

Falkland Islands Holdings Plc

Preliminary Results for the year ended 31 March 2004

Falkland Islands Holdings ("FIH"), an AIM listed company operating in The Falkland Islands where it is involved in a range of businesses, announces preliminary results for the year ended 31 March 2004 and significant developments in its oil and minerals exploration activities.

- **Financial Performance**

- Turnover of £11.1m (2003: £11.4m)
- Pre-tax profits of £0.847m (2003: £1.025m)
- Dividend per share increased 4.5% to 5.75p (2003: 5.50p)

- **Trading**

- Falkland Islands operations generally stable but impacted by increased shipping costs and poor fishing season

- **Exploration**

- Significant exploration programmes funded (US\$6 million) and under way for Oil and Minerals, with new companies created to hold FIH interests. Funds managed by hedge fund manager RAB Capital have committed to subscribe US\$3.2 million
- FIH retaining effective 22.5% interest in both licences for further investment of \$1.4 million in 2004/5
- AIM listing under consideration for Oil and Minerals companies

- **Minerals:**

- Initial aeromagnetic survey completed with encouraging results
- Drilling potentially to start this year

- **Oil:**

- New oil exploration company created (*see accompanying release*)
- Interpretation of purchased seismic has identified a number of leads comprising targets with potential to contain 200 million to 2.5 billion barrels of oil
- 2D seismic of 3,500 km scheduled for 2004/5

- **Investment**

- Acquisition of 21.6% of Portsmouth Harbour Ferry Company for £759,000

- **Brokers**

- FIH also announces the appointment of Evolution Beeson Gregory as the Company's broker

David Hudd, Chairman of Falkland Island Holdings plc, commented:

"The Group has made progress during the year in developing our Falkland Island operations and in investing outside the Falklands. The potential from our oil and mineral licenses in the Falklands is real and we have significant mineral and oil exploration programmes currently under way. These developments give the board confidence for the future."

23 June 2004

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Chairman's Statement and Review of Operations

I am delighted to be able to report a year of real progress for your Group, as we look to extend the range of the Group's activities in order to increase shareholder value. Significant participations have been secured in major exploration programmes in the Falklands for minerals and oil and subsequent to the year end we have made our first corporate investment outside the Islands.

The creation of a new oil exploration vehicle, to which funds managed by RAB Capital have subscribed, is a particularly exciting development and follows the encouraging initial interpretation of seismic over our Falkland Island licences. More detailed work will proceed. The increased activity that we expect to see in both the oil and minerals sectors is beneficial to the local economy and, consequently, to our Falkland Islands activities in general.

Despite challenging trading conditions in the Falklands we have produced a satisfactory result and for the sixth year in succession your Board are recommending an increased dividend.

Financial summary

Turnover was little changed at £11.1m (2003: £11.4m). However due to increased shipping costs and a poor 2004 fishing season, operating profit fell to £860,000 from £1,052,000 and, after a reduced interest charge, profit before tax declined 17.4% to £847,000 compared with £1,025,000 in 2003.

Basic earnings per share were 18% lower at 9.7p (2003: 11.8p). However, as an indication of their confidence in the future, the Directors are recommending a 4.5% increase in the dividend for the year to 5.75p (2003: 5.5p) payable on 4 November 2004 to shareholders on the register on 8 October 2004.

The financial position of the Group remained strong with net cash balances increasing to £933,000 (2003: £457,000) despite capital expenditure of £503,000, principally on the West Store. A new £1.5 million, 5-year term loan facility has been arranged to fund the additional investments being made in the current financial year.

Review of activities

The retail division benefited from the increased selling area within the West Store but some of the other outlets did not achieve historic profit levels. The Capstan gift shop also had a quiet year as the strength of sterling against the US\$ led to cruise ship passengers reducing their expenditure.

Shipping profits, where five voyages were completed in the year (2003: five), were impacted by a combination of factors, including adverse exchange rates, increased fuel prices and low levels of freight, the latter resulting from reduced levels of public and private capital spending.

The Upland Goose had a poor year with lower occupancy levels. However a new management approach is being adopted in order to improve performance.

The automotive business did well again with good Land Rover sales and maintained its profits in line with 2003.

Management services had a good year with the insurance agency performing particularly well as a result of the new agency agreement with Caribbean Alliance Insurance Company who have made a significant commitment to the Falklands.

Our thanks are due to our staff in the Falklands and the UK for their continued enthusiasm and commitment.

Exploration activities

Your Board continues to take an active role in oil and mineral exploration in the Falklands. The policy being followed is to facilitate initial exploration by investing to secure a meaningful stake. However the board is cognisant of the fact that such investments are by their nature speculative and has limited the Group's exposure whilst maintaining a material share of the potential upside. The total exploration expenditure for this year is currently estimated to amount to US\$6 million, of which the Group is contributing US\$1.4 million.

Minerals

In February the onshore minerals exploration licence in which The Falkland Islands Company Limited (FIC) had earned a one third interest was transferred into a new Company, Falkland Minerals Limited (FML), in exchange for shares in that Company. FML is now carrying out an extensive programme to investigate the minerals potential of the Falklands.

The initial funding for FML's programme amounts to US\$1.535 million. Funds managed by RAB Capital plc (RAB), agreed to subscribe US\$1.2 million to secure a 51% shareholding in FML and FIC agreed to subscribe US\$241,000 to secure a 22.5% shareholding and the balance will be funded by the other shareholders, Cambridge Mineral Resources plc (11.5%) and Global Petroleum Limited (15%).

The work programme comprises an aeromagnetic survey over the Falkland Islands which was completed at the end of May. This survey covered about 90% of the land area of 12,000 sq km mostly at 500m spacing but with spacing down to between 250 m to 100 m on areas of interest. Additional stream sampling, field work and assaying has also been carried out.

The preliminary results are encouraging and nine magnetic features have been identified which merit further investigation. Interpretation and modelling which is underway will focus on these areas, some of which are coincident with the areas where previous stream sediment samples and assays for gold have been positive.

It is expected that the interpretation will be completed by late July at which time an assessment of the project will be undertaken. If suitable targets are identified drilling could start as early as the end of the fourth quarter this year. The Board of FML will be considering a number of options to fund this next stage including a possible admission to AIM.

Oil

The Falklands Hydrocarbon Consortium in which FIC had a 20% interest has made good progress with the analysis and reprocessing of the 4,340 km of 2D seismic data which was purchased in 2002. The result of that work has been that a number of large leads have been identified, several of which have been selected for further work. The work programme includes the design, processing and interpretation of some 3,500 km of 2D seismic, which it is planned to shoot over the Austral Summer in 2004/5. The current Joint Venture budget for the work, which is expected to continue until June 2005, amounts to US\$4.5 million.

The targets identified are located in water depths between 400 m and 1,850 m and are 1,100 m to 2,700 m below sea floor. Current estimates of the potential sizes of the leads range from 200 million barrels to 2.5 billion barrels of oil.

Following the model of the minerals venture of using a corporate structure which is capable of being listed, Global Petroleum, the operator with 50% and FIC (20%), have transferred their interests in the licence to a newly formed company, Falklands Oil and Gas Limited (FOGL). Funds managed by Aim listed hedge fund manager RAB Capital plc have agreed to subscribe US\$2.2 million, FIC will subscribe US\$1.1 million and Global US\$0.5 million. As a result of these transactions FOGL will own 77.5% of the licence and Hardman Resources Limited, who are investing US\$0.9 million, 22.5%. The effective interest of FIC in the licence, which covers 33,700 sq km to the south and east of the Falkland Islands, will be 22.4%. An AIM listing for FOGL will be considered following the completion of the seismic programme.

Portsmouth Harbour Ferry Company

On 18 May 2004 the Group purchased, as a long term investment, 21.6% of the issued share capital of this public unlisted company for £759,000 satisfied by £596,000 in cash with the balance in newly issued shares in the Company. PHFC is a long established company operating the passenger ferry across the mouth of Portsmouth harbour. For the year ended 31 December 2003 the pre tax profit was £775,000 and its net assets were £2.9 million. Earnings per share were 223p and a total dividend of 50p per share was paid in respect of 2003.

Outlook

Our strategy is to continue to develop our operations in the Falklands and to generate potential upside from our exploration interests whilst utilising our operational experience to diversify into related areas outside the Islands.

The benefits of the significant investment in our retail facilities and the new insurance agency will continue to provide the potential for real growth for those operations this year. However, the economic background in the Falklands is likely to be subdued until fishing catches recover to normal levels or exploration activity becomes significant to the economy.

Over the next financial year, both the offshore seismic survey and the onshore drilling are scheduled to take place and the corporate structures in place mean that the Group is well placed to benefit from any exploration success. The Group's range of activities in the Falklands is expected to mitigate the impact of any further slowdown in the economy.

Your Board will continue to work to increase shareholder value.

David Hudd
Chairman
23 June 2004

Group Profit and Loss Account
For the year ended 31 March 2004

	2004	2003
	£'000	£'000
Turnover	11,082	11,447
Cost of sales	(7,762)	(7,871)
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Gross profit	3,320	3,576
Administrative expenses	(2,743)	(2,789)
Other operating income	283	265
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Operating profit	860	1,052
Net interest expense	(13)	(27)
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Profit on ordinary activities before taxation	847	1,025
Taxation	(255)	(308)
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Profit for the year after taxation	592	717
Dividend	(351)	(336)
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Retained profit	241	381
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Earnings per share		
Basic	9.7p	11.8p
Diluted	9.4p	11.2p
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Dividend per ordinary 10p share	5.75p	5.5p

All results are derived from continuing operations in the current and prior year.

There were no recognised gains or losses in either the current or preceding years other than those disclosed in the profit and loss account.

Group Balance Sheet
At 31 March 2004

	2004		2003	
	£'000	£'000	£'000	£'000
Fixed assets				
Intangible assets		89		63
Tangible assets		3,552		3,275
Investment in joint venture				
share of gross assets		189		-
share of gross liabilities		-		-
		3,830		3,338
Current assets				
Stocks		3,079		2,858
Debtors due within one year		1,336		1,677
Debtors due after one year		42		38
Debtors		1,378		1,715
Cash at bank and in hand		1,183		957
		5,640		5,530
Creditors: amounts falling due within one year		(4,798)		(4,214)
Net current assets		842		1,316
Total assets less current liabilities		4,672		4,654
Creditors: amounts falling due				
after more than one year		-		(250)
Provisions for liabilities and charges		(1,157)		(1,130)
Net assets		3,515		3,274
Capital and reserves				
Called up share capital		617		617
Share premium account		54		54
Other reserves		703		703
Reserve for own shares		(112)		(112)
Profit and loss account		2,253		2,012
Equity shareholders' funds		3,515		3,274

Group Cash Flow Statement
For the year ended 31 March 2004

Reconciliation of operating profit to net cash inflow from operating activities

	2004	2003
	£'000	£'000
Operating profit	860	1,052
Depreciation charges	226	207
(Increase)/decrease in stocks	(221)	298
Decrease/(increase) in debtors	337	(156)
Increase in creditors and provisions	542	199
Net cash inflow from operating activities	1,744	1,600

Cash flow statement

	2004		2003	
	£'000	£'000	£'000	£'000
Cash flow from operating activities		1,744		1,600
Returns on investments and servicing of finance				
Interest received	12		14	
Interest paid	(25)		(40)	
		(13)		(26)
Issue of shares		-		25
Taxation				
UK Corporation tax paid	(101)		(30)	
Overseas taxation paid	(207)		(343)	
		(308)		(373)
Capital expenditure				
Purchase of tangible fixed assets	(503)		(396)	
Purchase of intangible fixed assets	(26)		(63)	
		(529)		(459)
Acquisitions				
Investment in Joint Venture	(83)			-
Equity dividends paid	(335)			(304)
Cash inflow before financing		476		463
Financing				
Repayment of secured loan		(250)		(250)
Increase in cash		226		213

Group Cash Flow Statement continued
For the year ended 31 March 2004

Reconciliation of net cash flow to movement in net funds

	2004	2003
	£'000	£'000
Increase in cash in the year	226	213
Cash outflow from decrease in debt	250	250
Movement in net debt in year	476	463
Net cash/(debt) at start of year	457	(6)
Net cash at end of year	933	457

Analysis of changes in net funds

	As at 31	Cash	Other	As at 31
	March	flows	non cash	March
	2003	£'000	changes	2004
	£'000	£'000	£'000	£'000
Cash at bank and in hand	957	226	-	1,183
Debt due within one year	(250)	250	(250)	(250)
Debt due after one year	(250)	-	250	-
Total	457	476	-	933

Notes:

1. All significant turnover, profits and net assets have been generated from general trading in the Falkland Islands, from continuing activities

2. The taxation charge based on profit for the period comprises:

	2004	2003
	£'000	£'000
U.K. corporation tax at 30%	227	245
Less Double tax relief	<u>(106)</u>	<u>(142)</u>
	121	103
Overseas tax	158	231
Adjustments in respect of prior years	(24)	(126)
Deferred Taxation	<u>-</u>	<u>100</u>
	<u><u>255</u></u>	<u><u>308</u></u>

3. The Directors recommend a dividend of 5.75 pence per share (2003: 5.5 pence) payable 4 November 2004 to shareholders on the register at close of business on 8 October 2004.
4. Earnings per share has been calculated on profit after tax of £592,000 (2003: 717,000) the weighted average number of shares in issue, excluding share held in the Employee Ownership Plan of 6,095,037 (2003: 6,077,024). The fully diluted earnings have been adjusted by the dilutive outstanding share options resulting in a weighted average number of shares of 6,322,547 (2003: 6,388,233).
5. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2004 or 2003 but is derived from those accounts. Statutory accounts for 2003 have been delivered to the Registrar of Companies, and those for 2004 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.
6. Copies of Falkland Islands Holdings plc annual report and financial statements will be with shareholders in early July.