.13

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 2006 or 31 March 2005.

Charitable and political donations

Charitable donations made by the Group during the year amounted to £9,745 (2005: £3,241). There were no political donations.

Directors' Report

CONTINUED

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

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

Annual General Meeting

The Company's Annual General Meeting will be held at the London offices of the Company's solicitors, Addleshaw Goddard, 150 Aldersgate, London EC1A 4EJ on 13 September 2006 at 11.15am. 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).
- 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, one executive Director, and three 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 13, 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 13 to 18.

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 20 and 21.

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 22 and 'Respective Responsibilities of Directors' and Auditors' on page 23.

The Directors are of the opinion that they have established procedures necessary to comply with the spirit and intentions of the provisions of the Combined Code as set out in the Listing Rules of the Financial Services Authority for the year to 31 March 2006.

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 2006 (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. UK directors visit the Falkland Islands on a quarterly basis. This position is reviewed on a regular basis to determine whether a formal internal audit department would be more cost effective.

International financial reporting standards

The Company and its subsidiaries will adopt International Financial Reporting Standards (IFRS) when preparing the interim and final financial statements for the year ending 31 March 2008. The comparative figures for the year ending 31 March 2007 will be restated and there will be changes to the Company's and subsidiaries' accounting policies. For prudence it is likely that the Company and its subsidiaries will file interim financial statements 30 days later than normal, which is the maximum period allowable.

The transition date was 1 April 2006 and the Company and its subsidiaries are planning the process of converting the opening balance sheet as at 1 April 2006.

Going concern

The Directors consider that, after making appropriate enquiries and at the time of approving this Annual Report and Financial Statements, 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 Financial Statements.

Remuneration

The following disclosure is the Directors' Remuneration report given to comply with best practice.

Remuneration Committee

The Remuneration Committee ('Committee') comprises Sir Harry Solomon, Mike Killingley 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 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.

Share Options

Details of the Company's Executive Share Option Scheme and Employee Share Option Plan can be found on pages 20 and 21 under the heading 'Directors' Interests in Shares', and note 22.

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.

Equity-Settled Incentives

Going forward, all executive share options will be satisfied as equity-settled incentives (sometimes known as 'stock-appreciation rights'). This will mean that on exercise the optionholder will not have to pay the exercise price of the option but will only receive that number of shares with a value equal to the gain made (which may be on either a pre or post-tax basis), thus reducing the dilutive effect of the exercise.

Pensions and Life Assurance

During the year John Foster, Bryan McGreal and Anthony Knightley accrued benefits under a defined contribution pension scheme. The Scheme also covers four 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 included 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 2006 are shown in the table below under 'Taxable Benefits'.

Termination, notice periods and retirement by rotation

David Hudd has a service contract and he or the Company may terminate the contract by giving six months' notice. John Foster has a service contract which the Company may terminate by giving twelve months' notice. Mr Foster is required to give the Company six months' notice.

Directors' Report

CONTINUED

Leonard Licht is the Director retiring by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election in accordance with the Company's Articles of Association. Mike Killingley, having been appointed during the year, offers himself for election in accordance with the Company's Articles of Association.

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 2006 and in the preceding year is as follows:

	Salary £'000	Bonuses £'000	Benefits £'000	Pensions £'000	Compensation for loss of office £'000	2006 Total £'000	2005 Total £'000
David Hudd	90	60	–	–	–	150	125
John Foster	130	47	–	21	–	198	33
Bryan McGreal	28	–	4	12	–	44	127
Anthony Knightley	68	–	10	16	101	195	104
Mike Killingley	25	–	–	–	–	25	–
Leonard Licht	20	–	–	–	–	20	20
Sir Harry Solomon	20	–	–	–	–	20	20
	381	107	14	49	101	652	429

Directors' interests in shares

As at 31 March 2006, 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 2005	B	10 April 2000	–	25,000	–	–	£1.50	10 April 2003	9 April 2010
	B	27 July 2001	–	6,500	–	–	£1.395	27 July 2004	26 July 2011
	A	15 Aug 2002	81,300	–	–	–	£1.845	15 Aug 2005	14 Aug 2012
	A	10 Feb 2005	–	–	33,775	–	£5.20	10 Feb 2008	9 Feb 2015
	B	22 Mar 2005	–	–	23,917	–	£5.20	22 Mar 2008	21 Mar 2015
Total 1 April 2005			81,300	31,500	57,692	–			
Exercised in period			–	–	–	–			
Granted in period	A	14 June 2005	49,411	–	14,117	15,000	£4.25	14 June 2008	13 June 2015
Lapsed in period	A		–	–	–	(15,000)			
Closing 31 March 2006	B		–	31,500	23,917	–			
	A		130,711	–	47,892	–			
Total 31 March 2006			130,711	31,500	71,809	–			

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

The mid-market price of the Company's shares at 31 March 2006 was 357.5 pence and the range during the year was 300 pence to 592.5 pence.

The Directors' options extant at 31 March 2006 totalled 234,020 and represented 2.8% of the Company's issued share capital.

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 exercise price of the grant is 175 pence per share and the options are exercisable on or after 1 April 2006.

	Ordinary shares at 31 March 2006	Ordinary shares at 31 March 2005
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 2006	Ordinary shares at 31 March 2005
David Hudd	40,000	38,400
John Foster	5,000	2,000
Mike Killingley	3,000	–
Leonard Licht	791,250	791,250
Sir Harry Solomon	430,027	425,027

The only change to occur in the period from 31 March 2006 to 30 June 2006 was that Mr Hudd exercised his SAYE options on 5,400 shares, there were no other changes in the above interests. All the above interests were beneficial at the above dates. At the date of this Report, John Foster was deemed to be interested as Discretionary Beneficiary 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 in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and the parent Company financial statements in accordance with UK Accounting Standards.

The group and parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent Company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent Company will continue in business.

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

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board



M D West

Secretary

3 July 2006

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 group and parent Company financial statements (the 'financial statements') of Falkland Islands Holdings plc for the year ended 31 March 2006 which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 22.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's and Managing Director's Review of Operations, the Financial Review and Group Activities that is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion 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 other transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies within the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs as at 31 March 2006 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

3 July 2006

Nottingham

Group Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH 2006

Notes	2006	As restated 2005
	£'000	£'000
Turnover		
Continuing operations	15,209	12,206
Discontinued operations	527	548
2, 3 Turnover	15,736	12,754
3 Cost of sales	(9,855)	(8,708)
3 Gross profit	5,881	4,046
Administrative expenses	(4,401)	(3,280)
Amortisation of goodwill	(204)	(65)
4 Administrative expenses – exceptional costs	(487)	–
3 Total administrative expenses	(5,092)	(3,345)
3, 5 Other operating income	344	291
Operating profit before exceptional items and amortisation of goodwill	1,824	1,057
Amortisation of goodwill	(204)	(65)
Exceptional costs	(487)	–
Group operating profit	1,133	992
Continuing operations	1,132	995
Discontinued operations	1	(3)
3, 5 Group operating profit	1,133	992
Profit on sale of discontinued operation	84	–
13 Profit on sale of fixed asset investment	2,135	–
6 Net interest expense	(264)	(85)
Profit on ordinary activities before taxation	3,088	907
7 Taxation	(374)	(306)
Profit on ordinary activities after taxation for the financial year	2,714	601
		As restated
9 Earnings per share		
Basic	32.6p	8.2p
Diluted	32.2p	8.1p
Proposed dividend per ordinary share	6.5p	6.0p

Group Balance Sheet

AT 31 MARCH 2006

Notes	2006		As restated 2005	
	£'000	£'000	£'000	£'000
	Fixed assets			
11	Intangible assets	3,979	4,136	
12	Tangible assets	8,042	8,501	
13	Investments	2,610	900	
		14,631	13,537	
	Current assets			
14	Stocks	3,107	3,308	
15	Debtors due within one year	1,789	1,788	
15	Debtors due after one year	48	24	
		1,837	1,812	
18	Cash at bank and in hand	3,601	914	
		8,545	6,034	
16	Creditors: amounts falling due within one year	(4,797)	(5,419)	
	Net current assets	3,748	615	
	Total assets less current liabilities	18,379	14,152	
17	Creditors: amounts falling due after more than one year	(2,765)	(831)	
19	Provisions for liabilities and charges	(853)	(882)	
	Net assets excluding pension liabilities	14,761	12,439	
20	Net pension scheme liabilities	(1,909)	(1,648)	
	Net assets	12,852	10,791	
	Capital and reserves			
21	Called up share capital	838	838	
22	Share premium account	7,064	7,061	
22	Other reserves	703	703	
22	Revenue reserves	4,247	2,189	
23	Equity shareholders' funds	12,852	10,791	

The financial statements were approved by the Board of Directors on 3 July 2006 and were signed on its behalf by:

J L Foster

Managing Director

Company Balance Sheet

AT 31 MARCH 2006

Notes	2006		As restated 2005	
	£'000	£'000	£'000	£'000
	Fixed assets			
13		17,654		15,997
	Current assets			
15	333		644	
18	1,055		–	
	1,388		644	
16	(781)		(961)	
		607		(317)
		18,261		15,680
17		(1,132)		(785)
		17,129		14,895
	Capital and reserves			
21		838		838
22		7,064		7,061
22		5,389		5,389
22		3,838		1,607
23		17,129		14,895

The financial statements were approved by the Board of Directors on 3 July 2006 and were signed on its behalf by:

J L Foster

Managing Director

Group Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2006

Reconciliation of operating profit to net cash inflow from operating activities

	2006 £'000	As restated 2005 £'000
Operating profit	1,133	992
Profit on sale of fixed assets	(12)	–
Amortisation of goodwill	204	65
Depreciation and impairment charges	838	292
(Increase) / decrease in stocks	201	(229)
Increase in debtors	(12)	(256)
Decrease in creditors and provisions	(687)	(87)
Net cash inflow from operating activities	1,665	777

Cash flow statement

	2006		2005	
	£'000	£'000	£'000	£'000
Cash flow from operating activities		1,665		777
Returns on investments and servicing of finance				
Interest received	38		47	
Interest paid	(203)		(31)	
		(165)		16
Taxation				
UK corporation tax paid	(250)		(169)	
Overseas taxation paid	(141)		(104)	
		(391)		(273)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(505)		(1,243)	
Purchase of investments	(2,000)		(622)	
Receipts from sale of tangible fixed assets	15		144	
Receipts from sale of investment	2,427		–	
		(63)		(1,721)
Acquisitions				
Sale of subsidiary undertaking	178		–	
Investment in subsidiary undertaking	–		(5,556)	
		178		(5,556)
Dividends paid		(502)		(372)
Cash inflow / (outflow) before financing		722		(7,129)
Financing				
Repayment of secured loan	(524)		(279)	
Repayment of loan notes	(43)		–	
Issue of ordinary share capital	3		5,472	
New secured loan	2,609		1,000	
Sale of own shares	–		112	
Share options exercised	–		98	
Cash flow from financing		2,045		6,403
Increase / (decrease) in cash in the year		2,767		(726)

Group Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2006 – CONTINUED

Reconciliation of cash flow to movement in net funds / (debt)

	2006 £'000	2005 £'000
Increase / (decrease) in cash in the year	2,767	(726)
Cash inflow from increase in debt	(2,042)	(848)
Change in net debt resulting from cash flows	725	(1,574)
Change in net debt resulting from acquisitions	–	209
Net (debt) / funds at start of year	(432)	933
Net funds / (debt) at end of year	293	(432)

Analysis of changes in net funds / (debt)

	As at 31 March 2005 £'000	Cash flows £'000	As at 31 March 2006 £'000
Cash at bank and in hand	914	2,687	3,601
Overdraft	(80)	80	–
	834	2,767	3,601
Debt due within one year	(435)	(107)	(542)
Debt due after one year	(831)	(1,935)	(2,766)
Net funds / (debt) at end of year	(432)	725	293

Consolidated Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 MARCH 2006

	2006		As restated 2005	
	£'000	£'000	£'000	£'000
Profit for the year		2,714		601
PHFC scheme loss	(88)		–	
FIC scheme gain	57		(51)	
Actuarial loss on pension schemes (see note 20)		(31)		(51)
Movement on deferred tax asset relating to pension scheme		(123)		17
Total recognised gains and losses relating to the financial year		2,560		567
Prior year adjustment – FRS 17 (note 20)		(635)		
Total gains and losses recognised since last annual report		1,925		

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2006

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- FRS 17 'Retirement benefits';
- The presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The recognition and measurement requirements of FRS 17 'Retirement benefits' have also been adopted; previously only the transitional disclosures of that standard have been followed. The effect of fully adopting FRS17 is set out in note 20.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. The effect of adopting FRS21 is set out in note 8.

The corresponding amounts in these financial statements are restated in accordance with the new policies.

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 2006 and comparatives for the year ended 31 March 2005.

In accordance with s230(4) of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company only has not been presented.

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.

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 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%

Notes to the Financial Statements

CONTINUED

1 Accounting policies CONTINUED

Deferred taxation

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

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

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

The Group also operates two pension schemes providing benefits based on final pensionable pay. The assets of these schemes are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus / deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

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.

Classification of financial instruments issued by the Group

Following the adoption of FRS 25, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

1 Accounting policies CONTINUED

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

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	
	As restated		As restated		As restated	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Turnover						
– continuing operations	11,902	11,468	3,307	738	15,209	12,206
Discontinued operations						
– Cobham Travel	–	–	527	548	527	548
	11,902	11,468	3,834	1,286	15,736	12,754
Segment operating profit	670	987	463	5	1,133	992
Segment operating profit before amortisation of goodwill and exceptional items	1,105	987	719	70	1,824	1,057
Interest payable	(212)	(79)	(52)	(6)	(264)	(85)
Underlying profit before tax before amortisation of goodwill and exceptional items	893	908	667	64	1,560	972
Goodwill amortisation	–	–	(204)	(65)	(204)	(65)
Exceptional costs	(435)	–	(52)	–	(487)	–
Profit on sale of fixed asset investments	2,135	–	–	–	2,135	–
Profit on sale of discontinued operations	–	–	84	–	84	–
Group profit before taxation	2,593	908	495	(1)	3,088	907
Net assets	8,941	7,650	3,911	3,141	12,852	10,791

Notes to the Financial Statements

CONTINUED

3 Analysis of continuing and discontinued operations

	2006			As restated 2005		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Turnover	15,209	527	15,736	12,206	548	12,754
Cost of sales	(9,384)	(471)	(9,855)	(8,212)	(496)	(8,708)
Gross profit	5,825	56	5,881	3,994	52	4,046
Administrative expenses	(5,034)	(58)	(5,092)	(3,286)	(59)	(3,345)
Other operating income	341	3	344	287	4	291
Operating profit / (loss)	1,132	1	1,133	995	(3)	992

4 Exceptional costs

	2006 £'000	2005 £'000
Compensation for loss of office	105	–
Impairment of fixed assets (note 12)	382	–
	487	–

Compensation costs of £105,000 for Director's loss of office and associated legal fees.

Following a disappointing period of trading, a decision was taken to write down the carrying value of the Upland Goose hotel (see note 12).

5 Operating profit

	2006 £'000	2005 £'000
<i>Operating profit on ordinary activities is stated after charging:</i>		
Depreciation and other amounts written off tangible fixed assets	838	292
Goodwill amortisation	204	65
Auditors' remuneration – for audit services (<i>Company £18,000 (2005: £15,000)</i>)	54	32
– for non audit services	22	13
Operating lease rental – vehicles	3	21
– other leases	31	59

Of the non-audit related fees paid to the auditor, £22,000 (2004: £7,000) relates to general advisory and tax work.

Other operating income of £344,000 (2005: £291,000) is comprised mainly of rents and financial services income.

6 Net interest expense

	2006 £'000	As restated 2005 £'000
Interest receivable	38	47
Expected return on pension scheme assets	9	–
	47	47
Interest payable on bank loans	(194)	(41)
Interest cost on pension scheme liabilities	(117)	(91)
	(264)	(85)

7 Taxation

	2006	As restated 2005
	£'000	£'000
<i>The tax charge based on profit for the period comprises:</i>		
UK corporation tax at 30%	228	226
Less double taxation relief	(114)	(149)
	114	77
Overseas taxation at 25%	203	231
Adjustments in respect of prior periods	58	(31)
Total current tax	375	277
Deferred taxation	8	32
Deferred taxation on pension liability movement	(9)	(3)
	374	306

There is no tax payable on the disposal of the discontinued operation.

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower (2005: higher) than the standard rate of corporation tax in the UK of 30% (2005: Falkland Islands rate of 25%). The difference can be explained below:

	2006	As restated 2005
	£'000	£'000
<i>Current tax reconciliation:</i>		
Profit on ordinary activities before tax	3,088	907
Current tax at 30% (2005: 25%)	926	227
Expenses not deductible for tax purposes	41	13
Capital allowances in excess of depreciation	(33)	36
Marginal rate on overseas tax earnings	–	32
Non-taxable income	(579)	–
Other timing differences	(20)	–
Excess foreign tax	2	–
Marginal relief	(3)	–
Lower tax charge overseas	(17)	–
Adjustments to tax charge in respect of previous periods	58	(31)
Total current tax	375	277

8 Dividend

	2006	As restated 2005
	£'000	£'000
<i>The aggregate amount of dividends comprises:</i>		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	502	369
Aggregate amount of dividends paid in the financial year	502	369

Notes to the Financial Statements

CONTINUED

8 Dividend CONTINUED

During the period the Company adopted FRS 21 'Events after the balance sheet date' which superseded SSAP 17. Under the new standard, dividends payable are recognised only in the period in which they are approved in the annual general meeting, whereas under SSAP 17 dividends were accrued for when proposed. This has resulted in an increase of £502,000 in the consolidated retained profit as at 31 March 2005 (Company: Decrease of £363,000).

The Directors have proposed a dividend of 6.5p per share. This has not been included within creditors as it was not approved before the year end.

9 Earnings per share

	2006	As restated 2005
	£'000	£'000
<i>Profits are calculated as follows:</i>		
Profit on ordinary activities after taxation for the financial year	2,714	601

The profits above form the basis of calculating the basic and diluted earnings per share.

	2006	2005
Basic earnings per share	32.6p	8.2p
Diluted earnings per share	32.2p	8.1p

Earnings per share on underlying profits before amortisation of goodwill, exceptional items and disposals.

	2006	2005
	£'000	£'000
Underlying profit before tax (note 2)	1,560	972
Less: tax thereon	(504)	(306)
Underlying profit after tax	1,056	666

	2006	2005
Earnings per share on underlying profit before amortisation of goodwill, exceptional costs and disposals	12.7p	9.1
Diluted earnings per share on underlying profit before amortisation of goodwill, exceptional costs and disposals	12.5p	9.0p

	2006 Number	2005 Number
Allotted called up and fully paid – Ordinary shares of 10p each	8,380,066	7,391,715
Less: shares held under ESOP (note 21)	(55,417)	(55,417)
Average number of shares in issue excluding ESOP	8,324,649	7,336,298
Maximum dilution re share options	109,736	91,350
Diluted weighted average number of ordinary shares in issue	8,434,385	7,427,648

9 Earnings per share CONTINUED

The additional calculation of earnings per share is given in order to provide a more meaningful comparison of underlying performance.

The calculation of basic, pre amortisation and underlying earnings per share is based on the weighted average number of ordinary shares in issue during the year, excluding shares held by the Employee Share Ownership Plan, of 8,324,649 (2005: 7,336,298). The calculation of fully diluted earnings per share is based on the ordinary shares in issue plus the dilutive effect of outstanding shares options, resulting in a weighted average number of shares of 8,434,385 (2005: 7,427,648).

10 Employment costs including Directors

	2006 £'000	2005 £'000
Wages and salaries	3,228	2,423
Social security costs	210	128
Other pension costs	156	86
	<u>3,594</u>	<u>2,637</u>

Details of Directors' remuneration are included within the Directors' report, under the heading 'Remuneration' and 'Details of Directors' Remuneration and Emoluments' on pages 20 and 21.

	2006 Number	2005 Number
<i>Average number of persons employed:</i>		
United Kingdom	50	53
Falkland Islands	92	85
	<u>142</u>	<u>138</u>

11 Intangible assets

	Goodwill £'000
Cost:	
At 1 April 2005	4,201
Fair value adjustments relating to prior year acquisitions (note 26)	47
At 31 March 2006	<u>4,248</u>
Accumulated amortisation:	
At 1 April 2005	65
Charge for the year	204
At 31 March 2006	<u>269</u>
Net book value:	
Balance at 31 March 2006	<u>3,979</u>
Balance at 31 March 2005	<u>4,136</u>

Notes to the Financial Statements

CONTINUED

12 Tangible fixed assets of the Group

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Ships £'000	Vehicles, plant and equipment £'000	Total £'000
Cost:					
At 1 April 2005	4,744	342	3,180	2,593	10,859
Additions	137	–	109	259	505
Disposals	–	–	–	(24)	(24)
At 31 March 2006	4,881	342	3,289	2,828	11,340
Accumulated depreciation:					
At 1 April 2005	705	43	16	1,594	2,358
Charge for the year	140	7	114	195	456
Impairment	382	–	–	–	382
Disposals	–	–	–	(21)	(21)
Fair value adjustment (note 26)	123	–	–	–	123
At 31 March 2006	1,350	50	130	1,768	3,298
Net book value:					
At 31 March 2006	3,531	292	3,159	1,060	8,042
At 31 March 2005	4,039	299	3,164	999	8,501

Following a disappointing period of trading, a decision was taken to write down the carrying value of the Upland Goose hotel. This assessment was based on discounted cash flow projections using an appropriately risk adjusted discount rate (11%). The exceptional depreciation charge resulting from this write down amounted to £382,000 and is shown as an exceptional item.

Included in freehold land and buildings is land stated at £948,000 (2005: £948,000) which is not depreciated.

The Company has no tangible fixed assets.

13 Fixed asset investments

	FGML investment £'000	Group and Company FOGL investment £'000	Total £'000
Cost:			
As at 1 April 2005	190	710	900
Additions in the year	–	2,000	2,000
Disposals in the year	–	(290)	(290)
As at 31 March 2006	190	2,420	2,610

The investments are shown at cost at the balance sheet date.

In June 2005 the Company acquired a further 2,352,941 2p Ordinary Shares in Falkland Oil and Gas Limited for £2 million, this took the Company investment to 16,802,941 shares at cost of £2.7 million representing 18.3% of the issued share capital of FOGL. On 21 February 2006 the Company realised part of its investment by selling 1,802,941 shares (10.7%) of its holding with a cost of £290,000 for £2,425,000 resulting in a profit on disposal of £2,135,000.

13 Fixed asset investments CONTINUED

Market value and shareholdings:

	Group and Company	
	2006 £'000	2005 £'000
FOGL	21,500	17,100
FGML	1,800	4,300
Market value at 31 March	23,300	21,400

Percentage of authorised equity share capital:

FOGL	16.3%	18.1%
FGML	14.4%	14.4%

At the year end the Group held 11,250,000 shares in FGML representing a 14.4% interest and held 15,000,000 shares in FOGL representing a 16.3% interest.

	Company Investment in Group undertakings £'000
As at 1 April 2005	15,097
Adjustment to investment value (note 26)	(53)
As at 31 March 2006	15,044

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 Limited	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 operators

All of the above are incorporated in England and Wales except for Darwin Shipping Limited, which is incorporated in the Falkland Islands.

Notes to the Financial Statements

CONTINUED

14 Stocks

	Group	
	2006 £'000	2005 £'000
Goods for resale	3,107	3,308

15 Debtors

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<i>Amounts falling due within one year:</i>				
Trade debtors	1,085	1,310	–	–
Amounts owed by subsidiary undertakings	–	–	93	450
Hire purchase receivables	96	86	–	–
Corporation tax	46	33	219	168
Other debtors	376	38	21	26
Prepayments and accrued income	186	321	–	–
	1,789	1,788	333	644
<i>Amounts falling due after more than one year:</i>				
Hire purchase receivables	48	24	–	–
	1,837	1,812	333	644

The cost of assets acquired for the purpose of letting under hire purchase agreements by the Group during the period amounted to £103,000 (2005: £125,000).

The aggregate rentals receivable during the period in respect of hire purchase agreements were £193,000 (2005: £190,000).

16 Creditors: amounts falling due within one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank loans and overdrafts (note 18)	499	472	300	480
Trade creditors	2,640	2,506	–	–
Other creditors including taxation and social security	244	598	153	178
Corporation tax	424	427	–	–
Accruals and deferred income	947	1,373	285	260
Unsecured loan notes (note 18)	43	43	43	43
	4,797	5,419	781	961

Within other creditors is tax and social security of £46,188 (2005: £46,216).

There are cross guarantees and fixed and floating charges over the assets of the Company and its subsidiaries in respect of bank loans and overdrafts, shown in notes 16 to 18.

17 Creditors: amounts falling due after more than one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank loans	2,723	746	1,090	700
Unsecured loan notes	42	85	42	85
	<u>2,765</u>	<u>831</u>	<u>1,132</u>	<u>785</u>

The bank loans are secured, see note 16.

18 Borrowings, derivatives and other financial instruments

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<i>The bank loans, overdrafts and unsecured loan notes are repayable as follows:</i>				
Within one year	(542)	(515)	(342)	(343)
Between one and two years	(542)	(389)	(342)	(343)
Between two and five years	(1,590)	(442)	(790)	(442)
Over five years	(634)	–	–	–
	<u>(3,308)</u>	<u>(1,346)</u>	<u>(1,474)</u>	<u>(1,128)</u>
Cash / (overdraft)	3,601	914	1,055	(180)
Net funds / (debt)	<u>293</u>	<u>(432)</u>	<u>(419)</u>	<u>(1,308)</u>

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 an unutilised overdraft facility of £2.3 million.

Cash	Group	
	2006 £'000	2005 £'000
<i>Cash comprises:</i>		
Short term money markets	3,470	250
Cash held in sterling accounts	70	610
Cash held in foreign currency accounts	61	54
	<u>3,601</u>	<u>914</u>

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.

The Group drew down a loan of £1.9 million in respect of the new ferry. The loan is repayable over a period of ten years from June 2005 and bears interest at a rate of 5.6%. The loan has been hedged with an interest rate cap of 6.5% and a floor of 4.25%. At 31 March 2006 the fair values of both of these instruments was a liability of £8,000.

Notes to the Financial Statements

CONTINUED

18 Borrowings, derivatives and other financial instruments CONTINUED

Interest on the unsecured loan notes accrued at 5% and interest is payable half yearly in April and October.

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 2006 the Group had contracts outstanding to purchase foreign currency amounting to £nil (2005: £nil).

Fair value of financial instruments

Other than disclosed above there is no material difference between the book values and the fair values of financial instruments.

19 Provisions for liabilities and charges

<i>Group</i>	As restated accelerated capital allowances £'000
<i>Deferred taxation:</i>	
At 1 April 2005	882
Transfer to profit and loss account	8
Fair value adjustment (note 26)	(37)
As at 31 March 2006	853

20 Pension schemes

The Group operates two defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £138,000 (2005: £66,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Adoption of FRS 17

The Board fully adopted FRS 17 'Retirement Benefits' from 1 April 2005.

A summary of the fair value of the net pension schemes deficit is set out below:

	2006 £'000	As restated 2005 £'000
<i>Pension scheme deficit:</i>		
Falkland Islands Company Limited Scheme	(2,107)	(2,141)
Portsmouth Harbour Ferry Company Limited Scheme	(471)	(290)
	(2,578)	(2,431)
Deferred tax	669	783
Net pension scheme deficit	(1,909)	(1,648)

The Falkland Islands Company Limited Scheme

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 the service of the Company at normal retirement age.

20 Pension schemes CONTINUED

The latest full actuarial valuation was carried out at 31 March 2005 and was updated for FRS 17 purposes to 31 March 2006 by a qualified independent actuary, Lane Clark & Peacock LLP.

The major assumptions used in this valuation were:

	2006	2005	2004
Rate of increase in salaries	4.0%	4.0%	3.5%
Rate of increase in pensions in payment and deferred pensions	3.0%	3.0%	3.0%
Discount rate applied to scheme liabilities	5.0%	5.4%	6.5%
Inflation assumption	3.0%	3.0%	2.5%

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

Scheme liabilities

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

	Value at 2006 £'000	Value at 2005 £'000	Value at 2004 £'000
Present value of scheme liabilities	(2,107)	(2,141)	(2,063)
Related deferred tax asset	527	696	670
Net pension liability	(1,580)	(1,445)	(1,393)

During the year the corporation tax rate in the Falkland Islands reduced from 32.5% to 25%. This resulted in a reduction of the deferred tax asset of £161,000.

Movement in deficit during the year:

	2006 £'000	2005 £'000
Deficit in scheme at beginning of year	(2,141)	(2,063)
Current service cost	(19)	(20)
Pensions paid	92	84
Other finance cost	(96)	(91)
Actuarial gain / (loss)	57	(51)
Deficit in the scheme at the end of the year	(2,107)	(2,141)

Analysis of other pension costs charged in arriving at operating profit:

	2006 £'000	2005 £'000
Current service cost	19	20

Notes to the Financial Statements

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20 Pension schemes CONTINUED

Analysis of amounts included in other finance costs:

	2006 £'000	2005 £'000
Interest on pension scheme liabilities	96	91

Analysis of amount recognised in statement of total recognised gains and losses:

	2006 £'000	2005 £'000
Experience gains arising on scheme liabilities	80	–
Changes in assumptions underlying the present value of scheme liabilities	(23)	(51)
Actuarial gain / (loss) recognised in statement of total recognised gains and losses	57	(51)

History of experience gains and losses:

	2006	2005	2004	2003
Experience gains and losses on scheme liabilities:				
Amount (£'000)	80	–	–	–
Percentage of year end present value of scheme liabilities	3.7%	–	–	–
Total amount recognised in statement of total recognised gains and losses:				
Amount (£'000)	(23)	(51)	49	25
Percentage of year end present value of scheme liabilities	(1.1)%	(2.3)%	2.3%	1.7%

Portsmouth Harbour Ferry Company Plc (1975) Retirement Fund

On 9 December 2004 the Group acquired Portsmouth Harbour Ferry Company Limited. This Company operated a defined benefit scheme. The scheme has been closed for many years and none of the current employees are earning benefits under the scheme. Actuarial reports for FRS 17 purposes as at 31 March 2006 and 31 March 2005 were prepared by a qualified independent actuary, Alexander Forbes Limited.

The major assumptions used in this valuation were:

	2006	2005
Rate of increase in pensions in payment and deferred pensions	3.0%	3.0%
Discount rate applied to scheme liabilities	4.9%	5.0%
Inflation assumption	3.0%	3.0%

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

20 Pension schemes CONTINUED

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2006 £'000	Value at 2005 £'000
Equities	133	91
Fixed interest	17	34
Other	6	–
Total market value of assets	156	125
Present value of scheme liabilities	(627)	(415)
Deficit in the scheme – pension liability	(471)	(290)
Related deferred tax asset	142	87
Net pension liability	(329)	(203)

The expected rates of return on the assets in the scheme were:

	Long term rate of return 2006	Long term rate of return 2005
Equities	7.5%	7.7%
Fixed interest	5.0%	5.0%
Other	4.5%	4.75%

Movement in deficit during the year:

	2006 £'000	2005 £'000
Deficit in scheme at beginning of year	(290)	–
Acquisition in the year	–	(290)
Fair value adjustment (see note 26)	(84)	–
Contributions paid	3	–
Other finance cost	(12)	–
Actuarial loss	(88)	–
Deficit in the scheme at the end of the year	(471)	(290)

Analysis of amounts included in other finance costs:

	2006 £'000	2005 £'000
Expected return on pension scheme assets	9	–
Interest on pension scheme liabilities	(21)	–
	(12)	–

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20 Pension schemes CONTINUED

Analysis of amount recognised in statement of total recognised gains and losses:

	2006 £'000	2005 £'000
Actual return less expected return on scheme assets	19	–
Experience gains and losses arising on scheme liabilities	(72)	–
Changes in assumptions underlying the present value of scheme liabilities	(35)	–
Actuarial loss recognised in statement of total recognised gains and losses	(88)	–

History of experience gains and losses:

	2006	2005
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	19	–
Percentage of year end scheme assets	12.2%	–
Experience gains and losses on scheme liabilities:		
Amount (£'000)	(72)	–
Percentage of year end present value of scheme liabilities	(15.2%)	–
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	(88)	–
Percentage of year end present value of scheme liabilities	(18.7%)	–

Actuarial information is only available for years ended 31 March 2005 and 31 March 2006 therefore no historical data has been disclosed.

Prior year adjustments (Pension schemes)

	£'000
Operating profit adjustment	100
Interest	(91)
Taxation	3
Adjustments for the year	12
Profit previously reported	589
Revised profit for the financial year	601
Other recognised gains and losses previously reported	–
Actuarial loss	(51)
Movement on deferred tax asset relating to pension scheme	17
Other recognised gains and losses	(34)
Pension scheme deficit per FRS17 as at 1 April 2005	(1,648)
Pension liability previously provided	1,013
Increase in pension liability and reduction in equity shareholders' funds as at 1 April 2005	(635)

21 Called up share capital

	Group and Company	
	2006 £'000	2005 £'000
<i>Authorised:</i>		
10,000,000 (2005: 10,000,000) ordinary shares of 10p each	1,000	1,000
<i>Allotted, called up and fully paid:</i>		
8,381,238 (2005: 8,379,480) ordinary shares of 10p each	838	838

A total of 303,103 (2005: 160,075) 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 'Director's interests in shares' on pages 20 and 21.

In addition, there were 81,972 (2005: 84,132) share options outstanding under the Company's Saving Related Share Option Scheme at 31 March 2006. These options have an exercise price of 175p and are exercisable on or after 1 April 2006.

22 Reserves

Group	Share premium account £'000	Other reserves £'000	Revenue reserves £'000	Total £'000
At 1 April 2005	7,061	703	2,322	10,086
Prior year adjustment – FRS 17	–	–	(635)	(635)
Prior year adjustment – FRS 21	–	–	502	502
At 1 April 2005 as restated	7,061	703	2,189	9,953
Premium on shares issued in the year, net of expenses	3	–	–	3
Retained profit for the year	–	–	2,714	2,714
Dividends	–	–	(502)	(502)
Actuarial loss on pension net of tax	–	–	(154)	(154)
At 31 March 2006	7,064	703	4,247	12,014

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 2006 the plan held 55,417 (2005: 55,417) ordinary shares at an average cost of £83,000 (2005: £83,000). The market value of the shares at 31 March 2006 was £198,116 (2005: £331,000). 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 in the ESOP have had their rights to dividends waived, as in prior years.

In the prior year a debit reserve for own shares of £83,000 was shown separately from profit and loss reserves of £2,405,000. In order to better present the reserves the own share reserve, which reduces distributable reserves, is now incorporated in the revenue reserve. This presentational charge has no effect on the reserves available for distribution.

24 Operating lease commitments

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

	Group			
	2006		2005	
	Land and buildings £'000	Other operating leases £'000	Land and buildings £'000	Other operating leases £'000
<i>Operating leases which expire:</i>				
Within one year	–	3	–	3
In the second to fifth years inclusive	30	–	30	21
Over five years	–	–	26	–
	30	3	56	24

The Company had no operating lease commitments.

25 Capital commitments

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Contracted amounts not provided in these financial statements are:	–	130	–	–

26 Purchase of subsidiary

Provisional fair values allocated to the acquisition of Portsmouth Harbour Ferry Company Limited in December 2004 were reported in the financial statements for the year ended 31 March 2005. The fair value of the assets acquired has been revised in accordance with FRS 7 'Fair values in acquisition accounting', from £3,324,000 to £3,224,000. The revision is due to:

	£'000
Reduction of tangible fixed assets on reassessment of useful economic life	(123)
Deferred taxation adjustment in respect of the above	37
Release of tax payable provision not required	70
Increase in pension scheme liability	(84)
Reduction in net assets acquired	(100)
Adjustment to cost of investment	53
Adjustment (increase) to goodwill	(47)

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22 Reserves CONTINUED

<i>Company</i>	Share premium account £'000	Other reserves £'000	Revenue reserves £'000	Total £'000
At 1 April 2005	7,061	5,389	1,970	14,420
Prior year adjustment – FRS 21	–	–	(363)	(363)
At 1 April 2005 as restated	7,061	5,389	1,607	14,057
Premium on shares issued in the year, net of expenses	3	–	–	3
Retained profit for the year	–	–	2,733	2,733
Dividends	–	–	(502)	(502)
At 31 March 2006	7,064	5,389	3,838	16,291

A profit of £2,733,000 (2005 as restated: £1,518,000) has been dealt with in the accounts of the Parent Company. As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

23 Reconciliation of movement in shareholders' funds

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Opening shareholders' funds as previously reported	10,924	3,515	15,258	6,713
Prior year adjustment – FRS 17	(635)	(613)	–	–
Prior year adjustment – FRS 21	502	351	(363)	(307)
Opening shareholders funds as restated	10,791	3,253	14,895	6,406
Profit for the financial year	2,714	601	2,733	1,518
Dividends	(502)	(369)	(502)	(369)
Other recognised gains and losses	(154)	(34)	–	–
Issue of shares	3	7,228	3	7,228
Sale of own shares	–	112	–	112
	12,852	10,791	17,129	14,895

Directors and Corporate Information

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David Hudd *Chairman*

John Foster *Managing Director*

Leonard Licht*

Sir Harry Solomon*

Mike Killingley*

**Non-executive Directors*

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Senior Staff in the Falkland Islands

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David Castle *Retailing Director*

Ana Crowie *Financial Controller*

Senior Staff at Portsmouth Harbour Ferry Company

Mike Killingley *Non-executive Chairman*

Carl Roberts *Financial Director*

Web site: www.gosportferry.co.uk



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