Falkland Islands Holdings plc

Annual Report 2007

Falkland Islands Holdings

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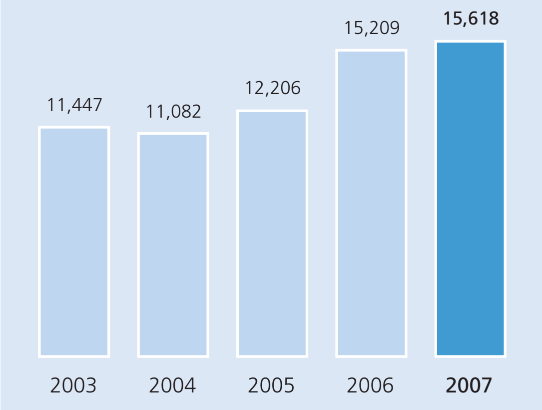
Financial Highlights

	2007 £'000	2006 £'000	Change %
Turnover from continuing operations	**15,618**	15,209	**2.7**
Profit before tax	**1,840**	3,018	**(39.0)**
Underlying profit before tax*	**1,664**	1,490	**11.7**
Diluted earnings per share before goodwill amortisation and exceptional items as above	**13.4p**	12.0p	**11.7**
Dividend per share	**7.0p**	6.5p	**7.7**
Cash flow from operations	**2,303**	1,665	**38.3**
Net asset value per share at cost	**167p**	153p	**9.2**
Net asset value per share with investments in FOGL and FGML shown at market value	**292p**	400p	**(27.0)**

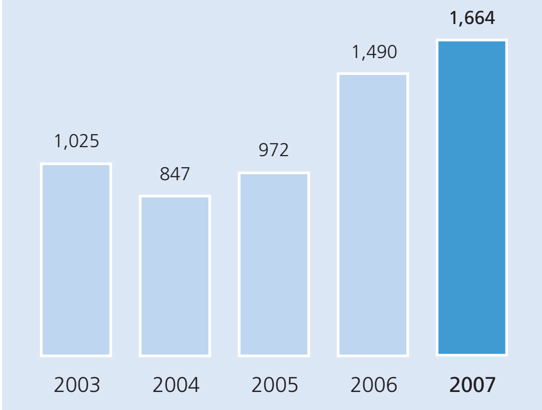
*Defined as profit before tax, goodwill amortisation and exceptional items.

The investment in Falkland Oil and Gas (FOGL) is shown in the financial statements at its cost of £2.4m. FOGL is listed on AIM and the market value of the Group shareholding at 31 March 2007 was £13.0m.

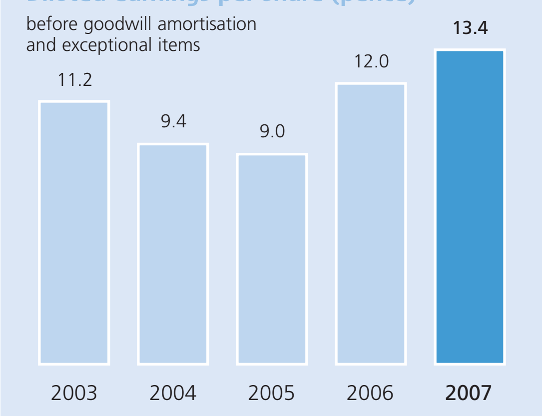
Turnover from continuing operations (£'000)



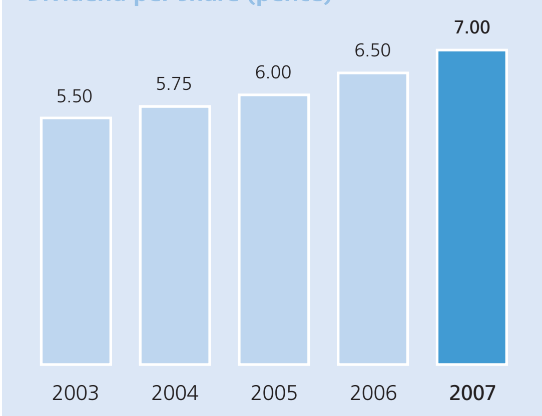
Underlying profit before tax* (£'000)



Diluted earnings per share (pence)



Dividend per share (pence)



Chairman's Statement

David Hudd
Chairman

Overview

I am pleased to report that the year to 31 March 2007 has been another year of progress for your Company with record levels of profitability achieved from trading and a useful profit from the sale of investments.

Trading

In the year to 31 March 2007 the Group's underlying profit (defined as profit before tax, exceptional items and the amortisation of goodwill), rose from £1.49 million in 2006 to £1.66 million. Profit before tax after exceptional items and the amortisation of goodwill was £1.84 million *(2006: £3.0 million)*.

After the seasonally slower first half, our businesses in the Falklands performed well, with strong vehicle sales and general activity was buoyed by the interest surrounding the 25th anniversary of the war. The Portsmouth Harbour ferry business had a solid year with profits only a little lower than last year which benefited from the Trafalgar celebrations.

Investments

In January 2007 the 14.4% shareholding in Falkland Gold and Minerals was sold at a price of 6p per share. The cash proceeds of £0.7 million generated a profit over the cost of our investment of £0.5 million.

The Group retains its investment of 15 million shares (16.3%) in Falkland Oil and Gas (FOGL). As shareholders will appreciate, your Company was actively involved in the initial formation of FOGL and its subsequent admission to AIM and your Board continues to believe in the Company's potential. As FOGL's license area is very large and unexplored, exploration is necessarily a lengthy and expensive process. FOGL is continuing to progress its exploration programmes and we intend to retain a substantial shareholding while the exploration effort continues.

We were pleased to note that our view on the potential is shared by others as FOGL was able to raise a further £8 million in December 2006 which has been used to finance further offshore exploration, this comprises a further 2D seismic survey and sea bed logging. We are awaiting the results of this work and of the continuing efforts to secure a drilling rig.

Earnings and dividends

Earnings per share on underlying profits rose by 9.8% to 13.4p per share *(2006: 12.2p)* and EPS calculated on all earnings including profits on the sale of investments were 17.2p per share *(2006: 31.8p)*.

Reflecting the continued confidence of your Board in the future of the Company it is proposed to increase the annual dividend by 7.7% from 6.5p to 7.0p per share.

Net assets

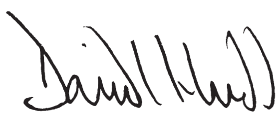
The Group has a solid base of well established trading businesses and good liquidity position. At 31 March 2007 the Group had net cash balances of £2.2 million *(2006: £0.3 million)* and shareholders funds of £14.1 million at historic cost *(2006: £12.9 million)*. This includes the investment in FOGL with a cost of £2.4 million which compares to a market value at the year end of £13.0 million *(2006: cost £2.4 million; market value £21.5 million)*. On this basis the net asset value per share at 31 March 2007 was £2.92 *(2006: £4.00)*.

People

The Group continues to move forward because of the commitment of all its staff and we are fortunate to have the services of a highly professional workforce many of whom have worked for the Company for many years. Their passion in delivering a high quality service to their customers underpins the strength of the Group and I would like to thank them all for their efforts in producing another successful year of growth.

Outlook

The new financial year has started in promising fashion and we are well placed to build on the solid progress seen in recent years.



David Hudd
Chairman
13 June 2007

Managing Director's Business Review

Falkland Islands Holdings (FIH) owns two trading businesses: the Falkland Islands Company (FIC) in the Falkland Islands, which provides a wide range of essential goods and services to the Islanders; and in the UK, the Portsmouth Harbour Ferry Company (PHFC) which provides the vital passenger service across the mouth of Portsmouth Harbour. Both have been established for well over 100 years and both have a history of consistent profitability and cash generation.

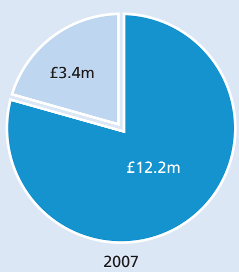
Group performance

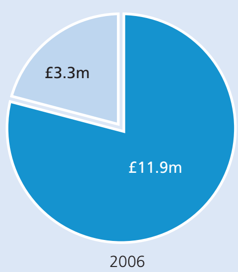
In the year to 31 March 2007 turnover from continuing activities in the Group's trading businesses rose by 2.6% to £15.6 million *(2006: £15.2 million)*. Progress was seen at both businesses. The Falkland Islands Company recovered from a sluggish start and revenue increased by 2.5% from £11.9 million to over £12.2 million. Revenue at PHFC increased to £3.4 million *(2006: £3.3 million)* a satisfactory performance given the absence of the maritime festivals which boosted revenue in 2005/6.

Revenue (continuing operations)

Year ended 31 March	2007 £m	2006 £m	Change %
Falkland Islands	12.2	11.9	2.5
Gosport Ferry	3.4	3.3	3.0
Total revenue	15.6	15.2	2.6

Revenue split: FIC PHFC





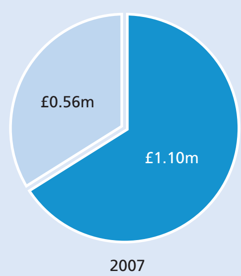
John Foster
Managing Director

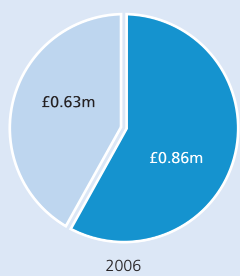
Underlying profits before tax, amortisation and exceptional items

A healthy 11% increase in underlying profits (defined as profit before tax, the amortisation of goodwill and exceptional items) was achieved in the year to 31 March 2007, underlying profits rose to £1.66 million *(2006: £1.49 million)* with a strong performance from the Group's Falkland business and a solid contribution in the UK from the ferry operations at Portsmouth Harbour.

Year ended 31 March	2007 £m	2006 £m
Falkland Islands	1.10	0.86
Gosport Ferry	0.56	0.63
Underlying profit	1.66	1.49
Amortisation	(0.20)	(0.20)
Exceptional costs	(0.11)	(0.49)
Profit on sale of investments	0.49	2.22
Profit before tax	1.84	3.02

Underlying profit: FIC PHFC





Managing Director's Business Review
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Exceptional items
During the year the decision was taken to close the Falkland Islands' defined benefit pension scheme in respect of future service for existing members and in consultation with the employees it was agreed to move to a defined contribution basis. The effect of this is a significant reduction in the exposure of the Group to further increases in pension liabilities. In the current year these changes have resulted in a one off exceptional charge of £105,000.

Profit on the sale of investments
On 12 January 2007 the Group sold its entire shareholding in Falkland Gold and Minerals (FGML). The sale of its 14.4% holding at 6p per share generated net cash proceeds of £675,000 and a profit on sale of £485,000.

Profit before tax
After taking account of charges for the amortisation of goodwill, the exceptional pension charge and profits on the sale of investments which in aggregate represent a net credit of £176,000, the Group's profit before tax for the year was £1.84 million *(2006: £3.0 million)*.

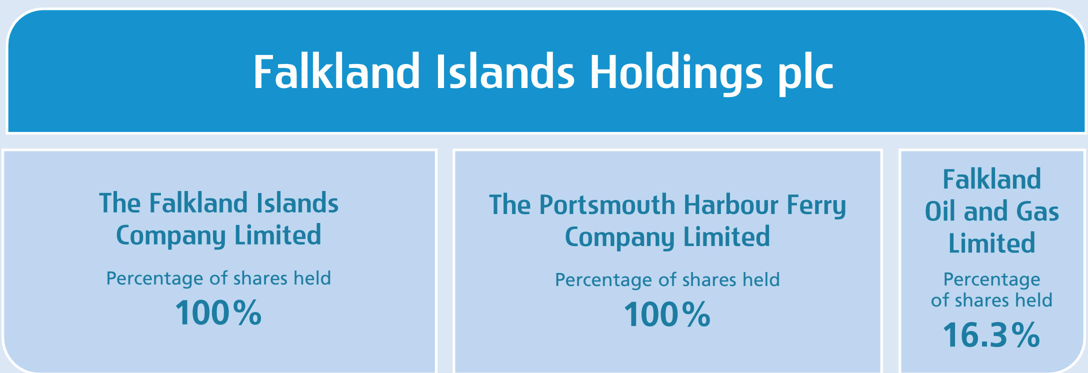
Group structure
In operational terms the Group structure was unchanged.

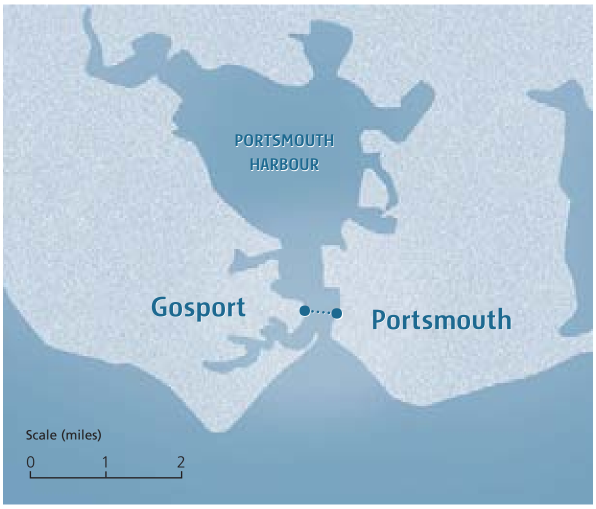
During the year the Group sold its investment in FGML but retained its shareholding in FOGL holding 15 million shares (16.3%) in this AIM-listed exploration company.

Portsmouth Harbour Ferry Company (PHFC)
PHFC performed well in the year despite the absence of the Trafalgar 200 celebrations and International Festival of the Sea, which boosted revenues and profits in the prior period. In August 2006 the Company was successful in winning a contract from Berkeley Homes to provide water taxi services from its new residential development overlooking the harbour at Royal Clarence Yard to the Company's pontoon at Portsea. The service, which runs during peak times five days a week, does not directly compete with the PHFC's core ferry services which operate from Gosport. During the year leisure cruising and private hire services continued, but revenues from cruising were disappointing so this activity has been scaled back, allowing PHFC to focus on core ferry operations and increasing availability for corporate hire.

During the year ended 31 March 2007 PHFC carried nearly 3.6 million passengers across the harbour, although passenger numbers were marginally lower than the exceptionally high figures seen during the maritime celebrations in 2005.

As in the prior year, fares were increased on 1 June 2006, with normal daily adult return fares increased by 11% to £2.00. This enabled the Company to freeze fares for regular users and to hold the price of ten-trip tickets at £8.00 or 80p each way. In addition, to reinforce the value for money offered to our passengers, ten-trip





concessionary fares for children and seniors were frozen at £4.40 or 44p per trip. With overall passenger numbers down on the prior year, the fare increases seen in June 2006 produced a modest overall increase in passenger revenues.

2006/7 saw continued inflationary pressures on operating costs and particularly large increases were seen in fuel prices over the year. After the allocation of head office costs, the underlying profit before tax of the ferry operations amounted to £0.55 million *(2006: £0.63 million)*.

The ferry pontoon at the Gosport terminus is coming to the end of its useful life and the pontoon owners, Gosport Borough Council, are moving ahead with plans to replace it with a new stucture before the end of 2008. The financing of the replacement pontoon remains under discussion but maintenance of the existing arrangements, with a nominal rent payable by the ferry company, would allow PHFC to continue to provide this essential service safely and reliably, whilst still providing excellent value for money to passengers.

Local residents are aware of the benefits of the service PHFC offers. The ferry trip is not only significantly shorter than the land journey around the north of the harbour, but with ever increasing petrol costs it is also significantly cheaper. The ferry is also a more environmentally friendly means of transport with a carbon footprint per passenger less than 3% of that of a car. In May 2007 PHFC ran a special offer highlighting the ferry's green credentials to encourage more car drivers to leave their car at home and instead make their journey on the Gosport ferry.

The Spirit of Gosport crossing Portsmouth Harbour.

Managing Director's Business Review

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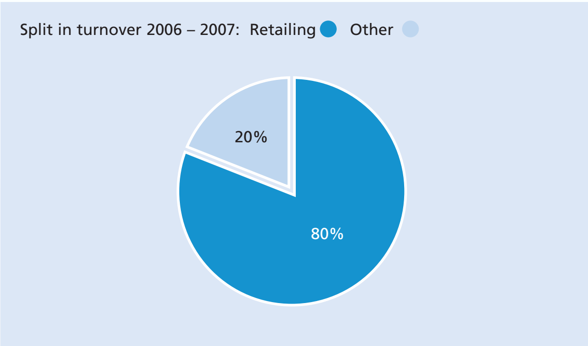
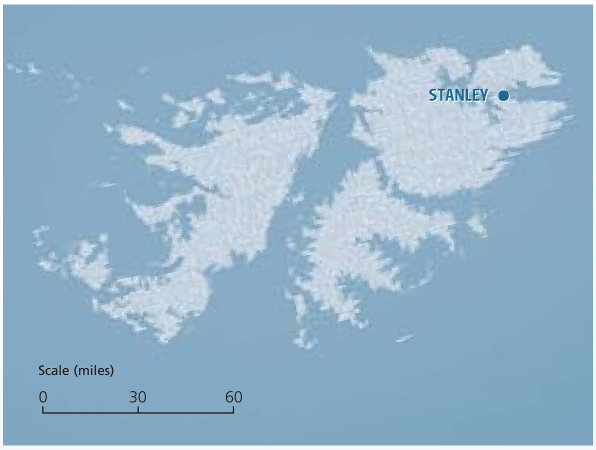
Falklands operations

Total revenue in the Group's Falklands businesses in the year to 31 March 2007 increased by 2.5% to £12.2 million *(2006: £11.9 million)*.



In the Islands the general economic backdrop was helped initially by a better Illex squid catch in the early part of the financial year. Retailing remain competitive, but in Stanley the increased tourist activity associated with the 25th anniversary of the Falklands War helped provide a boost to the Group's other operations, particularly the Capstan gift shop, Penguin Travel and the Upland Goose Hotel. Significant fleet vehicle sales boosted results in the second half of the year.

After allocating head office costs, which are integral to the management and operation of the Group's Falklands business activities, underlying profit before tax and exceptional items rose from £0.9 million to £1.1 million.



Retailing – sales £9.8 million (2006: £9.4 million)

Retailing is the most important business activity undertaken by the Group in the Falklands and accounts for over 80% of turnover.

In the year to 31 March 2007 overall retail sales increased by 4.2% to £9.8 million and the bulk of the increase was accounted for by the Company's automotive dealership.

Sales at the flagship West Store continued to move ahead although competition from local independent retailers and the subdued economic conditions meant that like for like sales growth was restricted to 0.4%. Sales at the Capstan gift shop were helped by the continued growth in the number of cruise ship visitors and revenues increased by 3.3% compared to the prior year. At the Group's DIY business, Homecare, trading conditions were more difficult with a sluggish housing market and

Land Rover Freelander as supplied by FIC.

customers experimenting with internet purchasing from UK suppliers, particularly for higher value items. Sales at Homecare were 5.9% lower in the year although it was encouraging to note that performance recovered towards the end of the year with double digit increases in sales being seen as Homecare's product range was refreshed and improved. At its automotive dealership, FIC had a very successful year with unit vehicle sales increasing by 120%.

Other activities – sales £2.4 million (2006: £2.5 million)

Overall sales in the Company's other activities fell slightly in the year to £2.4 million. Low margin stevedoring at the Stanley floating port FIPAS was scaled back, and the volume of third party freight carried by Darwin Shipping fell, but the overall change in the mix of revenue was positive, and the contribution to Group profits from other activities increased during the year.

The Fishing Agency had a better year with a recovery in the squid catch in Spring 2006 leading to a healthy increase in the number of fishing vessels requiring support services from FIC. The Illex squid catch was the best for four years and revenue from Agency activities increased by over 35% boosting profitability.

FIC's insurance agency, property rental activities and stevedoring services all saw growth in the year.

Darwin Shipping continued to work with the UK Ministry of Defence chartering space on its supply vessels and with a tight control of costs and more efficient management of container rentals, Darwin had another solid year.

The Upland Goose Hotel continues to face strong local competition and is loss making during the quiet winter period, but this year the increased number of visitors over the summer months linked to Falklands 25, helped lift revenues and saw the hotel move closer to a break even position for the year. These positive factors are unlikely to continue in the medium term and given the recent history of losses at the hotel the Group will be considering its future over the next 12 months.

Cash flow

The Group experienced a strong positive cash flow in the year to March 2007. Net cash flow from operating activities increased sharply in the year rising to over £2.3 million compared to only £1.7 million in the prior year reflecting the increase in the Group's underlying profitability and the effective management of working capital.

Tax payments decreased from £391,000 to £338,000 in the year as the result of a repayment of tax in the UK and cash dividends paid rose to £545,000 as the dividend increased to 6.5p per share. During the year £282,000 was invested in capital expenditure to replace worn out plant and machinery and to maintain and enhance the infrastructure of operating businesses. The sale of the investment in FGML further boosted cash reserves and net bank interest paid fell to only £31,000 *(2006: £165,000)* as borrowings were reduced. With the continued strengthening of its liquidity position, surplus cash resources were invested at attractive commercial rates in excess of UK Base Rate.

Cash flows before financing increased sharply from £0.7 million to £1.8 million in the year to March 2007.

Bank loan repayments of £0.5 million were made during the year and the Group ended the year in a strong financial position with cash balances of £5.0 million and net cash balances (cash less outstanding bank borrowings) of £2.2 million *(2006: £0.3 million)*.

Balance sheet

Intangible assets of £3.8 million *(2006: £4.0 million)* relate principally to goodwill on the acquisition of PHFC in 2004 which is being amortised over a period of 20 years. With the adoption of International Financial Reporting Standards in the next financial year the carrying value of goodwill will be reviewed on an annual basis and the fixed annual charge will disappear.

Tangible assets decreased marginally to £7.9 million *(2006: £8.0 million)*. During the year fixed asset additions of £0.3 million were made to improve the infrastructure of the operating companies compared to depreciation charges of £0.4 million.

Stock levels were reduced again in the year from £3.1 million to £2.7 million as the Group held lower buffer stocks following the introduction of more regular freight shipments using Ministry of Defence vessels.

Trade debtors relate largely to fishing licence fees for which FIC acts as the collection agent and as at 31 March 2007 overall trade debtors increased from £1.1 million to £2.1 million reflecting the changing pattern of squid fishing in the months just prior to the year end.

Managing Director's Business Review

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The Group's cash and liquidity position improved significantly in the year with an increase in cash of £1.4 million to £5.0 million and an overall rise in net cash balances (cash less outstanding bank borrowings) from £0.3 million to £2.2 million. Although the Group is in a position readily to repay all of its bank borrowings, the Board took the decision to retain its strong cash position in order to maximise flexibility.

Creditors due within one year increased by £0.5 million from £4.8 million in March 2006 to £5.3 million, due principally to extended credit arrangements with long standing suppliers. Creditor balances due after one year were reduced from £2.8 million at 31 March 2006 to £2.2 million as the Group made scheduled repayments of its medium term loans and loan notes.

Provisions for liabilities and charges relate to deferred tax balances and decreased marginally in the year to £0.7 million.

Long term liabilities due under the Group's defined benefit pension schemes decreased in the year from £1.91 million to £1.87 million as at 31 March 2007.

The pension schemes in both the UK and the Falkland Islands have been closed to new members for many years and on 31 March 2007 the Falklands scheme was closed to further accruals for all current employees. As from 1 April 2007 existing employees previously in the final salary scheme transferred to a defined contribution scheme linked to their current salary.

Past service benefits of employees were crystallised as part of the arrangements although this cost was partially offset by a curtailment gain on closure of the scheme to further accrual and an increase in long term discount rates which had a dampening effect on net liabilities (see note 20 on page 35).

During the year the level of net liabilities in the PHFC scheme decreased, reflecting additional funding payments, improved investment performance and an increase in long term bond rates.

Equity Shareholders' funds grew in the year from £12.9 million to £14.1 million boosted by profit on ordinary activities after tax of £1.45 million and share options subscriptions of £0.15 million, less dividends paid of £0.55 million. At 31 March 2007 net assets per share at cost were 167p per share *(2006: 153p per share)*. Valuing the investment in FOGL at market value, net assets per share was 292p per share at 31 March 2007 *(2006: 400p)*.

Falkland Oil and Gas (FOGL)

The Group continues to hold a strategic stake in FOGL with its holding of 15 million shares representing a 16.3% interest. At 31 March 2007 the market value of this shareholding was £13.0 million *(2006: £21.5 million)*.

During the year FOGL made further progress with its programme of exploration. In November 2006 TRACS International completed an independent review of what it considers to be the Company's top ten prospects and

FOGL seismic vessel, Bergen Surveyor, in the Falklands.

reported that FOGL had net prospective resources in excess of 10 billion barrels. The existence of commercial quantities of oil or gas can only be determined by drilling, but during the year the Company made good progress in raising further funds to continue with its exploration programme, with the issue of £8 million of convertible loan notes in December 2006.

FOGL has also completed the third phase of its 2D seismic programme with the object of acquiring a further 9,950km of detailed infill seismic data, and early indications are that it will provide a much higher definition of FOGL's best prospects. This programme was supplemented in February 2007 when the Company commenced a programme of Closed Source Electro Magnetic (CSEM) surveying, a new technology designed to reduce risk and help highlight the best prospects for drilling. The first phase, which covered six prospects, has been completed and the second phase is expected to be completed by the end of July 2007. Once processing of the data from both surveys is complete, the results will be integrated, a process which will take several months. If the results are positive this will then lead to the determination of a shortlist of the best prospects for drilling.

In parallel with the exploration programme FOGL has continued discussion with farm-in partners and rig owners. The objective remains a drilling programme commencing in 2008.

Business drivers, risk factors and key performance indicators

Business drivers

The Group's businesses have strong ties to the local communities they serve. As consumer oriented businesses their success is linked closely to the general economic conditions in their local markets. Inflation, employment levels, interest rates and government spending programmes all have an effect on disposable income and consumer confidence and this in turn drives local demand for our goods and services. In addition, in both the Falklands and at Gosport, revenues are boosted by wider tourist activity and both locations have benefited from increasing tourist numbers.

Risk factors

As well as changes to local economic conditions the level of local competition also affects the performance of our businesses. In the Falklands FIC faces effective local competition in almost every area of its operations, but because of the Company's long-established position and accumulated expertise, in most sectors FIC has the largest market share. The situation is dynamic and maintaining leadership depends on continued innovation, investment and a commitment to excellence in customer service.

For our ferry operations in Portsmouth the situation is different. Although there is no other directly competing ferry operator, customers do have a choice and can travel by car or public transport to make their journey. Maintaining and promoting the relative attractions of using the ferry whether for commuting to work, shopping or for tourist sight-seeing is a key element of our long term strategy and the Company will continue to work closely with local authorities and other public transport providers to underline its position as a more environmentally friendly, faster and more cost effective alternative to travelling by car in the years ahead.

Key performance indicators

At a Group level management attention is focussed on revenue, costs and the contribution generated by each sub-group of businesses. In the Falklands, businesses' like-for-like revenue growth is a key measure of performance, especially for our retail outlets which account for over 80% of sales. In addition to sales trends, gross margins by product and general costs are also kept under close review.

At PHFC, passenger numbers and the average fare yield are monitored on a weekly basis, and close attention is paid to ferry reliability and passenger safety, as well as a more traditional focus on costs and net profitability.

Impact of adopting International Financial Reporting Standards

Introduction

As an AIM-quoted company, Falkland Islands Holdings plc will be required to report under International Financial Reporting Standards ('IFRS') for the first time in the financial year ending 31 March 2008. Interim results for the six months to 30 September 2007 will be published under IFRS.

In anticipation of this change Falkland Islands Holdings plc has commenced the transition of its accounting policies and financial reporting from UK generally accepted accounting principles ('UK GAAP') to IFRS. The Company

Managing Director's Business Review

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has allocated internal resources and engaged an expert consultant to identify and assess the key areas which will be affected by IFRS adoption.

Priority has been given to preparation of an opening balance sheet in accordance with IFRS1 'First-time adoption of International Financial Reporting Standards' as at 1 April 2006. This will form the basis for accounting under IFRS in the future, and is required when the Group prepares its first fully IFRS compliant financial statements for the year ending 31 March 2008. The restated opening balance sheet will be published on the Company's website in October 2007 in advance of the publication of interim results.

Anticipated impact

Set out below are the major areas where accounting policies will change, together with a preliminary estimate of the impact of these changes on the reported financial performance of Falkland Islands Holdings plc.

Goodwill amortisation

Under IFRS, goodwill will no longer be amortised, but its carrying value will instead be subject to an annual impairment test. This approach will be a change to the Group's existing policy which amortises goodwill over its useful life, subject to a maximum write off period of 20 years. Under the new policy goodwill will no longer be amortised but will be written-down to the extent, if any, that it is impaired. In the absence of any impairment this will have the effect of increasing reported profit before tax by £0.2 million per annum.

Fixed asset investments

The Group holds 15 million ordinary shares in AIM-quoted FOGL, and this investment is currently held in the balance sheet, under UK GAAP, at historical cost.

Under IFRS, the Group's fixed asset investments will be stated in the financial report at fair value, in the case of AIM-quoted FOGL at market value. Unrealised gains and losses in any accounting period will be transferred to a revaluation reserve, as part of shareholders' funds. On disposal, or impairment, the amounts previously recognised as shareholders' funds will be transferred to the profit and loss account in the period. This will have the effect of increasing the Group's net assets on transition to IFRS at 1 April 2006 by £20.7m.

Taxation

Under IFRS the Group will be required to provide for taxation on any difference between the accounting and taxable base of every item in the financial statements. In addition, a deferred tax provision will be made on any revaluation of non-monetary assets (e.g. land and buildings), whether or not there is an intention to sell the asset.

Investment property

On conversion to IFRS the Group will reclassify properties held for rental in Stanley and land held for capital appreciation in the Falkland Islands as investment property. On reclassification IAS40 requires investment property to be recognised at fair value. Thereafter the Company will elect to measure all investment property using the cost model, with a carrying value of deemed cost at the transition date less accumulated depreciation and less any accumulated impairment charges. It is antipated that recognition of investment property at fair value as deemed cost at the transition date will increase net assets by approximately £1.5 million.

Transition timetable

The Group will publish a definitive IFRS transition statement on its website in October 2007 prior to publication of its interim financial statements, which will be issued under IFRS in December 2007.

Trading Outlook for 2007/8

With a stable economic climate in the UK and in the Falklands the prospects for further steady growth over the medium term are good. In the current year the Falklands businesses have started well, with squid catches in the April and May exceeding 2006's. In Portsmouth, ferry passenger numbers have been boosted by the recent sunny spring weather and are ahead year on year. Although cost pressures exist in both businesses with further investment in our infrastructure planned for the current year, the foundations are in place for another solid performance.

John Foster
Managing Director
13 June 2007

Board of Directors and Secretary

David Hudd (62) 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 Deputy Chairman of both Falklands Oil and Gas Limited and Falkland Gold and Minerals Limited.

John Foster (49) 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 (62) 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 (70) 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 (56) 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.

James Ivins (42) Company Secretary

James joined the Group as Company Secretary on 26 February 2007. He was educated at Oxford University and is a Fellow of the Chartered Association of Certified Accountants. James commenced his career in the City of London and has over a decade of international business experience with public and private companies.

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 2007.

Results and dividend

The Group's result for the year are set out in the Group profit and loss account on page 18. Group profit for the year after taxation amounted to £1,446,000 *(2006: £2,644,000)*. Basic earnings per share were 17.2p *(2006: 31.8p)*. The Directors recommend a dividend of 7.0p per share *(2006: 6.5p)* which, if approved by shareholders at the forthcoming Annual General Meeting will be paid on 2 November 2007 to shareholders on the register at close of business on 5 October 2007. This has not been included in creditors as it was not approved before the year end. Dividends paid during the year comprise a dividend of 6.5p per share in respect of the previous year ended 31 March 2006.

Principal activities and business review

The business of the Group during the year ended 31 March 2007 was general trading in the Falkland Islands and the operation of a passenger ferry service across Portsmouth Harbour. The principal activities of the Group are discussed in more detail in the Business Review on pages 3 to 10 and should be considered as part of the Directors' Report for the purposes of the requirements of the enhanced Directors' Report guidance.

The principal activity of the Company is that of a holding Company.

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 14 and 15. 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.

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 35 to 39.

Share capital and substantial interests in shares

During the year 93,472 share options were exercised. There have been no changes to the authorised share capital which remains at 12,500,000 ordinary shares.

Further information about the Company's share capital is given in note 21 on page 39. Details of the Company's executive share option scheme and employee ownership plan can be found on pages 14 and 15 and in note 23 on pages 41 and 42.

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 31 March 2007.

Substantial shareholdings

	Number of shares	Percentage of issued shares
Artemis Investment Management	995,902	11.76
L S Licht	791,250	9.34
Jupiter Asset Management	543,988	6.42
AMVESCAP PLC	490,587	5.79
Sir Harry Solomon	430,027	5.08
INVESCO English & International Trust plc	365,557	4.32

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 2007 or 31 March 2006.

Charitable and political donations

Charitable donations made by the Group during the year amounted to £16,431 *(2006: £9,745)*, largely to local community charities in Gosport and the Falkland Islands. Donations of £8,082 were made in the Falklands of which the largest was £5,000 to the Falkland Islands Commonwealth Games Association. Donations in the UK included £2,500 to sea rescue charities. There were no political donations.

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 College Hill, The Registry, Royal Mint Court, London EC3N 4QN on 11 September 2007 at 2.30pm. 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.

Directors' Report

CONTINUED

Details of Directors' remuneration and emoluments

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

An analysis of the remuneration and taxable benefits in kind (excluding share options) provided for and received by each Director during the year to 31 March 2007 and in the preceding year is as follows:

	Salary £'000	Bonuses £'000	Benefits £'000	Pensions £'000	Gains in respect of share options £'000	2007 Total £'000	2006 Total £'000
David Hudd	100	20	–	–	9	129	150
John Foster	140	53	–	23	–	216	198
Mike Killingley	25	–	–	–	–	25	25
Leonard Licht	20	–	–	–	–	20	20
Sir Harry Solomon	20	–	–	–	–	20	20
Anthony Knightley	–	–	–	–	–	–	195
	305	73	–	23	9	410	608

Directors' interests in shares

As at 31 March 2007, 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 J L Foster	Exercise price	Exercisable from	Expiry date
Opening 1 April 2006	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	10 Feb 2005	–	23,917	£5.20	10 Feb 2008	9 Feb 2015
	A	14 June 2005	49,411	14,117	£4.25	14 June 2008	13 June 2015
Total 1 April 2006			**130,711**	**71,809**	–		
Exercised in the period			–	–	–		
Granted in the period	A	13 July 2006	59,843	28,346	£3,175	13 July 2009	12 July 2016
Closing	B		–	23,917			
31 March 2007	A		190,554	76,238			
Total 31 March 2007			**190,554**	**100,155**			

Scheme A = executive share option scheme. Scheme B = Scheme approved by HMRC

The mid-market price of the Company's shares on 31 March 2007 was 240 pence and the range during the year was 227 pence to 380 pence.

The Directors' options extant at 31 March 2007 totalled 290,709 and represented 3.4% 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.

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 are shown below:

	Ordinary shares at 31 March 2007	Ordinary shares at 31 March 2006
David Hudd	**45,400**	40,000
John Foster	**5,000**	5,000
Mike Killingley	**3,000**	3,000
Leonard Licht	**791,250**	791,250
Sir Harry Solomon	**430,027**	430,027

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 and applicable law (UK Generally Accepted Accounting Practice).

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.

Directors' Report

CONTINUED

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.

James Ivins
Secretary
13 June 2007

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 2007 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group 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 pages 15 and 16.

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 Statement and Managing Director's Review, that is cross referenced from the Business Review section of the Directors' Report. In addition we 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 if it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements within it.

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 2007 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
13 June 2007
Nottingham

Group Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH 2007

Notes		2007 £'000	As restated 2006 £'000
	Turnover		
	Continuing operations	15,618	15,209
	Discontinued operations	–	527
2, 3	Turnover	15,618	15,736
3	Cost of sales	(9,531)	(9,855)
3	Gross profit	6,087	5,881
	Administrative expenses	(4,606)	(4,471)
	Amortisation of goodwill	(204)	(204)
4	Administrative expenses – exceptional costs	(105)	(487)
3	Total administrative expenses	(4,915)	(5,162)
3, 5	Other operating income	338	344
	Continuing operations	1,510	1,062
	Discontinuing operations	–	1
	Group operating profit	1,510	1,063
	Profit on sale of discontinued operation	–	84
13	Profit on sale of fixed asset investment	485	2,135
6	Bank interest receivable	205	38
6	Bank interest payable	(236)	(194)
6	Pension schemes net financing cost	(124)	(108)
	Profit on ordinary activities before taxation	1,840	3,018
7	Taxation	(394)	(374)
22	**Profit on ordinary activities after taxation for the financial year**	1,446	2,644
9	Earnings per share		
	Basic	17.2p	31.8p
	Diluted	17.1p	31.3p
	Proposed dividend per ordinary share	7.0p	6.5p

In both the current and preceding years, there was no material difference between the result reported in the profit and loss account and the result on an unmodified historical cost basis.

Group Balance Sheet

AT 31 MARCH 2007

Notes		2007 £'000	2007 £'000	2006 £'000	2006 £'000
	Fixed assets				
11	Intangible assets	3,775		3,979	
12	Tangible assets	7,856		8,042	
13	Investments	2,420		2,610	
			14,051		14,631
	Current assets				
14	Stocks	2,678		3,107	
15	Debtors due within one year	2,517		1,789	
15	Debtors due after one year	45		48	
		2,562		1,837	
18	Cash at bank and in hand	4,959		3,601	
		10,199		8,545	
16	Creditors: amounts falling due within one year	(5,310)		(4,797)	
	Net current assets		4,889		3,748
	Total assets less current liabilities		18,940		18,379
17	Creditors: amounts falling due after more than one year		(2,191)		(2,765)
19	Provisions for liabilities		(744)		(853)
	Net assets excluding pension liabilities		16,005		14,761
20	Net pension scheme liabilities		(1,869)		(1,909)
	Net assets		14,136		12,852
	Capital and reserves				
21	Called up share capital		847		838
22	Share premium account		7,206		7,064
22	Other reserves		703		703
22	Revenue reserves		5,380		4,247
24	**Equity shareholders' funds**		14,136		12,852

The financial statements were approved by the Board of Directors on 13 June 2007 and were signed on its behalf by:

J L Foster
Managing Director

Company Balance Sheet

AT 31 MARCH 2007

				As restated	
		2007		2006	
Notes		£'000	£'000	£'000	£'000
	Fixed assets				
13	Investments		17,464		17,654
	Current assets				
15	Debtors	222		333	
18	Cash at bank and in hand	2,786		1,055	
		3,008		1,388	
16	Creditors: amounts falling due within one year	(641)		(781)	
	Net current assets	2,367		607	
17	Creditors: amounts falling due after more than one year		(757)		(1,132)
	Net assets		19,074		17,129
	Capital and reserves				
21	Called up share capital		847		838
22	Share premium account		7,206		7,064
22	Other reserves		5,389		5,389
22	Revenue reserves		5,632		3,838
24	**Equity shareholders' funds**		19,074		17,129

The financial statements were approved by the Board of Directors on 13 June 2007 and were signed on its behalf by:

J L Foster
Managing Director

Group Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2007

Reconciliation of operating profit to net cash inflow from operating activities

	2007 £'000	As restated 2006 £'000
Operating profit	1,510	1,063
Profit on sale of fixed assets	–	(12)
Amortisation of goodwill	204	204
Depreciation and impairment charges	468	838
Decrease in stocks	429	201
Increase in debtors	(725)	(12)
Increase / (decrease) in creditors and provisions	316	(687)
Provisions for share-based payments	101	70
Net cash inflow from operating activities	2,303	1,665

Cash Flow Statement

	2007		2006	
	£'000	£'000	£'000	£'000
Cash flow from operating activities		2,303		1,665
Returns on investments and servicing of finance				
Interest received	205		38	
Interest paid	(236)		(203)	
		(31)		(165)
Taxation				
UK corporation tax paid	(162)		(250)	
Overseas taxation paid	(176)		(141)	
		(338)		(391)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(282)		(505)	
Purchase of investments	–		(2,000)	
Receipts from sale of tangible fixed assets	–		15	
Receipts from sale of investment	675		2,427	
		393		(63)
Acquisitions and disposals				
Sale of subsidiary undertaking	–		178	–
		–		178
Dividends paid		(545)		(502)
Cash inflow before financing		1,782		722
Financing				
Repayment of secured loan	(532)		(524)	
Repayment of loan notes	(43)		(43)	
Issue of ordinary share capital	151		3	
New secured loan	–		2,609	
Cash flow from financing		(424)		2,045
Increase in cash in the year		1,358		2,767

Group Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2007 – CONTINUED

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

	2007 £'000	2006 £'000
Increase in cash in the year	1,358	2,767
Cash outflow/(inflow) from movement in debt	575	(2,042)
Change in net debt resulting from cash flows	1,933	725
Net funds/(debt) at start of year	293	(432)
Net funds at end of year	2,226	293

Analysis of changes in net funds/(debt)

	As at 1 April 2006 £'000	Cash flows £'000	As at 31 March 2007 £'000
Cash at bank and in hand	3,601	1,358	4,959
Debt due within one year	(542)	–	(542)
Debt due after one year	(2,766)	575	(2,191)
Net funds at end of year	293	1,933	2,226

Consolidated Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 MARCH 2007

	2007		As restated 2006	
	£'000	£'000	£'000	£'000
Profit for the year		1,446		2,644
PHFC scheme gain/(loss)	61		(88)	
FIC scheme gain	118		57	
Actuarial gain/(loss) on pension schemes (note 20)		179		(31)
Decrease in deferred tax asset relating to pension scheme		(48)		(123)
Actuarial gain/(loss) on pension schemes net of tax		131		(154)
Total gains recognised since last annual report		1,577		2,490

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

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 standard has been adopted for the first time:

• FRS 20 'Share Based Payments'

The impact on the profit and loss account is set out in note 23.

The corresponding amounts are restated in accordance with the new policy.

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 2007 and comparatives for the year ended 31 March 2006.

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 of twenty years in accordance with FRS 10.

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

Employee share awards

The Group provides benefits to certain employees (including Directors) in the form of share-based payment transactions, whereby the employee renders services in exchange for shares or rights over future shares ('equity settled transactions'). The cost of these equity settled transactions with employees is measured by reference to an estimate of their fair value at the date on which they were granted using an input option pricing model. For further details refer to note 23.

The number of shares which will ultimately vest depends upon the achievement of agreed performance criteria. The ultimate value of the options (if any) are accordingly dependent upon future share price movements. As at 31 March 2007 none of the options for which share-based payment charges have been incurred have been exercised. The cost of equity settled transactions is recognised, together with a corresponding increase in reserves, over the period in which the performance conditions are fulfilled, ending on the date on which the share option vests. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is solely due to share prices not achieving the vesting threshold. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in computation of diluted earnings per share.

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 is the amount receivable by the Group for goods supplied and services rendered excluding VAT. Turnover principally arises from retail sales and provision of ferry services, but also includes hotel takings, insurance commissions, revenues billed for shipping agency activities and port services, in the Falkland Islands. Turnover from the sale of goods is recognised at the point of sale or despatch, whilst that of the ferry and other services is recognised when the service is provided.

Pensions

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

The Group also administers two pension schemes providing benefits based on final pensionable pay, one of which is unfunded. The assets of the PHFC scheme 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 to which it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/defecit 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.

1 Accounting policies CONTINUED

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.

Classification of financial instruments issued by the Group

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.

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.

Notes to the Financial Statements
CONTINUED

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

	General trading (Falklands) £'000	Ferry Services (Portsmouth) £'000	2007 Total £'000	General trading (Falklands) £'000	Ferry Services (Portsmouth) £'000	2006 Total £'000
Turnover						
– continuing operations	12,256	3,362	15,618	11,902	3,307	15,209
Discontinued operations						
– Cobham Travel	–	–	–	–	527	527
Total turnover	12,256	3,362	15,618	11,902	3,834	15,736
Net assets	9,998	4,138	14,136	3,911	8,941	12,852
Segment operating profit	1,122	388	1,510	637	426	1,063
Profit on sale of fixed asset investments	485	–	485	2,135	–	2,135
Profit on sale of discontinued operations	–	–	–	–	84	84
Net interest expense	(115)	(40)	(155)	(212)	(52)	(264)
Group profit before tax	1,492	348	1,840	2,560	458	3,018
Underlying profit before tax:						
Group profit before tax	1,492	348	1,840	2,560	458	3,018
Goodwill amortisation	–	204	204	–	204	204
Exceptional costs	105	–	105	435	52	487
Profit on sale of fixed asset investments	(485)	–	(485)	(2,135)	–	(2,135)
Profit on sale of discontinued operations	–	–	–	–	(84)	(84)
Underlying profit before tax	1,112	552	1,664	860	630	1,490

Underlying profit before tax is presented to illustrate the Group's profit before tax, goodwill amortisation, exceptional items and profit on the sale of fixed asset investments and discontinued operations.

3 Analysis of continuing and discontinued operations
No activities were discontinued in the year.

	2007 Continuing Total £'000	As restated 2006 Continuing £'000	As restated 2006 Discontinued £'000	As restated 2006 Total £'000
Turnover	15,618	15,209	527	15,736
Cost of sales	(9,531)	(9,384)	(471)	(9,855)
Gross profit	6,087	5,825	56	5,881
Administrative expenses	(4,915)	(5,104)	(58)	(5,162)
Other operating income	338	341	3	344
Operating profit	1,510	1,062	1	1,063

4 Exceptional costs

	2007 £'000	2006 £'000
Pension scheme restructuring (see note 20):		
Crystalisation of past service cost	197	–
Curtailment gain	(92)	–
Compensation for loss of office	–	105
Impairment of fixed assets (Upland Goose Hotel)	–	382
Exceptional costs	105	487

5 Operating profit

		2007 £'000	2006 £'000
Operating profit on ordinary activities is stated after charging:			
Depreciation and other amounts written off tangible fixed assets		468	838
Goodwill amortisation		204	204
Auditors' remuneration	– for holding company audit services	19	18
	– for subsidiary companies audit services	38	36
	– for other services	20	22
Operating lease rental	– vehicles	–	3
	– other leases	31	31
and after earning:			
Other operating income		338	344

Of the fees paid to the auditor for other services £20,000 *(2006: £22,000)* relates to general advisory and tax work.

Other operating income is mainly comprised of property rentals and financial services income.

6 Interest expense

	2007 £'000	2006 £'000
Interest receivable	205	38
Interest payable on bank loans	(236)	(194)
Net bank interest payable	(31)	(156)
Expected return on pension scheme assets	13	9
Interest cost on pension scheme liabilities	(137)	(117)
Net financing cost of pension schemes	(124)	(108)

Notes to the Financial Statements

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7 Taxation

	2007 £'000	2006 £'000
The tax charge based on profit for the period comprises:		
UK corporation tax at 30%	421	228
Less double taxation relief	(291)	(114)
	130	114
Overseas taxation at 25%	414	203
Adjustments with respect to prior periods	(13)	58
Total current tax	531	375
Deferred taxation	(71)	8
Changes in recoverable amount	(38)	–
(Decrease) / increase in deferred tax liability before deferred tax on pensions (see note 19)	(109)	8
Deferred taxation on pension liability movement	(28)	(9)
Tax on profit on ordinary activities	**394**	**374**

The current tax charge is higher than the standard rate of corporation tax in the United Kingdom of 30%. The difference can be explained below:

	2007 £'000	As restated 2006 £'000
Profit on ordinary activities before tax:	1,840	3,018
Current tax at 30%	552	905
Expenses not deductible for tax purposes	8	62
Capital allowances less / (greater than) depreciation	32	(33)
Non-taxable income	(84)	(579)
Other timing differences	66	(20)
Excess foreign tax	(4)	2
Marginal relief	(2)	(3)
Lower tax charge overseas	(24)	(17)
Adjustments to tax charge in respect of previous periods	(13)	58
Total current tax	**531**	**375**

8 Dividend

	2007 £'000	2006 £'000
The aggregate amount of dividends comprises:		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	545	502
Aggregate dividends paid in the financial year	**545**	**502**

The Directors have proposed a dividend of £592,769 (7.0p per share). In accordance with the provisions of FRS21 'Events after the balance sheet date' this has not been included within creditors as it was not approved at the year-end.

9 Earnings per share

The calculation of basic earnings per share is based on profits on ordinary activities after taxation, and the weighted average number of shares in issue in the period, excluding shares held under the Employee Share Option Ownership Plan ('ESOP') (see note 22).

The calculation of diluted earnings per share is based on profits on ordinary activities after taxation, and the weighted average number of shares in issue in the period, excluding shares held under ESOP, adjusted to assume the full issue of share options in issue, to the extent that they are dilutive.

	2007 £'000	As restated 2006 £'000
Profit on ordinary activities after taxation	1,446	2,644

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

	2007 Number	As restated 2006 Number
Weighted average number of shares in issue	8,466,060	8,380,066
Less: shares held under ESOP	(48,917)	(55,417)
Average number of shares in issue excluding ESOP	8,417,143	8,324,649
Maximum dilution with regard to share options	30,927	109,736
Diluted weighted average number of ordinary shares	8,448,070	8,434,385

	2007	2006
Basic earnings per share	17.2p	31.8p
Diluted earnings per share	17.1p	31.3p

To provide a comparison of earnings per share based on underlying performance, the calculation below sets out basic and diluted earnings per share based on profits before amortisation of goodwill and exceptional items.

Earnings per share on underlying profitability

	2007 £'000	2006 £'000
Underlying profit before tax (see note 2)	1,664	1,490
Less: tax thereon	(532)	(477)
Underlying profit after tax	1,132	1,013

	Increase	2007	2006
Underlying performance basic earnings per share	9.8%	13.4p	12.2p
Underlying performance diluted earnings per share	11.7%	13.4p	12.0p

Notes to the Financial Statements

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10 Employment costs including Directors

	2007 £'000	2006 £'000
Wages and salaries	3,255	3,228
Social security costs	172	210
Other pension costs	145	156
Employment costs	3,572	3,594

Details of Directors' remuneration are provided the Directors' Report, under the heading 'Details of Directors' Remuneration and Emoluments' on page 14.

	2007 Number	2006 Number
The average number of people employed in the year by location:		
Falkland Islands	86	92
England	48	50
Average number employed	134	142

11 Intangible assets

	Goodwill £'000
Cost:	
At 31 April 2006 and 31 March 2007	4,248
Accumulated amortisation:	
At 1 April 2006	269
Charge for the year	204
At 31 March 2007	473
Net book value:	
Balance at 31 March 2006	3,979
Balance at 31 March 2007	3,775

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 2006	4,881	342	3,289	2,828	11,340
Additions	97	–	28	157	282
Disposals	–	–	–	–	–
At 31 March 2007	4,978	342	3,317	2,985	11,622
Accumulated depreciation:					
At 1 April 2006	1,350	50	130	1,768	3,298
Charge for the year	114	7	132	215	468
Disposals	–	–	–	–	–
At 31 March 2007	1,464	57	262	1,983	3,766
Net book value:					
At 31 March 2006	3,531	292	3,159	1,060	8,042
At 31 March 2007	3,514	285	3,055	1,002	7,856

Included within freehold land and buildings is land stated at £948,000 *(2006: £948,000)* which is not depreciated.

The Company has no tangible fixed assets.

13 Fixed asset investments

	Group and Company		
	FGML investment £'000	FOGL investment £'000	Total £'000
Cost:			
As at 1 April 2006	190	2,420	2,610
Disposals in the year	(190)	–	(190)
As at 31 March 2007	–	2,420	2,420

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

On 12 January 2007 the Company disposed of its investment in Falkand Gold and Minerals Limited by selling its entire holding of 11,250,000 shares with a cost of £190,000 for £675,000 resulting in a profit on disposal of £485,000.

Notes to the Financial Statements
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13 Fixed asset investments CONTINUED
Market value and shareholdings:

	Group and Company	
	2007 £'000	2006 £'000
FOGL	12,977	21,500
FGML	–	1,800
Market value at 31 March	12,977	23,300

At the year end the Group held 15,000,000 ordinary shares in Falkland Oil and Gas Limited representing a 16.3% interest *(2006: 15 million shares)*.

The closing market price of FOGL at 31 March 2007 was 86.5p *(2006: 143.5p)*.

Company investment in Group undertakings:

	£'000
As at 1 April 2006 and 31 March 2007	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 in the United Kingdom
Portsea Harbour Company Limited	Ordinary shares of £1	100% indirect	Statutory harbour authority
Clarence Marine Engineering Limited	Ordinary shares of £1	100% indirect	Marine and engineering maintenance
Gosport Ferry Limited	Ordinary shares of £1	100% indirect	Passenger ferry operator

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

14 Stocks

	Group 2007 £'000	Group 2006 £'000
Goods for resale	**2,678**	3,107

15 Debtors

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Amounts falling due within one year:				
Trade debtors	**2,099**	1,085	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**205**	93
Hire purchase receivables	**133**	96	**–**	–
Corporation tax	**–**	46	**1**	219
Other debtors	**124**	376	**16**	21
Prepayments and accrued income	**161**	186	**–**	–
	2,517	1,789	**222**	333
Amounts falling due after more than one year:				
Hire purchase receivables	**45**	48	**–**	–
Total debtors	**2,562**	1,837	**222**	333

The cost of assets acquired for the purpose of letting under hire purchase agreements by the Group during the period amounted to £186,000 *(2006: £103,000)*.

The aggregate rentals receivable during the period in respect of hire purchase agreements were £182,000 *(2006: £193,000)*.

16 Creditors: amounts falling due within one year

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Bank loans and overdrafts (see note 18)	**499**	499	**300**	300
Trade creditors	**3,181**	2,640	**–**	–
Other creditors including taxation and social security	**260**	244	**24**	153
Corporation tax	**570**	424	**–**	–
Accruals and deferred income	**757**	947	**274**	285
Unsecured loan notes	**43**	43	**43**	43
Creditors due within one year	**5,310**	4,797	**641**	781

Within other creditors is tax and social security of £39,521 *(2006: £46,188)*.

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.

Notes to the Financial Statements

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17 Creditors: amounts falling due after more than one year

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Bank loans	**2,191**	2,723	**757**	1,090
Unsecured loan notes	**–**	42	**–**	42
Creditors due after more than one year	**2,191**	2,765	**757**	1,132

The bank loans are secured, see note 16.

18 Borrowings, derivatives and other financial instruments

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
The bank loans, overdrafts and unsecured loan notes are repayable as follows:				
Within one year	**(542)**	(542)	**(342)**	(342)
Between one and two years	**(499)**	(542)	**(200)**	(342)
Between two and five years	**(1,054)**	(1,590)	**(215)**	(790)
Over five years	**(638)**	(634)	**–**	–
	(2,733)	(3,308)	**(757)**	(1,474)
Cash	**4,959**	3,601	**2,786**	1,055
Net funds/(debt)	**2,226**	293	**2,029**	(419)

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 £2.0 million.

	Group	
	2007 £'000	2006 £'000
Cash comprises:		
Short term money markets	**4,555**	3,470
Cash held in sterling accounts	**796**	70
Cash held in foreign currency accounts	**48**	61
Total cash	**5,399**	3,601

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 has a loan of £1.9 million in respect of the ferry delivered in 2005. 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 2007 the fair values of both of these instruments was a liability of £1,109.

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

The Group actively manages its cash resources and funds are placed on deposit with HSBC, attracting interest at a premium to the base rate.

19 Provisions for liabilities

	2007 £'000	As restated accelerated capital allowances 2006 £'000
Deferred taxation:		
At 1 April	**853**	882
Transfer to profit and loss account	**(109)**	8
Fair value adjustment	**–**	(37)
As at 31 March	**744**	853

On 6 April 2008 the standard rate of UK corporation tax will be reduced by 2% from 30% to 28%.

20 Pension schemes

The Group operates two defined contribution and also two defined benefit pension schemes. Both defined benefit schemes have been closed to new members and future accrual.

Defined contribution schemes

The pension cost charge for the period for the defined contribution scheme represents contributions payable by the Group and amounted to £145,000 *(2006: £138,000)*. The Group anticipates paying contributions amounting to £150,000 during the year ending 31 March 2008.

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

Defined benefit pension schemes

(i) A summary of the fair value of the net pension schemes' deficit is set out below:

	2007 £'000	2006 £'000
Pension scheme deficit:		
Falkland Islands Company Limited Scheme	**(2,136)**	(2,107)
Portsmouth Harbour Ferry Company Limited Scheme	**(381)**	(471)
	(2,517)	(2,578)
Deferred tax	**648**	669
Net pension schemes' deficit	**(1,869)**	(1,909)

(ii) 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. This scheme was closed to further accrual on 31 March 2007. Benefits are payable on retirement at the normal retirement age.

The latest full actuarial valuation was carried out at 31 March 2005 and was updated for FRS 17 purposes to 31 March 2007 by a qualified independent actuary, Lane Clark & Peacock LLP. The major assumptions used in this valuation were:

	2007	2006	2005
Rate of increase in salaries	**2.6%**	4.0%	4.0%
Rate of increase in pensions in payment and deferred pensions	**3.0%**	3.0%	3.0%
Discount rate applied to scheme liabilities	**5.4%**	5.0%	5.4%
Inflation assumption	**3.2%**	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.

Notes to the Financial Statements

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20 Pension schemes CONTINUED

(ii) The Falkland Islands Company Limited Scheme CONTINUED

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 2007 £'000	Value at 2006 £'000	Value at 2005 £'000
Present value of scheme liabilities	(2,136)	(2,107)	(2,141)
Related deferred tax asset	534	527	696
Net pension liability	(1,602)	(1,580)	(1,445)

Movement in deficit during the year:

	2007 £'000	2006 £'000
Deficit in scheme at beginning of the year	(2,107)	(2,141)
Current service cost	(28)	(19)
Past Service cost	(197)	–
Curtailment gain	91	–
Pensions paid	93	92
Other finance cost	(106)	(96)
Actuarial gain	118	57
Deficit in the scheme at the end of the year	(2,136)	(2,107)

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

	2007 £'000	2006 £'000
Current service cost	28	19

Analysis of amounts included in other finance costs:

	2007 £'000	2006 £'000
Interest on pension scheme liabilities	106	96

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

	2007 £'000	2006 £'000
Experience (losses)/gains arising on scheme liabilities	(3)	80
Changes in assumptions underlying the present value of scheme liabilities	121	(23)
Actuarial gain recognised in statement of total recognised gains and losses	118	57

20 Pension schemes CONTINUED

(ii) The Falkland Islands Company Limited Scheme CONTINUED

Scheme liabilities CONTINUED

History of experience gains and losses:

	2007	2006	2005	2004	2003
Experience gains and losses on scheme liabilities:					
Amount (£'000)	(3)	80	Unavailable as the Group only adopted FRS 17 on 1 April 2005.		
Percentage of year end present value of scheme liabilities	0.14%	3.7%			
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	121	(23)	(51)	49	25
Percentage of year end present value of scheme liabilities	(5.7)%	(1.1)%	(2.3)%	2.3%	1.7%

(iii) Portsmouth Harbour Ferry Company Plc (1975) Retirement Fund

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 2007, 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:

	2007	2006	2005
Rate of increase in pensions in payment and deferred pensions	3.2%	3.0%	3.0%
Discount rate applied to scheme liabilities	5.4%	4.9%	5.0%
Inflation assumption	3.2%	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.

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 2007 £'000	Value at 2006 £'000	Value at 2006 £'000
Equities	156	133	91
Fixed interest	20	17	34
Other	34	6	–
Total market value of assets	210	156	125
Present value of scheme liabilities	(591)	(627)	(415)
Deficit in the scheme – Pension liability	(381)	(471)	(290)
Related deferred tax asset	114	142	87
Net pension liability	(267)	(329)	(203)

Notes to the Financial Statements

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20 Pension schemes CONTINUED

(iii) Portsmouth Harbour Ferry Company Plc (1975) Retirement Fund CONTINUED

Scheme assets CONTINUED

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

	Long term rate of return 2007	Long term rate of return 2006
Equities	7.5%	7.5%
Fixed interest	5.0%	5.0%
Other	4.5%	4.5%

Movement in deficit during the year:

	2007 £'000	2006 £'000
Deficit in scheme at beginning of year	(471)	(290)
Fair value adjustment	–	(84)
Contributions paid	47	3
Other finance costs	(18)	(12)
Actuarial gain/(loss)	61	(88)
Deficit in the scheme at the end of the year	(381)	(471)

Analysis of amounts included in other finance costs:

	2007 £'000	2006 £'000
Expected return on pension scheme assets	13	9
Interest on pension scheme liabilities	(31)	(21)
Other finance costs	(18)	(12)

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

	2007 £'000	2006 £'000
Actual return less expected return on scheme assets	(4)	19
Experience gains and losses arising on scheme liabilities	–	(72)
Changes in assumptions underlying the present value of scheme liabilities	65	(35)
Actuarial loss recognised in statement of total recognised gains and losses	61	(88)

20 Pension schemes CONTINUED

(iii) Portsmouth Harbour Ferry Company Plc (1975) Retirement Fund CONTINUED

Scheme assets CONTINUED

History of experience gains and losses:

	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	**(4)**	19	Unavailable as the Group only adopted FRS 17 on 1 April 2005.		
Percentage of year end scheme assets	**1.0%**	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)	**61**	(88)			
Percentage of year end present value of scheme liabilities	**(17.1)%**	(18.7)%			

21 Called up share capital

	Group and Company	
	2007 £'000	2006 £'000
Authorised:		
12,500,000 *(2006: 12,500,000)* ordinary shares of 10p each	**1,250**	1,250
Allotted, called up and fully paid:		
8,470,210 *(2006: 8,381,238)* ordinary shares of 10p each	**847**	838

A total of 418,209 *(2006: 303,103)* 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 'Directors' interests in shares' on pages 14 and 15.

There were no *(2006: 81,972)* share options outstanding under the Company's Saving Related Share Option Scheme at 31 March 2007.

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22 Reserves

(i) Group	Share premium account £'000	Other reserves £'000	Revenue reserves £'000	Share options reserve £'000	Total revenue reserves £'000	**Total £'000**
At 1 April 2006	7,064	703	4,247	–	4,247	**12,014**
Prior year adjustment – FRS 20	–	–	(95)	95	–	**–**
At 1 April 2006 as restated	7,064	703	4,152	95	4,247	**12,014**
Retained profit for the year	–	–	1,446	–	1,446	**1,446**
Charge for share-based payments	–	–	–	101	101	**101**
Dividends	–	–	(545)	–	(545)	**(545)**
Premium on shares issued in the year, net of expenses	142	–	–	–	–	**142**
Actuarial gain on pension net of tax	–	–	131	–	131	**131**
As at 31 March 2007	**7,206**	**703**	5,184	196	**5,380**	**13,289**

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 2007 the plan held 48,917 *(2006: 55,417)* ordinary shares at cost of £73,265 *(2006: £83,000)*. The market value of the shares at 31 March 2007 was £117,400 *(2006: 198,116)*. Options described in the Directors' report over these shares are exerciseable at prices of 139.5p, 150p, 317.5p and 520p from 2003 to 2011. Shares held in the ESOP have had their rights to dividends waived, as in prior years.

(ii) Company	Share premium account £'000	Other reserves £'000	Revenue reserves £'000	Share options reserve £'000	Total revenue reserves £'000	**Total £'000**
At 1 April 2006	7,064	5,389	3,838	–	3,838	**16,291**
Prior year adjustment – FRS 20	–	–	(95)	95	–	**–**
At 1 April 2006 as restated	7,064	5,389	3,743	95	3,838	**16,291**
Retained profit for the year	–	–	2,238	–	2,238	**2,238**
Charge for share-based payments	–	–	–	101	101	**101**
Dividends	–	–	(545)	–	(545)	**(545)**
Premium on shares issued in the year, net of expenses	142	–	–	–	–	**142**
As at 31 March 2007	**7,206**	**5,389**	5,436	196	**5,632**	**18,227**

A profit of £2,238,000 *(2006 as restated: £2,663,000)* 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 Share Options

The Company adopted FRS 20 'Share-based payments' for the first time during the year.

The share options reserve is used to record the costs arising under FRS 20 for options issued to Directors and senior employees, and similar costs associated with share-based payments.

	Group and Company	
	2007 £'000	2006 £'000
Opening balance	95	25
Costs associated with share options	101	70
As at 31 March	196	95

The following options have been valued for FRS 20 purposes:

Date of issue	Number	Exercise Price £	Share price at grant date £	Fair Value per Share £	Fair Value Total £	Earliest Exercise Date	Expiry Date
1 April 2003	81,972	1.70	1.75	0.31	25,411	31 Mar 06	1 Oct 06
10 February 2005	57,962	5.20	5.20	1.40	81,147	10 Feb 08	9 Feb 15
14 June 2005	63,528	4.25	4.25	1.12	71,151	14 Jun 08	13 Jun 15
14 June 2005	67,500	4.25	4.25	1.66	112,050	14 Jun 08	13 Jun 15
13 July 2006	103,189	3.18	3.18	0.64	66,041	13 Jul 09	12 Jul 16

The fair values of the options are estimated at the date of grant using appropriate option pricing models and are charged to the profit and loss account over the expected life of the options. The following table gives the assumptions made in determining the fair value of the options subject to the provisions of FRS 20 currently in issue. Expected volatility is determined by reference to past performance of the Company's share price.

	1 April 03	10 Feb 05	EPS conditions attached 14 June 05	Share price conditions attached 14 June 05	13 July 06
Expected volatility	22%	37%	38%	38%	31%
Risk-free interest rate	3.1%	4.4%	4.3%	4.3%	4.7%
Expected life of options (years)	3.25	6.5	6.5	6.5	6.5
Dividend yield	2.8%	1.1%	1.4%	1.4%	2.1%
Share price at grant date	£1.82	£5.20	£4.25	£4.25	£3.18

During the year ended 31 March 2007, 38,500 options were exercised over ordinary shares. Options issued prior to 6 November 2002 are not subject to the provisions of FRS 20.

Notes to the Financial Statements

CONTINUED

23 Share Options CONTINUED

Movement in options in issue (including options issued prior to 6 November 2002 and outside the scope of FRS 20).

	Group and Company						
	Pre-6 Nov 02 Number	1 Apr 03 Number	10 Feb 05 Number	14 June 05 Number	14 June 05 Number	13 July 06 Number	Total Number
As at 1 April 2005	157,800	81,972	57,692	–	–	–	297,464
Granted during the period	–	–	–	63,528	109,500	–	173,028
Exercised during the period	–	–	–	–	–	–	–
Expired during the period	–	–	–	–	(15,000)	–	(15,000)
As at 1 April 2006	157,800	81,972	57,692	63,528	94,500	–	455,492
Granted during the period	–	–	–	–	–	103,189	103,189
Exercised during the period	(11,500)	(81,972)	–	–	–	–	(93,472)
Expired during the the period	–	_	–	–	(27,000)	–	(27,000)
As at 31 March 2007	**146,300**	**–**	**57,692**	**63,528**	**67,500**	**103,189**	**438,209**

24 Reconciliation of movement in shareholders' funds

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Opening shareholders' funds	**12,852**	10,791	**17,129**	14,895
Profit for the financial year	**1,446**	2,714	**2,238**	2,733
Dividends	**(545)**	(502)	**(545)**	(502)
Other recognised gains and losses	**273**	(154)	**142**	–
Share options charge for the year	**101**	–	**101**	–
Issue of shares	**9**	3	**9**	3
As at 31 March	**14,136**	12,852	**19,074**	17,129

25 Operating lease commitments

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

	Group			
	2007		2006	
	Land and buildings £'000	Other operating leases £'000	Land and buildings £'000	Other operating leases £'000
Operating leases which expire:				
Within one year	7	–	–	3
In the second to fifth years inclusive	–	–	30	–
Over five years	–	–	–	–
	7	–	30	3

The Company had no operating lease commitments.

26 Capital commitments

At the year end the Group had no capital commitments not provided in these financial statements.

Directors and Corporate Information

Directors

David Hudd *Chairman*
John Foster *Managing Director*
Leonard Licht*
Sir Harry Solomon*
Mike Killingley*

**Non-executive Directors*

Company Secretary

James Ivins

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Falkland Islands Holdings