Falkland Islands Holdings plc
Annual Report 2010

Falkland Islands Holdings

Contents

Financial Highlights

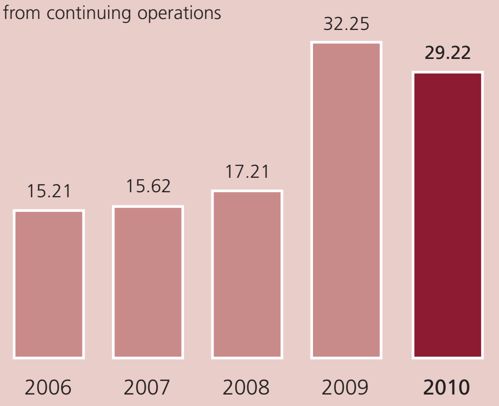
FOR THE YEAR ENDED 31 MARCH 2010

	2010 £m	2009 £m	*Change %*
Turnover from continuing operations	**29.22**	32.25	*(9.4)*
Profit / (loss) before tax	**5.67**	(0.63)	–
Underlying profit before tax*	**2.69**	2.31	*16.5*
Diluted earnings per share before amortisation and non-trading items	**21.7p**	18.8p	*15.4*
Dividend per share	**9.0p**	8.0p	*12.5*
Cash flow from operations	**2.35**	4.10	*(42.7)*
Net asset value per share	**376p**	276p	*36.2*

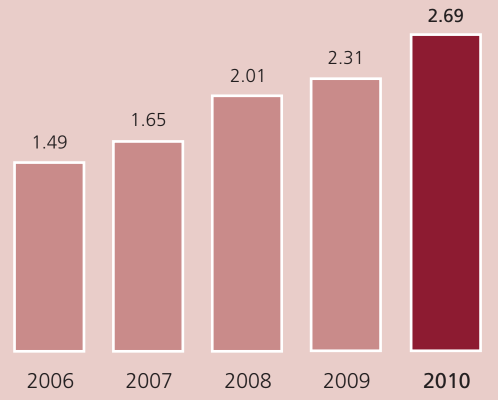
*Defined as profit before tax, amortisation and non-trading items.

Turnover (£m)

from continuing operations

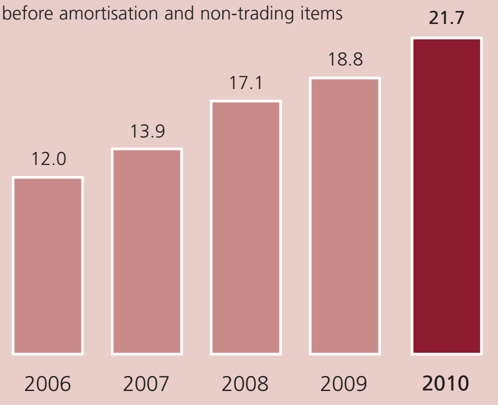


Underlying profit before tax* (£m)

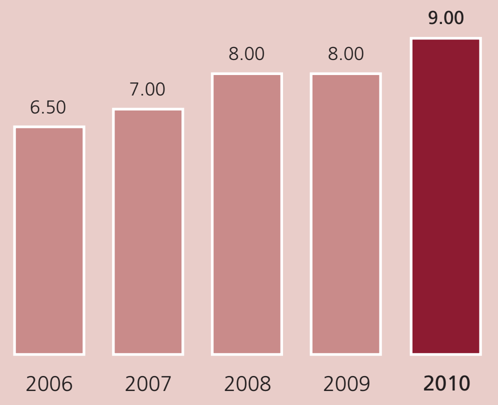


Diluted earnings per share (pence)

before amortisation and non-trading items



Dividend per share (pence)



Chairman's Statement

David Hudd
Chairman

I am pleased to report that the year ended 31 March 2010 has been a successful year for the Group with significant growth in underlying profits, earnings per share and a substantial increase in the proposed dividend. The sale of 20% of the Group's shareholding in Falkland Oil and Gas ("FOGL") greatly strengthened its financial position such that whatever the results of oil exploration in the Falklands, the Group should be able to deliver strong cash flow, earnings and dividends.

Results

Underlying profits before tax, (excluding amortisation / impairment of intangibles and non trading items), increased by 17% to £2.7 million *(2009: £2.3 million)*. After non-recurring credits of £3.3 million largely representing the profit on the sale of FOGL shares, the Group achieved pre tax profit of £5.7 million *(2009: loss of £0.6 million)*. Underlying earnings per share increased by 16% to 22.0p *(2009: 19.0p)*. Reported earnings per share were 57.5p *(2009: loss of 12.8p)*.

Dividends

The Board is pleased to recommend a final dividend of 5p per share which, together with the Group's inaugural interim dividend of 4p per share, makes a total dividend for the year of 9p per share, an increase of 12.5% *(2009: 8p per share)*.

Overview of operations

The Group's three trading businesses performed well in difficult market conditions with operating profits from the Falklands and Momart both increasing by some 10% and the Portsmouth Harbour Ferry ("PHFC") just ahead of the prior year. Trading in the Falklands improved in the second half of the year with the benefit of the expanded West Store and business generated by the oil exploration programme. Momart's performance improved in the second half as the commercial art market showed signs of recovery while at PHFC profits were maintained on reduced passenger numbers.

FOGL stake

In November 2009, in order to strengthen the Group's financial position and to reduce its risk profile, 3 million shares in FOGL were sold, (20% of the holding) generating proceeds of £3.6 million and a profit after tax of £3.1 million. The Group now holds 12 million FOGL shares, which represents 8.2% of the issued share capital. As at 31 March 2010, the market value of this shareholding was £15.5 million (129.5p per FOGL share) compared with £10.9 million as at 31 March 2009 (15 million FOGL shares at 73p per share).

The Board have publicly stated that no further FOGL shares will be sold in advance of the drilling of FOGL's Toroa prospect, which was spudded on 31 May 2010 and is expected to take 35 days to complete.

A further commitment well will be drilled on one of FOGL's other three surveyed prospects. These are all in water depths of more than 1,000 metres and efforts are continuing to secure a rig which is capable of drilling at such depths. It is your Board's intention to retain a very substantial holding in FOGL while the exploration programme continues.

Net assets

Following the FOGL share sale and after capital expenditure of £1.4 million *(2009: £1.0 million)*, the Groups borrowings have been reduced to £5.3 million *(2009: £7.2 million)*. Cash balances at the year end amounted to £3.8 million *(2009: £3.0 million)* resulting in net borrowings at the end of £1.5 million *(2009: £4.2 million)*. Thus we now have scope for further investment in our businesses. Net assets per share including intangibles were 376p at 31 March 2010 *(2009: 276p)*.

Outlook

Current economic conditions do not allow much forward visibility. However in the year to date, the Group's overall trading performance is in line with our expectations.

In the Falklands, oil exploration will continue to boost confidence and local demand. However, another disappointing illex squid catch (which impacts the first quarter's trading), increases in freight costs and reduced numbers of cruise passengers will negatively impact performance.

At Momart, although the commercial gallery market is improving, spending cuts are reducing the number of exhibitions staged by State funded institutions. Whilst we do not expect to see significant improvements in trading conditions in the coming year, Momart remains the market leader and is well placed for any upturn in the art market.

At PHFC, we continue to make progress with the Borough Council towards a new pontoon in Gosport and are in the process of agreeing a long term lease for its use, with planned installation towards the end of our financial year. The economic background in Gosport is such that it is difficult to envisage any improvement in PHFC's passenger numbers.

The Group's diversity continues to provide a strong foundation and whilst trading conditions remain challenging, all of the businesses are financially and operationally stable, with solid, market leading positions.

Despite our caution for the coming year, we anticipate continued robust cash flow and are confident of our ability to maintain dividends.

It is likely that the current trading performance of the Group will continue to be overshadowed by news of the oil exploration being undertaken in the Falklands, the main economic benefits of which have yet to be felt. However, we are currently examining the development opportunities in the Islands which will result from a successful oil outcome.

In service businesses such as ours, staff are our biggest asset and the Board would like to thank all our colleagues for their continued hard work and commitment.

David Hudd
Chairman
23 June 2010

Managing Director's Business Review

John Foster
Managing Director

Overview

I am pleased to report that, despite the challenging economic environment, the Group performed well in the year to 31 March 2010. Trading in the second half was generally stronger than in the first half, particularly in the Falkland Islands as a result of the oil exploration activity, and this, together with the substantial profit from the sale of three million FOGL shares in November 2009, helped lift the Group's profitability for the year.

Group trading summary

All of the Group's operating businesses were impacted by the recession and, as a result, Group turnover decreased by 9.4% to £29.2 million *(2009: £32.2 million)*.

However, due to effective cost control, underlying operating profits (before amortisation / impairment of intangibles and non-trading items) rose by 7% to £3.1 million *(2009: £2.9 million)*. With interest costs reduced at £0.40 million *(2009: £0.91 million)*, underlying profits before tax (before amortisation / impairment of intangibles and non-trading items) increased by 17% to £2.7 million *(2009: £2.3 million)*. All three of the Group's operating businesses maintained or increased their profitability during the year.

In addition, the Group benefited from significant non-trading income which added a further £3.3 million to overall profitability. The most significant element of this was the £3.1 million profit from the sale of FOGL shares, but there was also a £0.2 million receipt in respect of the agreed early surrender of a leasehold property. Reported profit before tax was £5.7 million *(2009: loss £0.6 million)*.

The Group pays corporation tax on its UK earnings at the standard rate of 28%, except for certain of its subsidiaries which qualify for the smaller companies rate of 21%. On its Falklands earnings, the Group pays tax at the rate 26%. There is no Capital Gains Tax on sales of shares, property or other qualifying assets in the Falkland Islands. For the year ended 31 March 2010 the Group's effective tax rate on its underlying trading activities was 26% *(2009: 26%)*.

Fully diluted earnings per share derived from underlying profits, increased by 15.4% to 21.7p *(2009: 18.8p)*.

Strong cash flow allowed the Group to reduce its borrowings at 31 March 2010 to £5.3 million *(31 March 2009: £7.2 million)* even after total capital expenditure of £1.4 million *(2009: £1.0 million)*. Cash balances at 31 March 2010 were £3.8 million *(31 March 2009: £3.0 million)* resulting in net borrowings at the year end of £1.5 million *(2009: £4.2 million)*. Net assets per share increased sharply during the year to 376p per share at 31 March 2010 *(2009: 276p per share)* reflecting both the increase in realised profits and the uplift in the value of the Group's holding in FOGL.

Underlying pre-tax profit

The Group's underlying pre-tax profits ("PBTa") showed steady growth with a £0.4 million increase over the prior year as shown below, rising 17% to a record level of £2.69 million.

Underlying profit

Year ended 31 March	2010 £m	2009 £m
Underlying pre-tax profit	2.69	2.31
Add / (deduct) non-trading and exceptional Items		
Profit on the sale of FOGL shares	3.09	–
Profit on the surrender of lease	0.25	–
Revaluation of interest rate collar	0.04	(0.33)
Amortisation of intangibles	(0.40)	(0.40)
Impairment of goodwill	–	(1.98)
Restructuring costs	–	(0.23)
Profit / (loss) before tax as reported	5.67	(0.63)

Note: Underlying profit before tax excludes the amortisation of intangible assets, any impairment of goodwill and non-trading items (profit on sale of shares, profits from the early surrender of a lease, restructuring costs and fair value movements on derivative financial instruments).

Further details of these non-trading items are given below:

Non-trading items

Profit on sale of shares in Falkland Oil and Gas Limited – £3.09 million *(2009: nil)*. On 30 November 2009 the Group reduced its stake in Falkland Oil and Gas Limited selling three million shares producing cash proceeds of £3.6 million and realising a profit of £3.1 million.

Profit on the early surrender of a property lease – £0.25 million *(2009: nil)*. During the year the Group received compensation for the early vacation of leasehold premises by Momart, which had been the subject of litigation with the landlords.

Revaluation of interest rate collar £0.04 million *(2009: loss £0.33 million)*. In previous years the Group entered into two interest rate collars as a hedge against possible increases in interest rates. These instruments produced an effective floor on the bank base rate payable by the Group of 4.25% and led to increased interest rate costs in the first half of the year. In January 2010 these instruments were liquidated eliminating what had become onerous interest costs. This resulted in a small accounting gain of £0.04 million *(2009: loss £0.33 million)* and from January 2010 the Group has been able to take full advantage of current low rates.

Finance costs

The Group's net financing costs fell sharply to £0.40 million *(2009: £0.91 million)*. Excluding the non-cash impact of the collar revaluation which saw savings of £380,000, total finance costs fell by £132,000.

Year ended 31 March	2010 £m	2009 £m	*(Increase) decrease*
Net financing costs as shown in Income Statement	(401)	(912)	*511*
Made up of:			
Pension finance costs net	(132)	(130)	*-2*
Interest collar revaluation	45	*(334)*	*379*
Notional interest on deferred consideration	(48)	*(104)*	*56*
Amortisation of bank fees	(30)	(30)	–
Total non-cash items	(165)	(598)	*433*
Lease interest income	78	74	*4*
Net bank interest paid	(314)	(388)	*74*
Total net financing costs	(401)	(912)	*511*

As shown above, of the net financing costs of £0.4 million *(2009: £0.9 million)*, net bank interest payable amounted to £314,000 *(2009: £388,000)* (see note 8 on page 40 for more details).

Bank interest cover

Year ended 31 March	2010 £m	2009 £m
Underlying operating profit as above	3.13	2.89
Net bank interest (payable)	0.31	0.39
Bank interest cover	10.1x	7.4x

Since the liquidation of the interest collar in January 2010 interest costs have fallen sharply. In the current financial year if bank Base Rates remain unchanged at 0.5% with total borrowings of £5.3 million the Group's pro-forma bank interest charge with average rates of c. 3.5% for the year would be c. £0.19 million.

Earnings per share

Year ended 31 March	2010 £m	2009 £m	*Change %*
Underlying profit as above	2.69	2.31	*16.4*
Tax thereon	(0.71)	(0.60)	*-18.3*
Underlying profit after tax	1.98	1.71	*15.8*
Diluted average number of shares in issue ('000s)	9,147	9,121	*0.29*
Diluted EPS	21.7p	18.8p	*15.4*

Review of operations

A summary of Group revenue and operating profit by business is shown below:

Revenue

Year ended 31 March	2010 £m	2009 £m	*Change %*
Falklands	12.43	12.99	*-4.3*
Portsmouth Harbour Ferry	3.72	3.72	–
Momart	13.07	15.54	*-15.9*
Total	29.22	32.25	*-9.4*

Underlying operating profit

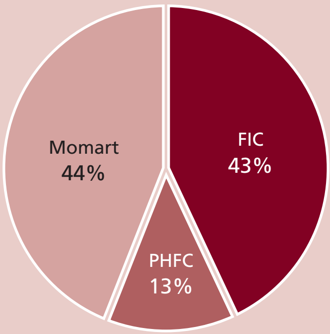
Year ended 31 March	2010 £m	2009 £m	*Change %*
Falklands	1.38	1.26	*9.5*
Portsmouth Harbour Ferry	0.79	0.78	*1.3*
Momart	0.96	0.86	*11.6*
Total	3.13	2.89	*8.3*

Managing Director's Business Review

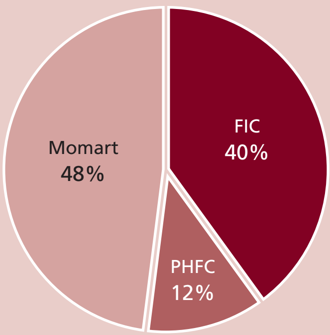
CONTINUED

Group revenue

2010

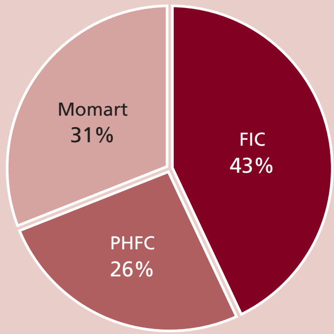


2009

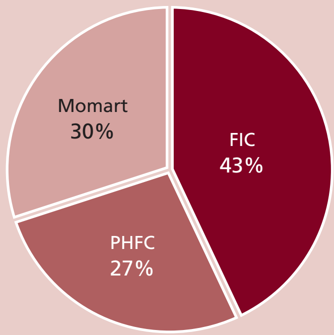


Underlying operating profit

2010



2009



Each of the Group's businesses is reviewed in detail below:

Falkland Islands Company (FIC)

FIC reported a satisfactory out turn for the year with underlying operating profits for the year increasing by 9.5% to £1.38 million *(2009: £1.26 million)* despite a 4.3% fall in revenue.

Year ended 31 March	2010 £m	2009 £m	*Change %*
Revenues			
Retail	**8.08**	8.01	*0.1*
Automotive	**1.43**	1.95	*-26.7*
Freight	**0.99**	0.80	*23.7*
Property sales	**0.36**	0.27	*33.3*
Other services	**1.57**	1.96	*-19.4*
Total FIC revenue	**12.43**	12.99	*-4.3*
Underlying FIC operating profit	1.38	1.26	*9.5*
Underlying operating profit margin (%)	11.1	9.7	*14.4*

The year started with a poor illex squid catch. This not only saw dramatic reductions in the level of support services required by the much reduced number of fishing boats and reefers, but it also resulted in significant reductions in government license revenues. This in turn had an impact on local spending and general confidence. In addition in April, FIC saw its principal retail competitor very substantially expand its supermarket on the outskirts of Stanley putting downward pressure on sales in the West Store. Automotive vehicle sales, particularly to fleet buyers, also fell sharply as organisational budgets were cut in response to the recession.

However, in the second half there was a notable improvement in confidence in the Islands, due to a good loligo squid catch and the commencement of oil exploration activity. As anticipated, this stimulated demand across our retail activities and is likely to continue to have a further positive impact on the Falkland Islands economy. This positive momentum was further assisted by the start of a de-mining programme for which FIC was able to provide a range of services.

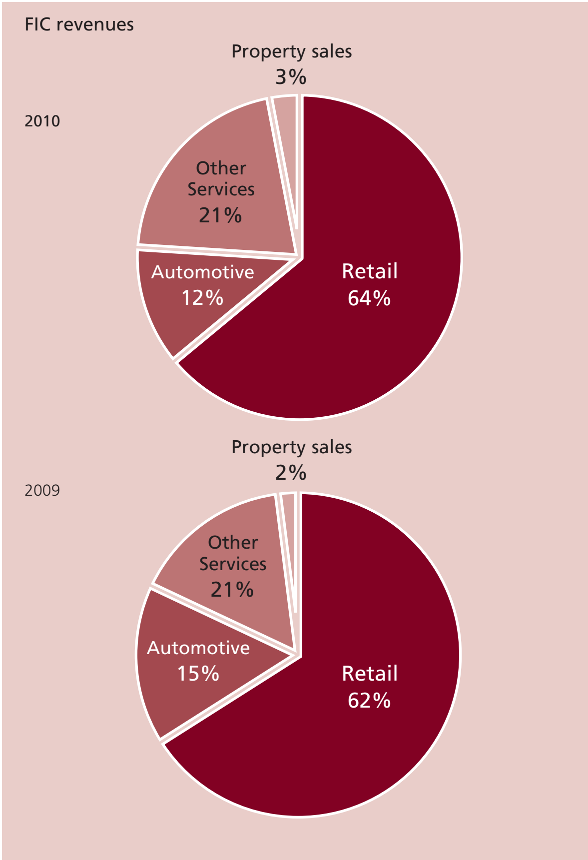
Rear entrance to the extended West Store.

Whilst the competitive landscape for retailing in Stanley changed substantially in the year our new *West Store* extension has bolstered the performance of our core retailing activity and has confirmed the *West Store's* position as the premier retailer in Stanley.

Sales and margins came under pressure in the early months of the year due to the increased competition, but the team in Stanley led by new retail manager, Paul Lewis, responded well emphasising FIC's offer to the customer of *"Quality, Choice and Value"*. At the half year, *West Store* sales were down by only 1% and in the second half with the November opening of the West Store extension and car park, sales increased by over 8% giving an overall increase for the year of 4.3%. The new extension increases retail selling space by 50% to over 15,000 sq ft which includes a new store providing household electrical goods.

In FIC's DIY businesses, *Home Care* and *Home Living*, demand was affected by the sluggish economy and continued pressure from local competitors. Overall sales in this segment which accounts for c. 15% of FIC's retail revenues, decreased by 11% during the year.

The Marmont Row *development in Stanley.*



FIC's automotive business saw a sharp fall in demand particularly for fleet vehicles for the military and their contractors. Total vehicle sales fell from 76 to 41, but vehicle rental income increased substantially as a result of the requirements of de-mining contractors BACTEC and the oil exploration companies. However, overall automotive revenues fell by 27% to £1.43 million. With the global recession continuing we do not anticipate any early recovery in military or corporate spending on vehicles.

At *Darwin Shipping*, revenues from third party freight increased by 24% to just under £1 million as the business benefited from the delivery of a second shipment of wind turbines and also from increased freight linked to oil exploration activity.

FIC's Fishing Agency revenues fell by 43% as a result of the failure of the illex squid catch in April and May 2009. *Penguin Travel*, which has established itself as the on shore agent of cruise line operator *Holland & America Lines*, also had a more difficult year as unusually windy

Managing Director's Business Review

CONTINUED

summer weather and the effects of the global recession led to a decline in passenger landings of 16%. This was the first decline in a decade.

FIC's Insurance broking operation increased both its revenues and its contribution in the year as did FIC's Port Services (stevedoring) activities. The net return from FIC's portfolio of 30 rental properties also saw a further steady increase as demand strengthened in the second half of the year.

Further investment in our shops is planned for the forthcoming year, but margins will be negatively impacted by the recent increase in the cost of freight services, where costs saw sharp double digit increases with effect from 1 April 2010.

During the year, work on Phase 1 of the conversion of the former *Upland Goose Hotel* into a terrace of nine residential properties was completed, now reverting to their former name of *Marmont Row*. With their location on the waterfront in central Stanley they represent a prime asset, which can be readily sold or rented depending on market conditions. Phase 2 involving the conversion of the final three units in the terrace is expected to be complete before the end of the calendar year.

In the year, two older residential properties were sold realising a profit of over £350,000. This compares to the £240,000 generated from the sale of three similar properties in 2008/9. Our policy has been to dispose of older properties which require substantial modernisation and maintenance and reinvest the proceeds in new developments. The building, letting and selling of residential properties is one of FIC's core activities and is expected to continue in the future particularly with the completion of *Marmont Row* which will increase FIC's residential estate to over 40 units.

Despite the reduction in revenues, FIC performed well helped by opportunities brought about by oil exploration and increased efficiency. For the year to 31 March 2010, underlying operating profits in the Falklands increased by over 9% to £1.38 million.

Portsmouth Harbour Ferry Company (PHFC)

PHFC performed satisfactorily during the year posting a small increase in underlying operating profits despite flat revenues.

Operating results

Year ended 31 March	2010 £m	2009 £m	*Change %*
Revenues			
Ferry fares	**3.50**	3.46	*1.2*
Other revenue	**0.22**	0.26	*-15.4*
Total PHFC revenue	**3.72**	3.72	–
Underlying PHFC operating profit	**0.79**	0.78	*1.3*
Underlying operating profit margin (%)	**21.0**	21.0	–
Passenger journeys (000s)	**3,516**	3,672	*-4.2*

Some 40% of ferry customers use the service for essential daily commuting. However, the service is not immune to the effects of recession and a significant reduction in discretionary journeys resulted in total passenger journeys declining by 4.2% compared to the previous year.

As in the prior year, fares were increased on 1 June. The standard daily adult return fare rose by 4.5% to £2.30 and the price for a book of 10-trip tickets rose 5.5% to £9.50. These fare increases effectively offset the impact of the decline in passenger numbers and resulted in revenues from ferry fares rising 1.2% to £3.5 million.

The core passenger ferry service accounted for 94% of revenue *(2009: 93%)*. Other revenue is earned from PHFC's programme of summer leisure cruises in the Solent area, which increased by £13,000 compared to the prior year and produced a small positive contribution. A small contract to provide water taxi services ended, as expected, in August 2009 after three years.

Overheads were maintained at prior year levels despite increased hourly wage rates, and a steady rise in the price of fuel, due to tight cost control and a reduction in the level of overtime. After the allocation of head office costs, PHFC's underlying operating profit increased by 1.3% to £0.79 million *(2009: £0.78 million)*.

Spirit of Gosport *with the Spinnaker Tower in the background.*

Negotiations with Gosport Borough Council to replace the existing pontoon at Gosport are nearing completion with a modern replacement scheduled to be delivered in late 2010. The Council has agreed in principle to finance the new pontoon but its economic cost will be borne by PHFC and, ultimately, by passengers as fares will have to be increased to offset this increase in annual rent. Even after the necessary fare increases, the Board believes that the absolute cost for ferry users will remain modest and will still offer excellent value for money compared to alternative modes of transport.

In 2009/10 the ferry service was able to improve on its exceptional record of reliability and over 99.9% of all 72,000 ferry trips (operating 364 days per annum) departed on time with only 76 sailings delayed or cancelled compared to 132 in the prior year and of these 22 were due to incidents beyond the Company's control. Both the safety record and the reliability of this essential service rest upon the exceptional commitment and expertise of ferry staff who are proud to be a part of the community they serve.

For the forthcoming year, we anticipate tough trading conditions with further small declines in annual passenger numbers and increased pressure on costs as fuel prices increase.

Momart

Momart, increased profitability in the year despite the pressure on revenues in all areas of its business.

Operating results

Year ended 31 March	2010 £m	2009 £m	*Change* %
Revenues			
Museums and Public Exhibitions	7.73	9.66	*-20.0*
Commercial Galleries	3.86	4.36	*-11.5*
Storage	1.48	1.52	*-2.6*
Total Momart revenue	13.07	15.54	*-15.9*
Underlying Momart operating profit	0.96	0.86	*11.6*
Underlying operating profit margin (%)	7.3	5.5	–

Momart reacted quickly to a sharp contraction in the art market in the first quarter of the calendar year 2009, aligning its cost base with the reduced level of available business. Whilst first half revenue was significantly down on the record levels seen in the first half of 2008/9, much of the decline in sales came from a reduction in low margin work with overseas agents. Therefore, with lower overheads and increased efficiencies flowing from internal reorganisation, the Company remained consistently profitable throughout the year. Confidence in the commercial art market quickly recovered as world markets stabilised.

Gallery Services

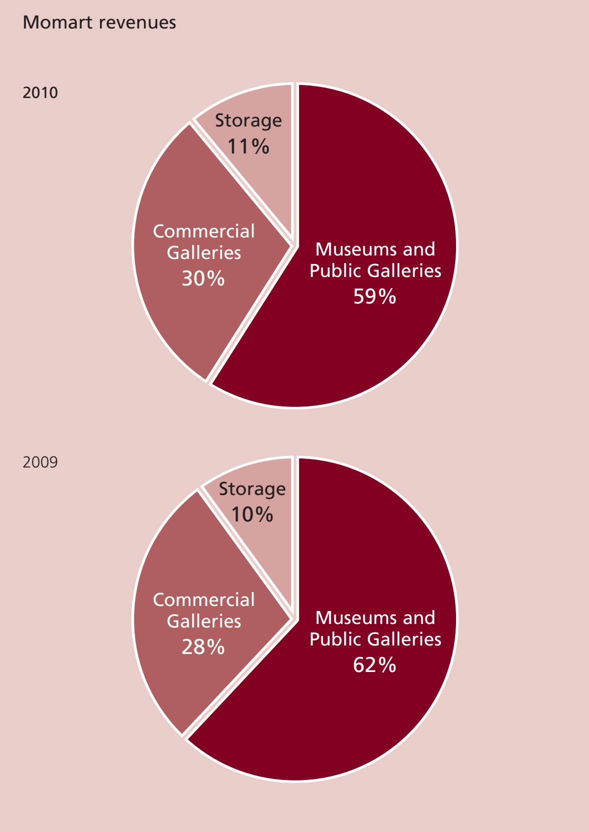
We have seen a recovery in the commercial art market during the year, confirmed by the success of the Basel art fair in June and the Frieze fair in London in October.

In the commercial Gallery Services (GS) division the Company was actively involved in a number of high profile overseas exhibitions of Damien Hirst's work. Increased efforts were also made to win smaller contracts from commercial clients and streamlining its customs clearance procedures gave it an important competitive edge in winning international business.

GS revenues also saw some recovery as confidence increased throughout the year and activity levels rose by 16% in the second half, compared to the first half. Overall revenues in GS were down 11.5% compared to 2008/9 and the division accounted for 30% of Momart's total revenues *(2008/9: 28%)*.

Managing Director's Business Review

CONTINUED



Exhibitions
In the Exhibitions division that serves leading museums in the UK and overseas, activity reduced sharply in the early part of the year (again compared to the record levels seen in 2008/9) with notably less work coming from overseas institutions as their reduced budgets saw spending cut back on more expensive internationally sourced shows. In the UK Momart remained very active and maintained its market share. Notable installations included: the Baroque exhibition at the Victoria and Albert Museum, Anish Kapoor at the Royal Academy and the highly successful *The Real Van Gogh* exhibition in January 2010.

Momart was the contracted transport and logistics agency for The Real Van Gogh *exhibition at the Royal Academy.*

Exhibition revenues remained 20% below the prior year albeit absolute revenues in creased marginally in H2 helped by the blockbusting Van Gogh exhibition at the Royal Academy.

Overall revenues from Exhibitions fell in the year to £7.73 million *(2009: £9.66 million)* and the division accounted for 59% of Momart's total revenues *(2009: 62%)*.

Storage
Storage revenue was also affected by the downturn and prices came under pressure as storage customers sought to reduce costs and competition increased. Nonetheless Storage revenue remained the most stable income stream with a small decline of just 2.6% year on year to £1.48 million. Storage accounted for 11% of revenue in the year *(2009: 10%)*.

With less currency volatility, Momart also saw reduced exchange losses during the year. We believe that the recovery seen in the commercial art market is likely to track wider economic trends as reflected in the performance of global equity markets, but in Momart's main market we see continued pressure on budgets for museum exhibitions both in the UK and overseas.

FOGL stake

Details of the FOGL stake are set out below:

Year ended 31 March	2010	2009
Number of shares held	12,000,000	15,000,000
FOGL share price	129.5p	72.6p
Market value of holding	£15.5m	£10.9m
Cost	£2.0m	£2.5m

In the year ended 31 March 2010 the share price of FOGL varied between a high of 177p and low of 63p. The sale of 3 million shares took place on 30 November 2009 at a price of 120p per share which produced a profit on sale of £3.1 million. Following the sale, the Group shareholding represented 8.2% of FOGL's enlarged share capital. Under IFRS, the investment is shown at market value.

Balance sheet

The Group's Balance Sheet remains strong and as at 31 March 2010 had net assets of £34.2 million *(2009: £24.9 million),* borrowings of £5.3 million *(2009: £7.2 million)* and cash balances of £3.8 million *(2009: £3.0 million)*.

The carrying value of intangible assets was reduced by normal annual amortisation charges of £0.4 million to £13.5 million as at 31 March 2010 *(2009: £13.9 million)* (see note 11 page 43).

The net book value of property, plant and equipment increased by £0.5 million to £7.5 million in the year to 31 March 2010. Fixed asset additions totalled £1.4 million while the depreciation charge for the year amounted to £0.9 million (see note 12 page 45).

The Group's investment properties comprise land and commercial and residential properties in the Falkland Islands held for rental. The net book value of these properties at 31 March 2010 was unchanged at £1.8 million. The Directors estimate that the fair value of this property portfolio at 31 March 2010 was £2.5 million compared to a book value of £1.8 million (see note 13 page 46). Deferred tax assets relating to future pension liabilities increased by £0.1 million to £0.6 million.

Non-property related inventories increased from £2.6 million to £3.5 million at 31 March 2010. £0.4 million of the £3.5 million relates to work in progress at Momart *(2009: £0.3 million)* and the balance of £3.1 million represent stock held for resale in the Group's retail operations in the Falklands, which increased by £0.9 million from the exceptionally low levels seen in the prior year (see note 19 page 51).

Property related inventories are shown at cost and represent expenditure incurred to 31 March 2010 on the conversion of the former *Upland Goose Hotel* back into a terrace of residential properties at *Marmont Row* on the waterfront in Stanley. The total cost of completed properties and ongoing work in progress at 31 March 2010 was £1.2 million *(2009: £0.6 million)* (see note 19 page 51).

Trade and other receivables balances increased from £4.4 million to £4.5 million as at 31 March 2010.

At 31 March 2010 the Group retained cash balances on deposit with UK banks of £3.8 million *(2009: £3.0 million)*.

During the year the Group paid a final instalment of £1.6 million in deferred consideration to the former owners of Momart and bank loan repayments of a further £0.8 million. Following these scheduled repayments the Group's loans and bank borrowings were reduced from £7.2 million at the start of the year to £5.3 million as at 31 March 2010. £1.2 million of these loans are due for repayment in the coming year and are shown under current liabilities (see note 22 page 52).

Income tax payable within the next 12 months increased to £0.7 million *(2009: £0.5 million)* reflecting the increase in the Group's taxable profits.

As noted above the Group took the decision to liquidate its interest rate hedges in January 2010 and at 31 March 2010 had no interest in derivative financial instruments (see note 23 page 53).

Trade and other payables increased from £8.0 million to £8.2 million at 31 March 2010 (see note 24 page 54).

As at 31 March 2010 the liability due in respect of the Group's defined benefit pension schemes increased to £2.2 million *(2009: £2.0 million)* as interest rates used to discount the schemes' future liabilities decreased in line with market trends. The scheme in the Falklands is unfunded and liabilities are met as they fall due from operating cash flow. At PHFC a structured programme of regular annual payments has been agreed with the UK Pensions Regulator to eliminate the deficit of £0.2 million over the medium term (see note 25 page 54).

The net deferred tax liabilities at 31 March 2010 were essentially unchanged from the prior year at £2.2 million.

Cash flows

Cash flow from operating activities

With the improved trading performance of the Group companies underlying earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 14% to £4.0 million *(2009: £3.5 million)*.

Working capital levels increased by £1.0 million in the current year as the Group invested an additional £0.5 million in the conversion of *Marmont Row*, retail inventory levels in Stanley recovered to more optimal levels and prepayments and deferred income on Momart commercial contracts increased by £0.5 million.

Tax paid of £1.0 million reduced to more normal levels *(2009: £1.4 million)* following the switch to quarterly payments in advance at Momart in the prior year.

Managing Director's Business Review

CONTINUED

The Group's Operating Cash Flow can be summarised as follows:

Year ended 31 March	2010 £m	2009 £m
Underlying PBT	2.7	2.3
Depreciation	0.9	0.8
Interest payable	0.4	0.6
Restructuring costs	–	(0.2)
EBITDA	4.0	3.5
Share based payments	0.2	0.3
(Increase) / decrease in working capital	(1.0)	1.6
Tax paid	(1.0)	(1.4)
Other	0.2	0.1
Net cash flow from operating activities	2.4	4.1

Cash flow from investing and financing activities

In addition to cash flows from its operating activities the Group received £3.6 million from the FOGL share sale and drew down an additional £0.2 million in leasing loans to finance vehicle purchases. Gross cash flow in the year ended 31 March 2010 was £6.4 million *(2009: £4.3 million)*.

Year ended 31 March	2010 £m	2009 £m
Net cash flow from operating activities	2.4	4.1
Proceeds from sale of shares in FOGL	3.6	–
Draw down of loan	0.4	0.2
Gross cash flow	6.4	4.3
Less:		
Dividends paid	(1.1)	(0.7)
Capital expenditure	(1.4)	(1.1)
Net bank interest paid	(0.3)	(0.4)
Liquidation of financial derivative	(0.4)	–
Deferred consideration re Momart	(1.6)	(1.7)
Loan repayments	(0.8)	(0.6)
Other	–	0.2
Total outflows	(5.6)	(4.3)
Net cash flow	0.8	–
Cash balance b/fwd	3.0	3.0
Cash balance c/fwd	3.8	3.0

During the year the Group paid a final dividend of £0.7 million and in February 2010 an interim dividend of £0.4 million. To continue to strengthen its operating base, £1.4 million was invested in fixed assets across the Group *(2009: £1.0 million)*; £0.8 million was committed to complete the extension and car park at the *West Store* in Stanley and £0.2 million was invested in new vehicles and office equipment at Momart. With strong cash generation leading to lower borrowings, interest paid over the year decreased to £0.3 million *(2009: £0.4 million)*. In January 2010 the Group liquidated its outstanding interest rate collars at a cash cost of £0.4 million, made scheduled repayments of bank loans of £0.8 million *(2009: £0.6 million)* and paid £1.6 million in deferred consideration in connection with the acquisition of Momart *(2009: £1.7 million)*. After making these payments totalling £5.6 million the Group's enjoyed a cash surplus of £0.8 million taking its cash deposits to £3.8 million *(2009: £3.0 million)*.

Business drivers, risk factors and key performance indicators

Business drivers

All the Group's businesses are consumer oriented and their success is linked to general economic conditions in their markets. Inflation, employment levels, interest rates and government spending programmes all have an effect on disposable income and consumer confidence.

The Group's businesses in the Falklands and Gosport have strong ties to the local communities they serve and activity is linked in turn to the local demand for their goods and services. In addition demand is boosted by tourist activity and both locations have benefited from increasing tourist numbers in recent years. In the Falklands the strength of the economy is closely linked to the fortunes of the fishing industry and in particular the success of the unpredictable illex squid season which runs from February to May. In the year ended 31 March 2010 the commencement of the oil exploration had a positive impact and this is also expected to have to benefit the local economy in the current and future years. If the programme was to cease this stimulus would end. The commercialisation of discoveries is likely to be of significant long term benefit to the economy of the Falkland Islands.

At Momart activity in the art market is closely correlated with the performance the global economy albeit with a time lag. In the commercial art market, levels of disposable income among high net worth individuals are a key driver and in the museums sector government and corporate sponsorship are important sources of funding in addition to admissions revenue which is increasing. However pressures on Government spending will have a negative impact on institutional budgets and the number of exhibitions; in the longer term this should lead to more out-sourcing of specialist services by museums and institutions but in the near term a further reduction in the level of government subsidised exhibitions seems likely.

Major international exhibitions which are displayed in a number of global locations as part of cultural diplomacy initiatives are an important source of revenue for museums and galleries and the London Olympics should be an opportunity for such activity. In addition, the art market is still continuing to develop globally with the emergence of new buyers, patrons and artists in the Middle East, Far East and Russia.

Risk factors

PHFC and FIC are both sensitive to changes in local economic conditions. The level of local competition also affects performance. In the Falklands, FIC faces competition in most of its operations but due to the Company's long history and accumulated expertise FIC has a leading market position in most sectors in which it operates. The situation is fluid and maintaining leadership depends on continued innovation, investment and a commitment to excellence in customer service.

Argentina continues to make a claim against the UK's sovereignty of the Falkland Islands and in recent months has sought to impose restrictions on vessels transiting Argentinian waters en route to the Falklands. However the UK government has re-affirmed its sovereignty in unequivocal terms and key trade and logistic links to the UK are unaffected. However Argentina's continuing protests are likely to delay the development of further commercial links to the Falklands' South American neighbours.

Although there is no other directly competing service, in Portsmouth customers do have a choice and are able to travel by car or public transport round the harbour. Maintaining and promoting the relative attractions of using the ferry whether for commuting to work, shopping or for tourism is a key focus of PHFC's strategy and we will continue to work closely with local authorities and other public transport providers to reinforce the ferry's position as a, faster more cost effective, and environmentally friendly alternative to travelling by car.

For Momart the physical security of artworks is of paramount importance and the Company goes to great lengths to guard against the risk of theft or damage to the works in its care. Beyond physical security and the resulting risk to the Company's reputation, the risks faced by Momart tend to be those factors which could impact the global art market. In particular the reduction in the personal wealth of collectors and investors will be likely to result in a contraction of personal or institutional budgets which in turn would lead to a reduction in the movement and display of art. The emergence of new competitors could also impact the business adversely. In addition because much of Momart's business involves working with overseas partners, volatility in the Sterling/Dollar and Sterling/Euro exchange rates has a direct effect on Momart's cost base and profitability.

Key performance indicators

At 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 the retail outlets which account for two-thirds of revenues. 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 other key concerns are ferry reliability and passenger safety as well as a focus on costs and net profitability.

In Momart, forward sales projections are monitored and updated and these are an important predictive indicator which facilitates forward planning. In addition, order intake and the conversion rate in bidding for contracts are reviewed on a regular basis. Direct costs and the gross contribution of individual contracts are monitored closely as are the level of indirect costs and the overall amount of overtime being worked.

Trading outlook

The economic backdrop remains uncertain and the Board does not foresee a substantial improvement in trading conditions during the current year.

However, with substantially reduced borrowings and the inherent strength of each operating company, the Group is well placed to weather the current difficult trading environment and benefit in the upturn.

Whilst the Board remains remain cautious about prospects for growth in the current year ahead, it remains confident about the long-term future of the Group.

John Foster
Managing Director
23 June 2010

Board of Directors and Secretary

David Hudd (65) 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 non-executive Deputy Chairman of Falklands Oil and Gas Limited.

John Foster (52) Managing Director

John joined the Board on 26 January 2005. He is a Chartered Accountant and previously served as Finance Director for international software company Macro 4 plc and world famous toy retailer, Hamleys plc. Prior to joining Hamleys, he spent three years in charge of acquisitions and disposals at FTSE 250 company Ascot plc and before that worked for nine years as a venture capitalist with a leading investment bank in the City.

Mike Killingley (59) 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. He was previously non-executive Chairman of Southern Vectis plc and Conder Environmental plc, both listed on AIM. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

Jeremy Brade (48) Non-executive Director

Jeremy joined the Board on September 2009. He is a Director and Private Equity Partner at J O Hambro Capital Management Limited, where he has worked since 2001. Jeremy had previously been with the Foreign and Commonwealth Office (FCO) where he served at the British High Commission in New Delhi and as the representative of Cyrus Vance and Lord Owen at the International Conference on the Former Yugoslavia. Prior to joining the Diplomatic Service, Jeremy was an Army Officer.

James Ivins (45) Company Secretary

James joined the Group as Company Secretary on 26 February 2007. He is a Fellow of the Chartered Association of Certified Accountants.

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 2010.

Results and dividend

The Group's result for the year is set out in the Consolidated Income Statement on page 21. The Group profit for the year after taxation amounted to £5,256,000 *(2009: loss £1,153,000)*. Basic earnings per share were 58.2p *(2009: -12.8p)*. The Directors recommend a dividend of 5.0p per share which, in addition to the interim dividend already announced, takes the total dividend proposed for the year to 9.0p *(2009: 8.0p)* which, if approved by shareholders at the forthcoming Annual General Meeting will be paid on 29 October 2010 to shareholders on the register at close of business on 17 September 2010. 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 8.0p per share in respect of the previous year ended 31 March 2009 and an interim dividend of 4.0p per share in respect of the current year.

Principal activities and business review

The business of the Group during the year ended 31 March 2010 was general trading in the Falkland Islands, the operation of a ferry across Portsmouth Harbour and the provision of international arts logistics and storage services. The principal activities of the Group are discussed in more detail in the Business Review on pages 4 to 13 which 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

Sir Harry Solomon resigned from the Board on 31 December 2009. The Board wishes to record its appreciation for his contribution and long service to the 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 17 and 18. 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 effort 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 or 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 25 on pages 54 to 59.

Share capital and substantial interests in shares

During the year 91,300 share options were exercised *(2009: nil)*. There have been no changes to the authorised share capital which remains 12,500,000 shares.

Further information about the Company's share capital is given in note 27 on page 63. Details of the Company's executive share option scheme and employee ownership plan can be found on pages 17 and 18 and in note 26 on pages 59 and 60.

Directors' Report

CONTINUED

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 31 March 2010.

	Number of shares	Percentage of shares in issue
L S Licht	750,000	8.24
Artemis Investment Management	424,419	4.67
Sir Harry Solomon	333,677	3.67
Dolphin Fund plc	387,109	4.26

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 payment practice. As a holding company, the Company had no trade creditors at either 31 March 2010 or 31 March 2009.

Charitable and political donations

Charitable donations made by the Group during the year amounted to £28,737 *(2009: £15,401)*, largely to local community charities in Gosport and the Falkland Islands. In the Falkland Islands donations amounted to £16,120, of which the largest was £7,922 to the Falkland Islands Overseas Games Association. There were no political donations.

Disclosure of information to auditors

The Directors who held office at the date 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 Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB at 2.30 pm on 9 September 2010. The Notice of the Annual General Meeting and a description of the special business to be put to the meeting are considered in a separate Circular to Shareholders which accompanies this document.

Details of Directors' remuneration and emoluments (audited information)

The remuneration of non-executive Directors consists only of annual fees for their services both as members of the Board and of 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 2010 and in the preceding year follows:

	Salary £'000	Bonuses £'000	Benefits £'000	Pensions £'000	Gains in respect of share options £'000	**2010 Total £'000**	2009 Total £'000
David Hudd	100	80	–	–	183	**363**	100
John Foster	158	85	–	25	–	**268**	205
Mike Killingley	35	–	–	–	–	**35**	30
Leonard Licht	–	–	–	–	–	**–**	15
Sir Harry Solomon	15	–	–	–	–	**15**	20
Jeremy Brade	14	–	–	–	–	**14**	–
	322	165	–	25	–	**695**	370

Directors' interests in shares

As at 31 March 2010, the share options of executive Directors may be summarised as follows:

	Date of grant	Number of shares D L Hudd	Number of shares J L Foster	Exercise price	Exercisable from	Expiry date
Opening balance						
	15 Aug 2002	81,300	–	£1.84½	15 Aug 2005	14 Aug 2012
	10 Feb 2005	–	57,692	£5.20	10 Feb 2008	9 Feb 2015
	14 June 2005	49,411	14,117	£4.25	14 June 2008	13 June 2015
	13 July 2006	59,843	28,346	£3.17½	13 July 2009	12 July 2016
	5 July 2007	3,780	3,780	£2.50	1 Aug 2010	31 July 2017
	7 Aug 2007	–	27,517	£3.30	7 Aug 2010	6 Aug 2017
Total at 31 March 2009		194,334	129,452			
Lapsed in year	13 July 2009	(59,843)	(28,346)	£3.17½		
Issued in year	15 July 2009	44,550	44,550	£2.90	15 July 2012	14 July 2019
Exercised in year	9 March 2010	(81,300)	–	£1.84½		
Total at 31 March 2010		97,741	145,656			

Directors' Report
CONTINUED

The mid-market price of the Company's shares on 31 March 2010 was 335 pence and the range in the year was 185 pence to 473 pence.

The Directors' options extant at 31 March 2010 totalled 243,397 and represented 2.7% 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 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 Foster in August 2007 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.

The options granted to Mr Hudd and Mr Foster in July 2009 may normally only be exercised subject to the satisfaction of performance criteria relating to the growth in the Company's total shareholder return ("TSR") over the three year period commencing 19 July 2009 (the "performance period") relative to the TSR growth of all companies in the FTSE AIM All-Share Index (the "Index") over the same period (the "TSR Condition").

The TSR Condition provides for the options to become exercisable as follows:

Percentage by which the Company's TSR growth exceeds the Index's TSR growth during the Performance Period	Percentage of Option shares which become exercisable
20% or more	100%
10%	10%
Less than 10%	0%
More than 10% but less than 20%	Between 10% and 100% on a straight line basis

In addition to the share options set out above, as at 31 March 2010 the interests of the Directors, their immediate families and related trusts in the shares of the Company were as shown below:

	Ordinary shares as at 31 March 2010	Ordinary shares as at 31 March 2009
David Hudd	82,382	56,000
John Foster	10,000	10,000
Mike Killingley	10,000	10,000
Jeremy Brade	2,000	–

Statement of Directors' responsibilities in respect of the Directors' Report and financial statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period.

In preparing each of the Group and Company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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.

Approved by the Board and signed on its behalf by:

James Ivins
Secretary
23 June 2010

Kenburgh Court
133-137 South Street
Bishop's Stortford
Hertfordshire
CM23 3HX

Independent Auditor's Report to the members of Falkland Islands Holdings plc

We have audited the financial statements of Falkland Islands Holdings plc for the year ended 31 March 2010. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the details of the Directors' Remuneration and emoluments which we were engaged to audit has been properly prepared in accordance with schedule 8 to the Companies Act 2006 *The Large and Medium-sized companies and Groups (Accounts and Reports) Regulations 2008*, as if those requirements were to apply to the Company; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the details of the Directors' remuneration and emoluments which we were engaged to audit are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Tim Widdas (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St Nicholas House
31 Park Row
Nottingham NG1 6FQ
23 June 2010

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2010

Notes		Before amortisation & non-trading items 2010 £'000	Amortisation & non-trading items (note 5) 2010 £'000	Total 2010 £'000	Before amortisation & non-trading items As restated 2009 £'000	Amortisation & non-trading items (note 5) As restated 2009 £'000	Total As restated 2009 £'000
3	Revenue	29,224	–	29,224	32,251	–	32,251
	Cost of sales	(17,237)	–	(17,237)	(20,158)	–	(20,158)
	Gross profit	11,987	–	11,987	12,093	–	12,093
	Other administrative expenses	(8,868)	–	(8,868)	(9,214)	–	(9,214)
	Amortisation of intangible assets	–	(398)	(398)	–	(398)	(398)
	Goodwill impairment	–	–	–	–	(1,983)	(1,983)
	Restructuring costs	–	–	–	–	(228)	(228)
	Operating expenses	(8,868)	(398)	(9,266)	(9,214)	(2,609)	(11,823)
	Gain on disposal of available-for-sale equity securities	–	3,089	3,089	–	–	–
	Compensation for early vacation of leasehold premises	–	245	245	–	–	–
	Other income	15	–	15	15	–	15
4	Other operating income	15	3,334	3,349	15	–	15
	Operating profit	3,134	2,936	6,070	2,894	(2,609)	285
	Finance income	111	45	156	172	–	172
	Finance expense	(557)	–	(557)	(750)	(334)	(1,084)
8	Net financing costs	(446)	45	(401)	(578)	(334)	(912)
	Profit / (loss) before tax from continuing operations	2,688	2,981	5,669	2,316	(2,943)	(627)
9	Taxation	(705)	292	(413)	(605)	79	(526)
	Profit / (loss) for the year attributable to equity holders of the Company	1,983	3,273	5,256	1,711	(2,864)	(1,153)
10	Earnings per share						
	Basic	22.0p		58.2p	19.0p		(12.8)p
	Diluted	21.7p		57.5p	18.8p		(12.8)p

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2010

	2010 £'000	2009 £'000
Gain / (loss) on valuation of available-for-sale equity securities	6,828	(7,560)
Transfer to the income statement on sale of available-for-sale equity securities	(1,683)	–
Share-based payments	240	297
Repurchase of equity interest	(75)	–
PHFC actuarial loss on pension scheme	(55)	(86)
FIC actuarial (loss) / gain on pension scheme	(195)	50
Movement on deferred tax asset relating to pension schemes	124	13
Other comprehensive income / (expense)	5,184	(7,286)
Profit / (loss) for the year	5,256	(1,153)
Total comprehensive income / (expense)	10,440	(8,439)

Consolidated Balance Sheet

AT 31 MARCH 2010

Notes		2010 £'000	As restated 2009 £'000
	Non-current assets		
11	Intangible assets	13,509	13,907
12	Property, plant and equipment	7,483	7,033
13	Investment properties	1,777	1,769
15	Financial assets – available for sale equity securities	15,542	10,890
16	Non-current assets held for sale	20	20
17	Other financial assets	52	58
18	Deferred tax assets	621	516
	Total non-current assets	39,004	34,193
	Current assets		
	Trading inventories	3,489	2,570
	Property inventories	1,220	639
19	Inventories	4,709	3,209
20	Trade and other receivables	4,535	4,424
17	Other financial assets	206	159
21	Cash and cash equivalents	3,810	3,004
	Total current assets	13,260	10,796
	TOTAL ASSETS	52,264	44,989
	Current liabilities		
22	Interest bearing loans and borrowings	(1,218)	(2,142)
	Income tax payable	(683)	(518)
23	Derivative financial instruments	–	(406)
24	Trade and other payables	(8,219)	(7,913)
	Total current liabilities	(10,120)	(10,979)
	Non-current liabilities		
22	Interest bearing loans and borrowings	(4,055)	(5,053)
25	Employee benefits	(2,237)	(2,036)
18	Deferred tax liabilities	(1,615)	(2,054)
	Total non-current liabilities	(7,907)	(9,143)
	TOTAL LIABILITIES	(18,027)	(20,122)
	Net assets	34,237	24,867
27	Capital and reserves		
	Equity share capital	910	906
	Share premium account	7,324	7,206
	Other reserves	1,162	1,162
	Retained earnings	11,260	7,157
	Financial assets fair value reserve	13,581	8,436
	Total equity	34,237	24,867

These financial statements were approved by the Board of Directors on 23 June 2010 and were signed on its behalf by:

J L Foster

Director

Company Balance Sheet

AT 31 MARCH 2010

Notes		2010 £'000	2009 £'000
	Non-current assets		
14	Financial assets – investments in subsidiaries	31,297	31,103
20	Other receivables	2,916	6,325
18	Deferred tax	–	122
	Total non-current assets	34,213	37,550
	Current assets		
20	Trade and other receivables	15	19
21	Cash and cash equivalents	360	289
	Total current assets	375	308
	TOTAL ASSETS	34,588	37,858
	Current liabilities		
22	Interest bearing loans and borrowings	(928)	(1,873)
	Income tax payable	70	(38)
23	Other financial liabilities	–	(406)
24	Trade and other payables	(413)	(413)
	Total current liabilities	(1,271)	(2,730)
	Non-current liabilities		
22	Interest bearing loans and borrowings	(3,140)	(3,955)
	Other liabilities	(871)	(632)
	Total non-current liabilities	(4,011)	(4,587)
	TOTAL LIABILITIES	(5,282)	(7,317)
	Net assets	29,306	30,541
27	Capital and reserves		
	Called up share capital	910	906
	Share premium account	7,324	7,206
	Other reserves	6,910	6,910
	Retained earnings	14,162	15,519
	Total equity	29,306	30,541

These financial statements were approved by the Board of Directors on 23 June 2010 and were signed on its behalf by:

J L Foster
Director

Registered company number: 03416346

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2010

Notes		2010 £'000	As restated 2009 £'000
	Cash flows from operating activities		
	Profit / (loss) for the year	5,256	(1,153)
	Adjusted for:		
	(i) Non-cash items:		
	Depreciation	907	840
	Fixed asset impairment	(30)	40
	Amortisation	398	398
	Goodwill impairment	–	1,983
	Amortisation of loan fees	30	30
	Notional interest charge on deferred consideration	48	104
	Expected return on pension scheme assets	(17)	(22)
	Interest cost on pension scheme liabilities	149	152
	(Gain) / loss on remeasurement of derivative financial instruments	(45)	334
	Settlement of equity interest	(75)	–
	Equity-settled share-based payment expenses	240	297
	Non-cash items adjustment	1,605	4,156
	(ii) Other items:		
	Bank interest receivable	(16)	(76)
	Bank interest payable	330	464
	Gain on disposal of available for sale equity securities	(3,089)	–
	Loss on disposal of fixed assets	–	3
	Income tax expense	413	526
	Other adjustments	(2,362)	917
	Operating cash flow before changes in working capital and provisions	4,499	3,920
	(Increase) / decrease in trade and other receivables	(111)	929
	Increase in property inventories	(581)	(363)
	(Increase) / decrease in other inventories	(919)	770
	Increase in trade and other payables	306	318
	Decrease in provisions and employee benefits	(137)	(47)
	Changes in working capital and provisions	(1,442)	1,607
	Cash generated from operations	3,057	5,527
	Income taxes paid	(708)	(1,427)
	Net cash flow from operating activities	2,349	4,100
	Cash flows from investing activities		
	Purchase of property, plant and equipment	(1,358)	(954)
	Purchase of investment properties	(55)	(100)
	Proceeds from the disposal of property, plant and equipment	72	1
	Acquisition of subsidiary, net of cash acquired	(1,621)	(1,697)
	Proceeds from sale of assets held for sale	–	186
	Proceeds from the sale of available for sale equity securities	3,584	–
	Interest received	16	76
	Net cash flow from investing activities	638	(2,488)
	Cash flow from financing activities		
	Increase in other financial assets	(41)	(5)
	Repayment of secured loan	(755)	(608)
	Proceeds from new loan	376	166
	Interest paid	(330)	(434)
	Liquidation of financial derivative contracts	(361)	–
	Proceeds from the issue of ordinary share capital	14	–
	Dividends paid	(1,084)	(722)
	Net cash flow from financing activities	(2,181)	(1,603)
	Net increase in cash and cash equivalents	806	9
	Cash and cash equivalents at start of year	3,004	2,995
21	**Cash and cash equivalents at end of year**	3,810	3,004

Company Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2010

Notes		2010 £'000	2009 £'000
	Cash flows from operating activities		
	Loss for the year	(330)	(10,625)
	Adjusted for:		
	Net financing costs	286	393
	Amortisation of loan fees	30	30
	Notional interest charge on deferred consideration	48	104
	Loss on remeasurement of financial instruments	(45)	334
	Impairment charges on investments in subsidiaries	–	13,014
	Equity-settled share-based payment expenses	46	151
	Settlement of equity interest	(75)	–
	Income tax expense	(84)	(54)
	Operating profit before changes in working capital and provisions	(124)	3,347
	Decrease in trade and other receivables	4	12
	Decrease in trade and other payables	–	(658)
	Increase in provisions	168	–
	Cash generated from operations	48	2,701
	Income taxes paid	(70)	–
	Net cash flow from operating activities	(22)	2,701
	Cash flows from investing activities		
	Acquisition of subsidiary	(1,621)	(1,553)
	Net cash flow from investing activities	(1,621)	(1,553)
	Cash flow from financing activities		
	Proceeds from new loan	242	–
	Proceeds from inter-company borrowing	3,648	–
	Repayment of inter-company borrowing	–	(514)
	Repayment of secured loan	(459)	(332)
	Interest paid	(286)	(393)
	Liquidation of financial derivative contracts	(361)	–
	Proceeds from the issue of ordinary share capital	14	–
	Dividends paid	(1,084)	(722)
	Net cash flow from financing activities	1,714	(1,961)
	Net increase / (decrease) in cash and cash equivalents	71	(813)
	Cash and cash equivalents at start of year	289	1,102
21	**Cash and cash equivalents at end of year**	360	289

Consolidated Statement of Changes in Shareholders' Equity

FOR THE YEAR ENDED 31 MARCH 2010

	2010 £'000	2009 £'000
Shareholders' funds at the beginning of the year	24,867	34,028
Profit / (loss) for the year	5,256	(1,153)
Share-based payments	240	297
Change in fair value of available-for-sale financial assets	6,828	(7,560)
Transfer to the income statement on sale of available-for-sale equity securities	(1,683)	–
Actuarial loss on pension net of tax	(126)	(23)
Repurchase of equity interest	(75)	–
Total comprehensive income / (expense) for the year	10,440	(8,439)
Dividends paid	(1,084)	(722)
Proceeds from the issue of share capital	14	–
Shareholders' funds at the end of the year	34,237	24,867

Company Statement of Changes in Shareholders' Equity

FOR THE YEAR ENDED 31 MARCH 2010

	2010 £'000	2009 £'000
Shareholders' funds at the beginning of the year	30,541	41,591
Profit / (loss) for the year	(330)	(10,625)
Share-based payments	240	297
Repurchase of equity interest	(75)	–
Total comprehensive expense for the year	(165)	(10,328)
Dividends paid	(1,084)	(722)
Proceeds from the issue of share capital	14	–
Shareholders' funds at the end of the year	29,306	30,541

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2010

1 Accounting policies

General information

Falkland Islands Holdings plc (the "Company") is a company incorporated and domiciled in the UK.

Reporting entity

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

Basis of preparation

Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

The management and development of the Group's property portfolio in the Falkland Islands is now a significant part of the Group's trading activity. Accordingly, the Board has decided to report receipts from the disposal of investment property and property developments and rents received from its portfolio of residential and commercial properties as a trading activity within turnover. Associated gains and losses on the disposal of rental properties and property developments are accordingly recognised within gross profit. Prior year comparatives have been amended accordingly.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment next year are discussed in note 32.

The financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that available-for-sale financial instruments and derivative financial instruments are stated at their fair value.

The Directors are responsible for ensuring that the Group has adequate financial resources to meet its projected liquidity requirements and also for ensuring forecast earnings are sufficient to meet the covenants associated with the Group's banking facilities.

As in prior years the Directors have reviewed the Group's medium term forecasts and considered a number of possible trading scenarios and are satisfied the Group's existing resources (including committed banking facilities) are sufficient to meet its needs. As a consequence the Directors believe the Group is well placed to manage its business risk.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Managing Director's Business Review on pages 4 to 13. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Managing Director's Business Review. In addition note 28 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

After making enquiries the Directors have a reasonable expectation that the Company and Group have adequate reserves to continue in operational existence for the foreseeable future, and have continued to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Falkland Islands Holdings plc and its subsidiaries (the "Group"). A subsidiary is any entity Falkland Islands Holdings plc has the power to control the financial and operating policies of so as to obtain benefits from its activities. The financial statements of subsidiaries are prepared for the same reporting period as the parent company. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

1 Accounting policies CONTINUED

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All intra-company balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses are eliminated but only to the extent that there is no evidence of impairment.

Investments in subsidiaries not classified as held-for-sale within the Company balance sheet are stated at cost.

Presentation of income statement

Due to the non-prescriptive nature under IFRS as to the format of the income statement, the format used by the Group is explained below.

Operating profit is the pre-finance profit of continuing activities and acquisitions of the Group, and in order to achieve consistency and comparability, is analysed to show separately the results of normal trading performance ("underlying profit"), individually significant charges and credits, changes in the fair value of derivative financial instruments and amortisation of intangible assets on acquisition. Such items arise because of their size or nature, and in 2010 comprise:

- Gain on disposal of equity securities
- Compensation for early vacation of leasehold premises
- Gain on liquidation of derivative financial instrument contracts
- Amortisation of intangible assets.

In 2009 such items comprised:

- Charges relating to asset impairments which are significant to any reportable segment
- Charges relating to the Group's restructuring programme
- Changes in the fair value of derivative financial instruments
- Amortisation of intangible assets.

Foreign currencies

Transactions in foreign currencies are translated to the functional currencies of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the relevant rates of exchange ruling at the balance sheet date and the gains or losses thereon are included in the income statement.

Non-monetary assets and liabilities are translated using the exchange rate at the date of the initial transaction.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises purchase price and directly attributable expenses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Freehold buildings	20 – 50 years
Long leasehold land and buildings	50 years
Vehicles, plant and equipment	4 – 10 years
Ships	15 – 30 years

The carrying value of assets and their useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. If an indication of impairment exists, the assets are written down to their recoverable amount and the impairment is charged to the income statement in the period in which it arises.

Freehold land and assets-in-construction are not depreciated.

Notes to the Financial Statements

CONTINUED

1 Accounting policies CONTINUED

Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less any accumulated depreciation (calculated on useful economic lives in line with accounting policy, property, plant and equipment above) and any impairment losses.

Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries.

Acquisitions prior to 1 April 2006

In respect to acquisitions prior to transition to IFRS, goodwill is recorded on the basis of deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Principles ("GAAP") as at the date of transition. The classification and accounting treatment of business combinations which occurred prior to transition has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 April 2006.

Acquisitions on or after 1 April 2006

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired business. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Trade name	20 years
Customer relationships	6 – 10 years
Non-compete agreements	5 years

Computer software

Acquired computer software is capitalised as an intangible asset on the basis of the cost incurred to acquire and bring the specific software into use. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful life of computer software is five years.

Impairment of non-financial assets

At each reporting date the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists or the asset requires annual impairment testing, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Recoverable amount is the greater of an asset's or cash-generating unit's fair value less cost to sell or value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's

1 Accounting policies CONTINUED

carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Finance income and expense

Net financing costs comprise interest payable, interest receivable, and foreign exchange gains and losses that are recognised in the income statement.

Interest income and interest payable are recognised as a profit or loss as they accrue, using the effective interest method.

Financial instruments

Certain financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these items are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit and loss.

Financial instruments classified as available-for-sale are initially recognised at fair value less directly attributable transaction costs.

The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise. The Group has not applied hedge accounting to its derivative financial instruments.

Employee share awards

The Group provides benefits to certain employees (including Directors) in the form of share-based payment transactions, whereby the employee renders service in return 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 option input pricing model taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

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 that the option vests.

Where the Company grants options over its own shares to the employees of subsidiaries, it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equal to the equity settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

The cost of raw materials, consumables and goods for resale comprises purchase cost, on a first-in, first-out basis and where applicable includes expenditure incurred in transportation to the Falkland Islands.

Work-in-progress and finished goods cost includes direct materials and labour plus attributable overheads based on a normal level of activity.

Construction-in-progress and properties held-for-sale relating to the Group's property trading portfolio in the Falkland Islands are stated at the lower of cost and net realisable value.

Net realisable value is estimated at selling price in the ordinary course of business less costs of disposal.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable by the Group for goods supplied and services rendered in the normal course of business, net of discounts and excluding VAT. Revenue principally arises from retail sales, the provision of ferry services and the provision of storage and transportation services for fine art works. In the

Notes to the Financial Statements

CONTINUED

1 Accounting policies CONTINUED

Falkland Islands revenue also includes proceeds from property sales, property rental income, insurance commissions, revenues billed for shipping and agency activities and port services.

Revenue from sale of goods is recognised at the point of sale or dispatch, whilst that of the ferry, fine art logistics and other services is recognised when the service is provided. Revenue from property sales is recognised on completion.

For fine art exhibition logistical work undertaken the amount of profit attributable to the stage of completion of a contract is recognised when the outcome of the contract can be seen with reasonable certainty, typically upon successful opening. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profit, less amounts already recognised. Provision is made for losses as soon as they are foreseeable.

Pensions

Defined contribution pension schemes

The Group operates three defined contribution schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged to the income statement represents the contributions payable to the schemes in respect to the accounting period.

Defined benefit pension schemes

The Group also operates two pension schemes providing benefits based on final pensionable pay, one of which is unfunded. The assets of the funded scheme are held separately from those of the Group.

The Group's net obligation in respect of each defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value; and any unrecognised past service costs and the fair value of the plan assets (at bid price) are deducted. The liability discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the asset recognised is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The current service cost and costs from settlements and curtailments are charged against operating profit.

Past service costs are spread over the period until the benefit increases vest. Interest charged on the scheme liabilities and the expected return on scheme assets are included in other finance costs.

Actuarial gains and losses are recognised in full in the period in which they arise in the statement of recognised income and expense.

Trade and other receivables

Trade receivables are carried at amortised cost, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Trade and other payables

Trade and other payables are stated at their cost less payments made.

Dividends on funds presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as liabilities at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1 Accounting policies CONTINUED

Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary timing differences are not recognised:

- Goodwill not deductible for tax purposes; and
- Initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is recognised at the tax rates that are expected to be applied to the temporary differences when they reverse, based on rates that have been enacted or substantially enacted by the reporting date.

Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

As lessee

Rentals in respect of all operating leases are charged to the income statement 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 to the extent they are due within one year, and under non-current assets to the extent that they are due after more than one year, and are stated at the value of the net investment in the agreements. The income from such agreements is credited to the income statement each year so as to give a constant rate of return on the funds invested.

Assets held for leasing out under operating leases are included in investment property (where they constitute land and buildings) or in property, plant and equipment (where they do not constitute land and buildings) at cost less accumulated depreciation and impairment losses. Rental income is recognised on a straight-line basis. Lease incentives granted are recognised as an integral part of the total rental income.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period of the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Non-current assets held for sale and discontinued operations

Non-current assets and discontinued operations are classified as held for sale when their carrying values will be recovered principally through sale. They are generally measured at the lower of carrying amount and fair value less costs to sell.

Notes to the Financial Statements

CONTINUED

1 Accounting policies CONTINUED

Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected cash flows at an appropriate pre-tax risk free rate.

New accounting standards and interpretations applied

During the year the Group has adopted the following standards:

Amendments to IAS 1: Presentation of financial statements.

IFRS 8: Operating Segments. The Standard introduces a management approach to segment reporting and segment information is consistent with internal management reporting.

Amendments to IAS 23: Borrowing costs. No borrowing costs were incurred in relation to construction projects.

New accounting standards and interpretations not applied

During the year, the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations with an effective date after the end of these financial statements, which have not been applied:

International Accounting Standards (IAS/IFRS)	Effective date (accounting periods commencing on or after):
Endorsed	
IFRS 3 (Revised): Business combinations (2008)	1 July 2009
Amendments to IAS 39 Financial instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009
Amendments to IAS 27 Consolidated and Separate Financial Statements (2008)	1 July 2009
Amendments to IFRS 2 Group Cash Settled Share-based Payment Transactions	1 January 2010
Amendments to IAS 32 Classification of Rights Issues	1 February 2010
Unendorsed	
IAS 24 Related Party Disclosures	1 January 2011
IFRS 9 Financial Instruments	1 January 2013
International Financial Reporting Interpretations Committee (IFRIC)	
Unendorsed	
Amendments to IFRIC 14 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amendments to IFRIC 9 Financial Instruments	1 January 2013

The Directors do not anticipate that the adoption of the standards and interpretations listed above will have a material impact on the Group's or Company's financial statements in the period of initial application, however additional disclosures will be required.

2 Segmental information

Segment information is presented in respect of the Group's business and geographical segments. The primary reporting format is determined to be by business type: the provision of ferry services; arts logistics and storage; and general trading in the Falkland Islands. The secondary reporting format is determined to be geographical.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

Primary reporting format – business

2010	General trading (Falklands) £'000	Ferry services (Portsmouth) £'000	Art logistics and storage (UK) £'000	Total £'000
Revenue	12,434	3,718	13,072	**29,224**
Segment operating profit before tax, amortisation and non-trading items	1,377	800	957	**3,134**
Amortisation of intangible assets	–	–	(398)	**(398)**
Compensation for early vacation of leasehold premises	–	–	245	**245**
Unallocated gain on disposal of available-for-sale equity securities				**3,089**
Amortisation and non-trading items	–	–	(153)	**2,936**
Segment operating profit	1,377	800	804	**6,070**
Gain on liquidation of financial derivative	–	8	37	**45**
Interest income	78	21	12	**111**
Interest expense	(138)	(85)	(334)	**(557)**
Segment profit before tax	1,317	744	519	**5,669**
Taxation	34	(245)	(201)	**(413)**
Segment profit after tax	1,351	498	318	**5,256**
Assets and liabilities				
Segment assets	11,590	8,231	13,045	**32,866**
Segment liabilities	(8,084)	(2,583)	(5,270)	**(15,937)**
Unallocated assets and liabilities	–	–	–	**17,308**
Segment net assets	3,506	5,648	7,775	**34,237**
Other segmental information				
Capital expenditure:				
Property, plant, equipment	1,087	37	234	**1,358**
Investment properties	55	–	–	**55**
Depreciation – property, plant and equipment	324	222	321	**867**
Depreciation – investment properties	40	–	–	**40**
Amortisation	–	–	398	**398**

2010	General trading (Falklands) £'000	Ferry services (Portsmouth) £'000	Art logistics and storage (UK) £'000	Total £'000
Underlying profit before tax				
Segment operating profit before tax, amortisation and non-trading items (as above)	1,377	800	957	**3,134**
Interest expense	(138)	(85)	(334)	**(557)**
Interest income	78	21	12	**111**
Underlying profit before tax	1,317	736	635	**2,688**

Notes to the Financial Statements

CONTINUED

2 Segmental information CONTINUED

2009	General trading (Falklands) £'000	Ferry services (Portsmouth) £'000	Art logistics and storage (UK) £'000	Total £'000
Revenue	12,991	3,716	15,544	32,251
Segment operating profit before tax, amortisation and non-trading items	1,256	782	856	2,894
Amortisation of intangible assets	–	–	(398)	(398)
Goodwill impairment	–	–	(1,983)	(1,983)
Restructuring costs	(124)	–	(104)	(228)
Amortisation and non-trading items	(124)	–	(2,485)	(2,609)
Segment operating profit	1,132	782	(1,629)	285
Loss on revaluation of financial derivative	–	(57)	(277)	(334)
Finance expense	(119)	(220)	(411)	(750)
Finance income	84	80	8	172
Segment profit before tax	1,097	585	(2,309)	(627)
Taxation	(131)	(209)	(186)	(526)
Segment profit after tax	966	376	(2,495)	(1,153)
Assets and liabilities				
Segment assets	9,363	8,487	14,024	31,874
Segment liabilities	(7,081)	(2,834)	(4,870)	(14,785)
Unallocated assets and liabilities	–	–	–	7,778
Segment net assets	2,282	5,653	9,154	24,867
Other segmental information				
Capital expenditure:				
Property, plant, equipment	335	51	611	997
Investment properties	100	–	–	100
Depreciation – property, plant and equipment	305	215	284	804
Depreciation – investment properties	36	–	–	36
Impairment – ships	–	40	–	40
Amortisation and goodwill impairment	–	–	2,381	2,381

2009	General trading (Falklands) £'000	Ferry services (Portsmouth) £'000	Art logistics and storage (UK) £'000	Total £'000
Underlying profit before tax				
Segment operating profit before tax, amortisation and non-trading items (as above)	1,256	782	856	2,894
Interest expense	(119)	(220)	(411)	(750)
Interest income	84	80	8	172
Underlying profit before tax	1,221	642	453	2,316

2 Segmental information CONTINUED

Secondary reporting format – geographic

2010	United Kingdom £'000	Falkland Islands £'000	Total £'000
Revenue	16,790	12,434	29,224
Assets and liabilities			
Segment assets	21,276	11,590	32,866
Other segment information			
Capital expenditure	271	1,142	1,413

2009	United Kingdom £'000	Falkland Islands £'000	Total £'000
Revenue	19,260	12,991	32,251
Assets and liabilities			
Segment assets	22,511	9,363	31,874
Other segment information			
Capital expenditure	662	435	1,097

3 Revenue

	2010 £'000	2009 £'000
Sale of goods	14,214	14,476
Rendering of services	14,651	17,501
Property sales in the Falkland Islands	359	274
Total revenue	29,224	32,251

4 Other operating income

	2010 £'000	2009 £'000
Gain on disposal of available-for-sale equity securities	3,089	–
Compensation for early vacation of leasehold premises	245	–
Foreign exchange commission receivable	15	18
Net loss on disposal of property, plant and equipment	–	(3)
Total other operating income	3,349	15

Notes to the Financial Statements

CONTINUED

5 Amortisation, non-trading items and underlying profit

	2010 £'000	2009 £'000
Gain on disposal of available-for-sale equity securities [1]	3,089	–
Compensation for early vacation of leasehold premises [2]	245	–
Gain on liquidation of derivative financial instrument [3]	45	–
Amortisation charge on Momart intangible assets acquired	(398)	(398)
Goodwill impairment charge recognised in the year [4]	–	(1,983)
Restructuring charges incurred [5]	–	(228)
Loss on revaluation of derivative financial instruments [6]	–	(334)
Amortisation and non-trading items gain / (charge)	2,981	(2,943)
Profit / (loss) before tax as reported	5,669	(627)
adjusted for: amortisation and non-trading (gains) / charges	(2,981)	2,701
Underlying profit	2,688	2,074

2010

1 *Gain on disposal of available-for-sale equity securities*

On 30 November the Group sold 3,000,000 Falkland Oil and Gas Limited shares, representing 20% of its holding at that date. The sale generated proceeds of £3.6 million and a gain on disposal of £3.1 million.

2 *Compensation for early vacation of leasehold premises*

An agreement for the payment of compensation to Momart Limited for the early vacation of leasehold premises in April 2008 was settled during the year with total compensation received of £245,000.

3 *Gain on liquidation of financial instrument*

In January 2010 the Group elected to liquidate its base rate cap and floor contracts in respect to loans taken out in relation to a ferry delivered in 2005 and the Momart acquisition in March 2008 at a cost of £352,000. IAS 39 had required these derivative financial instruments to be recognised in the balance sheet at fair value as an asset or liability. At 31 March 2009 this gave rise to a liability of £406,000. On liquidation after expensing arrangement fees the Group recognised a gain of £45,000 on termination of the contracts.

2009

4 *Impairment charges*

During the year the Group in accordance with IAS 36 "Impairment of assets" undertook a review of the carrying value of goodwill. As a consequence of this review, after taking account of a reduction in activity across the world art markets, an impairment charge of £1,983,000 was recognised in connection with the goodwill relating to the acquisition of Momart International Limited in March 2008.

5 *Restructuring charges*

Charges of £228,000 incurred within operating profit related primarily to employment termination costs.

6 *Loss on revaluation of derivative financial instruments*

IAS 39 requires derivative financial instruments to be valued at the balance sheet date and any difference between that value and the intrinsic value of the instrument to be reflected in the balance sheet as an asset or liability. Any subsequent change in value is reflected in the Income Statement until hedge accounting is achieved. At the year end the derivatives the Group held resulted in a loss or revaluation of £334,000.

6 Expenses and auditors' remuneration

Included in profit / loss are the following expenses / (income):	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Direct operating expenses arising from investment properties which generated rental income in the period	65	99	–	–
Depreciation	867	804	–	–
Impairment charge – ships	–	40	–	–
Amortisation of intangible assets	398	398	–	–
Foreign currency differences	(38)	(89)	–	–
Impairment (gain) / loss on trade and other receivables	(48)	91	–	–
Cost of inventories recognised as an expense	7,597	7,393	–	–
Operating lease payments	649	594	–	–

Auditors' remuneration	2010 £'000	2009 £'000
Audit of these financial statements	25	25
and amounts receivable by auditors and their associates in respect of:		
Audit of subsidiaries' financial statements pursuant to legislation	60	60
Other services relating to taxation	13	–
All other services	–	–
Total auditors' remuneration	98	85

Amounts paid to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

7 Staff numbers and cost

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees Group		Number of employees Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
At Gosport Ferry	41	41	–	–
At Falklands Islands Company, in Stanley	83	88	–	–
At Falklands Islands Support, in UK	4	4	–	–
At Momart Limited	104	118	–	–
At Head Office	3	3	3	3
Total average staff numbers	235	254	3	3

Notes to the Financial Statements

CONTINUED

7 Staff numbers and cost CONTINUED

The aggregate payroll cost of these persons were as follows:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Wages and salaries	7,471	7,958	546	529
Share-based payments (see note 26)	240	297	46	151
Social security costs	650	665	71	58
Contributions to defined contribution plans	357	403	25	25
Total employment costs	8,718	9,323	688	763

Details of Directors' remuneration are provided in the Directors' Report, under the heading "Details of Directors' Remuneration and Emoluments" on page 17.

8 Finance income and expense

	2010 £'000	2009 £'000
Bank interest receivable	16	76
Finance lease interest receivable	78	74
Expected return on pension scheme assets	17	22
Gain on liquidation of derivative financial instrument	45	–
Total financial income	156	172
Interest payable on bank loans	(330)	(464)
Interest cost on pension scheme liabilities	(149)	(152)
Amortisation of loan fees	(30)	(30)
Interest attributable to deferred consideration payable	(48)	(104)
(Loss) on remeasurement of derivative financial instrument	–	(334)
Total financial expense	(557)	(1,084)
Net financing cost	(401)	(912)

	2010 £'000	2009 £'000
Bank interest receivable	16	76
Interest payable on bank loans	(330)	(464)
Net bank interest	(314)	(388)
Other financing charges (from above)	(87)	(524)
Net financing cost	(401)	(912)

9 Taxation

Recognised in the income statement

	2010 £'000	2009 £'000
Current tax expense		
Current year	852	718
Adjustments for prior years	(15)	(130)
Current tax expense	837	588
Deferred tax expense		
Origination and reversal of temporary differences	(174)	(158)
Reduction in tax rate	(2)	–
Adjustments for prior years	(248)	96
Deferred tax (credit) / expense	(424)	(62)
Total tax expense	413	526

Reconciliation of tax charge

	2010 £'000	2009 £'000
Profit / (loss) on ordinary activities before tax	5,669	(627)
Tax using the UK corporation tax rate of 28% *(2009: 28%)*	1,587	(176)
Expenses not deductible for tax purposes	142	697
Other timing differences	(57)	–
Non taxable income on disposals	(915)	–
Schedule 23 deduction	(60)	–
Excess foreign tax	–	(39)
Marginal relief	(6)	(4)
Lower tax charges overseas	(15)	(1)
Reduction in deferred tax rate	–	(34)
Adjustments to tax charge in respect of previous periods	(263)	83
Deferred tax asset not recognised	–	–
Total tax expense	413	526

Tax recognised directly in equity

	2010 £'000	2009 £'000
Current tax recognised directly in equity	–	–
Deferred tax recognised directly in equity	(124)	(13)
Total tax credit recognised directly in equity	(124)	(13)

Notes to the Financial Statements

CONTINUED

10 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 Ownership Plan ("ESOP") (see note 27).

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 the ESOP, adjusted to assume the full issue of share options outstanding, to the extent that they are dilutive.

	2010 £'000	2009 £'000
Profit / (loss) on ordinary activities after taxation (see page 21)	5,256	(1,153)

	2010 Number	2009 Number
Weighted average number of shares in issue	9,068,770	9,060,796
Less: shares held under the ESOP	(36,499)	(36,499)
Average number of shares in issue excluding the ESOP	9,032,271	9,024,297
Maximum dilution with regards to share options[1]	114,328	–
Diluted weighted average number of shares	9,146,599	9,024,297

[1] Potential ordinary shares are not considered dilutive where their conversion would reduce loss per share.

	2010	2009
Basic earnings per share	58.2p	(12.8)p
Diluted earnings per share	57.5p	(12.8)p

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

Earnings per share on underlying profit	2010 £'000	As restated 2009 £'000
Profit after tax before non-trading items and amortisation (see note 5)	1,983	1,711
Weighted average number of shares in issue excluding ESOP (from above)	9,032,271	9,024,297
Diluted weighted average number of shares (from above)	9,146,599	9,120,506
Basic earnings per share on underlying profit	22.0p	19.0p
Diluted earnings per share on underlying profit	21.7p	18.8p

11 Intangible assets

	Customer relationships £'000	Brand names £'000	Group Non-compete Agreements £'000	Goodwill £'000	**Total £'000**
Cost:					
As at 1 April 2008	1,882	2,823	72	11,586	**16,363**
Adjustments to fair value	–	–	–	(47)	**(47)**
At 31 March 2009	1,882	2,823	72	11,539	**16,316**
Adjustments to fair value	–	–	–	–	**–**
As at 31 March 2010	1,882	2,823	72	11,539	**16,316**
Accumulated amortisation:					
As at 1 April 2008	(17)	(10)	(1)	–	**(28)**
Amortisation for the year	(243)	(141)	(14)	–	**(398)**
Impairment charged in the year	–	–	–	(1,983)	**(1,983)**
As at 31 March 2009	(260)	(151)	(15)	(1,983)	**(2,409)**
Amortisation for the year	(243)	(141)	(14)	–	**(398)**
At 31 March 2010	(503)	(292)	(29)	(1,983)	**(2,807)**
Net book value:					
As at 31 March 2008	1,865	2,813	71	11,586	**16,335**
As at 31 March 2009	1,622	2,672	57	9,556	**13,907**
As at 31 March 2010	1,379	2,531	43	9,556	**13,509**

Amortisation and impairment charges are recognised in other administrative expense in the income statement.

Customer relationships – are on-going relationships, both contractual and otherwise, with customers considered to be of future economic benefit to the Group with estimated economic lives of 6 – 10 years.

Brand names – is the Momart brand considered to be of future economic value to the Group with an estimated useful economic life of 20 years.

Non-compete agreements – are contractually binding agreements with senior Momart personnel not to compete with the Group for five years in the event of their leaving the Group's service.

Goodwill

Goodwill is allocated to the Group's cash generating units ("CGUs") which principally comprise its business segments. A segment level summary of goodwill is shown below:

	Art logistics and storage £'000	Ferry services (Portsmouth) £'000	**Total £'000**
Brought forward at 1 April 2008	7,607	3,979	**11,586**
Impairment loss recognised in year	(1,983)	–	**(1,983)**
Adjustment to fair value	(47)	–	**(47)**
Carried forward at 31 March 2009	5,577	3,979	**9,556**
Balance at 31 March 2010	5,577	3,979	**9,556**

Notes to the Financial Statements

CONTINUED

11 Intangible assets CONTINUED

Impairment

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. An impairment test is a comparison of the carrying value of the assets of a CGU, based on a value-in-use calculation, to their recoverable amounts. Where the recoverable amount is less than the carrying value an impairment results. During the year the goodwill for each CGU was separately assessed and tested for impairment, with no impairment charges resulting *(2009: £1,983,000)*.

As part of testing goodwill for impairment detailed forecasts of operating cash flows for the next five years are used, which are based on approved budgets and plans by the Board of Falkland Islands Holdings plc. These forecasts represent the best estimate of future performance of the CGUs based on past performance and expectations for the market development of the CGU.

A number of key assumptions are used as part of impairment testing. These key assumptions are made by management reflecting past experience combined with their knowledge of as to future performance and relevant external sources of information. Sensitivity analysis as at 31 March 2010 has indicated that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

Discount rates

Within impairment testing models cash flows of all CGUs are discounted using a pre tax discount rate of 14.1% *(2009: 13.3%)*.

Management have determined that this rate is appropriate as the risk adjustment applied within the discount rate reflects the risks and rewards inherent to each CGU, based on the industry and geographical location it is based within. Both Ferry Services and Art Logistics and Storage have stable core revenue streams and are considered to have a similar risk profile.

Long term growth rates

Long term growth rates of 2% have been used for all CGUs as part of the impairment testing models. This growth rate does not exceed the long term average growth rate for the UK, in which the CGUs operate.

Other assumptions

Other assumptions used within impairment testing models include an estimation of long term effective tax rate for the CGUs and the terminal values of the CGUs.

The long-term effective rate of tax is 28%, consistent with the current UK tax rate.

The terminal value is calculated based on the Gordon Growth model.

Sensitivity to changes in assumptions

Using a discounted cash flow methodology necessarily involves making numerous estimates and assumptions regarding growth, operating margins, tax rates, appropriate discount rates, capital expenditure levels and working capital requirements. These estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material. In addition, judgements are applied by the Directors in determining the level of cash generating units and the criteria used to determine which assets should be aggregated. A difference in testing levels could further affect whether an impairment is recorded and the extent of impairment loss.

Assumptions specific to ferry services (Portsmouth)

Value in use was determined by discounting future cash flows in line with the other assumptions discussed above.

Management have forecast consistent growth in cash flows of 2% in both the short term and the long term. The value in use was determined to exceed the carrying amount and no impairment has been recognised. It is not considered that a reasonably possible change in any of these assumptions would generate a different impairment test outcome to the one included in this annual report.

Assumptions specific to arts logistics and storage (UK)

Value in use was determined by discounting future cash flows in line with the other assumptions discussed above. Cash flows were projected based on actual operating results and the five-year business plan. No growth was projected in the next two years, and 10.5% growth in the following three years, this is considered to be a prudent estimate given uncertainty in the economy. The long term growth rate is projected to be 2% thereafter. The carrying value of the unit was determined to not be higher than its recoverable amount and no impairment was recognised *(2009: loss £1,983,000)*.

12 Property, plant and equipment

	Group					
	Assets in construction £'000	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Ships £'000	Vehicles, plant and equipment £'000	**Total £'000**
Cost:						
At 1 April 2008	–	3,766	693	3,363	3,768	**11,590**
Reclassified	–	(319)	–	–	–	**(319)**
Additions in year	43	34	249	21	650	**997**
Recognised as investment property	–	(180)	–	–	–	**(180)**
Disposals	–	–	–	–	(26)	**(26)**
At 31 March 2009	43	3,301	942	3,384	4,392	**12,062**
Additions in year	–	652	22	24	660	**1,358**
Transferred to freehold land and buildings	(43)	43	–	–	–	**–**
Disposals	–	–	–	(99)	–	**(99)**
At 31 March 2010	–	3,996	964	3,309	5,052	**13,321**
Accumulated depreciation:						
At 1 April 2008	–	1,517	75	415	2,200	**4,207**
Charge for the year	–	73	18	138	575	**804**
Impairment	–	–	–	40	–	**40**
Disposals	–	–	–	–	(22)	**(22)**
At 31 March 2009	–	1,590	93	593	2,753	**5,029**
Charge for the year	–	76	122	143	526	**867**
Disposals	–	–	–	(58)	–	**(58)**
At 31 March 2010	–	1,666	215	678	3,279	**5,838**
Net book value:						
At 1 April 2008	–	2,249	618	2,948	1,568	**7,383**
At 31 March 2009	43	1,711	849	2,791	1,639	**7,033**
At 31 March 2010	–	2,330	749	2,631	1,773	**7,483**

The Company has no tangible fixed assets.

Notes to the Financial Statements

CONTINUED

13 Investment property

	Group		
	Residential and commercial property £'000	Freehold land £'000	**Total £'000**
At 1 April 2008	901	720	**1,621**
Transferred from fixed assets on completion	180	–	**180**
Acquisitions	100	–	**100**
Disposals	(50)	–	**(50)**
At 31 March 2009	1,131	720	**1,851**
Transferred from fixed assets on completion	–	–	**–**
Acquisitions	55	–	**55**
Disposals	(20)	–	**(20)**
At 1 March 2010	1,166	720	**1,886**
Accumulated depreciation:			
At 1 April 2008	64	–	**64**
Charge for the year	36	–	**36**
Disposals	(18)	–	**(18)**
At 31 March 2009	82	–	**82**
Charge for the year	40	–	**40**
Disposals	(13)	–	**(13)**
At 1 March 2010	109	–	**109**
Net book value at 1 April 2008	837	720	**1,557**
Net book value at 31 March 2009	1,049	720	**1,769**
Net book value at 31 March 2010	1,057	720	**1,777**

Investment properties comprise residential and commercial property held for rental in the Falklands with a fair value of approximately £2.5 million at 31 March 2010. This valuation was undertaken by a director of a subsidiary company who is resident in the Falkland Islands and is considered to have the relevant knowledge and experience to undertake the valuation. The Group also holds several hundreds of acres of land for which it is not possible to determine fair value, due to the restricted and limited market for freehold land in the Falkland Islands. Nonetheless the carrying value of land held at historic cost remains sufficiently low to enable directors to satisfy themselves that no impairment exists at the balance sheet date.

The Company holds no investment properties.

14 Investments in subsidiaries

The Group and Company have the following direct and indirect investments in subsidiaries:

	Country of incorporation	Class of shares held	Ownership % 2010	Ownership % 2009
The Falkland Islands Company Limited	UK	Ordinary shares of £1	100%	100%
		Preference shares of £10	100%	100%
The Falkland Islands Trading Company Limited	UK	Ordinary shares of £1	100%	100%
Darwin Shipping Limited*	Falkland Islands	Ordinary shares of £1	100%	100%
The Portsmouth Harbour Ferry Company Limited	UK	Ordinary shares of £1	100%	100%
Portsea Harbour Company Limited*	UK	Ordinary shares of £1	100%	100%
Clarence Marine Engineering Limited*	UK	Ordinary shares of £1	100%	100%
Gosport Ferry Limited*	UK	Ordinary shares of £1	100%	100%
Momart International Limited	UK	Ordinary shares of £1	100%	100%
Momart Limited*	UK	Ordinary shares of £1	100%	100%
Dadart Limited	UK	Ordinary shares of £1	100%	100%
Erebus Limited*	Falkland Islands	Ordinary shares of £1	100%	100%
		Preference shares of £1	100%	100%

* These investments are not held by the Company but are indirect investments held through a subsidiary of the Company.

Company investments in Group undertakings

	Company 2010 £'000	Company 2009 £'000
Balance brought forward	31,103	43,970
Cost of share-based payments recognised in subsidiaries	194	146
Acquisition of Momart International Limited	–	2
Impairment of investment in Erebus Limited	–	(12,094)
Impairment of investment in Momart International Limited	–	(921)
Total investment in Group undertakings	31,297	31,103

The Company's investment in Erebus Limited comprises the Group's shareholding in Falkland Oil and Gas Limited (see note 15) and a £921,000 impairment charge was recognised to reflect the fair value of the shareholding as at 31 March 2009. The Company has elected not to reverse any element of this impairment in the current year.

In the prior year the Company recognised an impairment charge to its investment in Momart International Limited such that its carrying value is reduced to value-in-use (see note 11).

Notes to the Financial Statements

CONTINUED

15 Financial assets – available-for-sale equity securities

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Non-current				
Available-for-sale equity securities	15,542	10,890	–	–
Falkland Oil and Gas Limited share price at 31 March	129.5p	72.6p	–	–

Available-for-sale financial assets comprise the Group's holding of 12,000,000 ordinary shares in Falkland Oil and Gas Limited ("FOGL") representing a 8.2% interest *(2009: 15 million shares; 16.25%)*.

The historic cost of the Group's investment in FOGL is £1,963,000 *(2009: £2,450,000)*.

16 Non-current assets held-for-sale

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Non-current assets held-for-sale	20	20	–	–

Non-current assets held-for-sale comprise certain items of artwork accumulated by Momart International Limited prior to acquisition. The assets were recognised at estimated fair value on acquisition and as a result no gain or loss arose on their being classified as held for sale.

17 Other financial assets

Rents receivable relate to finance leases on the sale of vehicles and customer goods. No allowances for uncollectible minimum lease payments have been deemed necessary. No contingent rents have been recognised as income in the period. No residual values accrue to the benefit of the lessor.

	Group	
	2010 £'000	2009 £'000
Non-current		
Finance lease debtors due after more than one year	52	58
Current		
Finance lease debtors due within one year	206	159
Total other financial assets	258	217

The difference between the gross investment in the hire purchase leases and the present value of future lease payments due represents unearned finance income of £52,000 *(2009: £58,000)*.

The cost of assets acquired for the purpose of letting under hire purchase agreements by the Group during the period amounted to £309,000 *(2009: £210,000)*.

The aggregate rentals receivable during the year in respect of hire purchase agreements were £316,472 *(2009: £244,000)*.

17 Other financial assets CONTINUED

	Group	
	2010 £'000	2009 £'000
Gross investment in hire purchase leases	310	275
Present value of future lease payments due:		
within 1 year	206	159
after more than 1 year within 5 years	52	58
	258	217

18 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Group			
	Assets		Liabilities	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Property, plant and equipment	43	49	780	1,083
Intangible assets	–	–	1,106	1,217
Inventories	70	52	–	–
Other financial liabilities	105	31	–	–
Interest bearing loans and borrowings	–	114	–	–
Share-based payments	57	–	–	–
Pension	621	516	–	–
Tax assets / liabilities	896	762	1,886	2,300
Net of tax assets	–	–	(896)	(762)
Net tax liabilities	–	–	990	1,538

The deferred tax asset shown as a non-current asset in the balance sheet relates to the Group's pension scheme liabilities (see note 25). All other deferred tax assets are shown net against the non-current deferred tax liability shown in the balance sheet.

	Company			
	Assets		Liabilities	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Other financial liabilities	–	122	–	–
Share-based payments	–	–	–	–
Net tax asset	–	122	–	–

Notes to the Financial Statements

CONTINUED

18 Deferred tax assets and liabilities CONTINUED

Movement in deferred tax in the year

	Group				
	1 April 2009 £'000	Recognised in income £'000	Recognised in equity £'000	Acquired in business combinations £'000	31 March 2010 £'000
Property, plant and equipment	1,034	(297)	–	–	737
Intangible assets	1,217	(111)	–	–	1,106
Inventories	(52)	(18)	–	–	(70)
Other financial liabilities	(145)	40	–	–	(105)
Share-based payments	–	(57)	–	–	(57)
Pension	(516)	19	(124)	–	(621)
Deferred tax movements	1,538	(424)	(124)	–	990

Unrecognised deferred tax assets

A deferred tax asset of £158,000 *(2009: £158,000)* in respect of capital losses has not been recognised as it is not considered more likely than not that there will be suitable taxable profits in the foreseeable future from which the underlying capital losses will reverse.

	Company			
	1 April 2009 £'000	Recognised in income £'000	Recognised in equity £'000	31 March 2010 £'000
Other financial liabilities	122	(122)	–	–
Share-based payments	–	–	–	–
Deferred tax movements	122	(122)	–	–

Movement in deferred tax in the prior year

	Group				
	1 April 2008 £'000	Recognised in income £'000	Recognised in equity £'000	Acquired in business combinations £'000	31 March 2009 £'000
Property, plant and equipment	914	120	–	–	1,034
Intangible assets	1,338	(121)	–	–	1,217
Inventories	(76)	24	–	–	(52)
Other financial liabilities	(20)	(125)	–	–	(145)
Share-based payments	(22)	22	–	–	–
Pension	(519)	16	(13)	–	(516)
Deferred tax movements	1,615	(64)	(13)	–	1,538

18 Deferred tax assets and liabilities CONTINUED

	Company			
	1 April 2008 £'000	Recognised in income £'000	Recognised in equity £'000	31 March 2009 £'000
Other financial liabilities	20	102	–	122
Share-based payments	10	(10)	–	–
Deferred tax movements	30	92	–	122

19 Inventories

	Group	
	2010 £'000	As restated 2009 £'000
Work-in-progress	403	344
Goods-in-transit	614	–
Goods for resale	2,472	2,226
Trading inventories	3,489	2,570
Construction-in-progress	91	639
Property held-for-sale	1,129	–
Property inventories	1,220	639
Total inventories	4,709	3,209

Goods-in-transit are retail provisions in transit to the Falkland Islands, a much lower amount was recognised in the prior year within prepayments.

During the year £25,000 *(2009: £79,000)* of inventory write-downs has been recognised as an expense in the income statement.

The Company has no inventories.

20 Trade and other receivables

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Non-current:				
Amount owed by subsidiary undertaking	–	–	2,916	6,325

Notes to the Financial Statements

CONTINUED

20 Trade and other receivables CONTINUED

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Current:				
Trade and other receivables	3,265	3,599	–	19
Corporation tax	–	17	–	–
Prepayments and accrued income	1,270	808	15	–
Trade and other receivables	4,535	4,424	15	19

21 Cash and cash equivalents / bank overdrafts

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Cash and cash equivalents in the balance sheet	3,810	3,004	360	289
Cash and cash equivalents in the cash flow statements	3,810	3,004	360	289

22 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 28.

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Non-current liabilities				
Secured bank loans	3,974	4,988	3,140	3,955
Finance lease liabilities	81	65	–	–
Total non-current interest bearing loans and borrowings	4,055	5,053	3,140	3,955
Current liabilities				
Current portion of secured bank loans	1,128	500	928	300
Finance lease liabilities	90	69	–	–
Current portion of contingent consideration on acquisition	–	1,573	–	1,573
Total current interest-bearing loans and borrowings	1,218	2,142	928	1,873

22 Interest-bearing loans and borrowings CONTINUED

Net debt

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Total interest bearing loans and borrowings	5,273	7,195	4,068	5,828
less: cash balances (see note 21)	(3,810)	(3,004)	(360)	(289)
Net debt	1,463	4,191	3,708	5,539

Finance lease liabilities

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Future minimum lease payments due:				
within one year	90	69	–	–
after more than one year but within five years	81	65	–	–
Total minimum lease payments due	171	134	–	–

For more information regarding the maturity of the Group and Company's interest bearing loans and borrowings see note 28.

23 Derivative financial instruments

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Fair value liability of derivative financial instruments	–	406	–	406

This amount represented the fair value of interest rate hedging instruments on certain of the Group's secured bank loans prior to the liquidation of the contracts in January 2010, for more information see note 28.

24 Trade and other payables

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Non-current:				
Amount owed to subsidiary undertaking	–	–	871	632

Notes to the Financial Statements

CONTINUED

24 Trade and other payables CONTINUED

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Current:				
Trade payables	5,437	5,050	–	–
Other creditors, including taxation and social security	1,068	932	57	24
Accruals and deferred income	1,714	1,931	356	389
Total trade and other payables	8,219	7,913	413	413

25 Employee benefits: pension plans

The Group operates three defined contribution pension schemes. In addition it also operates two defined benefit pension schemes, both of which have been closed to new members and to future accrual.

Defined contribution schemes

The Group operates three defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Group to the schemes and amounted to £357,000 *(2009: £403,000)*. The Group anticipates paying contributions amounting to £327,000 during the year ending 31 March 2011.

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

Defined benefit pension schemes

A summary of the fair value of the net pension schemes deficit is set out below:

	2010 £'000	2009 £'000
Pension scheme deficit:		
Falkland Islands Company Limited Scheme	(2,013)	(1,797)
Portsmouth Harbour Ferry Company Limited Scheme	(224)	(239)
	(2,237)	(2,036)
Deferred tax	621	516
Net pension scheme deficit	(1,616)	(1,520)

25 Employee benefits: pension plans CONTINUED

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 IAS 19 purposes to 31 March 2010 by a qualified independent actuary, Lane Clark & Peacock LLP. The major assumptions used in this valuation were:

	2010	2009
Rate of increase in salaries	2.7%	2.5%
Rate of increase in pensions in payment and deferred pensions	3.0%	3.0%
Discount rate applied to scheme liabilities	5.6%	6.8%
Inflation assumption	3.7%	3.1%

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 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 2010 £'000	Value at 2009 £'000	Value at 2008 £'000	Value at 2007 £'000	Value at 2006 £'000
Present value of scheme liabilities	(2,013)	(1,797)	(1,863)	(2,136)	(2,107)
Related deferred tax asset	558	449	465	534	527
Net pension liability	(1,455)	(1,348)	(1,398)	(1,602)	(1,580)

Movement in deficit during the year:

	2010 £'000	2009 £'000
Deficit in scheme at beginning of the year	(1,797)	(1,863)
Past service cost	–	–
Pensions paid	98	135
Other finance cost	(119)	(119)
Actuarial (loss) / gain	(195)	50
Deficit in scheme at end of the year	(2,013)	(1,797)

Notes to the Financial Statements

CONTINUED

25 Employee benefits: pension plans CONTINUED

Analysis of amounts included in other finance costs:

	2010 £'000	2009 £'000
Interest on pension scheme liabilities	(119)	(119)

Analysis of amount recognised in statement of other comprehensive income:

	2010 £'000	2009 £'000
Experience gains / (losses) arising on scheme liabilities	89	(2)
Changes in assumptions underlying the present value of scheme liabilities	(284)	52
Actuarial (loss) / gain recognised in statement of comprehensive income	(195)	50

History of experience gains and losses:

	2010	2009	2008	2007	2006
Experience gains / (losses) on scheme liabilities:					
Amount (£'000)	89	(2)	(18)	(3)	80
Percentage of year end present value of scheme liabilities	4.4%	0.10%	1.00%	0.1%	3.8%
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	(195)	50	301	118	57
Percentage of year end present value of scheme liabilities	9.7%	(2.8)%	(16.2)%	(5.5)%	(2.7)%

25 Employee benefits: pension plans CONTINUED

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 IAS 19 purposes as at 31 March 2006 to 31 March 2010 were prepared by a qualified independent actuary, Alexander Forbes Limited.

The major assumptions used in this valuation were:

	2010	2009	2008	2007	2006
Rate of increase in pensions in payment and deferred pensions	3.7%	2.7%	3.7%	3.2%	3.0%
Discount rate applied to scheme liabilities	5.6%	6.4%	6.9%	5.4%	4.9%
Inflation assumption	3.7%	2.7%	3.7%	3.2%	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 2010 £'000	Value at 2009 £'000	Value at 2008 £'000	Value at 2007 £'000	Value at 2006 £'000
Equities	328	185	207	156	133
Fixed interest	64	50	37	20	17
Other	18	18	36	34	6
Total market value of assets	410	253	280	210	156
Present value of scheme liabilities	(634)	(492)	(477)	(591)	(627)
Deficit in the scheme – Pension liability	(224)	(239)	(197)	(381)	(471)
Related deferred tax asset	63	67	54	114	142
Net pension liability	(161)	(172)	(143)	(267)	(329)

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

	Long term rate of return 2010	Long term rate of return 2009
Equities	7.40%	6.75%
Fixed interest	5.60%	6.35%
Other	4.20%	0.50%

Notes to the Financial Statements

CONTINUED

25 Employee benefits: pension plans CONTINUED

Movement in deficit during the year:

	2010 £'000	2009 £'000
Projected benefit obligations		
Opening projected benefit obligations	(493)	(477)
Interest thereon	(30)	(33)
Distributions	30	4
Experience (loss) / gain	(141)	13
Projected benefit obligations at 31 March	(634)	(493)
Plan assets		
Opening plan assets	254	280
Distributions	(30)	(3)
Contributions	83	54
Return on assets	17	22
Actuarial gain / (loss)	86	(99)
Plan assets at 31 March	410	254
Deficit in scheme at 31 March	(224)	(239)

Analysis of amounts included in other finance costs:

	2010 £'000	2009 £'000
Expected return on pension scheme assets	17	22
Interest on pension scheme liabilities	(30)	(33)
Included in other finance costs	(13)	(11)

Analysis of amount recognised in statement of other comprehensive income:

	2010 £'000	2009 £'000
Actual return less expected return on scheme assets	86	(99)
Experience gains and losses arising on scheme liabilities	–	(1)
Changes in assumptions underlying the present value of scheme liabilities	(141)	14
Actuarial loss recognised in statement of comprehensive income	(55)	(86)

25 Employee benefits: pension plans CONTINUED

History of experience gains and losses

	2010	2009	2008	2007	2006
Difference between the expected and actual return on scheme assets:	**86**	(99)	3	(4)	19
Amount (£'000)	**21.0%**	(39.0)%	15.8%	1.0%	12.2%
Percentage of year end scheme assets					
Experience gains and losses on scheme liabilities:	**–**	(1)	–	–	(72)
Amount (£'000)					
Percentage of year end present value of scheme liabilities	**–**	0.2%	–	–	(15.2)%
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	**(55)**	(86)	147	61	(88)
Percentage of year end present value of scheme liabilities	**8.7%**	17.4%	773.7%	(17.1)%	(18.7)%

26 Employee benefits: share-based payments

Retained earnings is used to record the costs arising under IFRS2 for options issued to Directors and employees, and similar costs associated with share-based payments.

The following options were outstanding at 31 March 2010:

Date of issue	Number	Exercise price £	Share price at grant date £	Fair value per share £	Total fair value £	Earliest exercise date	Latest exercise date
27 Jul 01	20,000	1.40	Not valued for IFRS2 purposes			27 Jul 04	26 Jul 11
10 Feb 05	57,692	5.20	5.20	2.47	142,499	10 Feb 08	9 Feb 15
14 Jun 05	62,500	4.25	4.25	1.66	103,750	14 Jun 08	13 Jun 15
14 Jun 05	63,528	4.25	4.25	2.14	135,950	14 Jun 08	13 Jun 15
18 Jun 07	17,500	3.09	2.83	0.82	14,350	18 Jun 10	17 Jun 17
5 Jul 07	117,860	2.50	3.02½	1.08	127,289	1 Aug 10	31 Jul 17
7 Aug 07	27,517	3.30	3.32½	0.73	20,087	7 Aug 10	6 Aug 17
4 Dec 07	65,000	3.19	3.40	1.19	77,350	4 Dec 10	3 Dec 17
3 Apr 08	7,562	3.65	3.75	1.31	9,906	3 Apr 11	2 Apr 18
30 Jul 08	159,221	3.23¼	4.00	1.35	214,948	30 Jul 11	29 Jul 18
8 Apr 09	93,353	2.07½	2.07½	0.56	52,278	8 Apr 12	7 Apr 19
15 Jul 09	104,100	2.90	2.90	0.72	74,952	15 Jul 12	14 Jul 19
9 Dec 09	32,000	3.90	3.97½	1.45	46,400	9 Dec 12	8 Dec 19
	827,833				1,019,760		

Notes to the Financial Statements

CONTINUED

26 Employee benefits: share-based payments CONTINUED

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 IFRS2 currently in issue. Expected volatility is determined by reference to past performance of the Company's share price.

	13 Jul 06	18 Jun 07	05 Jul 07	7 Aug 07	4 Dec 07
Expected volatility (%)	31	31	40	33	33
Risk-free interest rate (%)	4.70	5.60	5.70	5.30	4.50
Expected life of options (years)	6.5	6.5	3.0	6.5	6.5
Dividend yield (%)	2.10	2.50	2.30	2.10	2.10
Share price at grant date (£)	3.18	2.83	3.025	3.325	3.40

	3 Apr 08	30 Jul 08	8 Apr 09	15 Jul 09	9 Dec 09
Expected volatility (%)	34	35	37	38	40
Risk-free interest rate (%)	4.20	4.80	2.90	3.40	3.14
Expected life of options (years)	6.5	3.0	6.5	6.5	6.5
Dividend yield (%)	2.10	2.00	3.90	2.80	2.00
Share price at grant date (£)	3.75	4.00	2.075	2.90	3.975

Share options issued without share price conditions attached have been valued using the Black-Scholes model. Share price options issued with share price conditions attached have been valued using a Monte Carlo simulation model making explicit allowance for share price targets.

During the year ended 31 March 2010, 91,300 options *(2009: nil)* were exercised over ordinary shares. Options issued prior to 6 November 2002 are not subject to the provisions of IFRS2.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (£) 2010	**Number of options 2010**	Weighted average exercise price (£) 2009	Number of options 2009
Outstanding at the beginning of the year	**3.16**	**890,943**	3.16	659,722
Forfeited during the year	**3.65**	**(64,438)**	–	–
Exercised during the year	**1.80**	**(91,300)**	–	–
Granted during the year	**2.70**	**229,453**	3.38	243,221
Lapsed during the year	**3.00**	**(136,825)**	3.65	(12,000)
Outstanding at the year end	**3.24**	**827,833**	3.16	890,943
Vested options exerciseable at the year end	**4.24**	**203,720**	3.48	295,020

27 Capital and reserves

Reconciliation of movement in capital and reserves – Group

	Called up share capital £'000	Financial assets fair value revaluation reserve £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2008	906	15,996	7,206	3,145	6,775	34,028
Profit for the year	–	–	–	–	(1,153)	(1,153)
Share-based payments	–	–	–	–	297	297
Reserve transfer re. impairment[1]	–	–	–	(1,983)	1,983	–
Dividends	–	–	–	–	(722)	(722)
Change in fair value of available-for-sale financial assets	–	(7,560)	–	–	–	(7,560)
Actuarial gain on pension, net of tax	–	–	–	–	(23)	(23)
Balance at 31 March 2009	906	8,436	7,206	1,162	7,157	24,867
Profit for the year	–	–	–	–	5,256	5,256
Share-based payments	–	–	–	–	240	240
Deferred tax on share-based payments	–	–	–	–	–	–
Dividends	–	–	–	–	(1,084)	(1,084)
Issue of shares	4	–	–	–	–	4
Premium on shares issued in the year, net of expenses	–	–	10	–	–	10
Transfer to profit and loss on disposal of available-for-sale financial assets	–	(1,683)	–	–	–	(1,683)
Change in fair value of available-for-sale financial assets	–	6,828	–	–	–	6,828
Actuarial loss on pension, net of tax	–	–	–	–	(126)	(126)
Repurchase of equity interest	–	–	108	–	(183)	(75)
Balance at 31 March 2010	910	13,581	7,324	1,162	11,260	34,237

[1] The premium on shares issues in March 2008 in connection with the acquisition of Momart Limited was credited to other reserves. In 2009 the Group recognised an impairment charge of £1,983,000 in relation to goodwill arising on the Momart acquisition. As a result the Group has made a transfer from other reserves to retained earnings of an amount equal to the impairment recognised. The transfer neutralises the impact of the impairment charge recognised on retained earnings reserves.

Notes to the Financial Statements

CONTINUED

27 Capital and reserves CONTINUED

Reconciliation of movement in capital and reserves – Company

	Called up share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2008	906	7,206	7,831	25,648	41,591
Loss for the year	–	–	–	(10,625)	(10,625)
Reserve transfer re. impairment	–	–	(921)	921	–
Share-based payments	–	–	–	297	297
Dividends	–	–	–	(722)	(722)
Balance at 31 March 2009	906	7,206	6,910	15,519	30,541
Loss for the year	–	–	–	(330)	(330)
Reserve transfer re. impairment	–	–	–	–	–
Share-based payments	–	–	–	240	240
Deferred tax on share-based payments	–	–	–	–	–
Dividends	–	–	–	(1,084)	(1,084)
Issue of shares	4	–	–	–	4
Premium on shares issued in the year, net of expenses	–	10	–	–	10
Repurchase of equity interest	–	108	–	(183)	(75)
Balance at 31 March 2010	910	7,324	6,910	14,162	29,306

A loss of £330,000 *(2009: loss £10,625,000)* has been dealt with in the accounts of the Parent Company. As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

Of the loss of £10,625,000 dealt with in the accounts of the Company in the prior year, £921,000 arose on recognition of an impairment in the Company's investment in Momart International Limited. The premium on shares issues in March 2008 in connection with the acquisition of Momart International Limited was credited to other reserves. As a result the Company has made a transfer from other reserves to retained earnings of an amount equal to the impairment recognised.

The transfer neutralises the impact of the impairment charge on retained earnings reserves.

27 Capital and reserves CONTINUED

Share capital

	Ordinary shares 2010	2009
On issue at 1 April	9,060,796	9,060,796
Issued for cash	36,382	–
On issue at 31 March – fully paid	9,097,178	9,060,796

	2010 £'000	2009 £'000
Authorised		
Ordinary shares of 10p each	1,250	1,250
Allotted, called up and fully paid		
Ordinary shares of 10p each	910	910

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 31 March 2000, an Employee Share Ownership Plan was established. At 31 March 2010 the plan held 36,499 *(2009: 36,499)* ordinary shares at a cost of £68,542 *(2009: £68,542)*. The market value of the shares at 31 March 2010 was £122,418 *(2008: £77,013)*. Shares held in the ESOP have had their rights to dividends waived, as in prior years.

There were 227,081 *(2009: 313,217)* share options outstanding under the Company's Saving Related Share Option Scheme ("Save As You Earn") at 31 March 2010.

For more information on share options please see note 26.

Dividends

The following dividends were recognised in the period:

	2010 £'000	2009 £'000
Final: 8.0p *(2009 Final: 8.0p)* per qualifying ordinary share	723	722
Interim: 4.0p *(2009 Interim: nil)* per qualifying ordinary share	361	–
	1,084	722

After the balance sheet date a final dividends of 5.0p (£451,000) per qualifying ordinary share *(2009: 8.0p) (£722,000)* were proposed by the Directors. The dividends have not been provided for.

Notes to the Financial Statements

CONTINUED

28 Financial instruments

(i) Fair values of financial instruments

Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the balance sheet date.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Derivative financial instruments

The fair value of derivative financial instruments is determined by their market value at the reporting date.

IAS 39 categories and fair values

The fair values of financial assets and financial liabilities are not materially different to the carrying values shown in the consolidated balance sheet and Company balance sheet.

The following table shows the carrying value for each category of financial instrument:

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Available-for-sale financial assets at fair value	**15,542**	10,890	**–**	–
Financial liabilities at amortised cost	**(8,219)**	(7,913)	**(414)**	(412)
Interest bearing borrowings at amortised cost	**(5,273)**	(7,195)	**(4,068)**	(5,828)
Derivative financial instruments	**–**	(406)	**–**	(406)
Trade and other receivables	**4,535**	4,424	**15**	19

(ii) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Group

The Group's credit risk is primarily attributable to its trade receivables. The maximum credit risk exposure of the Group comprises the amounts presented in the balance sheet, which are stated net of provisions for doubtful debt. A provision is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of future cash flows. Management has credit policies in place to manage risk on an ongoing basis. These include the use of customer specific credit limits.

28 Financial instruments CONTINUED

Company

The majority of the Company's receivables are with subsidiaries. The Company does not consider these counter-parties to be a significant credit risk.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £8,828,000 *(2009: £7,645,000)* being the total trade receivables, other financial assets and cash and cash equivalents in the balance sheet.

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographic region was:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Falkland Islands	1,413	1,413	–	–
Europe	187	466	–	–
North America	261	247	–	–
United Kingdom	1,232	1,418	–	–
Other	172	55	–	–
Trade receivables	3,265	3,599	–	–

The Company has no trade debtors.

Credit quality of financial assets and impairment losses

Group	Gross 2010 £'000	Impairment 2010 £'000	Net 2010 £'000	Gross 2009 £'000	Impairment 2009 £'000	Net 2009 £'000
Not past due	1,735	–	1,735	1,988	–	1,988
Past due 0 – 30 days	1,194	–	1,194	832	–	832
Past due 31 – 120 days	263	–	263	444	–	444
More than 120 days	198	125	73	508	173	335
	3,390	125	3,265	3,772	173	3,599

The movement in the allowances for impairment in respect of trade receivables during the year was:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Balance at 1 April 2009	173	82	–	–
Impairment loss recognised	–	136	–	–
Impairment loss reversed	(48)	(45)	–	–
Balance at 31 March 2010	125	173	–	–

Notes to the Financial Statements

CONTINUED

28 Financial instruments CONTINUED

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

No further analysis has been provided for cash and cash equivalents, trade receivables from group companies, other receivables and other financial assets as there is limited exposure to credit risk and no provisions for impairment have been recognised.

(iii) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Group and Company

At the beginning of the period the Group had outstanding bank loans of £5.5 million and unsecured loan note commitments of £1.6 million. All payments due during the year with respect to these agreements were met as they fell due. The Group continues to maintain a £2.0 million Revolving Credit facility to fund working capital requirements which was undrawn at the year end.

The Group manages its cash balances centrally at head office and prepares rolling cash flow forecasts to ensure funds are available to meets its secured and unsecured commitments as and when they fall due.

Liquidity risk – Group

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effects of netting agreements:

2010	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments						
Secured bank loans	5,102	5,596	1,347	1,147	2,192	910
Finance leases	171	171	–	–	–	–
Trade and other payables	8,219	8,219	8,219	–	–	–
	13,492	13,986	9,566	1,147	2,192	910

2009	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments						
Secured bank loans	5,488	6,304	773	1,236	3,377	918
Finance leases	134	134	69	65	–	–
Contingent consideration	1,573	1,615	1,615	–	–	–
Trade and other payables	7,913	7,913	7,913	–	–	–
	15,108	15,966	10,370	1,301	3,377	918

28 Financial instruments CONTINUED

Liquidity risk – Company

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effects of netting agreements:

2010	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments						
Secured bank loans	4,068	4,591	1,119	919	1,736	817
Trade and other payables	413	413	413	–	–	–
	4,481	5,004	1,532	919	1,736	817

2009	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments						
Secured bank loans	4,255	4,986	524	991	2,655	816
Contingent consideration	1,573	1,615	1,615	–	–	–
Trade and other payables	413	413	413	–	–	–
	6,241	7,014	2,552	991	2,655	816

(iv) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Notes to the Financial Statements

CONTINUED

28 Financial instruments CONTINUED

Market risk – Foreign currency risk

The Group has exposure to foreign currency risk arising from trade and other payables which are denominated in foreign currencies. The Group is not, however, exposed to any significant transactional foreign currency risk. The Group's exposure to foreign currency risk is as follows. This is based on carrying amounts for monetary financial instruments.

Group 31 March 2010	EUR £'000	USD £'000	Other £'000	Total £'000
Cash and cash equivalents	179	204	1	384
Trade payables and other payables	(385)	(336)	(161)	(882)
Balance sheet exposure	(206)	(132)	(160)	(498)

Group 31 March 2009	EUR £'000	USD £'000	Other £'000	Total £'000
Cash and cash equivalents	30	201	–	231
Trade payables and other payables	(980)	(309)	(144)	(1,433)
Balance sheet exposure	(950)	(108)	(144)	(1,202)

The Company has no exposure to foreign currency risk.

Sensitivity analysis

Group

A 10% weakening of the following currencies against the pound sterling at 31 March would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant and is performed on the same basis for the year ended 31 March 2009.

	Equity		Profit or loss	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
EUR	56	101	56	101
USD	54	51	54	51

A 10% strengthening of the above currencies against the pound sterling at 31 March would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

28 Financial instruments CONTINUED

Market risk – interest rate risk

Profile

At the balance sheet date the interest rate profile for the Group's interest-bearing financial instruments was:

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Fixed rate financial instruments:				
Finance leases receivable	**258**	217	**–**	–
Finance leases payable	**(171)**	(134)	**–**	–
Contingent consideration	**–**	(1,573)	**–**	(1,573)
	87	(1,490)	**–**	(1,573)
Variable rate financial instruments:				
Derivative financial instruments	**–**	(406)	**–**	(406)
Financial liabilities	**(5,102)**	(5,488)	**(4,068)**	(5,828)
	(5,102)	(5,894)	**(4,068)**	(6,234)

The Group has a loan of £1.0 million *(2009: £1.2 million)* in respect of the ferry delivered in 2005. The loan is repayable over a 10 year period from June 2005 and bears interest at 1.4% above the base rate. The loan was previously hedged with an base rate cap of 6.5% and a base rate floor of 4.25%. On 13 January 2010 the Group liquidated this base rate cap and floor at a cost of £68,000. At 31 March 2009 the fair value of both these contracts was a liability of £65,000.

The Group has a further loan of £4 million in respect of the acquisition of Momart International Limited. The loan is repayable over five years commencing in June 2010 and bears interest at 2% above the base rate. The loan was previously hedged with a base rate cap of 6.25% and a base rate floor of 4.25%. On 13 January 2010 the Group liquidated this base rate cap and base rate floor at a cost of £284,000. At 31 March 2009 the fair value of both these instruments was a liability of £342,000.

Sensitivity analysis

A change of 100 basis points in interest rates at the balance sheet date would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

Notes to the Financial Statements

CONTINUED

28 Financial instruments CONTINUED

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 31 March 2009.

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Equity:				
Increase	**–**	–	**–**	–
Decrease	**(51)**	(14)	**(41)**	(4)
Profit or loss:				
Increase	**–**	–	**–**	–
Decrease	**(51)**	(14)	**(41)**	(4)

Market risk – equity price risk

The Group's and Company's exposure to equity price risk arises from its investments in equity securities which are classified as available-for-sale financial assets and are shown in the balance sheet as other financial assets (see note 15).

Sensitivity analysis

The Group's available-for-sale financial assets comprise its investment in Falklands Oil and Gas Limited. During the year ended 31 March 2010 Falklands Oil and Gas Limited shares traded on the AIM market of the London Stock Exchange at an average price of 115.9p with a high of 177.25p and a low of 63.35p. Based upon this share price history the value of available-for-sale financial assets held at the balance sheet date could have varied between a low of £7,602,000 *(2009: £7,995,000)* and a high of £21,270,000 *(2009: £24,750,000)*.

(v) Capital Management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders.

29 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2010 £'000	2009 £'000
Less than one year	**664**	662
Between one and five years	**2,512**	2,516
More than five years	**4,038**	4,661
	7,214	7,839

The Group leases three office premises and a number of storage warehouses under operating leases. Office leases typically run for a period of 3 years, with an option to renew the lease after that date. Warehouse leases typically run for a period of 25 years, with an option to renew the lease after that date.

29 Operating leases CONTINUED

Group

During the year £649,000 was recognised as an expense in the income statement in respect of operating leases *(2009: £594,000)*.

The Company had no operating lease commitments.

30 Capital commitments

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

31 Related parties

The Group has a related party relationship with its subsidiaries (see note 14) and with its directors and executive officers. Directors of the Company and their immediate relatives control 1.1% per cent of the voting shares of the Company.

The compensation of key management personnel (including directors) is as follows:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Key management emoluments including social security costs	1,282	1,043	573	445
Company contributions to money purchase pension plans	209	219	25	25
Other post employment benefits	–	–	–	–
Share-related awards	79	154	49	143
Total key management personnel compensation	1,570	1,416	647	613

32 Accounting estimates and judgements

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements as to asset and liability carrying values which are not readily apparent from other sources. Actual results may vary from these estimates, and taken into account in periodic reviews of the application of such estimates and assumptions.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Actuarial assumptions have been used to value the defined benefit pension liability. Management have selected these assumptions from a range of possible options following consultations with independent actuarial advisors.

Impairment tests have been undertaken with respect to intangible assets (see note 11 for further details) using commercial judgment and a number of assumptions and estimates have been made to support their carrying amounts. In determining the fair value of intangible assets recognised on the acquisition of Momart International Limited management acted after consultation with independent intangible asset valuation advisors.

Directors and Corporate Information

Directors

David Hudd *Chairman*

John Foster *Managing Director*

Mike Killingley*

Jeremy Brade*

**Non-executive Directors*

Company Secretary

James Ivins

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

Website: www.fihplc.com

Corporate Information

Stockbroker and Nominated Adviser
Altium
30 St. James's Square,
London SW1Y 4AZ

Solicitors
Bircham Bell and Dyson LLP
50 Broadway,
Westminster,
London SW1H 0BL

Banker
HSBC Bank plc
18 North Street, Bishop's Stortford,
Hertfordshire CM23 2LP

Auditor
KPMG Audit Plc
St. Nicholas House, Park Row,
Nottingham NG1 6FQ

Financial PR
Financial Dynamics
Holborn Gate,
26 Southampton Buildings,
London WC2A 1PB

Registrar

Capita Registrars
Northern House, Woodsome Park,
Fenay Bridge, Huddersfield HD8 0GA

Senior Staff in the Falkland Islands

Roger Spink *Director and General Manager*
Telephone: 00 500 27600
Email: fic@horizon.co.uk
Website: www.the-falkland-islands-co.com

Senior Staff at Portsmouth Harbour Ferry Company

Paul Fuller *Director and General Manager*
Telephone: 023 9252 4551
Email: admin@gosportferry.co.uk
Website: www.gosportferry.co.uk

Senior Staff at Momart Limited

Eugene Boyle *Managing Director*
Telephone: 020 7426 3000
Email: enquiries@momart.co.uk
Website: www.momart.co.uk

www.fihplc.com

Falkland
Islands
Holdings