



Falkland Islands Holdings plc
Interim Report 2004

Chairman's Statement and Review of Operations

For the six months ended 30 September 2004



Since I reported to shareholders in June your Group has instigated a period of intense corporate activity which has transformed the Group's prospects and valuation.

We have been active in promoting the opportunity for minerals and oil exploration in the Falklands and I am pleased to report that these efforts, and those of our partners, have been instrumental in attracting £22 million of investment both from institutions and the Public. This will fund significant exploration activity for our two associated companies over the next 3 years. In the United Kingdom our acquisition of The Portsmouth Harbour Ferry Company (PHFC) gives us a solid foundation for the future expansion of the Group.

The flotations of our associated companies, Falkland Oil and Gas Limited (FOGL) and Falkland Gold and Minerals Limited (FGML), were both well received by the market and oversubscribed. The impact of any commercial discoveries on the Group's businesses and assets in the Falklands and the value of our retained shareholdings in FOGL and FGML would be substantial.

We launched our bid for PHFC on 6 October, valuing PHFC at £8 million; at the stage we already owned 27% of the equity. The cash and shares bid was financed by the placing of 1.49 million FIH shares, which raised £4.7 million after expenses, and a new bank facility. The bid was hotly contested but I am pleased to report that it was recommended by the PHFC Board on 8 December and declared unconditional two days later. PHFC achieved a profit before exceptional items and taxation of over £950,000 in 2003 and as part of the Group it will reduce our dependence on the Falklands' economy and give us a solid base for further expansion in the UK.

Review of Results

The results for the first half of the year do not reflect any of the activity referred to above, all of which took place after the end of the half-year. The results for the six months ended 30 September 2004 showed little change from last year with profit before tax of £294,000 compared with £300,000 for the comparable period. This was after accounting for £22,000 being our share of FGML's loss for the period.

Turnover was up 10.2% at £5.4 million (2003: £4.9 million), this represented a return to normal levels of trading after a disappointing performance from the shipping business in 2003. Operating profit at £319,000 was up 5% (2003: £304,000). This was a good result in the circumstances and reflected substantial growth from management services and vehicle sales.

Conversely, the fishing agency experienced another year of difficult trading with continued low levels of catches. Furthermore, The Upland Goose Hotel produced a significant loss; in order to improve performance and standards Sodexo has been running the hotel under a management contract since 1 October.

Corporate costs increased as planned as the scale and complexity of the Group's activities increased. A new corporate website is being developed to ensure that we provide shareholders with ongoing investor information and the latest news. Shareholders can register to be notified via email alert when new information is published. The new website address will be www.fihplc.com.

Finances

Cash flow from operations remained strong at £445,000 (2003: £410,000). Completion last year of the major expansion of the West Store meant that capital expenditure was significantly lower at £36,000 (2003: £389,000).

Your Board has followed a conservative approach to financing the Group's expansion. A total of £935,000 was invested in acquiring shares in PHFC and further investments of £679,000 was made in financing FOGL and FGML prior to 30 September. These investments were funded by share placing in June which raised £747,000 after expenses and from existing bank facilities. Subsequently, the further share placing in October raised £4.7 million. These placings have led to a significant broadening in the institutional shareholder base which augurs well for the future expansion of the Group.

Falkland Oil and Gas Limited

Although shareholders in the Group were offered the opportunity to invest in the public offer it was not possible to offer any priority in the allocation of shares; the Board of FOGL having

been advised that all subscribers should be treated equally. The Group did not sell any shares in the flotation and has retained 14,450,000 shares, an 18.1% shareholding. That investment will be accounted for as an associated company. The book value of the holding is £714,000 and the market value based on the closing price on 14 December was £10.2 million.

We have undertaken to retain the shareholding in FOGL for at least one year, however the Board believes that shareholders' best interests will be served by the retention of the entire shareholding whilst exploration continues. FOGL is a single purpose company and has no plans to become involved in exploration outside of the Falklands.

The £12 million raised in the flotation will finance a substantial exploration programme over the licence area. The original licence area amounted to 33,000 sq km, in which Hardman Resources has a 22.5% interest; however, on 7 December it was announced that an exploration licence for a further 50,000 sq km had been awarded solely to FOGL. That area which is to the North and East of the original licence award is on trend with the 8 leads in the original area which remain the initial focus of the survey.

The result of the additional award is that FOGL has been able to extend the planned 2D seismic programme covering 5,500 km to encompass a further 5,000 km of initial work on the new acreage. This will be financed from the cash already raised in the flotation. The results of the survey should be available midway through 2005.

Falkland Gold and Minerals Limited

The flotation of FGML was successfully completed on 8 December and £10 million was raised from new shareholders to finance a drilling programme to investigate the 23 targets revealed by the aero magnetic survey completed in May this year. The programme funded by the share issue is expected to be substantially completed during 2007.

The Group now owns 11,250,000 shares in FGML equivalent to 14.4% of the issued share capital. The book value of that investment is £177,000 and the market based on the closing price on 14 December was £5.0 million. FGML is also a single purpose company and again your Board proposes to retain this investment for the long term.

The Portsmouth Harbour Ferry Company PLC

PHFC has operated a ferry service across the mouth of the harbour linking Gosport to Portsmouth since 1875. The service utilises purpose built ferries and carried some 3.5 million passengers in 2003 on over 67,000 crossings. Crossings take approximately 7 minutes at a return fare of £1.60. The ferry is a vital part of the transport infrastructure of the area and it enjoys an enviable reputation for reliability and service which will be further enhanced when its new ferry "Spirit of Portsmouth" joins the fleet in the first half of 2005.

In the year ended 31 December 2003, PHFC had a turnover of £4.6 million and a profit before tax of £775,000. The net assets at that date were £2.9 million.

This is an exciting development for the Group and we are looking forward to working with the PHFC team. It is a company that shares many of the characteristics and values of our businesses in the Falklands and the Board of FIH will be looking for further opportunities to expand in this sector.

Outlook

The Falklands' economy remains sensitive to the level of fishing activity and current indications are not promising. However, exploration activity, particularly the onshore minerals programme, will stimulate the economy, benefiting the Group's wide range of activities. The PHFC acquisition gives us a stream of dependable UK earnings and we believe that the result for the year will be satisfactory. The Group intends to continue to follow a progressive dividend policy.

For the longer term we are pursuing a number of interesting opportunities both in Islands and in the UK. We plan to make further acquisitions of cash generative businesses with the objective of enhancing shareholder value.

David Hudd

Chairman

15 December 2004

Unaudited Interim Consolidated Profit and Loss Account



	2004	2003	2004
Notes	Unaudited 6 months to 30 September £'000	Unaudited 6 months to 30 September £'000	Audited year ended 31 March £'000
Turnover	5,415	4,905	11,082
Cost of sales	(3,779)	(3,338)	(7,762)
Gross profit	1,636	1,567	3,320
Administrative expenses	(1,417)	(1,363)	(2,743)
Other operating income	100	100	283
1 Group operating profit	319	304	860
2 Share of result of associated undertakings	(22)	–	–
Total operating profit	297	304	860
Net interest	(3)	(4)	(13)
Profit on ordinary activities before taxation	294	300	847
3 Taxation on profit on ordinary activities	(103)	(102)	(255)
Profit on ordinary activities after taxation	191	198	592
Dividends	(18)	–	(351)
Retained profit for the financial period	173	198	241
4 Earnings per share			
Basic	3.0p	3.2p	9.7p
Fully diluted	2.9p	3.2p	9.4p

Notes

- All significant turnover, profits and net assets are generated from general trading in the Falkland Islands.
- The associated company is Falkland Gold and Minerals Limited and the result is the Group's share of their administrative costs for the period.
- The taxation charge has been estimated at 32.5%.
- Earnings per share has been calculated on profit after tax of £191,000 (2003: £198,000) based on the weighted average number of shares in issue, excluding shares held in the Employee Share Ownership Plan of 6,300,702 (2003: 6,095,037). The fully diluted earnings have been further adjusted by the dilutive outstanding share options resulting in a weighted average number of shares of 6,537,103 (2003: 6,154,943).
- The Interim Report has been prepared on the basis of the accounting policies set out in the Group's 2004 Annual Report.
- The results for the year ended 31 March 2004 as shown in the statement do not constitute statutory accounts but are an abridged version of the Company's 2004 accounts which have filed with the Registrar of Companies and upon which the audit report was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985. The Interim Report was approved by the Board on 15 December 2004.

Unaudited Consolidated Balance Sheet

	2004	2003	2004
	Unaudited 30 September £'000	Unaudited 30 September £'000	Audited 31 March £'000
Fixed assets			
Intangible assets	–	81	89
Tangible assets	3,461	3,555	3,552
Investments	1,828	–	189
	5,289	3,636	3,830
Current assets			
Stocks	2,947	2,793	3,079
Debtors	1,430	1,222	1,378
Cash at bank and in hand	181	952	1,183
	4,558	4,967	5,640
Creditors: amounts falling due within one year	(3,470)	(3,643)	(4,798)
Net current assets	1,088	1,324	842
Total assets less current liabilities	6,377	4,960	4,672
Creditors: amounts falling due after more than one year	(603)	(352)	–
Provisions for liabilities and charges	(1,176)	(1,136)	(1,157)
Net assets	4,598	3,472	3,515
Capital and reserves			
Called up share capital	654	617	617
Share Premium account	927	54	54
Other reserves	703	703	703
Reserved for own shares	(112)	(112)	(112)
Profit and loss account	2,426	2,210	2,253
Equity shareholders' funds	4,598	3,472	3,515

Unaudited Consolidated Cash Flow

For the six months ended 30 September 2004

	2004		2003		2004	
	Unaudited 6 months to 30 September		Unaudited 6 months to 30 September		Audited year to 31 March	
	£'000	£'000	£'000	£'000	£'000	£'000
Cash flow from operating activities		(763)		403		1,744
Returns on investment and servicing of finance						
Interest received	8		9		12	
Interest paid	(8)		(13)		(25)	
		-		(4)		(13)
Taxation						
UK Corporation tax	-		-		(101)	
Overseas taxation paid	-		-		(207)	
		-		-		(308)
Capital expenditure						
Purchase of tangible fixed assets	(36)		(389)		(503)	
Purchase of intangible fixed assets	-		(18)		(26)	
Disposal of fixed assets	1		3		-	
		(35)		(404)		(529)
Acquisitions						
Investment in joint venture	(679)		-		(83)	
Purchase of investments	(935)		-		-	
Equity dividend paid		-		-		(335)
Cash inflow/(outflow) before financing		(2,412)		(5)		476
Financing						
Shares issued		910		-		-
Repayment of secured loan	-		-		(250)	
New secure loan	500		-		-	
(Decrease)/increase in cash		(1,002)		(5)		226

Notes to the Unaudited Consolidated Cash Flow Statement

For the six months ended 30 September 2004

	2004	2003	2004
	Unaudited 6 months to 30 September £'000	Unaudited 6 months to 30 September £'000	Audited year to 31 March £'000
Reconciliation of net cash flow to movement in net (debt)/funds			
(Decrease)/increase in cash in the period	(1,002)	(5)	226
Cash outflow from decrease in debt	–	–	250
Cash inflow from increase in debt	(500)	–	–
Movement in net (debt)/funds in period	(1,502)	(5)	476
Net cash at start of period	933	457	457
Net (debt)/cash at 30 September	(569)	452	933
Reconciliation of operating profit to operating cash flows			
Group operating profit	319	304	860
Depreciation charges	126	106	226
Decrease/(increase) in stocks	132	65	(221)
(Increase)/decrease in debtors	(52)	493	337
(Decrease)/increase in creditors and provisions	(1,288)	(565)	542
Net cash inflow from operating activities	(763)	403	1,744
Analysis of change in net debt	2004		2004
	As at 31 March £'000	Cash Flows £'000	As at 30 September £'000
Cash at bank and in hand	1,183	(1,002)	181
Debt due within one year	(250)	–	(250)
Debt due after one year	–	(500)	(500)
Total	933	(1,502)	(569)

Company Information

Directors

David L Hudd, FCA
Executive Chairman

Bryan McGreal
Managing Director

Anthony M Knightley, FCCA
Finance Director

Leonard S Licht
*Senior Independent Non-Executive Director
and Chairman of the Audit Committee*

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

Company Secretary and Registered Office

Anthony M Knightley, FCCA,
Charringtons House,
The Causeway, Bishop's Stortford,
Hertfordshire CM23 2ER
Telephone: 01279 461630
Fax: 01279 461631
Email: ficuk@aol.com
Registered number 3416346

Falkland Islands Office

Crozier Place, Stanley,
Falkland Islands, South Atlantic
Telephone: 00 500 27600
Fax: 00 500 27603
Email: fic@horizon.co.fk
Web: www.the-falkland-islands-co.com