Falkland Islands Holdings plc

Interim Report 2007

Falkland Islands Holdings

Chairman's and Managing Director's Review

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2007

Overview

We are pleased to report an encouraging set of interim results for your Company for the half year to 30 September 2007. Profits before taxation rose 25% to £794,000 (2006: £634,000) and turnover increased by 3% to £7.5 million (2006: £7.3 million). Earnings per share were 6.4p per share (2006: 5p) an increase of 28% compared to the first half of 2006/7. As in previous years no interim dividend is proposed.

Equity shareholders' funds at 30 September 2007, reported for the first time under International Financial Reporting Standards (IFRS), were £36.9 million up £12.1 million from 31 March 2007 representing net assets per share of 436p (2006: 290p per share).

Operations

Falkland Islands

The current period started encouragingly in the Falklands with revenues from fishing agency support services showing good growth on the previous year as a result of better illex squid catches. General trading activity was helped by an increase in the number of visitors to the Islands for the commemoration of the Falklands War. However, revenues from the Group's retailing operations were only marginally ahead as subdued local demand and competition restricted growth. In the first half, progress was made with the reorganisation and refurbishment of DIY operations into two discrete profit centres: Homebuilder for building materials and supplies and Home Living for soft furnishings and household goods. In September the Gallery clothing store was also successfully re-branded as "Basics" to offer a simpler more attractive range of clothing. These refurbishments and further planned improvements to the main West Store supermarket will strengthen customer appeal and competitiveness. Insurance broking, property rental and financial services continued to show growth on 2006.

Revenue from Falklands trading operations grew by 2.9% in the first half to £5.65 million (2006: £5.49 million). Profit before tax boosted by higher margins earned by fishing agency activities increased by 59% from £259,000 to £411,000 in the 6 months to 30 September 2007.

United Kingdom

Results for the half year at the Portsmouth Harbour passenger ferry (PHFC) were also pleasing with steady progress being made. Despite the wet summer, overall passenger numbers were ahead by 1.5% and revenues increased by 4.8% to £1.88 million (2006: £1.80 million) in the 6 months to 30 September 2007. This was the first time since late 2004 that a real increase in total passenger numbers has been experienced over a 6 month period, reflecting increased awareness of the attractiveness of the ferry compared to alternative methods of transport. During the Summer the refurbishment of PHFC's pontoon landing stage at Portsmouth was carried out and discussions have continued with Gosport Council to finalise the design of a replacement pontoon in Gosport. The new pontoon is expected to be installed early in 2009. The continued commitment of PHFC's staff enabled the ferry to maintain its enviable reputation for reliability, achieving a remarkable 99.6% on time service in the period. In the 6 months to 30 September 2007 profits before tax at PHFC were marginally ahead at £383,000 compared to £375,000 in the comparable period.

Investments and Financial Assets

The Group continues to hold its strategic 16.2% shareholding (15 million shares) in the AIM listed oil exploration company, Falkland Oil and Gas (FOGL). During the period FOGL completed its Controlled Source Electro Magnetic (CSEM) Survey and also concluded its programme of 2D seismic work, with initially encouraging results. Most significantly for the future, in October FOGL concluded a farm-out agreement with the largest resources company in the world BHP Billiton (BHPB) who will become the operator of the licences from January 2008. BHPB has extensive deep sea exploration and development experience in the Gulf of Mexico, Australia and West Africa.

The terms of the farm-out provide that the revised licence commitment of two wells will be drilled in FOGL's acreage before the expiry of the initial licence period on 31 December 2010. This will be the first drilling activity in the Falklands since the North Falklands campaign of 1998.

BHPB has acquired a 51% interest in the licences and has agreed to reimburse FOGL with US$12.75 million in respect of previously incurred expenditure and pay 68% of the costs of the exploration programme including two wells. As a result FOGL is now funded through a significant proportion of the near term exploration programme. After the farm-out, FIH's 16.2% shareholding now represents a 7.9% indirect interest in the licences.

The market value of the Group's 15 million ordinary shares in FOGL (16.2%) at 30 September 2007 was £24.3 million (162p per share) compared to cost of £2.4 million.

Balance Sheet and Cash Flow

During the period the Group spent £0.5 million refurbishing and upgrading its key operating assets both in the Falklands and the UK with expenditure incurred on new in-fill housing developments in Stanley and the upgrading of the Group's retail outlets. Working capital investment increased as inventories in the Group's retail operations rose from £2.7 million to £3.2 million in the run up to Christmas.

The Group's pension liabilities under defined benefit schemes, shown gross before the deduction of deferred tax, fell from £2.5 million as at 31 March 2007 to £2.2 million at 30 September 2007. Interest bearing loans and liabilities were £2.6 million (31 March 2007: £2.7 million) and the Group's cash balances remained healthy at £4.9 million (£5.0 million as at 31 March 2007).

Outlook

In the second half of the year economic conditions in the Falklands are expected to be more subdued with continued pressure on retail margins, while in the UK ferry passenger numbers and revenues are expected to remain at a broadly similar level to last year. However, the good start seen in the first half gives us confidence that the Group will continue to make progress and will return a solid result for the year to 31 March 2008.

Looking further ahead, increases in exploration activity and future drilling provide opportunities for many of our business units in the Falklands. In addition, the agreement recently reached with the Falkland Islands Government to exchange the racecourse, which has been in Company ownership for over 100 years, for other land including 15 acres with potential for housing development offers exciting possibilities as demand for housing increases.

With shareholders' funds of over £36 million and net cash balances of £2.3 million your Company is in a strong financial position going forward. We are seeking to capitalise on our financial strength and continue to look at suitable acquisitions in order to enhance shareholder value further.

David Hudd
Chairman
5 December 2007

John Foster
Managing Director

Unaudited Interim Consolidated Income Statement

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2007

Notes		6 months to 30 September 2007 £'000	6 months to 30 September 2006 £'000	Year ended 31 March 2007 £'000
3	**Revenue**	**7,530**	7,285	15,618
	Cost of sales	**(4,438)**	(4,521)	(9,531)
	Gross profit	**3,092**	2,764	6,087
	Pension scheme restructuring costs	–	–	(105)
	Other administrative expenses	**(2,412)**	(2,184)	(4,623)
	Administrative expenses	**(2,412)**	(2,184)	(4,728)
	Other operating income	**148**	124	338
	Operating profit	**828**	704	1,697
	Finance income	**129**	103	205
	Finance expense	**(95)**	(121)	(236)
	Net bank interest	**34**	(18)	(31)
	Profit on disposal of financial investment	–	–	485
	Pension scheme net financing cost	**(68)**	(52)	(124)
	Net financing (costs) / income	**(34)**	(70)	330
	Profit before tax	**794**	634	2,027
4	Taxation	**(258)**	(208)	(394)
	Profit attributable to equity holders of the parent	**536**	426	1,633
5	Earnings per share:			
	Basic	**6.4p**	5.0p	19.4p
	Diluted	**6.0p**	5.0p	19.2p

Unaudited Consolidated Balance Sheet

AT 30 SEPTEMBER 2007

Notes		30 September 2007 £'000	30 September 2006 £'000	31 March 2007 £'000
	Non-current assets			
	Intangible assets	**3,979**	3,979	3,979
	Property, plant and equipment	**6,539**	6,325	6,268
	Investment properties	**1,562**	1,604	1,588
6	Financial assets – investments in quoted companies	**24,300**	13,650	12,900
	Other financial assets	**30**	46	45
	Deferred tax assets	**576**	671	648
	Total non-current assets	**36,986**	26,275	25,428
	Current assets			
	Inventories	**3,160**	2,751	2,678
	Trade and other receivables	**2,253**	1,328	2,384
	Other financial assets	**139**	92	133
	Cash and cash equivalents	**4,890**	4,160	4,959
	Total current assets	**10,442**	8,331	10,154
	Total assets	**47,428**	34,606	35,582
	Current liabilities			
	Interest bearing loans and borrowings	**(542)**	(499)	(542)
	Income tax payable	**(847)**	(520)	(570)
	Trade and other payables	**(4,041)**	(2,473)	(4,247)
	Total current liabilities	**(5,430)**	(3,492)	(5,359)
	Non-current liabilities			
	Interest bearing loans and liabilities	**(2,074)**	(3,193)	(2,191)
	Pension liabilities	**(2,246)**	(2,589)	(2,517)
	Deferred tax liabilities	**(744)**	(855)	(744)
	Total non-current liabilities	**(5,064)**	(6,637)	(5,452)
	Total liabilities	**(10,494)**	(10,129)	(10,811)
	Net assets	**36,934**	24,477	24,771
	Capital and reserves			
	Called up share capital	**847**	847	847
	Share premium account	**7,206**	7,206	7,206
	Other reserves	**703**	703	703
	Retained earnings	**6,332**	4,681	5,535
	Financial assets revaluation reserve	**21,846**	11,040	10,480
7	**Equity shareholders' funds**	**36,934**	24,477	24,771

Unaudited Consolidated Cash Flow

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2007

Cash Flow Statement

Notes		6 months to 30 September 2007 £'000	6 months to 30 September 2006 £'000	Year ended 31 March 2007 £'000
	Profit for the period	**536**	426	1,633
	Adjusted for:			
	Depreciation	**239**	234	468
	Net financing costs	**34**	70	(330)
	Gain on sale of investment properties	**(10)**	–	–
	Equity-settled share-based payment expenses	**68**	45	101
	Income tax expense	**258**	208	394
	Operating profit before changes in working capital and provisions	**1,125**	983	2,266
	(Increase) / decrease in trade and other receivables	**140**	371	(725)
	(Increase) / decrease in inventories	**(482)**	356	429
	Increase / (decrease) in trade and other payables	**(272)**	(1,004)	316
	Increase / (decrease) in provisions and employee benefits	**11**	17	17
	Cash generated from operations	**522**	723	2,303
	Interest paid	**(95)**	(51)	(236)
	Income taxes paid	**–**	(53)	(338)
	Net cash from operating activities	**427**	619	1,729
	Cash flows from investing activities			
	Acquisition of property, plant and equipment	**(494)**	(116)	(282)
	Costs incurred in restructuring investment holding	**(34)**	–	–
	Proceeds from sale of investment properties	**20**	–	–
	Proceeds from sale of investments	**–**	–	675
	Interest received	**129**	21	205
	Net cash from investing activities	**(379)**	(95)	598
	Cash flow from financing activities			
	Repayment of secured loan	**(117)**	(116)	(532)
	Repayment of loan notes	**–**	–	(43)
	Issue of ordinary share capital	**–**	151	151
	Dividends paid	**–**	–	(545)
	Net cash from financing activities	**(117)**	35	(969)
	Net increase in cash and cash equivalents	**(69)**	559	1,358
	Cash and cash equivalents at start of period	**4,959**	3,601	3,601
10	**Cash and cash equivalents at end of period**	**4,890**	4,160	4,959

Unaudited Consolidated Statement of Recognised Income and Expense FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2007

	6 months to 30 September 2007 £'000	6 months to 30 September 2006 £'000	Year ended 31 March 2007 £'000
Change in fair value of equity securities available for sale	11,366	(9,619)	(10,179)
PHFC pension scheme gain / (loss)	48	(7)	43
FIC pension scheme gain	145	2	88
Actuarial gain / (loss) on pension schemes	193	(5)	131
Net income / (expense) recognised directly in equity	11,559	(9,624)	(10,048)
Profit for the period	536	426	1,633
Total recognised income and expense for the period	12,095	(9,198)	(8,415)

Notes to the Unaudited Interim Statements

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2007

1 Basis of Preparation

To date Falkland Islands Holdings plc has prepared its primary financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). For accounting periods starting from 1 April 2007 onwards, in accordance with AIM rules, the Group is required to prepare its consolidated financial statements in accordance with International Accounting Standards ('IAS') and International Financial Reporting Standards as adopted by the European Union ('adopted IFRS'). These interim financial statements are the first published results under adopted IFRS. The Group's first Annual Report under adopted IFRS will be for the year ending 31 March 2008. The date for the transition to IFRS was 1 April 2006, being the start of the period of comparative information.

On 31 October 2007 the Group published an analysis of the impact of adopting IFRS from 1 April 2006. This news release is available from the Group's website at www.fihplc.com. This included income statement, balance sheet and opening balance sheet reconciliations, as well as details of the accounting policies applied in restating its financial statements for the year ended 31 March 2007 and the six months ended 30 September 2006.

The financial statements have been prepared in accordance with accounting policies the Group expects to follow when the first annual IFRS financial statements are prepared for the year ending 31 March 2008. This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that are endorsed by the EU and effective (or available for early adoption) at 30 September 2007. As permitted, these interim financial statements have been prepared in accordance with AIM rules and not in accordance with IAS34 'Interim Financial Reporting'.

The adopted IFRS that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 March 2008 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 March 2008.

The Interim Report was approved by the Board on 4 December 2007.

Section 240 Statement

The comparative figures for the financial year ended 31 March 2007 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP, have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

2 Adoption of International Financial Reporting Standards ('IFRS')

The Board has adopted IFRS for the first time. A document entitled 'Restatement of primary financial information for 2006/7 under International Financial Reporting Standards', detailing the impact of adoption on the Company's financial statements, is available on the Company's website. The impact on the income statement is as follows:

	6 months to 30 September 2006 £'000	Year ended 31 March 2007 £'000
Profit after tax previously reported under UK GAAP	341	1,446
Add: write-back of goodwill amortisation	102	204
Less: accrual for holiday pay	(17)	(17)
Profit after tax restated under adopted IFRS	426	1,633

3 Revenue and profit analysis

	6 months to 30 September 2007 Falklands £'000	Ferry £'000	Total £'000	6 months to 30 September 2006 Falklands £'000	Ferry £'000	Total £'000	Year ended 31 March 2007 Falklands £'000	Ferry £'000	Total £'000
Turnover	5,646	1,884	7,530	5,487	1,798	7,285	12,256	3,362	15,618
Segment net assets	4,448	8,186	12,634	3,039	7,789	10,828	4,012	7,859	11,871
Investments	24,300	–	24,300	13,650	–	13,650	12,900	–	12,900
Group net assets	28,748	8,186	36,934	16,689	7,789	24,477	16,912	7,859	24,771
Segment operating profit	416	412	828	334	370	704	1,105	592	1,697
Net interest income / (expense)	(5)	(29)	(34)	(75)	5	(70)	(115)	(40)	(155)
Segment profit before tax	411	383	794	259	375	634	990	552	1,542
Profit on sale of fixed asset investments	–	–	–	–	–	–	485	–	485
Group profit before tax	411	383	794	259	375	634	1,475	552	2,027

4 Taxation

The taxation charge has been estimated at 32% (2006: 32%).

5 Earnings per Share

Earnings per share has been calculated on profit after tax of £536,000 (2006: £426,000) based on the weighted average number of shares in issue, excluding shares held in the Employee Share Ownership Plan of 8,433,998 (2006: 8,417,143). The diluted earnings have been further adjusted to assume the full issue of share options in issue, to the extent that they are dilutive.

6 Investments

(a) At fair value

The Group has an investment in the AIM quoted company Falkland Oil and Gas Limited ('FOGL').

	30 September 2007 £'000	30 September 2006 £'000	31 March 2007 £'000
FOGL share price	162p	85p	86p
Investments stated at fair value:			
Falkland Oil and Gas Limited	24,300	12,750	12,900
Falkland Gold and Minerals Limited	–	900	–
Investments at fair value	24,300	13,650	12,900

An unrealised gain of £11,366,000 has been recognised in the period and transferred to the Revaluation Reserve as a component of shareholders' funds.

(b) At cost

On 7 September 2007 Falkland Islands Holdings plc transferred its entire interest in FOGL to Erebus Limited, a wholly-owned subsidiary incorporated in the Falkland Islands.

Prior to adoption of IFRS the Group carried investments at cost:	£'000	£'000	£'000
Falkland Oil and Gas Limited	2,454	2,420	2,420
Falkland Gold and Minerals Limited	–	190	–
Investments at historic cost	2,454	2,610	2,420

Notes to the Unaudited Interim Statements

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2007

7 Reconciliation of Movement in Shareholders' Funds

	30 September 2007 £'000	30 September 2006 £'000	31 March 2007 £'000
Opening shareholders' funds as previously reported[1]	**24,771**	33,479	33,479
Profit for the period	**536**	426	1,633
Dividends paid	–	–	(545)
Issue of shares	–	9	9
Share-based payments	**68**	45	101
Unrealised gain / (loss) on fixed asset investments	**11,366**	(9,619)	(10,179)
Premium on shares issued in the year net of expenses	–	142	142
Other recognised gains and losses	**193**	(5)	131
Net addition to shareholders' funds	**12,163**	(9,002)	(8,708)
Closing shareholders' funds	**36,934**	24,477	24,771

[1] As restated for reporting under IFRS in the 'Restatement of primary financial information for 2006/7 under International Financial Reporting Standards' available on the Company's website.

8 The interim reported has been prepared on the basis of the accounting policies set out in the Group's 'Restatement of primary financial information under International Financial Reporting Standards' available on the Company's website.

9 Analysis of change in debt

	As at 1 April 2007 £'000	Cash flows £'000	As at 30 September 2007 £'000
Cash at bank and in hand	4,959	(69)	**4,890**
Debt due within one year	(542)	–	**(542)**
Debt due after one year	(2,191)	117	**(2,074)**
Net funds / (debt) at end of period	2,226	48	**2,274**

Company Information

Directors
David Hudd
Chairman

John Foster
Managing Director

Leonard Licht
Senior Independent Non-Executive Director

Sir Harry Solomon
Non-Executive Director
Chairman of the Remuneration Committee

Mike Killingley
Non-Executive Director
Chairman of the Audit Committee

Company Secretary
James Ivins

Senior Staff in the Falkland Islands
Roger Spink *Director and General Manager*
David Castle *Retailing Director*
Ana Crowie *Financial Controller*
Telephone: +500 27600
Email: fic@horizon.co.fk
Web: www.the-falkland-islands-co.com

Senior Staff at the Portsmouth Harbour Ferry Company
Paul Fuller *Director and General Manager*
Rhett Gibson *Senior Skipper*
Christine Waters *Financial Controller*
Telephone: 02392 524551
Email: admin@gosportferry.co.uk
Web: www.gosportferry.co.uk

Registered Office
Kenburgh Court
133-137 South Street
Bishop's Stortford
Hertfordshire CM23 3HX
Telephone: 01279 461630
Fax: 01279 461631
Email: admin@fihplc.com

Registered number 03416346

www.fihplc.com

Falkland
Islands
Holdings