FIH Group PLC - FIH Pre-Close Trading Update
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FIH group plc

("FIH", "the Group" or the "Company")

Pre-Close Trading Update

FIH group plc ("FIH"), the AIM quoted international specialist services group with businesses in the Falkland Islands and UK, is pleased to provide the following update on trading for the year ended 31 March 2017. The results remain subject to audit and final approval by the Board of FIH.

- **As outlined in the Group's Trading Update of 14 March 2017, trading in the second half was stronger than originally anticipated, although, as expected, profitability was still significantly lower than in H2 last year due to the quieter trading in the Falklands.**

- **Full Year Underlying Profit before Tax is therefore likely to be approximately 20-25% lower than the prior year, in the range of £2.3- £2.5million, principally due to the reduced contribution from the Group's Falklands operations.**

- **The Group's cash flow during the year was strong. After capital investment of over £1.6 million, principally to support long term expansion at Momart, FIH ended the year with record cash balances of £15.1 million, an increase of over £1 million compared to 31 March 2016 (£14.0 million).**

Operational Highlights:

- **Falkland Islands Company ("FIC")** - In the Falklands, trading was as expected, much quieter compared to the record levels seen in the prior year as the business returned to more normalised levels of activity following the cessation of oil exploration drilling early in the year. FIC's principal business activity, Retailing, also faced increased competitive pressure following the expansion of its largest supermarket competitor, "The Chandlery", in November 2016.

- **Momart** - At the Group's art handling and logistics business, after a strong start in H1, activity in the second half slowed compared to the prior year, however, profits for the full year are still expected to be marginally ahead of the prior year after absorbing start-up losses of £0.2 million from the company's recently opened extension to its art storage facilities at Leyton. At an underlying level Momart's profitability improved over the full year despite continuing to face pricing pressure in the Museum sector and a highly competitive global art market.

- **Portsmouth Harbour Ferry Company ("PHFC")** - Passenger numbers at Gosport Ferry were 4.1% lower than in the prior year, but these volume decreases were offset by fare rises in June 2016 and with tight cost control, trading at the Group's passenger ferry business was satisfactory, at levels slightly ahead of 2015-16.

- **Group Trading performance -** The Group's overall trading performance for the year to 31 March 2017 (i.e. underlying pre-tax profits, before amortisation and non-trading items), is expected to show a 20-25% decrease in comparison to the prior year, principally due to the reduced contribution from FIC. Full Year Underlying Profit before Tax and non-trading items and the amortisation of intangibles is expected to be in the range £2.3-£2.5 million (2016: £3.1 million).

- **At a non-trading level,** in 2016-17, the Group saw profits of £0.16 million from the disposal of fully written down fixed assets in SAtCO and in PHFC. However non-recurring costs of approximately £0.5 million were incurred with professional advisers who provided guidance to the Board on its duties to the Company and its shareholders in relation to the offer from Staunton Holdings and on the Board's subsequent response to expression of interest from Dolphin Fund Limited. Unlike in the prior year, there were no restructuring costs (2016: £0.26 million).

- **Cash and Bank Borrowings -** At 31 March 2017, the Group had cash balances of £15.1 million and with bank borrowings of £3.8 million the Group had net cash of £11.3 million (£10.8 million at 31 March 2016).

Strategic Priorities:

- Although global oil prices have improved over the last 12 months, the timing of oil development in the Falklands remains uncertain. In the near term FIC faces increasingly strong local competition and although all opportunities for expansion of FIC's business will be pursued, until such time as oil development or the growth of tourism provides a long term stimulus to business activity in the Islands, the outlook for the Group's Falklands business will be challenging.

- The Board therefore continues to believe that given the hiatus and delays in the Falklands that the Group should continue to focus in the near term on developing its UK operations through further investment in existing businesses and through the pursuit of high quality strategic acquisitions.

- This strategy aims to create an enlarged quoted entity with a wider appeal to investors that will in turn enhance shareholder liquidity, improve the Group's rating and drive a sustainable increase in shareholder value.

- Execution of this strategy will be aided by making use of the Group's strong operating cash flow and the Group's record net cash reserves which at 31 March 2017 amounted to £11.3 million (90 pence per share).

- However the Board is mindful of the importance of retaining support from loyal shareholders and will be consulting with stakeholders to develop consensus support for its acquisition strategy and to consider the benefits of a potential return of excess capital. A further announcement confirming the Board's approach will be issued soon.

- To strengthen the Board and to support its ambitions for long term sustainable growth in shareholder value, the Board has started a process to recruit a further qualified and experienced, independent Non-Executive Director and this appointment will be announced prior to the Company's AGM on 31 August 2017.

Operational detail:

Falkland Islands Company ("FIC")
At FIC, profitability was lower than in 2015-16 due principally to the slow-down in the Falklands economy

resulting from the absence of oil exploration activity that last year produced record profits at FIC. The contribution from FIC was also adversely affected by the expansion and further modernisation of FIC's principal retail competitor, the Chandlery, which contributed to a 6.2% decline sales at the Group's West Store supermarket for the full year compared to only a 1.6% reduction in the first half. At FIC's Capstan gift shop and General Store at the MPA air terminal, the absence of discretionary oil related spend saw sales fall by 15.3%. At Home Living/ Homebuilder there was a welcome 9% increase in sales, linked to the continued buoyancy of the government's subsidised housing scheme on government land. Despite this bright spot, total retail sales were 5.4% lower than in 2015-16 and with margins under pressure too, the contribution from FIC's largest business unit fell sharply over the year.

The lack of oil related demand also saw the contribution from FIC's property portfolio fall as premium corporate rental income was exchanged for "local" rentals at a 30% discount. Increased local competition and the absence of the oil stimulus together with the exceptionally poor squid catch at the start of the financial year were the main factors behind the decline in FIC's profitability although the overall reduction was mitigated by cost savings in central administration, encouraging performances from FIC's housebuilder, FBS, and Penguin Travel combined with continued growth from insurance and consumer finance services.

Income from the Group's construction Joint Venture, SAtCO, also ceased with the departure of the oil rigs in early summer 2016 and SAtCO's contribution was minimal compared to FIC's share of JV profits of £0.2m in the prior year. On a more positive note, the successful disposal of SAtCO's fully written down crawler crane, was achieved by shipping the asset back to the UK and selling it to a middle-eastern buyer at a small profit. The contribution from this sale is included in non-trading income.

In overall terms profitability in the Group's Falkland operations fell back from the record levels of £1.9 million seen in 2015-16 to a similar level to that seen in the year to 31 March 2014, (£1.0m PBTa) when there was little oil exploration activity in the Islands.

Momart

At the Group's London based art handling specialist Momart, the recent investment in strengthening marketing and sales saw revenues for the full year increase by £2m (+13%) to over £18.3 million (2016: £16.3 million) despite a highly competitive art market and the absence of revenue in the current year from the company's newly opened art storage facility in Leyton where snagging issues delayed effective completion and opening to clients until March 2017.

Exhibition revenues from museums increased by 20% to over £10 million although gross margins for this highly competitive work were squeezed and the mix of work was less lucrative than in the prior year with more contracts requiring work outsourced to overseas partners at lower margins.

In Gallery Services despite a quieter art market and a slow-down in activity with auction houses earlier in the year, progress continued with total annual revenues increasing by 8% to over £6.2 million (2016 £5.8 million). Margins held up well as the company became more effective in differentiating its high end specialist services for discerning private collectors and gallery owners.

With existing storage facilities at full capacity, storage revenues were essentially unchanged at £2.0million. With the completion of the company's new warehouse at Leyton, which adds 30% to existing capacity, quickly filling the new space and driving renewed growth in storage income is a key priority for the coming year.

Despite the increased rental costs of £0.2 million from the new warehouse, Momart delivered an improved contribution compared to the prior year and further growth is anticipated in the new financial year as increased storage activity helps drive an improved bottom line performance.

Portsmouth Harbour Ferry Company ("PHFC")

At the Group's passenger ferry business, PHFC, revenues were maintained despite a 4.1% fall in passenger numbers as volume decreases were offset by fare rises implemented in June 2016. At £3.40 for an Adult Return ticket and a variety of discounts and incentives available for regular users, the ferry remains good value for money albeit the attractions of car travel, cheap petrol and a subsidised Park & Ride scheme in Portsmouth create a challenging back drop. However with tight cost control, trading for the year was satisfactory, with PHFC's contribution at levels slightly ahead of 2015-16.

Outlook:

FIC
For the year ahead, we anticipate another quiet trading period in the Falklands. Local competition remains fierce particularly in Retail and the full effects of the Chandlery's expansion will wash through in the first half. However property rental income has now stabilised and housebuilding remains buoyant on the back of continued government subsidies for first time local buyers. Further growth in FIC's consumer finance business is anticipated and a steady performance is also expected from insurance broking, 4x4 sales and vehicle maintenance.

In the near term, an improved squid catch should help improve general confidence and a further stimulus from government infrastructure projects may emerge following the quadrennial Legislative Assembly elections in November 2017. Further oil development awaits an improved outlook for the global oil and the emergence of a deep pocketed operator to farm-in and help develop Premier Oil's "Sea Lion" acreage. With respect to tourism, continued growth is expected from cruise ship activity but negotiations with Argentina concerning flight permissions for new scheduled flights from South America which have the potential to unlock land-based tourism, remain unresolved and no significant stimulus from new flights is expected in the coming year.

PHFC
At PHFC, the emphasis in the coming year will continue to be on tight cost control and on maintaining the ferry's excellent reliability record. The final completion of the disruptive construction works at the passenger interchange in Portsmouth is expected by June 2017; this and the arrival of the new carrier HMS Queen Elizabeth late in 2017, should provide some modest stimulus to passenger volumes over the year. With its core fleet of 3 modern passenger vessels, ongoing capital expenditure at the ferry will be modest and underlying cash flow from ferry operations will continue to be strong.

Momart
At Momart, increased confidence in the global art market was reflected in the Spring auction house sales, which should help drive further growth in sales to private collectors, galleries and auction houses although competition remains intense. Museum exhibitions work remains very price competitive and only limited growth is anticipated in this sector. In the coming year, the key focus will be to fill the company's newly opened storage facilities as quickly as possible to expand business with private collectors and galleries and create a platform for further growth.

Full Year Preliminary Results
The Group's Preliminary Results for the year ended 31 March 2017 are expected to be released on Tuesday 13th June 2017.

Chairman of FIH, Edmund Rowland, commented:

"The Group has delivered a satisfactory trading performance, reflecting the much quieter trading conditions which were expected in the Falklands and the solid performance of the Group's UK businesses, which both saw improved profits compared to the prior year. With record cash balances of £15.1 million and net cash of £11.3 million, giving net cash per FIH share of 90 pence per share, the Group's financial position and prospects remain strong.

"As Chairman, I remain committed to delivering sustainable long term growth in shareholder value by investing in the strong niche businesses the Group already has and by delivering on our promise of securing high quality selective acquisitions. In line with this commitment, the Board will be consulting over the coming period with shareholders as to the benefits of a potential return of excess capital and details of our proposals will be made public in the coming weeks, prior to the announcement of the Group's full year results on Tuesday 13th June.

"In the meantime we will immediately commence a process to appoint an experienced independent Non-Executive Director to further strengthen the Board. I look forward to updating the market on our growth strategy as the year progresses, as we seek out opportunities that will create an enhanced platform for sustainable long term growth."

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